5.  (1.5 points)

    a.  (0.5 point)

        Identify two main uses of credit scores in the personal property insurance industry.

    b.  (1 point)

        Briefly describe two arguments supporting and two arguments against the use of credit score by an insurer.

| QUESTION 5 | |
|---|---|
| **TOTAL POINT VALUE: 1.5** | **LEARNING OBJECTIVE(S): A2** |
| **SAMPLE ANSWERS** | |

**Part a:** 0.5 point

*Sample 1*
- As an underwriting criterion
- As a rating variable

*Sample 2*
- Rating variable
- Assignment into Tier (FARM and/or RSP)

**Part b:** 1 point

*Sample 1*
Advantages:
- Statistically significant
- Easy to obtain and verify

Disadvantages:
- Can be unfairly discriminatory to certain groups such as new immigrants
- There are privacy concerns related to credit score

*Sample 2*
Advantages:
- Credit score is highly predictive
- Can be adjusted based on economic cycles to not affect aggregate premium

Disadvantages:
- It can be affected by identity theft
- It is intrusive

**EXAMINER'S REPORT**

Candidates were expected to know the main uses of credit scores in the context of personal property insurance and their respective advantages as well as disadvantages.

**Part a**

Candidates were expected to identify two uses of credit scores in personal property insurance.

A common error included:
- Listing two uses that are a restatement of each other (i.e., for ratemaking and discount setting)

| Part b |
| --- |
| Candidates were expected to list two advantages and two disadvantages of the use of credit scores by an insurer.<br><br>Common errors included:<br>• Stating that there may be errors in the data<br>• Stating that credit score is inaccurate without stating the reason |