

Attn: Mr. Leonard Sharman
Senior Media Relations Advisor
The Co-operators

MARKETPLACE RESPONSE TO THE CO-OPERATORS OPEN LETTER

Thank you for your letter regarding the April 9, 2010 broadcast of *Marketplace's* story regarding the use of credit scoring as a component in determining home insurance rates.

We would like to take this opportunity to respond to your concerns, and challenge your assertion that our story had a number of "inaccuracies."

First, our broadcast did not state that the insurance industry's use of consumers' credit scores was an "excuse to raise home insurance rates." We clearly state – twice, in fact – that the industry says they are a valuable tool when determining risk. Allow me to quote from our story:

"Insurance companies say they're a good predictor for future claims. The lower your credit score, they say, the more statistically likely you are to make a claim."

In your letter, you say the practice is validated by many studies that "prove a correlation between credit score and insurance claims."

In fact, Ms. Mesley stated that very point in her interview with Mr. Randy Carroll, CEO of the Insurance Brokers Association of Ontario.

Mesley: But the insurance companies say that they can show that you're a bigger risk on their actuary tables.

Carroll: But that doesn't mean that it's right and that doesn't mean that it's a tool that we should use.

Neither Ms. Mesley nor Mr. Carroll were disputing that there may be studies to prove credit scoring as an effective tool; what is being questioned is the fairness of the practice.

We also included a comment from one of your customer service representatives to reiterate The Co-operators point of view:

Client: So you're telling me because I lost my job you think I'm going to start making claims?

Representative: Not you personally. But they do have statistics showing, compiled like with a lot of people and unfortunately that's what it's shown.

A point repeated on The Co-operators' website:

Credit score reflects a client's level of responsibility and behaviour when it comes to managing their finances. Analysis shows a direct link between a person's credit score and the frequency and severity of claims. By adopting this factor, we are able to more

accurately rate individual clients by customizing rates and charging an appropriate premium for the risk. Clients with good credit scores will benefit by receiving the most competitive premium.

...As mentioned earlier, clients are able to "opt out" of providing their credit score by contacting their agent, but this will result in a less competitive premium.

Second, you wrote there are many reasons – aside from their credit score – The Co-operators customers in our story may have seen their premiums rise. You point out: "The premium increases experienced by The Co-operators clients in your story were only partially caused by the addition of credit score as a rating factor." This is precisely what we said in our story.

Ms. Mesley stated:

The Co-operators admits one reason for his rate hike is his credit score.

Third, you argue against the notion that insurance is becoming less affordable. Certainly, that is the case of the clients we featured in our story, and of others we have spoken to during the research process. One of The Co-operators' clients says he left your company because of the high cost. He is now paying what he says is a much more affordable rate with a company that does not factor in credit scores. In fact, he is paying a third less which, he says, is much more manageable.

In addition, in their interview with Ms. Mesley, the IBAO spoke of the use of credit scoring as an industry-wide practice, not specifically about The Co-operators. Mr. Carroll was giving us his perspective, and that of his association, regarding the effect he sees when it comes to the use of credit scoring as an industry trend.

You assert we used "half-truths and distortions" to describe how The Co-operators advised consumers they were using their credit score. We strongly disagree. If our interviewees received notification of The Co-operators' intention in a newsletter insert, it was neither obvious nor did it stand out enough, they told us, for them to recognize this was important information. In fact, neither person remembers receiving it. Nor could they reasonably be expected to seek out information about credit scoring on The Co-operators website. Why would they, when they were not aware The Co-operators was using the technique. The letter The Co-operators sent to group policy holders, actually gives consumers the chance to "opt out," of credit score. By contrast, the newsletter insert sent to the majority of consumers was far less clear.

We included on our website other examples of how The Co-operators informed customers, and included all of the written documents you sent us concerning the other formats used to do so. These documents can be found on our website (www.cbc.ca/marketplace). You will also find a link in the cbc.ca article (<http://www.cbc.ca/consumer/story/2010/04/08/consumer-insurance-credit-score.html>) to The Co-operators' "Guiding Principles."

I should also be clear that it was not Ms. Mesley, but one of the consumers in our story who referred to insurance company bailouts. Of course bailouts were in the United States, not Canada. I think our viewers know that. The consumer was expressing his frustration at the insurance industry generally and what he sees as practices unfair to the consumer.

Lastly, I want to emphasize that Marketplace made every effort to present The Co-operators' position fully and fairly, as well as the position of the industry as a whole. As you well know, we also repeatedly invited you or another representative of The Co-operators to appear in our story, to offer consumers your views directly and in your own words as well as to respond to the concerns raised by others. Regrettably, The Co-operators declined that opportunity.

Sincerely,

Virginia Smart