

8. (3 points)

a. (1 point)

Briefly describe four reasons for government participation in insurance.

b. (0.5 point)

For two of the reasons identified in part a. above, briefly describe whether or not each reason applies to beachfront and windstorm plans.

c. (1.5 points)

For Fair Access to Insurance Requirements (FAIR) plans, describe each of the following:

- i. The rationale for their creation
- ii. How the plans operate
- iii. The eligibility requirements of the plans

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION: SPRING 2018 EXAM 6U, QUESTION 8	
TOTAL POINT VALUE: 3	LEARNING OBJECTIVES: B1, B2
SAMPLE ANSWERS	
Part a: 1 point	
<ul style="list-style-type: none">• Compulsory purchase of insurance<ul style="list-style-type: none">○ Lenders will not extend credit for the purchase of property unless the owner can obtain property insurance• Filling insurance needs unmet by private insurance<ul style="list-style-type: none">○ provide insurance for properties with greater than average exposures to loss in areas underserved by the voluntary market• Convenience<ul style="list-style-type: none">○ Set up and appropriate funding quickly compared to private market funding.• Greater efficiency or government expertise<ul style="list-style-type: none">○ Lower cost than the private market• Social purposes	
Part b: 0.5 point	
<p><u>Sample 1</u></p> <ul style="list-style-type: none">• Compulsory - does not apply to beachfront and windstorm plans since this coverage is not required unless the property has a federally backed mortgage.• Unmet need - the private market often limits coverage affordability and availability for properties exposed to hurricane risk.	
<p><u>Sample 2</u></p> <ul style="list-style-type: none">• Social Purpose - in events of catastrophic nature, properties without coverage still received relief from taxpayers, thus the program serves a social purpose to reduce the burden of these losses onto taxpayers.• Compulsory - applies to beachfront and windstorm plans as insureds that have mortgages and are exposed to this peril are still required to get insurance coverage.	
<p><u>Sample 3:</u></p> <ul style="list-style-type: none">• Efficiency - this applies to Beachfront and Windstorm plans as the government can offer coverage at reduced rates due to lack of advertising expense and profit loading.• Convenience - this applies to Beachfront and Windstorm plans since it is convenient for insureds to shop in one place for insurance coverage.	
Part c: 1.5 points	
<p><u>Sample 1:</u></p> <ol style="list-style-type: none">i. Properties in urban settings were having trouble finding voluntary property insurance coverage in the 1960s due to riots and/or damage from civil unrest. FAIR plans were created to ensure property insurance was available and affordable for properties in these areas.ii. The insureds who cannot obtain coverage, apply through an agent or broker and the application is forwarded to a syndicate or voluntary carrier who services the policy for its duration. All insurers writing property coverage in the state share premiums and losses	

SAMPLE ANSWERS AND EXAMINER'S REPORT

based on their market share (as a percent of written premium).

- iii. Properties must be denied coverage in the private market and must not be vacant, subject to trespass, and meet building codes for the area they are in.

Sample 2:

- i. Property owners could not find coverage that was affordable in urban areas due to riot.
- ii. Policies are issued and serviced by private companies who collect premium and pay losses. Policies are assigned to insurers based on their market share.
- iii. The insured must have been denied coverage in the private market and their home must not be vacant or have existing fire damage.

EXAMINER'S REPORT

Candidates were expected to understand the reasoning behind government involvement in insurance and explain how this applies to several programs where the government is involved.

Part a

Candidates were expected to know reasons for government involvement in insurance.

Common mistakes included:

- Providing two reasons for involvement that had the same goal. For example listing social good as a reason for government involvement and then stating the government had a duty to keep rates low for the benefit of insureds.

Part b

Candidates were expected to relate their reasons for government involvement in insurance to Beachfront and Windstorm plans.

Common mistakes included:

- Describing the reasons for government involvement in insurance but not relating their answer to Beach and Windstorm plans.

Part c

Candidates were expected to explain the formation, operation, and eligibility for FAIR plans.

Common mistakes included:

- Stating only that the government fully reinsures the plan without adequately explaining how profit and losses are shared amongst voluntary insurers in the state.