

EXAM 6 – CANADA, FALL 2012

3. (1.5 points)

a. (0.5 point)

Briefly describe two uses of credit-based insurance scores.

b. (1 point)

An insurance regulator has questioned using credit-based insurance scores on the grounds that an economic crisis could adversely affect policyholders. Describe two arguments that can be used by a company that uses credit-based insurance scores to defend its position to the regulator.

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Question 3

Answer key:

- a) Briefly describe two uses of credit-based insurance scores.
- Determine whether an insured qualifies to be written by the company
 - Segment risks into different groups with similar expected costs for the purpose of rating, risk classification, risk tiering
 - Risk Sharing Pool or Residual Market assignation
- b)
- Since much of an insurer's business is likely to be renewal business, even if the economic crisis caused a dramatic distributional shift in credit scores the overall impact would have been minor since capping and other factors would have mitigated the impact since credit scores are just one variable in rating.
 - An insurer which uses credit-based insurance scores might see a decline in overall scores leading to an increase in average rates. However assuming that the overall rates are actuarially sound, this increase should be adjusted through off-balancing therefore not increasing total premiums collected.

*** *Similar answers were accepted*

Actual candidate answer for full marks:

- a) → to segment the risk e.g. risk classification factor or tier factor
→ to determine whether the risk is good to be underwrote by the company
- b) → In economic crisis, every policyholder would be affected the same way, the relative between different group might not be affected.
→ Credit score is used to determine rate relativity but not overall rate level, so in the economic crisis, the overall rate level will not be affected.
→ If there is shifted in credit score, it seems to be a common practice to insurance company by self correcting using rate differentials.

Examiner's report:

Part A was answered much better than part B. On part B participants sometimes answered on credit scoring in general and did not mention in terms of the economic crisis.

Question 4

Answer key:

- a)
- i. File & Use: Insurers file rates with the regulatory authority and after some defined period of time, rates are "deemed" to be approved
 - ii. **Use & File**: Insurers file rate structures with the regulatory authority but may begin using the new rates immediately.
 - iii. Prior Approval: Strict form of rate price regulation where regulatory authority must approve rates before they can be used.