

The EU Equality Directive and how it impacts actuaries

Update from the Profession's Working Party
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EU Equality Directive or Gender Influences

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Agenda



- What is the EU Equality Directive?
- Groupe Consultatif findings
- What does draft HMT Guidance say?
- Practical issues raised by the directive
- What should you do now?

What is the EU Equality Directive?



- EU Council Directive 2004/113/EC – Implementing the principle of equal treatment between men and women in the access to and supply of goods and services
- In force on 13 December 2004 / Transpose by 21 December 2007
- Important section for the financial services industry is Article 5, essentially:
 1. In all new contracts concluded after 21 December 2007 at the latest there should be no differences in individuals' premiums or benefits due to the use of sex as a calculation factor.
 2. However, Member States can opt to permit proportionate differences in individuals' premiums or benefits where the use of sex is a determining factor in the assessment of risk based on relevant and accurate actuarial and statistical data.
 3. Where the opt-out is chosen then accurate data relevant to the use of sex as a determining actuarial factor must be compiled, published and regularly updated.
 4. Regardless of the opt-out, costs related to pregnancy and maternity shall not result in differences in individuals' premiums or benefits.

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Groupe Consultatif findings (1)

Data survey:

The 25 EU countries were asked in late 2006 to comment on the use of Gender Differentiation in Insurance:

Specific questions on Motor Insurance were

▪ 1.3 Information used by insurers to differentiate on sex for pricing. Who elaborates the differences? Do they differentiate by sex?

▪ 2.4 What tables/data is used to differentiate and what are the ranges? Give general, specific or industry example tables.

Country
Austria
Belgium
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Luxembourg
Malta
Netherlands
Poland
Portugal
Slovakia
Slovenia
Spain
Sweden
United Kingdom

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Groupe Consultatif findings (2)

Data survey results:

Wide variation in returns to the forms.

Grouped

- No differentiation by sex
- Some but slight
- Large differentiation
- Nil returns

Differentiation	% of 25 EU Countries
Large	8%
Some	40%
No Differentiation	32%
Nil comment	20%

Differentiation	% of EU Population
Large	14%
Some	53%
No Differentiation	21%
Nil comment	12%

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Groupe Consultatif findings (3)

Data survey results:

UK and Ireland were the only two countries to state that there was differentiation by sex and that the differences were large.

Ireland

General Market Survey M/W %		
Age	3rd Pty	Comp
25	77%	46%
30	29%	30%
35	31%	31%
40	28%	28%
45	24%	24%
50	21%	21%
55	21%	21%

UK Premium Rates (AA Motoring Trust)			
Age	Male	Female	M/W %
17	3806	2438	56%
21	805	577	40%
25	489	423	16%
30	409	367	11%
35	359	342	5%
40	320	312	3%
45	298	294	1%
50	268	268	0%
55	253	258	-2%
60	240	254	-6%
65	240	265	-9%
70	264	281	-6%
75	367	366	0%
80	359	457	-21%

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What does draft HMT Guidance say? (1)

- Differences in premium by gender permissible provided
 - risk assessment based on actuarial & statistical data
 - data is compiled, published and updated in accordance with guidance
 - differences are proportionate to data
 - differences not related to pregnancy or nursing mothers
- '...highly unlikely to present a direct correlation...'
- '...should therefore be a close relationship between the data and premium...'
- Recompense by way of civil damages claim

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What does draft HMT Guidance say? (2)

- The published data
 - must be intelligible to the layman and free of charge
 - may be published individually or collectively
 - hard copy on request or publication on internet
 - be published by June 08 for existing products
 - updated not less than 2 years
- Guidance on life, annuities, critical illness, PHI, motor, other
- For motor average cost of claims by gender and age ranges (not to exceed 10 years)

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

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Practical issues raised by the directive (1)



- Differentiation vs. Discrimination
- Direct vs. Indirect use of gender
- Published tables
 - What should they show?
 - How often will they be updated?
 - Multi-driver policies?
- Must companies use the published tables?
- How will the data be gathered?
- What % coverage needed?
- What are the risks to insurers of this?
- What are the risks / benefits to consumers of this?
- What about non-claims elements of premium?
 - Can we differentiate in rates?
 - Expenses?
 - Propensity to buy / Elasticity?
- What factor will be next?

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Practical issues raised by the directive (2)



What will the process look like:

1. Law changed and Treasury issues guidance
2. Companies rate proportionately: In line with guidance & the (to be) published tables
3. Companies contribute data to ABI for published tables, or prepare their own tables for publication
4. An individual (or, more likely, a consumer group acting on behalf of an individual) challenges the rate charged to them by a company
5. Potential court case

Are you ready for 21st December?

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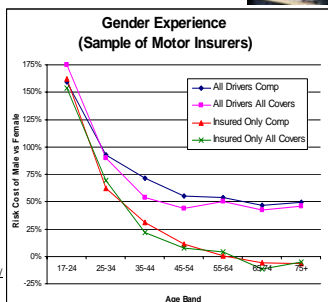
Practical issues raised by the directive (3)



The working party uncovered a number of issues:

1. Insured Only or All Drivers
2. Comp or All Covers
3. Claims or Claims + Handling
4. Any other relevant cuts
5. Development of claims
6. Frequency of refreshes

http://www.actuaries.org.uk/files/pdf/general_insurance/HMT_gender_insurance_resp.pdf



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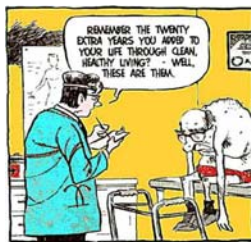
What should you do now?



- Make sure your company is ready for 21 December 2007
 - Read the guidance
 - Analyse the potential impact for your company
 - Prepare your data for publication
 - Change your premium rates, as appropriate
- Join the debate as the finger points at age

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Age concerns?



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