

EXAM 6 – CANADA, SPRING 2014

7. (2.25 points)

a. (0.5 point)

Provide an argument for using credit-based insurance scores according to the “Actuarial Standard of Practice No. 12: Risk Classification”.

b. (0.5 point)

Provide a counter-argument to the answer in part a. above.

c. (0.5 point)

Briefly describe two guidelines the Insurance Bureau of Canada provides in its code of conduct for insurers’ use of credit information.

d. (0.75 point)

Explain how changes made in 2010 by the Financial Services Commission of Ontario addressed credit-based risk rating in auto insurance.

CONTINUED ON NEXT PAGE

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 07	
TOTAL POINT VALUE: 2.25	LEARNING OBJECTIVE: A2
SAMPLE ANSWERS	
Part a: 0.5 point(s)	
<p>Sample 1: <i>Clear evidence that claims experience of insureds can be predicted using credit rating.</i></p> <ul style="list-style-type: none"> • <i>Proof exists that using credit-score in rating can better rate specific insured's risk, otherwise overall premium is not less, just redistributed.</i> <p>Sample 2: <i>Credit shows significant differences in expected loss costs, which helps make rate not excessive, and not unfairly discriminatory</i></p> <p>Sample 3: <i>A rate should be in line with expected costs of providing coverage. It is statistically proven that there is a link between good credit score and good claim experience. This factor is a good factor to use in risk classification</i></p>	
Part b: 0.5 point(s)	
<p>Sample 1: Counter-Argument to Sample 1 above <i>Evidence of claims experience is only for claims free, severity of claims is similar for all credit scores.</i></p> <ul style="list-style-type: none"> • <i>Evidence that it just may be that higher credit-scored insureds pay out some claims out of pocket</i> • <i>Need more proof</i> <p>Sample 2: Counter-Argument to Sample 2 above <i>Credit reports contain many errors, using these erroneous reports would not produce a fair rate</i></p> <p>Sample 3: Counter-Argument to Sample 3 above <i>People with good credit scores do not have less accidents, they just are more likely to pay themselves for small claims. They may still be at risk of having claims, especially higher severity claims</i></p>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Part c: 0.5 point(s)
<p>Sample 1:</p> <ul style="list-style-type: none"> • <i>Credit scores must be up to date</i> • <i>Consider special life circumstances (so divorce, immigration, etc.)</i> <p>Sample2:</p> <ul style="list-style-type: none"> • <i>If insured thinks they are punished for credit information, can write to insurer and insurer should consider</i> • <i>Confidentiality</i> <ul style="list-style-type: none"> ○ <i>Keep info private, only necessary parties see it</i> <p>Sample 3:</p> <ul style="list-style-type: none"> • <i>Get informed consent from customer before using credit score in underwriting or rating a policy</i> • <i>Do not use credit score as a sole factor in decision to refuse coverage or not renew a policy</i>
Part d: 0.75 point(s)
<p>Sample 1:</p> <ul style="list-style-type: none"> • <i>Officially defined credit information</i> • <i>Made it illegal for insurers to refuse to quote, bind or renew only on terms of credit info</i> • <i>Insureds must give permission for insurers to use their credit info, and insurers can't refuse to quote, bind or renew due to credit info alone.</i> <p>Sample 2:</p> <ul style="list-style-type: none"> • <i>Defined credit</i> • <i>Cannot terminate policy, refuse quote due to credit along</i> • <i>Cannot require consent of credit before quoting</i>
EXAMINER'S REPORT
Part a
Candidates did well on this section. Most candidates identified the correlation between credit scores and loss experience.
Part b
<p>Candidates did not read the question carefully. Many candidates provided a response to part b which was not a counter-argument to the answer provided in part a.</p> <p>For example many candidates stated in part b that using credit score was discriminatory but did not use this as an argument in part a.</p>
Part c
Many guidelines were mentioned in the syllabus and most candidates earned full credit for this part.
Part d
Generally candidates did well on part d. The most common error was to provide a Financial Services Commission of Ontario regulation that was not a change made during 2010.