

**EXAM 6 – CANADA, FALL 2013**

10. (2 points)

Florida Insurance Commissioner, Kevin McCarty, questioned the social validity of using credit-based insurance scoring on the basis that it is unfairly discriminatory.

a. (0.5 point)

Identify two historical examples that support his conclusions.

b. (0.75 point)

Identify three segments of society that are impacted by unfair discrimination in credit-based risk rating.

c. (0.75 point)

Assuming that the use of credit-based insurance scoring gains regulatory approval, briefly describe three potential problems with using credit-based data.

**CONTINUED ON NEXT PAGE**

Foundational question which has been asked numerous times in the past. There are many possible answers out of which only 3 (each for A and B) were required. We did not require long answers for full marks.

## Question 10

### Answer key:

- a.
  - 1. 1930-1970 – several states used race as a life insurance rating factor – even today it is a mathematical fact that life expectancy differs for Caucasian by 5 years. Sound technically but “counter to equal protection for consumers” “not sound public policy”.
  - 2. HIPAA outlaw of the practice of using DNA testing for health insurance.
- b. Recent divorces, recently naturalized citizens, elderly, disabled, religious sects, young, poor, ethnic groups (or race or minorities), don’t use credit often.
- c. Credit report errors, identity theft, proliferation of access to credit

Also allow: opaque to consumers, varies by company, impacted by decision unrelated to insurance risks (such as financing decisions), downturn in Economy.

### Actual candidate answer for full marks:

- a.
  - 1. Use of race in life insurance
  - 2. Use of medical / genetical records in life insurance
- b.
  - 1. Elderly
  - 2. Newly naturalized
  - 3. People with religious belief against credit
- c.
  - 1. Quality of data (a research shows that as many as 50% credit profile contained inaccurate information)
  - 2. Economic downturn (will usually decrease average credit score – if insurer doesn’t off-balance the change will result in a premium increase for insured. This may be true when the economic downturn is sudden and insurer doesn’t have time to react).
  - 3. Life changing event (people undergoing life changing even such as Identity Theft may be unfairly impacted).

### Examiner’s report:

Part A provides an important historical context for the McCarty paper.

For B, there were many possible answers which are fairly intuitive for candidates to remember. Most candidates got complete marks.

For C. there were again many possible answers accepted.