



The Actuarial Profession

making financial sense of the future

consultation response

HM Treasury consultation on:

**The publication of data associated with
the use of gender in the assessment of
insurance risks**

http://www.hm-treasury.gov.uk/media/6/0/consult_gender_insurance120607.pdf

September 2007

Brian Garcia
Savings and Investment Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

3 September 2007

Dear Mr Garcia

HM Treasury Consultation: 'The publication of data associated with the use of gender in the assessment of insurance risks'.

We have pleasure in enclosing the response from the UK Actuarial Profession to the above consultation. The response has been prepared by a working party supporting the Life, General Insurance and Social Policy Boards of the Profession.

We welcome the opportunity to comment on this important consultation and would be very happy to discuss the issues dealt with in our response further, should you wish.

Yours sincerely



Nick Dumbreck
President, Institute of Actuaries



Stewart Ritchie
President, Faculty of Actuaries

Faculty of Actuaries
Maclaurin House
18 Dublin Street
Edinburgh EH1 3PP
Tel: +44 (0)131 240 1300
Fax: +44 (0)131 240 1313
e-mail: faculty@actuaries.org.uk
www.actuaries.org.uk

Institute of Actuaries
Staple Inn Hall
High Holborn
London WC1V 7QJ
Tel: +44 (0)20 7632 2100
Fax: +44 (0)20 7632 2111
e-mail: institute@actuaries.org.uk
www.actuaries.org.uk

Institute of Actuaries
Napier House
4 Worcester Street
Oxford OX1 2AW
Tel: +44 (0)1865 268200
Fax: +44 (0)1865 268211
e-mail: institute@actuaries.org.uk
www.actuaries.org.uk

RESPONSE FROM THE ACTUARIAL PROFESSION TO HM TREASURY'S CONSULTATION PAPER:

“The publication of data associated with the use of gender in the assessment of insurance risks”

Transposing the EU Directive on Equal Treatment between Women and Men in the access to and supply of goods and services (“EU Equality Directive”)

Introduction

1. This response is provided by the Faculty and Institute of Actuaries at the invitation of HM Treasury.
2. The Faculty and Institute of Actuaries are the two professional bodies for actuaries in the UK; the bodies are referred to collectively as ‘The Actuarial Profession’. The Profession has an obligation to serve the public interest. It seeks to do so by informed contribution to debate on matters of public interest. Our objective in submitting evidence is to offer technical expertise on the implications of different transposition policy choices facing Westminster and European legislators. The Profession has not obtained legal advice in the course of drafting this response. (Further information about the Profession is at Appendix A).
3. Our response extends to insurance only; we do not offer information on the wider general aspects of goods / services covered by the Department of Communities and Local Government’s consultation paper.
4. Further, our understanding is that Pensions are already covered by other Directives and so are not covered here, except for the extent to which the comments on Life products apply equally to the situation of pension buy-outs by insurance companies.

UK insurance and annuity markets

5. The Profession is interested in the proposed approach to transposing the Directive because it affects consumer goods and services where actuaries undertake the statistical and financial analysis to set prices, terms and conditions, and provisions (the financial sums which insurers or funded schemes retain to cover their commitments to consumers).
6. The UK insurance and annuity markets to which the Directive is relevant are essentially deregulated commercial markets. The FSA (an extended agency of government) enforces supervision of the solvency and regulation of sales (including their "Treating Customers Fairly" initiative) of what are, for the most part, ordinary stock companies. However, there is very little interference by regulation in the commercial process – consumers generally present themselves voluntarily if they want to buy a product (and choose its size). (We note some insurance, eg Motor Third Party Liability cover, is compulsory). Insurers behaving as profit maximisers compete for consumers and will not prosper if they either (a) sell at a loss or (b) over-price and are rejected by consumers.
7. In particular, given the competitive nature of these markets, pricing has to be driven heavily by the underlying claims experience of different risks (eg male vs. female) as not doing so runs the additional risk of anti-selection.

What is 'Fair'?

8. The deregulated model of insurance is viewed by some as 'fair' in the sense that if a consumer is paying the price equivalent to his / her risk then that is fair by the free market model. However, the deregulated model can and does charge different prices to men and women and this, in terms of justice however defined, may be regarded as unfair. Therefore, the motives of the Directive are easy to understand. Indeed, it is worth remembering that the UK market is not wholly deregulated – the 'classic' model had already been modified by race and disability discrimination laws and by the voluntary moratorium on genetic discrimination.
9. Further, through discussion with lawyers we understand that insurers' current practices are "discrimination" in the strictest legal interpretation of the word. However, we agree with HM Treasury that "differentiation" is a more appropriate word to be used in situations such as these, where there is evidence for differences in risk profile, given consumers' interpretations of these words.

The European dimension

10. The deregulated market model is facilitated by the EU Insurance Directives which essentially restrict EU member state governments to supervision of solvency. However, the Insurance Directives include a derogation by which individual member states may, provided conditions are satisfied, take further measures. In particular, the Netherlands, German and Irish governments avail themselves of this in their health insurance sectors, where there are social aims by virtue of the integration of public and private systems. In Germany there is substantial regulation of how prices are set by health insurers. In Ireland, the regulation of tariff for health insurance effectively proscribes age, as well as gender discrimination. However, the UK has not availed itself of the derogation clauses under the Insurance Directives.
11. The Equality Directive includes a similar derogation in respect of Insurance, allowing member state governments to regulate gender differentiation at a local level in line with the Directive's criteria. This allows public policy to be tailored to local conditions, local markets and local social mores. At this time we understand that most member state governments intend to use the derogation in relation to Life and Protection products but only a small number intend to do so in respect of General Insurance products, such as Motor. This could have future implications both in respect of EU citizens' views of the concept of 'fairness' between men and women, and the desire ultimately to move to a single European market.

The purpose of the EU Equality Directive in respect of insurance and hence HM Treasury's Guidance

12. The starting point in the Directive is that the use of gender as a factor in the calculation of premiums or benefits for insurance or related financial services products should not result in differences in individuals' premiums or benefits. However, where gender is a determining factor in the **assessment of risk** based on relevant and accurate actuarial and statistical data then **proportionate differences** in individuals' premiums or benefits are allowed. Further **accurate data relevant** to the use of gender as a determining actuarial factor must be compiled, published and regularly updated.

13. Given the number of factors considered in the setting of premium rates and benefits in insurance, HM Treasury's transposition of this Directive is intended to ensure that consumers can easily see that gender is a determining factor in the assessment of risk, through the publication of high-level tables of relevant data. HM Treasury also acknowledge the commercially sensitive nature of the data that each individual company uses to set their premium rates and benefits and so have proposed an approach that is intended to preserve the current competitive state of the market, which also benefits consumers. It is important that the guidance balances these two objectives, as it currently seems to do.

Statutory force of the Guidance

14. Section 1.3 states that the Guidance will be issued "in accordance" with the regulations. Therefore, our understanding is that the Guidance (including the annex and explanatory note) will have statutory force in the UK. This is important to ensure as much certainty as possible for insurers and consumers from 21 December 2007. However, it may still be appropriate to consider bringing sections 4.14-4.17 into the annex (which is the main section that will be in law) as it is likely that any tables published will contain wordings to that effect with them.

Assessment of risk

15. There does not appear to be a clear definition of "assessment of risk" but given the broader goods and services context of this directive, it would seem to be the part of the development of an insurance product that is unique to that industry. In essence, this has been interpreted as the assessment of claims costs based on claims frequencies and claim severities.
16. Broader factors that are likely to be considered with other products as well, such as the propensity to buy the product, be that initially or at renewal, may be differentiated by gender. For example, Motor insurers may spread acquisition costs differently between genders, due to the observation that male policyholders typically stay with the company for fewer years than females. It would be useful to have guidance on whether this is allowable under the Directive.
17. We assume that marketing practices that are targeted at men or women, for example Sheilas' Wheels (for Motor Insurance), will continue to be acceptable providing the company quotes premiums for both men and women at rates that fulfil the Directive.
18. We also note that for health products there is potential to offer products to just one gender (eg female cancer only products). This is acceptable as per 4.3 of the Guidance which states, "There is an exception if providing goods and services mainly to members of one gender is justified by a legitimate aim, and the means of achieving that aim are appropriate and necessary".

Proportionate differences

19. Our understanding is that a company's allowance for gender differentials in its premium rates / benefits must be proportionate to the underlying actuarial and statistical data that it has for these differences.
20. We note that there is no definition of "proportionate" but our understanding is that there is some tolerance around which a differential is felt to be proportionate and that this is symmetric. For example if the differential in the published table for Motor insurance for

ages 17-20 is X% then a differential slightly above or below X% would still meet the need to be proportionate.

21. Further, as noted in sections 4.14-4.17 of the Guidance, there is unlikely to be a direct linear relationship between the differentials published and the differentials applied by a specific company for a specific risk (excluding gender). This is driven by the aggregation required to produce tables intelligible to a layman, across:
 - a. risk characteristics within the tables (eg for Motor a different differential might be applied at each age but the published table is clearer for grouped ages);
 - b. other risk characteristic factors within a company's premium rate structure (eg cover or car type for Motor); and
 - c. where a company decides to publish data collectively with other companies, across other companies' information.
22. Also, potential reasons why there might not be a direct linear relationship between data differentials published based on claims costs and differentials in consumer premiums quoted include:
 - a. loading for expenses and how they are incorporated into the final premium rates (e.g. a fixed amount being added to each of the male and female rates);
 - b. capital and solvency requirements and how they are incorporated into the final premium rates;
 - c. tax and investment return allowances;
 - d. specific contract design features that differ from that assumed in the published data (eg scope of cover, options); and
 - e. allowance for trends – future medical developments.
23. In particular, it is noted that there are some situations where insurers provide “net rates” to intermediaries who then apply expense / commission / profit loadings to get to the premium rates that are presented to consumers. We assume that there is no legal responsibility on the insurer and intermediary to ensure each other party is behaving in line with the Directive but it would be useful to clarify this.
24. As noted above sections 4.14-4.17 are, therefore, particularly important and would be usefully quoted with any published tables. Further, individual companies would be well advised to prepare a clear standard response to individual policyholders wishing to discuss the relationship of their own premiums / benefits to the information published (as per section 4.15), ensuring that a layman would be comfortable with the explanation.
25. However, should a company decide to differentiate by gender in its premium rates / benefits and not contribute any data for publication, either individually or collectively, then they would need to check that the premiums that they are setting are similar to / consistent with the premiums they would have calculated if they had used published data. Further, it would not be reasonable to prevent non-contributing offices from using the publicly available data (eg Continuous Mortality Investigation [CMI] data). (Further information about the CMI can be found at Appendix B.) Although it is up to the individual offices to decide if their business is sufficiently similar to that which has been analysed collectively and it is our understanding that non-contributing offices should not mislead customers into thinking that they contributed to the data that was used to produce the gender-differentiated data tables.

26. In section 4.16 the sentence “There should therefore be a close relationship between the data and premium and benefits.” is not felt to be necessary given the rest of that paragraph and is felt to dilute the rest of the messages in that section. Further the last sentence of this paragraph should read “premiums and/or benefits”.

Compilation and Publication of data

Section 2.6

27. Section 2.6 states that “the data must be published in a form that is intelligible to someone who is not an insurance expert and must use plain English”. This is clearly an appropriate aim but we note that there could still be uncertainty as to what this standard means in practice; for example, is it the county court judge, the consumer bringing the complaint to the judge or a qualified statistician who happens to know nothing about insurance?

Section 2.7 – publication as a group or as an individual company

28. Whilst it is clear that section 2.7 provides the industry with flexibility with regards to the approach to publication, there is a risk that the availability of a number of different tables that have been published by different insurance companies, or groups of insurance companies, will make the tables unintelligible to someone who is “not an insurance expert”, particularly if they provide evidence that appears to be contradictory. However, the ability to publish individual tables gives the opportunity to ensure that individual insurance company’s rates are more directly related to their published tables, which could give increased clarity for consumers, but insurers might be concerned by the commercial sensitivity and the volatility of the data they needed to publish.

Specific considerations for long-term business

29. For the purposes of clarification, by "short-term" we mean business is written to be in force for up to 5 years and by "long-term" we mean business is written to be in force for 5 years or greater.
30. Long term insurance products such as life assurance, critical illness and income protection are characterised by relatively low frequencies of claim. For example, a term insurance portfolio of a thousand policies will typically generate only one or two claims per annum. A comparison of male and female claim rates for a single insurer over a single year is likely to produce a very confusing picture as for many ages there will have been no claims or claims from only one gender. In order to address this issue actuarial practice has been through the CMI to combine experience from a number of insurers and aggregate experience over a number of calendar years. Data may be limited to a recent period (eg four years) in order to ensure that the experience is representative of current experience. Even this aggregated data is unlikely to produce sufficiently smooth claim rates that can be used in insurance pricing. To produce rates that can be used in actuarial calculations it is necessary to graduate the data. “Graduation” is the process of using statistical tools to improve the estimates provided by the crude rates. Determining an appropriate graduation is a non trivial process and therefore is normally only done relatively infrequently. Practice in the UK has been for the CMI to publish revised graduations only every 8-12 years.

31. Typically, the CMI has published crude experience data for mortality and income protection for four-year periods, presented as an adjustment (typically a percentage multiplier) to the latest graduated table.
32. Given this background we believe that only the very largest insurers will be able to present their own data to give a meaningful indication of gender differentials for long term insurance. We would, therefore, suggest that insurers should publish data as a group and this industry data should be available as a basis for setting gender differentials. Further, we note that most insurers will currently set premium rates by reference to a published life table, possibly with adjustments, and that these are (at present) almost universally published separately for men and women.

Section 2.7 – practicalities of group publication

33. It is important that any third party (allowed for in section 2.7) that carries out the publication of grouped data is appropriately qualified.
34. The CMI has been publishing data from which gender differentials can be inferred for mortality and Income Protection for many years and would seem to be well placed to meet this requirement, albeit data would need to be published in a more consumer-friendly form. In particular, the CMI has established protocols around areas such as data integrity.
35. The CMI also collects data on Critical Illness insurance, with representative data covering the period since 1999. It has not yet published detailed results for critical illness, but expects to be able to publish data to meet the requirements of the guidelines.
36. There is currently no body that collates such data for Private Medical Insurance (PMI) or Motor insurance. Although PMI business is classed as general business, the principal risks (eg morbidity) are closely related to life business.
37. The Guidance should set out some minimum criteria for such a body though, for example: independent; employs / overseen by statisticians or actuaries; ensures confidentiality of information and only uses it for the purpose specified; and has the appropriate infrastructure for such collation.

Section 2.8

38. Section 2.8 makes it clear that each company must attest the source and accuracy of data contributed to published tables. However, where a third party is being used to collate and publish data from a number of companies it is likely to be very difficult for them to attest the accuracy / appropriateness of the data published.
39. Currently for long-term business the CMI does not ask contributing insurers to attest the accuracy of their data although there is the expectation that contributors seek to provide the most accurate data. However, the CMI does run the data through a series of validation checks. Some of these issues have to be resolved before the data can be used. In other cases where the data is acceptable but unusual, offices will have to provide a valid explanation before it can be used. Further, before any offices data is used in the "All Office" results, offices are sent their own results and required to confirm that they are reasonable and as expected. By collating the data from a number of contributors the risk of errors in a single subset of the data distorting the results is significantly reduced.

46. One suggestion that goes across all products is that the approach taken for Life Assurance / Annuities (in section 3.1) of publishing the ratio of male to female information rather than the absolute amounts be extended to the other products as well as this will be clearer for consumers.
47. It also appears sensible to group product variations within an overall product line. For example, one set of ratios could be used for Life Assurance and Annuities as they are both based on mortality. Similarly, ratios for Accelerated Critical Illness (CI) could be used to represent all CI as it represents the majority of business.
48. Whilst we have given some guidance below on the number of years of historical data that we would expect to be included in such analyses, we agree with HM Treasury that the key is the comment in section 2.6 that the data must identify "the period to which it relates"; for example some smaller companies might like to use more years to ensure credibility. We note though that a footnote to the tables may be necessary in such situations as a lay person might at first sight think that the data looks out of date.
49. Section 2.12 requires the data to be reviewed at regular intervals and updated when significant changes are made. Again we have made some suggestions below as to the frequency of such updates, although we note that in general we would expect the differentials to change slowly over time as they represent behavioural patterns or innate gender differences, which generally change slowly over time. Further, we note that where the data is compiled by a central body for a number of companies, what is a significant change for one company may not be significant in terms of the overall body of data, so the central body may choose not to publish an update. Our understanding based on the sections regarding proportionality above, is that in such a situation the company that has seen a significant change can update its rates based on their new data providing this new data has been submitted for central collation and publication, even if the central body decides no overall republication is necessary. Again it may be useful to clarify this within the Guidance.
50. We understand that no allowance is intended to be made for expected future trends, for example improvements in longevity, in the tables and we agree that that is appropriate, as it is an assumption rather than historical data.
51. We also note that the language in section 4.13 bullet 3 requiring "published data is consistent between different insurance providers" and the use of "may" (eg "publication may" or "data may") within the Annex could be seen as contradictory.

Life Insurance and Annuities (sections 3.1-3.2)

52. The CMI data can be used to produce the female / male ratios for mortality. This includes life assurance and annuities. We would recommend that the mortality table is aggregated across all products and uses the resulting female / male ratios.
53. 3.2 states that: "The published data should be reviewed at intervals not exceeding two years and updated when significant changes are made to the underlying data". However, the frequency of reviews (eg every 3 to 5 years) will vary between short-term and long-term business. Note also that the CMI publishes "quadrennial results" for the long-term products with individual year results provided to contributing offices only and long-term offices would not tend to change their pricing based on only two years worth of data. Given this and the need to graduate crude experience we would recommend that the gender differential is presented as the gender difference based on a graduated table and that this difference is recalibrated every four years.

Critical Illness ("CI") (sections 3.3-3.4)

54. The CMI data can be used to produce the female/male ratios for CI although it should be noted that insurance experience data has not been previously published. Premium rates offered in the market will allow for long-term future trends, premium rate guarantees and may include allowance for new conditions where insured data is not available. The relationship of premiums by gender may, therefore, be very different from the relationship in historical claim costs. The first two points appear to be addressed, as it is our understanding from HM Treasury that the published information should be based on historical data only and is not expected to reflect future trend assumptions, as noted in paragraph 50 above.
55. For new conditions we price new products using population data and then make an appropriate adjustment to allow for insured experience (eg taking into account the potential impact of the underwriting process). If this new condition accounts for only a small proportion of the cost then a reasonable starting point for the gender differential of the final premium rates will be the gender differential of existing CI experience.
56. 3.4 states that, "The published data should be reviewed at intervals not exceeding two years and updated when significant changes are made to the underlying data". However, the frequency of reviews (eg every 3 to 5 years) will vary between short-term and long-term business. Note also that the CMI publishes "quadrennial results" for the long-term products with individual year results provided to contributing offices only and long-term offices would not tend to change their pricing based on only two years' worth of data. Given this and the need to graduate crude experience we would recommend that the gender differential is presented as the gender difference based on a graduated table and that this difference is recalibrated every four years.

Income Protection ("IP") (sections 3.5-3.6)

57. The CMI data can be used to produce the female/male ratios for IP.
58. 3.6 states that, "The published data should be reviewed at intervals not exceeding two years and updated when significant changes are made to the underlying data". However, the frequency of reviews (eg every 3 to 5 years) will vary between short-term and long-term business. Note also that the CMI publishes "quadrennial results" for the long-term products with individual year results provided to contributing offices only and long-term offices would not tend to change their pricing based on only two years worth of data. Given this and the need to graduate crude experience we would recommend that the gender differential is presented as the gender difference based on a graduated table and that this difference is recalibrated every four years.

Motor Insurance (sections 3.7-3.8)

59. Based on our experience of what data companies will be able to provide that should be appropriate for this exercise we propose that the data request for the Motor tables should consider the following:
- a. Single driver policies only or two tables one for single driver policies only and one for joint driver policies, cf paragraphs 61 and 62 ;
 - b. Ages - combined into the following bands; 17-24, 25-34, 35-44, 45-54, 55-64, 65-74, 75+;
 - c. Private motor policies for all covers (eg comprehensive, third party only) combined for all vehicle types combined;

- d. Cohort period - Accident year – for data as at 31 December 2007 we would expect to gather accident years 2000-2004 at a minimum;
 - e. Exposure in vehicle years;
 - f. Claims should be paid plus outstanding claims and should not include Incurred but not reported (IBNR) / Incurred but not enough reported (IBNER) or claims handling expenses and should be uninflated and be gross of reinsurance and net of any excess paid by the policyholder;
 - g. Data at the same as at date across all companies; and
 - h. The tables should be reviewed every 3 years.
60. This will enable a table to be produced of the ratio of male to female average claims costs per policy by age grouping.
61. Further, it is common for motor policies to be in the name of one driver, but to give equal cover to other named drivers (often of the opposite gender). A published table for single driver policies only (i.e. “insured only”) will most simply and clearly show the genuine differentiation by gender. If only this table is published then we would propose that joint policies insuring more than one driver could continue to use gender as a price factor providing the gender allowance is consistent with the single driver published data taking into account the mix of genders on each policy. Albeit insurers would be likely to use claims experience from the joint policies directly and then check the published tables for consistency, rather than using the published data as a starting point. We would recommend that the annex would then describe this case explicitly.
62. An alternative approach would be additionally to publish tables for policies with multiple drivers. This has the advantage of ensuring that the data on which companies rely in setting their premium rates for these policies is published. However, given the aggregated nature of such a table (for example all joint policies with a male “main policyholder” being in the male column regardless of whether the policy is for two men, a man and a woman or two men and two women say), this table may not be clear or helpful to a non-expert user. Further, different companies currently have different approaches to rating joint policies and how they capture the data on such policies and so clear guidance would be needed on how the data for such a table should be prepared. The Profession would of course be happy to work further with the Treasury to agree the best approach to meet the Directive requirements and to try to overcome any practical difficulties.

Private Health Insurance / Private Medical Insurance (“PMI”) (sections 3.9-3.10)

63. Among PMI insurers, some use gender as a rating factor and some do not. For those that do not use gender, this is generally because they sell family policies where they are covering a policyholder and spouse together and therefore rating tends to be at the level of “single”, “couple” or “family” with the price reflecting the expected gender mix in each category. However, the methods of rating vary quite considerably between PMI insurers and products between those that use many factors combined in a sophisticated rating model to determine premium to those that simply use broad age categories to determine a premium for each product type.
64. There is currently no published insured data for PMI available on which insurers can rely to support the gender-differentiated rates. However, we believe that a pragmatic and robust approach would be for insurers to publish (either collectively or individually) female / male ratios of claims costs in 10 year age bands, with all short-term medical insurance

products combined. These female / male ratios would not be adjusted to remove the effect of any other factors which might interact with gender, such as different underlying geographical mixes, as these are not likely to be significant overall. The material (inpatient and day case) maternity costs would be removed using an agreed set of diagnosis or procedure codes. The review intervals for these tables would be every 2 years.

65. For PMI insurers, the published gender risk differentials would be a starting point for rating. The premium rates for any one product would also depend on:
- Specific product characteristics and benefits which may affect the gender differential;
 - Trends, including specific allowances for future medical developments that may affect males and females differently, eg advances in cancer care for breast cancer;
 - The influence of other factors in the rating model, such as occupation mix, geographical mix; and
 - The provider fee schedules for an individual insurer.

Pregnancy and Maternity costs

66. The EU Equality Directive also has clauses as follows: "In any event, costs related to pregnancy and maternity shall not result in differences in individuals' premiums and benefits. Member States may defer implementation of the measures necessary to comply with this paragraph until two years after 21 December 2007 at the latest."
67. The HM Treasury Guidance in relation to the transposition of the Directive refers to this at section 4.10 (iv) but not the potential for deferral. However, within the Department for Communities and Local Government consultation paper "A Framework for a Fairer Future: Proposals for a Single Equality Bill for Great Britain" there is a statement in section B.22 as follows: "Implementation of this specific provision can be deferred until 20 December 2009, but it would be desirable not to do so unless a good case can be made for deferral."
68. The insurance classes where differences in individuals' premiums and benefits currently occur due to costs related to pregnancy and maternity are:
- a. Travel – where policies typically include an exclusion along the lines of "What is not covered: Any claim that results from pregnancy or childbirth where the expected date of delivery is less than 12 weeks (16 weeks in the case of a multiple pregnancy) before your planned return date." ;
 - b. Payment Protection Insurance (PPI) - PPI covers accident, sickness and unemployment. Pregnancy is considered to be neither an accident nor a sickness. Typically, PPI will cover medical complications that result from pregnancy. In terms of unemployment, proof of unemployment is usually defined as applied for job seekers allowance, which we understand, pregnant women cannot do. The industry agreed to cover unemployment for pregnant women who could demonstrate that they were actively seeking work. Not all companies have yet adopted this agreement;
 - c. PMI - usually covers the complications of pregnancy (of which the most material costs are likely to be c-section deliveries or inpatient surgical procedures related to maternity complications) but does not cover normal deliveries. Most PMI insurers use a diagnosis or procedure-based coding system which would enable them to distinguish maternity-related claims from other types of claims; and

- d. Life / CI / IP - Normal pregnancy will not generally be a cause for claims under long term insurance products and so will not contribute to any gender differential. Complications from pregnancy can be the underlying cause for both mortality and morbidity claims. The frequency of these claims is generally so low that the impact on any gender differential will be minimal. For long term insurance business we do not believe that pregnancy creates an issue with respect to gender differentials.

69. Within section 4.10 (iv) HM Treasury have implicitly translated maternity as “the fact that a woman has given birth at any time in the period of [52] weeks ending on the day the treatment occurs or begins”. Our interpretation of this is that treatment costs relating to complications following from pregnancy that start to be incurred up to 52 weeks after the birth cannot result in differences in premiums / benefits. Is this the intention? Greater clarity here may be useful.

70. Further, there are a number of outstanding specific practicality concerns, which mean it would seem to make sense to consider the deferral option, at least for one more year. Particular areas where further clarity still seems to be needed are as follows:

- a. Confirmation that excluding “normal pregnancy” from cover as standard is allowed as it is not a disability/sickness;
- b. Confirmation on the treatment of abnormal pregnancy claims during deferred periods, eg in PPI;
- c. Whether insurers would be able to use previous maternity complications declared on an underwriting form to exclude cover in future for maternity complications, eg for PMI; and
- d. If travel insurance cover would then extend to the infant to cover their ongoing medical costs (for instance, if a mother had a premature baby in the USA would insurers have to pay for the baby's care costs?).

71. Further, assuming that changes in current practices will have to occur then the work required to do this, for example new underwriting and pricing analysis, implementing new systems and updating policy wordings and staff training is unlikely to be achievable without a deferral for at least one more year.

Conclusion

72. The Profession continues to be supportive of HM Treasury's transposition of the EU Equality Directive and what it is trying to achieve. We have outlined above some practical considerations and look forward to being involved with HM Treasury and other relevant stakeholders in ensuring successful implementation, including limiting any potential unintended consequences.

Contact:

Peter Stirling
Secretary, General Insurance Board
The Actuarial Profession
Staple Inn Hall
High Holborn
London WC1V 7QJ
Tel: 020 7632 2177 E-mail: peter.stirling@actuaries.org.uk

September 2007

Further information about The Actuarial Profession

The Actuarial Profession is governed jointly by the Faculty of Actuaries in Edinburgh and the Institute of Actuaries in London. An examination system is supported by a programme of continuous professional development and a professional code of conduct.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles - from simple deposits through to complex stock market derivatives.

A majority of actuaries work for insurance companies or pension funds - either as their direct employees - or in firms which undertake work on a consultancy basis.

This response has been compiled through contributions from working parties supporting each of the Life, General Insurance and Social Policy Boards of the Actuarial Profession. Actuaries with varied experience and employed in various actuarial jobs serve (voluntarily) on the working parties and Boards. However, the Profession is conscious that social science and public policy goes beyond our normal discipline.

Continuous Mortality Investigation

The Continuous Mortality Investigation carries out research into mortality and morbidity experience.

Traditionally this has encompassed persons covered by long term risk contracts issued by life assurance offices in the United Kingdom and the Republic of Ireland. The investigations cover all the main types of life assurance, annuitant, pensioner, critical illness and income protection insurance contracts offered by the market. The base data is supplied by life offices covering the majority of the market. All dealings with individual offices are confidential.

The CMI is funded by contributions from its members, the majority of whom also submit data. These members receive results on a regular basis. The Executive committees of the CMI comprise members of the Profession.

Some research findings are published. Since 1973 these have been in Continuous Mortality Investigation Reports, which have appeared on average once every eighteen months. In December 2002, the CMI started reporting developments via Working Papers. These papers allow information to be disseminated quickly and facilitate feedback and consultation. All published information can be found in the appropriate section on the Institute of Actuaries website (www.actuaries.org.uk or www.cmib.org.uk).