8. (3 points)

a. (1 point)

Identify and briefly describe the two types of arrangements that the Federal Emergency Management Agency (FEMA) has established with the private insurance industry for day-to-day operations of the National Flood Insurance Program (NFIP).

b. (1 point)

Describe the potential impact of private insurers writing more flood insurance on each of the following:

i. Federal expenditures on disaster relief following a flood

ii. Home owners who desire flood insurance

c. (1 point)

Describe two barriers to increased private insurer participation in flood insurance.

CONTINUED ON NEXT PAGE

• Stating that Social Welfare and/or MPCI never involves profit

FALL 2019 EXAM 6U, QUESTION 8	
TOTAL POINT VALUE: 3	**LEARNING OBJECTIVE: B2**
SAMPLE ANSWERS	
Part a: 1 point	
• Write-Your-Own: private insurers write and service their own policies but use the NFIP as a reinsurer. NFIP still sets rates/conditions. • Direct Servicing Agent: the NFIP contracts with third parties who directly sell NFIP coverage to consumers	
Part b: 1 point	
Sample responses for part (i) • If insurers provide more flood coverage, they will share in disaster relief costs (i.e. (home rebuilding) after a flood, which will reduce federal expenditures. If coverage is more widely available and more affordable (increased competition), it may also cause federal expenditures to decrease due to fewer uninsured homes. • Federal expenditures will increase. Private flood insurance (without a subsidy) will cause the NFIP to experience adverse selection. Its share of insureds will be higher risk on average and disaster relief in flood prone areas will be costly. • Federal expenditures will increase since FEMA won't be as involved in flood plain management and making sure disaster relief plans are in place prior to an actual disaster. *Sample responses for part (ii)* • Homeowners who desire flood insurance may have better access to insurance with the expansion of the private market. The private insurers may be able to provide better prices for the low risk insureds because some insureds must be paying more than actuarially sound rates under the NFIP to subsidize others' rates. • Homeowners will have more insurance choices in the market. This could mean higher limits, additional coverages (business interruption, etc.), and more carriers to purchase from. • There will be more products and coverages available. Although rates from private insurers will most likely be higher since they are not subsidized and also need to charge a profit provision.	
Part c: 1 point	
Sample Responses (any two): • NFIP subsidies cause lower rates to be charged for some through NFIP versus what a private insurer may charge. NFIP doesn't charge actuarially sound rates because of these subsidies – this is a disadvantage for private insurers who need to charge adequate rates. • Continuous coverage – for NFIP subsidies to apply, insured must have continuous flood coverage through NFIP. If the insured goes to private insurer and then decides to go back to NFIP, then subsidies would be lost because private insurance would not be considered	

continuous coverage. Thus, insureds are less likely to move to private insurers if it jeopardizes NFIP subsidies.

- "At least as broad" – private coverage needs to be "at least as broad" as NFIP coverage to count towards required flood insurance for certain mortgages, and what qualifies as "at least as broad" is not well-defined.
- Non-Compete Clause – current participants in the WYO program have non-compete agreements which ban them from selling their own flood insurance outside of the NFIP
- Lack of flood insurance data – because of privacy concerns for consumers, NFIP data is not widely shared, so private insurers lack data needed to enter market / set rates.
- Participation rates are a problem as flood insurance is a catastrophic risk, therefore a high amount of policies are needed to spread risk.

EXAMINER'S REPORT

Candidates were expected to understand how the private insurance industry interacts with FEMA for day-to-day operations of the NFIP. They were also expected to understand the potential impact of private insurers writing more flood insurance as well as some barriers to increased private insurer participation in flood insurance.

Part a

Candidates were expected to correctly identify Direct Servicing Agents (or "DSA") and Write-Your-Own (or "WYO") as well as briefly describe each.

Common errors include:

- Incorrectly identifying Direct Service Agents (i.e. "Direct Servicing Insurers")
- Not including enough information in the brief description (i.e. "DSA services policies")
- Describing DSAs as private insurers
- Failing to mention that DSAs sell or issue policies.
- Misunderstanding that NFIP policies are sold in the WYO program, not insurer policies or prices.

Part b

Candidates were expected to fully describe the potential impact of private insurers writing more flood insurance on each cohort.

Common errors include:

- Identifying a potential impact without explaining why
- Describing an impact that was not relevant to (i) federal expenditures or (ii) home owners
- Simply stating that federal expenditures would decrease with private insurers taking more losses without providing a supporting statement to support why (e.g. fewer number of uninsured homeowners, more people are insured due to better prices & availability).
- Mentioning changes in rates without providing support (e.g. subsidies, profit provision, difference in "actuarially sound").
- Providing incorrect or illogical impacts that did not reference syllabus material

Part c
Candidates were expected to fully describe two barriers to increased private insurer participation in flood insurance. Common errors included: • Identifying a possible barrier without explaining why • Describing something that was not a barrier to increased private insurer participation • Listing adverse selection as a barrier without discussing participation or imbalanced concentration of risks • Stating that the fact that floods are catastrophic, that significant capital is required, or that insurers could go insolvent; needed to discuss barriers that prevent insurers from addressing these issues. • Stating that floods are uninsurable

FALL 2019 EXAM 6U, QUESTION 9	
TOTAL POINT VALUE: 2.25	**LEARNING OBJECTIVES: B2**
SAMPLE ANSWERS	
Part a: 0.5 point	
Any two of the following responses: • May provide lower (or state minimum) limits on liability • May require higher deductibles on comprehensive or collision • May not provide comprehensive or collision • May not provide (or provide lower limits) on medical payments • May not provide some coverages like glass • "Physical Damage" was an acceptable substitute for "comprehensive or collision"	
Part b: 0.5 point	
Required an explanation touching on two key points: • Makes coverage more affordable and/or available to all • There is a societal benefit of reducing the number of uninsured drivers or decreasing the likelihood of unreimbursed losses from an accident.	
Part c: 1 point	
Any four of the following responses: • Vacant or open to trespass • Poorly maintained • Unrepaired fire damage • Contains unacceptable hazards • Storage of flammable materials • Violates a law or public policy • Not built in accordance with building and safety codes • Failed inspection or was not inspected	