

**EXAM 6 – CANADA, FALL 2014**

4. (1.5 points)

a. (0.5 point)

Define the term “credit-based insurance score.”

b. (0.5 point)

Discuss a way that a severe economic downturn can affect policyholder premiums determined using credit-based insurance scores.

c. (0.5 point)

Describe how an actuary may respond to the situation described in part b. above.

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## EXAM 6C FALL 2014 SAMPLE ANSWERS AND EXAMINER'S REPORT

### QUESTION: 4

**TOTAL POINT VALUE: 1.5**

**LEARNING OBJECTIVE(S): A2**

### **SAMPLE/ACCEPTED ANSWERS:**

#### **Part a:** 0.5 point

A credit-based insurance score is a numerical score or ranking assigned to an insurance risk based on various attributes found in a typical individual's credit report, which is used for underwriting or pricing.

#### **Part b:** 0.5 point

When an economic crisis causes every insured's insurance score to worsen, it might lead to unwarranted overall premium increases.

or

When an economic crisis causes a dramatic shift in credit scores, the current relative rates among risks with insurance scores might be disrupted.

#### **Part c:** 0.5 point

The actuary would observe the distributional shift or change and adjust overall rate levels so that the total premium collected by the insurance company remains the same.

or

The actuary needs to regularly review the data and analyze the indicated rate differentials to reflect the recent changes if any, so that the rates will remain actuarially sound.

or

Discontinue using the credit-based insurance score until model is recalibrated.

### **EXAMINER'S REPORT:**

#### **General Commentary**

This question was answered very well by most candidates.

#### **Part a**

- Candidates are expected to know the definition of "credit-based insurance score".
- Most candidates received full marks.

## EXAM 6C FALL 2014 SAMPLE ANSWERS AND EXAMINER'S REPORT

- Some candidates were able to define “insurance score”, but failed to associate it with credit information. Some candidates were able to define “credit score”, but failed to associate it with insurance risk.

### Part b

- Candidates are expected to know how an economic downturn can affect credit score and therefore affect insurance premium determined using credit-based insurance score.
- Most candidates received full marks.
- Some candidates only mentioned the impact on credit score, but failed to mention the impact on insurance premium.

### Part c

- Candidates are expected to know the actions that an actuary should take to address the issues described in part b. above.
- Most candidates received full marks.
- Some candidates failed to consider the impact on insurance premium as a result of an economic downturn and therefore thought no action is required.