

**EXAM 6 – CANADA, SPRING 2015**

6. (2 points)

An insurer is considering using aggregate credit scores by postal code to price policies for property insurance. Discuss four aspects the insurer needs to consider before adopting the use of credit scores.

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**EXAM 6C SPRING 2015 SAMPLE ANSWERS AND EXAMINER'S REPORT**

<b>QUESTION 6</b>	
<b>TOTAL POINT VALUE: 2</b>	<b>LEARNING OBJECTIVE: A2</b>
<b>SAMPLE ANSWERS</b>	
<b>2 points</b>	
<p>Any four of the following received full credit:</p> <ul style="list-style-type: none"><li>• Credit scores must be up to date and accurate</li><li>• Lower income individuals generally have worse credit scores. As a result, this practice may be seen as unfairly discriminatory.</li><li>• Does this practice comply with applicable provincial and federal laws and regulations?</li><li>• Should analyze information to make sure aggregate credit scores is predictive of the expected losses and distinguishes fairly amongst insureds.</li><li>• How should postal codes with few exposures be handled? e.g. rural areas may only have a few people in the postal code resulting in the aggregate scores not be representative of a typical residents.</li><li>• Insurer needs informed consent from the insured to use credit scores for underwriting and pricing.</li><li>• Insurer cannot decline quoting or refuse to renew a policy based on credit scores.</li><li>• Insurer cannot decline coverage if the credit score approval is not given by the insured.</li><li>• Credit scores can be unfairly discriminatory towards certain social groups. e.g. religious groups, young people.</li><li>• When economic downturn affects the credit scores, must perform a rate differential analysis to ensure the overall premium level still reflect the true expected cost.</li><li>• The insured must understand that the credit score will be used to set rates.</li><li>• Credit information must be kept private and confidential.</li><li>• Ensure not to double count the effect of credit score in the postal code in the territorial differential.</li><li>• Must allow life changing events to not impact credit scores i.e. identity theft, recent divorce, etc.</li><li>• Insurer must make sure the credit score does not reflect inquiries about credit score e.g. multiple loan inquiries that affect credit score.</li></ul>	
<b>EXAMINER'S REPORT</b>	
<p>Candidates performed very well on this question. There are numerous sources in the syllabus that discuss the topic of the use of credit scoring in insurance. As such, we accepted all reasonable answers and this produced higher than expected scores.</p> <p>Candidates were expected to know the considerations involved in using credit scores in pricing and/or underwriting. The question specifically asked about issues in using aggregate credit scores. However, we accepted responses that would be applicable to individual credit scores as well.</p>	