

Do credit checks really prove your job-worthiness?

By Marjo Johne

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Job applicants who make the cut at TD Canada Trust get something else with their formal offer of employment: a form asking them to agree to a personal credit check.

“We do credit checks on all [potential] employees,” says Josephine Quercia, manager of talent systems and programs at TD Canada Trust. “It’s part of our best practices and part of our responsibility as a corporate citizen because of the trust placed in us by our customers, shareholders and employees.”

TD is among the many employers in the country that use credit checks as an additional layer through which to screen prospective employees. While there are no statistics on the prevalence of this practice in Canada, a 2009 survey by the Society for Human Resource Management – which represents HR professionals in more than 140 countries – found 47 per cent of companies ran credit checks for certain positions while 13 per cent did this type of screening for all jobs.

Of the 433 U.S.-based and multinational companies that responded to the survey, 91 per cent said they did credit checks for positions of financial responsibility – where, for example, an employee deals with cash, banking or accounting – while 46 per cent said they did it when hiring senior executives such as a CEO or CFO.

Theft and fraud prevention was cited by 54 per cent as the main reason for checking job applicants’ credit history. The second most common reason was to reduce the company’s legal liability for negligent hiring, while the third reason, cited by 12 per cent of respondents, was to assess a job candidate’s trustworthiness.

“The thinking behind pre-employment credit screening is, basically, an employer wants to know if your house is in order before they let you handle their house,” explains Tim Hardie, president of Hire Performance Inc., a company in Markham, Ont., that provides pre-employment screening services, including credit checks. “Knowing how you handle your own financial situation is especially important if your job involves handling cash or finances.”

Mr. Hardie says he’s seen an increase in requests for credit checks over the last 13 years his company has been in operation. But companies aren’t just reviewing job applicants’ credit information; many are also using the credit reports to confirm previous employment.

“The reports are a good way to verify that a person is who they say they are,” says Mr. Hardie.

Glenn Swan, president of SwanStaffing in Toronto, says pre-employment credit checks used to be confined to large multinational corporations. Today, however, he is seeing smaller companies also doing credit checks before hiring – a development he attributes partly to tighter post-recession budgets that leave little room for costly hiring mistakes.

“There's a cost involved every time you hire a new person,” says Mr. Swan. “After the recession, everybody has become incredibly sensitive to making sure they're making the right hire, and a credit check is one of the tools employers can use to carefully assess a potential hire.”

Gerlinde Herrmann, president of the Herrmann Group Ltd., an executive search firm in Toronto, notes that pre-employment credit screening is less prevalent in Canada than it is in the United States.

However, a number of states are considering a ban on the practice. Washington and Hawaii already have restrictions in place.

While the practice is well entrenched in certain industries, such as pharmaceutical and financial services, in most other sectors some companies may do it while others in the same type of business don't, says Ms. Herrmann, who is past president of the Human Resources Professional Association, which regulates the HR profession in Ontario.

Tony Rubino is one employer who doesn't believe in snooping into workers' credit histories.

“There are other ways of gauging a person's character,” says Mr. Rubino, president of Resource Integrated, a Toronto company that provides printing and creative services. “One of the best ways is just taking the time to really talk to someone during a job interview, go beyond the usual questions.”

Besides, adds Mr. Rubino, a poor credit score doesn't necessarily point to a financially irresponsible person; it could also be the result of difficult times such as a job layoff or a divorce.

“I have had good employees who I know were in financial difficulties, or had even declared bankruptcy,” he says. “If I had considered their credit history before hiring them, then I might have lost out on some really good people.”

Companies that operate in regulated industries, such as banks and casinos, are usually required by law or industry rules to do credit checks on prospective employees, says Krista Hiddema, a human resource specialist and partner at e2r

Solutions, the HR consulting arm of the Toronto law firm Woolgar VanWiechen Ketcheson Ducoffe, LLP.

For employers that are not required to do credit screening but are wondering if they should adopt this practice, Ms. Hiddema offers this advice: Make sure a pre-employment credit check is absolutely necessary before making it part of your hiring process.

As a first step, says Ms. Hiddema, companies need to consider whether the duties of the position being filled really call for an employee with a clear credit history. Even if the answer is yes, companies should still look at other, less invasive ways to screen an employee's trustworthiness – such as doing comprehensive reference checks – before going the credit check route.

“Too many employers are not willing to do the hard work, like maybe doing three interviews instead of two, and checking all references,” says Ms. Hiddema.

She says employers who already have measures in place to reduce the risk of employee theft or fraud – such as surveillance cameras and controlled access to cash – should ask themselves whether it's necessary to add a credit check on top of these measures.

Having a job applicant's signature on a credit check consent form is a non-negotiable requirement for employers, says Ms. Hiddema. But that in itself isn't always enough.

Ms. Hiddema points to a decision made last year by the Alberta information and privacy commissioner's office against Mark's Work Wearhouse Ltd. The retailer had turned down a worker who had applied for a sales associate position because his credit report contained some negative information.

The case investigator ruled that Mark's Work Wearhouse's collection of the worker's credit information was not “reasonably required” to assess the applicant's ability to perform the duties of the job, or to determine whether he might have a tendency toward committing theft or fraud on the job.

“In my view, determining whether an applicant is likely to commit in-store theft or fraud requires a subjective assessment of the applicant's character,” wrote Linda Sasaki, the officer who heard the case. “Personal credit history is not reasonably likely to provide the information necessary to make this assessment.”

On Ms. Sasaki's recommendation, Mark's Work Wearhouse has stopped doing credit checks on workers applying for a sales associate role.

“I think every organization and every situation is different,” says Ms. Hiddema. “Employers need to realize that making credit checks part of their decision-

making process requires more than just getting approval from the applicant; they need to be certain that a person's creditworthiness is solidly tied to the essential duties of the job."

The dos and don'ts of pre-employment credit checks

For employers:

- Do make sure the nature and duties of the job necessitate a credit check.
- Do see whether there are other ways, such as extensive reference checks, to get the information you need to assess a job applicant's suitability for your position.
- Do get the job applicant's consent before doing a credit check, using the form required by your province's consumer reporting legislation.
- Don't be too quick to judge job applicants with a tarnished credit history. Give them a chance to explain their poor credit score.

For employees

- Do check your credit report regularly to ensure it is accurate. In Canada, the two main credit reporting agencies are Equifax and TransUnion.
- Do contact the credit reporting agencies if you see any errors in your credit profile and ask them to fix these mistakes.
- Do let a prospective employer know in advance about any problems in your credit history. It's better for them to hear your explanation first before they see this information on a report.
- Don't sign the consent form if you're not comfortable having a company screen your credit. If you're not sure the company is making a valid request, consult with an employment lawyer or the human rights commission in your province.