

The Actuarial Profession
making financial sense of the future

Current issues in life assurance (CILA)
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Gender Directive

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Agenda

- Introduction
- Background
 - The 2004 EU Gender Directive
 - The Test Achats case and the ECJ judgment
- What Happens Next?
- Implications
- The next battlefield?
- Discussion.

Working Party members

- Bill Baker (Swiss Re)
- Peter Banthorpe (RGA)
- Phill Beach (L&G)
- Sheila Hall (AEGON)
- Robin Houghton (Partnership)
- Lauren O'Meara (Standard Life)
- Dave Grimshaw (Barnett Waddingham)

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Working Party Terms of Reference

Working Party to assess the impact of a ban on the use of gender on pricing life insurance

- The aim of the working party will be to consider the impact of a ban on the use of gender, in particular:
 - on future prices and sales volumes of key UK life insurance products, and
 - on existing portfolios, including any back-dating implied by the verdict.

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Current EU Directive (2004/113/EC)

- Aims to combat discrimination based on gender in access to, and the supply of, goods and services
- Unisex rates required but Member State opt-out allowed (unless already using unisex rates)
- Applies to new insurance contracts concluded after 21 December 2007 where these are private, voluntary and separate from the employment relationship
- Pregnancy and maternity related costs cannot be reflected in premiums or benefits
- 5 year review (originally) due at end of 2010 with Member State review of opt-out to follow by 21/12/2012
- Implemented differently across Europe

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Current EU Directive (2004/113/EC): Opt-out clause

- Article 5(2) allows Member States to permit differences related to sex in respect of insurance premiums and benefits:
 - Where gender is a determining factor in the assessment of risk based on relevant and accurate actuarial and statistical data then proportionate differences in individual premiums or benefits are allowed
 - Data must be compiled, published and regularly updated

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EU Directive: Not a “Single Market”

- All 26 countries availed of the opt-out clause:
 - 13 for all types of insurance (incl. UK)
 - Others selectively, e.g. Belgium allows for Life/annuities only
- Different requirements for what data is published and who by
- Different interpretations of relationship between pricing and data
- Different application:
 - Consumer Protection – applies to policies sold to domestic residents, e.g. UK
 - Prudential supervision – applies to domestic insurers, e.g. Belgium.

Source: Groupe Consultatif survey (2009)

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UK implementation of EU directive

- Implemented April 2008
- Gender allowed as a rating factor for all types of insurance
- Data - individual company level or pooled
- Pricing - proportionate to the data, but says that other factors affect the premium rates
- UK legislation applies to insurance sold to UK residents (whether by UK or overseas insurers) but does not apply to UK insurers selling overseas to non UK residents.

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The “Test-Achats” case

- Belgium adopted the Opt-out for life insurance/annuities only
- Action brought in June 2008 by Test-Achats in the Belgian Constitutional Court that law is incompatible with the principle of equal treatment for men and women embedded in constitution
- Court decided that validity of Article 5(2) of Directive 2004/113 needed to be referred to the Court of Justice of EU.

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The Advocate General's Opinion – 30 Sept 2010

- Founding principles override the EU directive
- Opt-out is against EU principle of equal treatment
- 3 year transition period
- Impacts all future insurance premiums (and benefits?) after 3 years, i.e. existing as well as new business.

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The Advocate General's Opinion – 30 Sept 2010

- Purpose of Directive is to combat discrimination
- Gender discrimination only permissible if it can be established with certainty that differences between men and women necessitate such differences:
 - Opt-out does not focus on clear biological facts; many other factors impact risk e.g. economic, social, individual habits
 - Use of gender as a substitute criterion for other distinguishing features is unacceptable
- Gender is something person has no influence over
- Age is different to gender
- No party submitted that the introduction of unisex rates would seriously endanger private insurance systems.

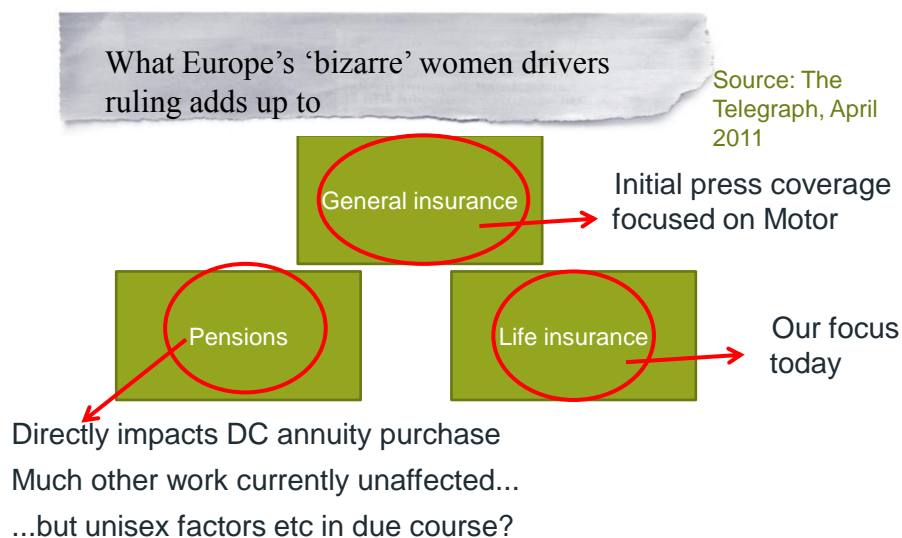
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The ECJ judgment – 1 March 2011

- Conclusion consistent with the Advocate General:
 - “Equality between men and women is a fundamental principle”
- But a significant focus on the lack of a time-limit for the opt-out clause:
 - “There is a risk that EU law may permit the derogation from the equal treatment of men and women, provided for in Article 5(2) of Directive 2004/113, to persist indefinitely.”
 - “such a provision, which enables the Member States in question to maintain without temporal limitation an exemption from the rule of unisex premiums and benefits, works against the achievement of the objective of equal treatment ... and is incompatible with Articles 21 and 23 of the Charter.”
 - “That provision must therefore be considered to be invalid upon the expiry of an appropriate transitional period.”
 - **“Article 5(2) of Council Directive 2004/113/EC ... is invalid with effect from 21 December 2012.”**

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Press coverage, and actuarial implications



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The ECJ judgment: What we know

- Must use unisex pricing for new policies from 21 Dec 2012.

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The ECJ judgment: What we don't know

- Process for implementation
- Ability to collect gender?
- Application to policies sold before 21 Dec 2007?
- Application to policies sold 21 Dec 2007 to 21 Dec 2012?
- Scope of unisex pricing for new policies:
 - By product (Group?)
 - By jurisdiction
- Will legislation restrict product design/use of proxies/target marketing
- Does decision impact on underwriting of diseases that impact genders differently
- ... and lots more!

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What Happens Next?

- **I DON'T KNOW**
- It will happen!!
- New EU Directive or Member State implementation?
- Review of legislation by Commission?

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What Happens Next?

- **I DON'T KNOW**
- If HM Treasury enacts UK legislation, I think:
 - Risk of retrospective application is low (except possibly reviewable/renewable)
 - Risk that legislation will outlaw collecting gender is low
 - Unisex pricing for new policies will be limited to individual policies
 - Unisex pricing will not be **explicitly** defined
 - Legislation will apply to policies sold to UK residents
 - Legislation will not **explicitly** restrict product design/use of proxies/target marketing

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Implications

- Valuation / Financial Reporting
- Experience Analysis
- Pricing.

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Implications for re-pricing if retrospective

- Do we need to adjust benefits on SP annuities?
- What is a unisex rate?
- Unisex version of each rate table since December 2007?
- Can we increase premiums on “guaranteed” rate policies?
- Do we need to revisit Medical Underwriting decisions?
- Reinsurance on gender-specific rates
- Make changes sooner to reduce the risk?
- Communication with advisers & customers
- Capital implications

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Short-term implications for pricing new business

- What is a unisex rate?
- Size of margin for uncertainty in Pricing
- Spikes in sales by gender pre and post Dec 2012
- Lapse/re-entry
- Unisex Medical Underwriting
- Reinsurance terms
- Practical issues
- ...depends on the rest of the market.

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Long-term implications for pricing new business

- Initial market volatility
- Competition will establish new level
- Rebroking opportunity?
- New product design
- Introduction of new rating factors
- New commission strategies
- Change in buying patterns.

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Impact on demand: Individual protection

Type of business	Differential
Mortality	Male 20%-25% higher than Female
Critical Illness	<ul style="list-style-type: none">• Male / Female very similar at younger ages• Male higher than Female from age 45
Income Protection	<ul style="list-style-type: none">• Female 50%-80% higher than Male

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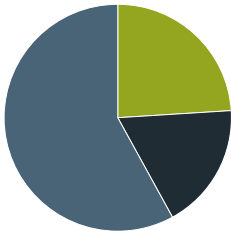
Impact on demand: Term Assurance

- Equal premiums based on previous mix
 - Male premium £8.06; Female £6.71 (age 35, term 25, SA £150,000)
 - Previous mix 60% male, 40% female
 - Equalised premium = £7.52 per month
- But...
 - Allow for any skew in our mix v market...
 - ...and consider how varies, e.g. by sum assured...
 - ...and how demand will differ with unisex pricing...
 - ...and include a margin for uncertainty...
 - ...and include costs for implementation...
- and premium may not be much lower than £8.06
- Unlikely to materially affect demand

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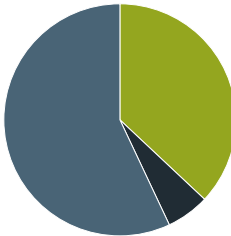
Gender profile of Term Assurances

Sum Assured £0 - £50,000



■ Male ■ Female ■ Joint Life

Sum Assured £500,000 +



■ Male ■ Female ■ Joint Life

Source: Life-only Level Term quotation data from Assureweb for January 2011

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Impact on demand: Annuities

- Males v Females Rate differential : 2% to 14%

Postcode	Male Annuity*	Female Annuity*	Difference
High Mortality	£6,757	£6,331	6.3%
Low Mortality	£6,527	£6,155	5.7%

Example: Purchase Price £100k, Age 65

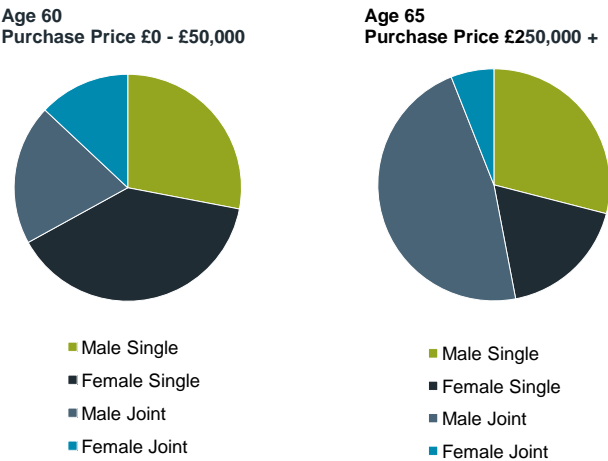
- Attractiveness of annuities v drawdown

2009 data	Annuity	Drawdown
Market size	£10,830m	£1,838m
Average case size	£23,445	£74,969

- Drawdown becomes more attractive for males
- Exacerbated by removal of Compulsory Annuitisation.

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Gender profile of Annuities



Source: All Annuity types quotation data from Assureweb for January 2011

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Potential areas of work for the Working Party

- Put forward the arguments for collecting gender
- Estimate the cost of retrospection
- Model the potential impact on future prices
- Assess the impact of unisex rates in other markets
- Paper on “Areas to consider” (an IAN?)
- Review the impact of the change on the UK life market

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How important is gender?

Approximate scale of key rating factors for Term Assurance

Rating factor	Relative importance
Disability (underwriting loadings)	>16 x
Age (60 v 30)	10 x
Smoking status (Smoker v Non-smoker)	2 x
Gender (Male v Female)	1.3 x

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The next battlefield?

Proposal for a Council Directive on implementing the principle of equal treatment between persons irrespective of religion or belief, disability, age or sexual orientation (2008)

- “The aim of this proposal is to implement the principle of equal treatment between persons irrespective of religion or belief, disability, age or sexual orientation outside the labour market.”
- “This proposal builds upon Directives ... 2004/113/EC”
- “Actuarial and risk factors related to disability and to age are used in the provision of insurance, banking and other financial services. These should not be regarded as constituting discrimination where the factors are shown to be key factors for the assessment of risk.”

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The final word....

“Cette victoire se situe dans la droite ligne de la position de Test-Achats émise dès 1995 visant à interdire de faire varier les primes en fonction de facteurs que le consommateur ne maîtrise pas, comme l’âge en assurance auto, le sexe, l’état de santé... ”

Test-Achats website 1 March 2011

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Questions or comments?

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