

Q&AS - INSURERS' USE OF CREDIT INFORMATION FOR RATING AND UNDERWRITING

(These Q&As apply to personal lines insurers that follow IBC's Code of Conduct for Insurers' Use of Credit Information.)

1. Why is credit information used for insurance purposes?

Insurance is different from other types of products and services because insurers must price their products before they know the actual costs that they might incur as a result of future claims. Consequently, insurers need to rely on a variety of risk factors to help them predict future losses and appropriately and fairly price each insurance policy. Because a large number of rigorous studies have shown that a person's credit history is strong predictor of future claims activity, some insurers use credit information as one of many factors to better understand the risks they insure.

2. How do I know if my insurance company uses credit information for insurance purposes?

If you want to know if your insurer uses credit information as a risk factor in underwriting or pricing some insurance products, please contact your insurer directly.

3. I am concerned that my credit information may not be correct. How can I check?

To view your credit information you can visit or write to either of the two credit reporting agencies in Canada – Equifax or TransUnion – and obtain your credit report at no charge. Alternatively, you can order your credit information online from these agencies for a small fee.

If you think your credit information may be incorrect, contact one of the two consumer reporting agencies named above to verify that the information in your file is correct or, if there is an error, to find out how to get it corrected.

If your insurance company uses credit information in its classification system, you should inform the company whenever there are any material corrections to this information. Insurance companies will confirm with one of the credit agencies that your information has been changed. Subject to that confirmation, your insurer will make the necessary adjustments to your insurance file and re-underwrite and re-rate your coverage.

4. Will my credit score be affected by an insurers' inquiry into my credit information?

No, an insurer's inquiry into your personal credit information is considered a "soft" inquiry that does not impact your credit score.

5. Will my credit information be used for insurance purposes without my knowledge?

Prior to using your credit information for rating and/or underwriting purposes, home and auto insurance companies must secure your consent to obtain it. This consent is valid for as long as you continue your business relationship with your insurance company and/or until you withdraw your consent in writing.

IBC's Code of Conduct stipulates that consent must be received from the applicant or applicants concerned and cannot be provided on behalf of another person. This means that if the insurance company wishes to obtain credit information about other people in your household who will be covered by the insurance policy, each of those individuals must provide their consent directly, either in writing or verbally.

6. What will happen if I refuse to provide consent for an insurer's use of my credit information for rating and underwriting?

The Code mandates that your insurers shall not refuse to provide you with an insurance quote or coverage, and shall not terminate or refuse to renew your policy if you refuse to give consent to use your credit information. In this situation, however, your insurer may not be able to offer you related discounts and its best price.

7. Is my credit information confidential or will it be shared with other parties?

Insurance companies are required by law to respect the confidential nature of personal credit information and to comply with relevant Canadian consumer and privacy protection laws. The only insurance company personnel who have access to the information are those who require it to process your policy.

8. If the credit reporting agency lacks credit information about me or cannot obtain a credit score for me, how will this impact my insurance coverage?

The Code stipulates that insurance companies shall not, in respect of customers who lack a personal credit history, deny coverage or cancel or refuse to renew their policy based solely on the absence of credit information.

In the absence of credit information, underwriting and rating decisions will be based upon the relevant information that is available to the insurer.

9. Will I be informed if the insurance company takes adverse action as a result of my credit information?

On your request, your insurance company must provide you with an explanation about any adverse action (such as, an increase in premium) it takes with respect to your insurance policy as a result of accessing your credit information.

10. Will an insurer base its rating and underwriting decisions solely on my credit score?

Insurers will use your credit information in combination with other non-credit underwriting or rating variables. The Code does not permit them to use credit information as the sole variable.