

The Actuarial Profession

making financial sense of the future

Gender and age: Does the European model work in the UK?

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• 12 October 2011

Gender and age: What are the implications for the UK of being a part of Europe?

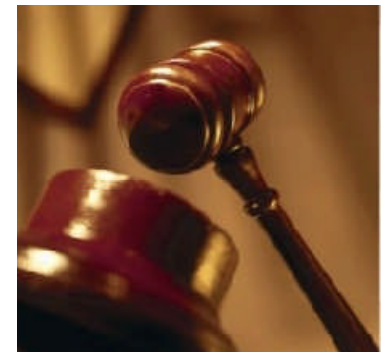
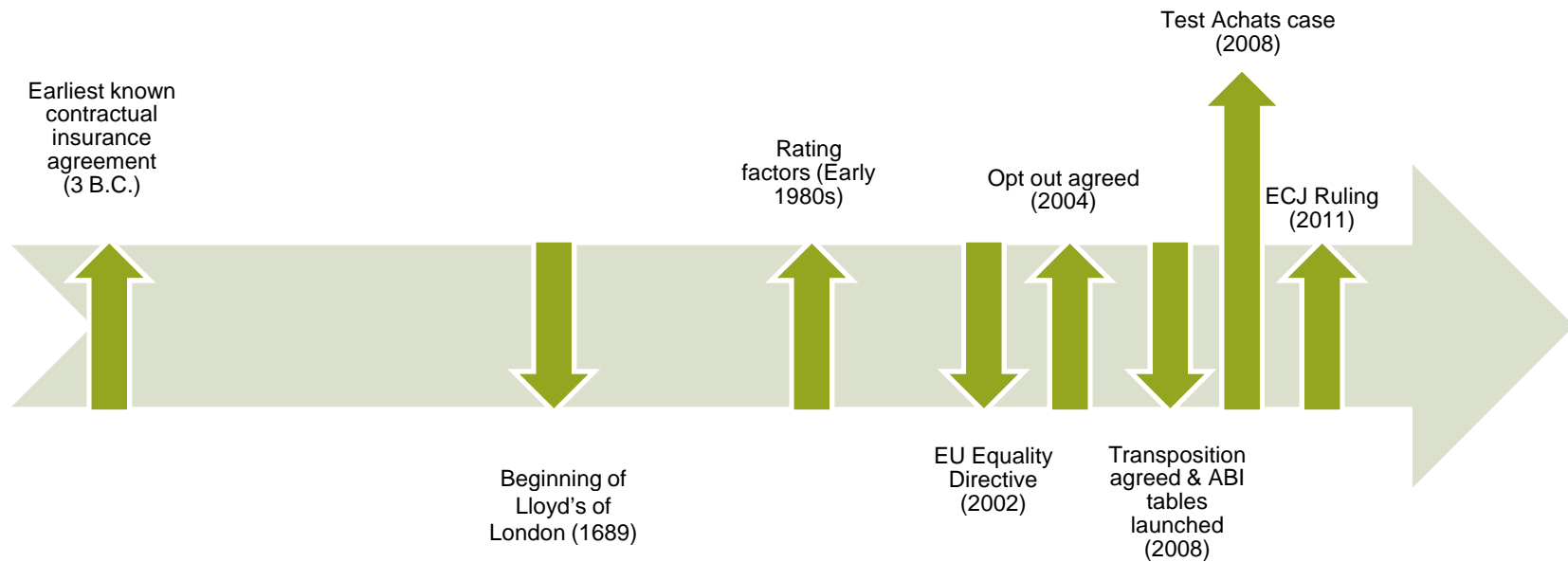


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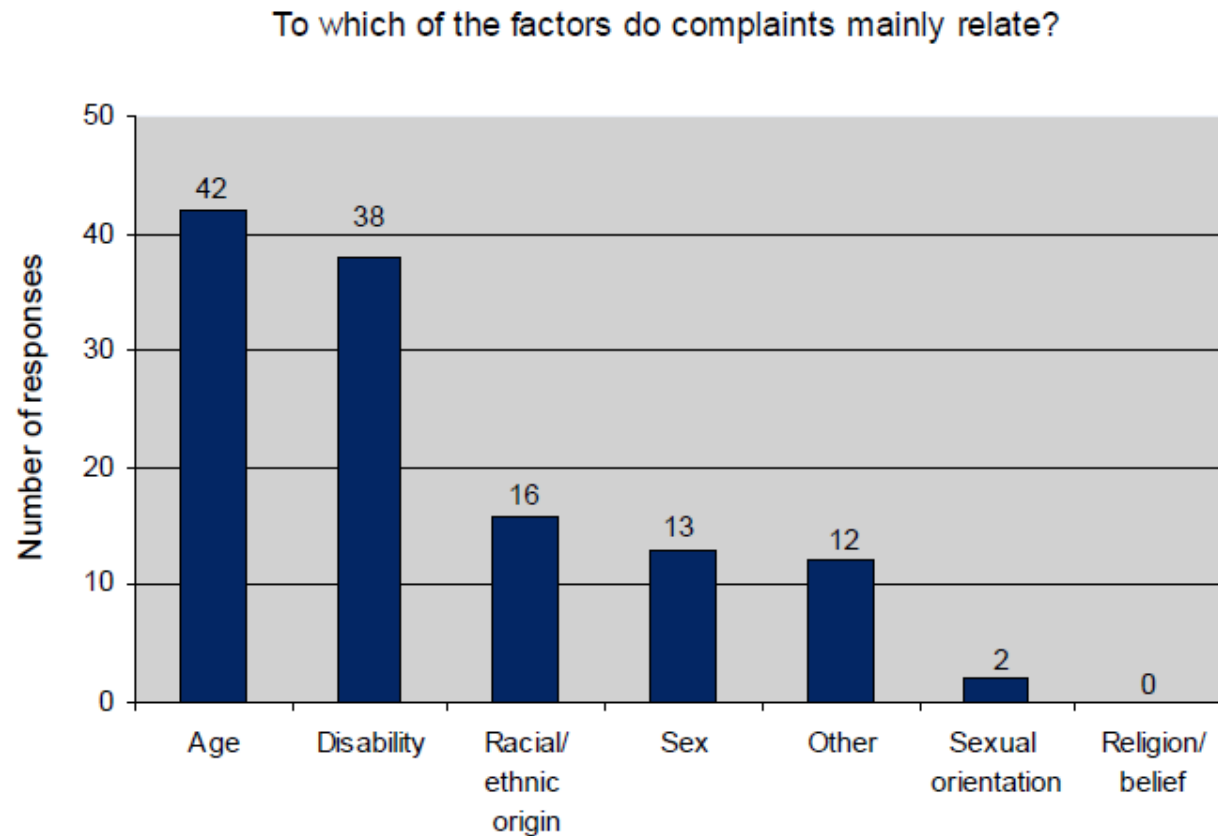
Agenda

- “Differentiation / Discrimination” Timeline
- “The European Model”
- Pros and Cons of different Market Models
- The implications for the UK of the ECJ Gender ruling

“Differentiation / Discrimination” Timeline



“Differentiation / Discrimination” - Complaints



Source: Study on the use of age, disability, sex, religion or belief, racial or ethnic origin and sexual orientation in financial services, in particular in the insurance and banking sectors by Civic Consulting for the European Commission, 16/7/2010

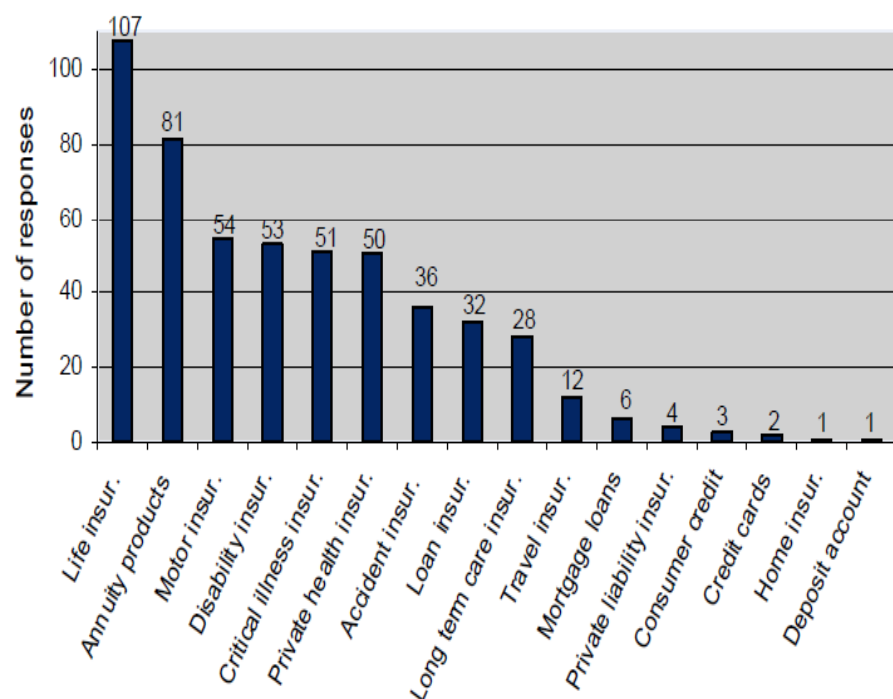
The European Model – Legislation / Regulation

Country	Sex	Age	Disability
Austria	Restrictions	No Restrictions	Restrictions
Belgium	Restrictions	Restrictions	Restrictions
Bulgaria	Restrictions	Restrictions	Restrictions
Cyprus	Restrictions	No Restrictions	Restrictions
Czech Republic	Restrictions	Restrictions	Restrictions
Denmark	Restrictions	No Restrictions	No Restrictions
Estonia	Restrictions	No Restrictions	No Restrictions
Finland	Restrictions	Restrictions	Restrictions
France	Restrictions	Restrictions	Restrictions
Germany	Restrictions	Restrictions	Restrictions
Greece	Restrictions	No Restrictions	No Restrictions
Hungary	Restrictions	Restrictions	Restrictions
Iceland	Restrictions	Restrictions	Restrictions
Ireland	Restrictions	Restrictions	Restrictions
Italy	Restrictions	Restrictions ^(a)	No Restrictions
Latvia	Restrictions	No Restrictions	No Restrictions
Lithuania	Restrictions	No Restrictions	No Restrictions
Luxembourg	Restrictions	Restrictions	Restrictions
Malta	Restrictions	No Restrictions	Restrictions
Netherlands	Restrictions	No Restrictions	Restrictions
Poland	Restrictions ^(b)	No Restrictions	No Restrictions
Portugal	Restrictions	No Restrictions	Restrictions
Romania	Restrictions	No Restrictions	No Restrictions
Slovakia	Restrictions	Restrictions	Restrictions
Slovenia	Restrictions	Restrictions	Restrictions
Spain	Restrictions	Restrictions	Restrictions
Sweden	Restrictions	No Restrictions	Restrictions
United Kingdom	Restrictions	No Restrictions ^(c)	Restrictions

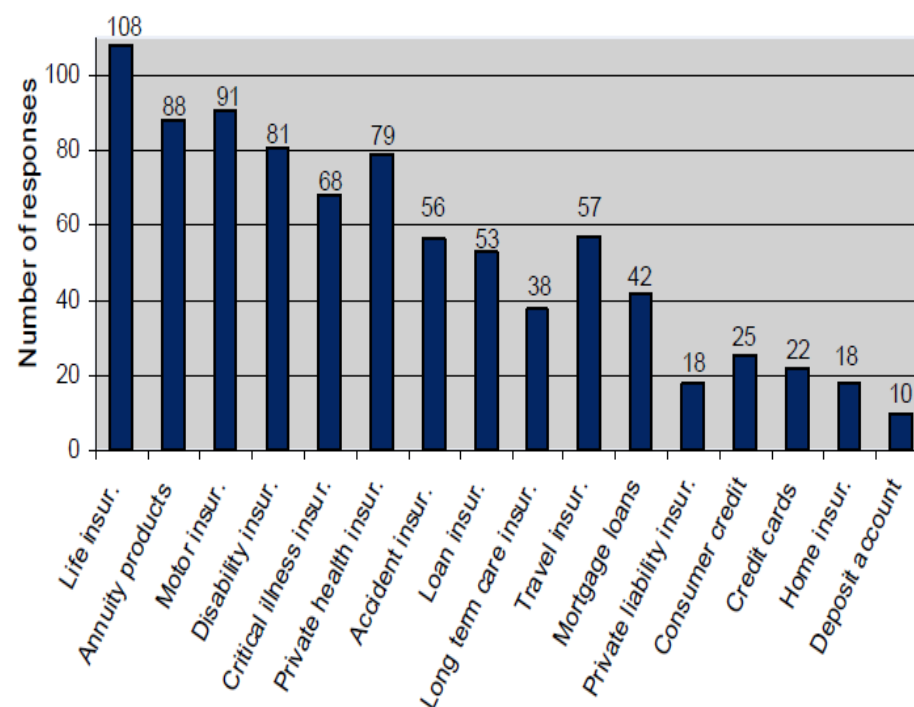
Source: Study on the use of age, disability, sex, religion or belief, racial or ethnic origin and sexual orientation in financial services, in particular in the insurance and banking sectors by Civic Consulting for the European Commission, 16/7/2010

The European Model – Rating structures

Is sex used by financial providers as a factor in risk assessment or marketing directly influencing pricing or contractual conditions?



Is age used by financial providers as a factor in risk assessment or marketing directly influencing pricing or contractual conditions?



Source: Study on the use of age, disability, sex, religion or belief, racial or ethnic origin and sexual orientation in financial services, in particular in the insurance and banking sectors by Civic Consulting for the European Commission, 16/7/2010

The European Model – Transposition of the EU Equality Directive

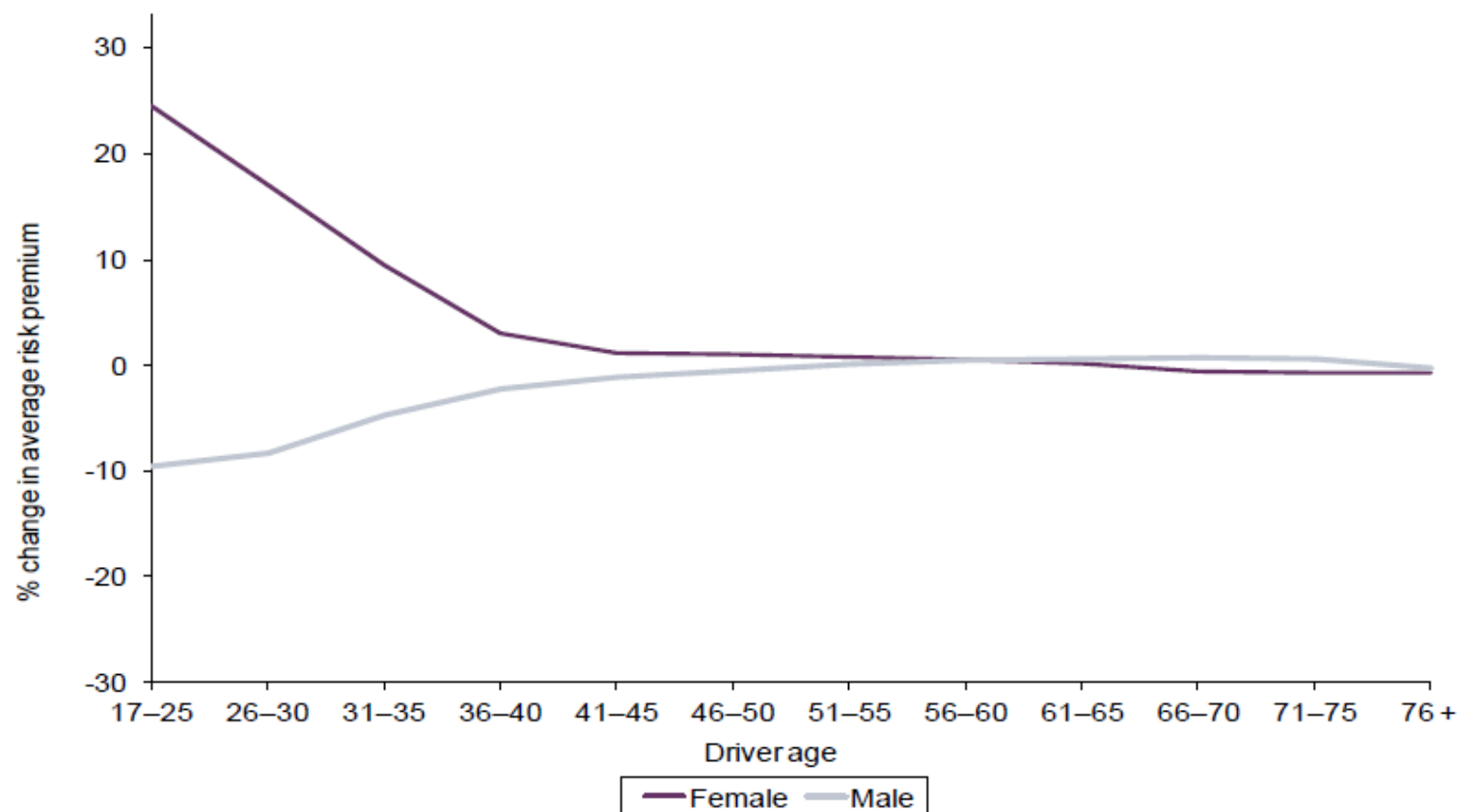
- Data gathering / publishing process
- Extent of prescription of process
- Interpretation of the extent published information had to be linked to prices
- Policy group legislation applied to

Pros and Cons of different Market Models

	Free Market	All Pay the Same
Anti-Selection	Green	Red
Product Innovation (Product Design)	Green	Green
Product Innovation (Pricing/ Underwriting)	Light Green	Light Green
Lifetime Value / Acquisition Costs	Light Green	Red
Premium Rates & Profit Levels	Green	Red
Capital	Green	Red
Marketing Implications	Red	Green
Service levels – claims, sales, customer service	Red	Light Green
Societal Effects / Winners and Losers	Yellow	Orange

Source: Free Market Pricing GIRO Working Party Paper 2007/2008
 Key: **Positives**; **Negatives**; **Mixed**

The implications for the UK of the ECJ Gender ruling – direct impact on motor risk premiums



Source: Research paper titled “The use of gender in insurance pricing: Analysing the impact of a potential ban on the use of gender as a rating factor” by Oxera for the ABI, 2010

The implications for the UK of the ECJ Gender ruling – other direct impacts

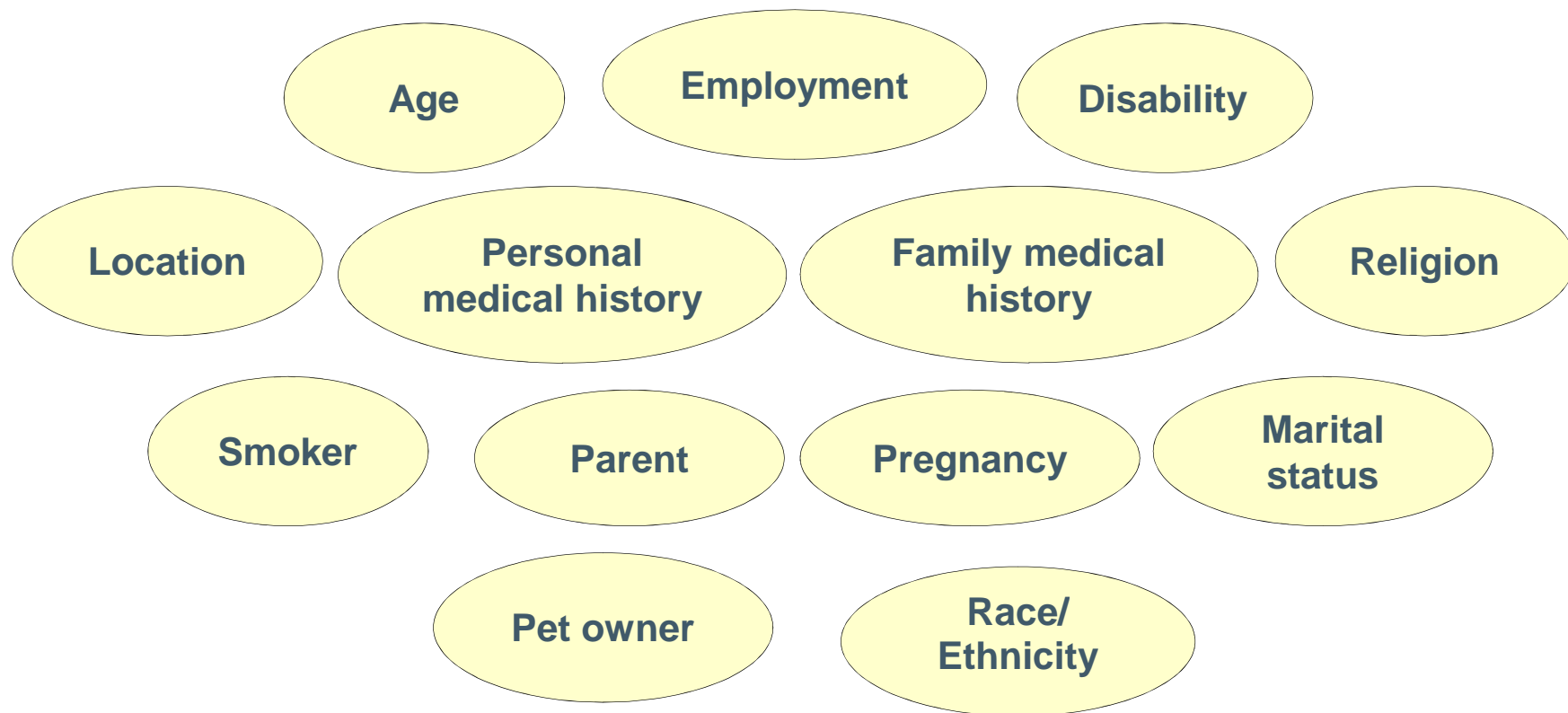
Risks / Costs

- Shifts in portfolio compositions
- Complaints related to increased premiums.
- One-off costs to insurers due to
 - Changing software
 - Training the agents/brokers about the new rules.
 - Adapting pricing policies
 - Publishing new documentation for customers,
 - Communicating new premiums to clients

Opportunities

- Innovation in product development and pricing techniques
 - Pay as you drive
 - Pay as you go
 - Pay as you go car hire
 - Pay how you drive
 - Tracker
 - Contract terms
- Targeted marketing
- Differentiate by reputation

The implications for the UK of the ECJ Gender ruling – what is next?



The implications for the UK of the ECJ Gender ruling – other rating factors

Alternatives to bans

- Accessibility schemes
- Better consumer complaints infrastructure
- Better industry codes of good practice
- Sectoral agreements
- Signposting systems

Community rating requirements for stability

Limit adverse selection

- Compulsory elements
- Waiting periods
- Exclusion of pre-existing conditions
- Deductibles or co-insurance payments
- Loadings for late entrants
- Some proxy factors still allowed

Promote inter-generational solidarity

- Risk equalisation

Is this how you would have pictured the market 10 years ago?

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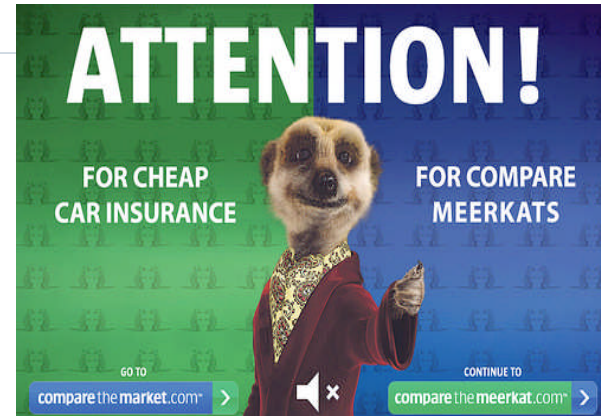
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Key Messages

- Risk based pricing approaches are relatively new
- There is no 1 European model to pricing
- The gender ban will bring some change to the market
- There will be “winners” & “losers”
- The key question is what happens next
- **It is down to YOU**