

## Sex equality – Health inequality

*Possible developments in the "at retirement" landscape*

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The Actuarial Profession's Mortality & Longevity Seminar

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What do with-profits and "real insurance" have in common?



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## Today

Recap of where we are on the Gender Directive

Recap of developments in the individual annuity market

How important is Gender?

What else is affecting our market?

What could this mean and what should we do?

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## Recap of the Gender Directive

- Kolcott's original Opinion in October 2010
- ECJ Judgement March 2011
- Guidance from the European Commission 23 December 2011
- Consultation from HMT 8 December 2011
- Responses from industry to HMT by 1 March 2012
- HMT response to responses expected June 2012....

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## Helpful aspects of the EC Guidance (1)

- Stresses the importance that discrimination only occurs when a man and a woman are in a “comparable situation”

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## EC text on differentiation – what it says

- Paragraph 14: “.....— life and health underwriting : the unisex rule means that premiums and benefits cannot be different between two individuals for the same insurance policy simply because their gender is not the same. **There are however other risk factors, e.g. health status or family history, on the basis of which differentiation is possible and for the assessment of which insurers need to take gender status into account, in light of certain physiological differences between men and women (13)**”
- Footnote [13] “For example, a family history of breast cancer does not have the same impact on a man and on a woman’s health risk (and the assessment of this impact requires knowledge of whether the person is a woman or a man). Obesity is a risk factor, a measurement of which is the waist to hip ratio, which is not the same for women and for men. A more developed list of examples is provided under Annex 3.”

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## EC text on differentiation – Annex 3

- Lists what we can still do:
  - Application forms: ask gender-specific information
  - Medical tests: require different tests for each gender
  - Interpreting medical tests: apply different threshold levels before applying ratings
  - Physical differences: recognising the relative difference in importance of some factors such as alcohol consumption
- Sample text from Annex 3: "A woman with a family history of breast cancer will generally pay an additional risk premium compared to a woman who has no such family history, because it is a key risk factor for a woman's risk of developing this disease. There is however no reason to apply such additional premium to a man with the same family history, because the probability that he will suffer from breast cancer is very low."

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## What could this mean

- We can clearly continue to underwrite in full but:
  - Do we apply results to an assumed aggregate unisex table, applying different adjustments reflecting ONLY the information from the underwriting, or
  - Could (and indeed can) we use full underwriting to produce a unique mortality table for that individual, with no underlying unisex table?

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## An underwriters' view

- For much of medicine, the gender is an intrinsic factor in the epidemiology, progression in the patient, and relevant treatments for each disease
- When viewing cases with multiple conditions the gender becomes even less of a driving factor in the rating and more of an adjunct to the medical risk factor assessment
- Disease is a function of our bodily systems, and men and women are different biologically, and thus it is reasonable to assess effects of diseases by individual, and for the risk result to come out different for men and women.
- It is more correct to view gender as a differentiating factor in longevity, but the EU ruling would suggest it is no longer allowable if it is the ONLY factor that is making a difference.

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## Helpful aspects of the EC Guidance (2)

- Trying to clarify when men and women are in a "comparable situation"
- Around what is a new contract
- Attempts to distinguish between rating factors and risk factors
  - Discussion of danger of indirect discrimination if use incorrect factors eg using engine size (good) or height (bad) in motor insurance

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## EC text on new contracts:

13. On the contrary, the following situations [9] should not be considered as constituting a new contractual agreement:

- (a) the automatic extension of a pre-existing contract if no notice, e.g. a cancellation notice, is given by a certain deadline as a result of the terms of that pre-existing contract;
- (b) the adjustments made to individual elements of an existing contract, such as premium changes, on the basis of predefined parameters, where the consent of the policyholder is not required [10];
- (c) the taking out, by the policyholder, of top-up or follow-on policies whose terms were pre-agreed in contracts concluded before 21 December 2012, where these policies are activated by a unilateral decision of the policyholder [11];
- (d) the mere transfer of an insurance portfolio from one insurer to another which should not change the status of the contracts included in that portfolio

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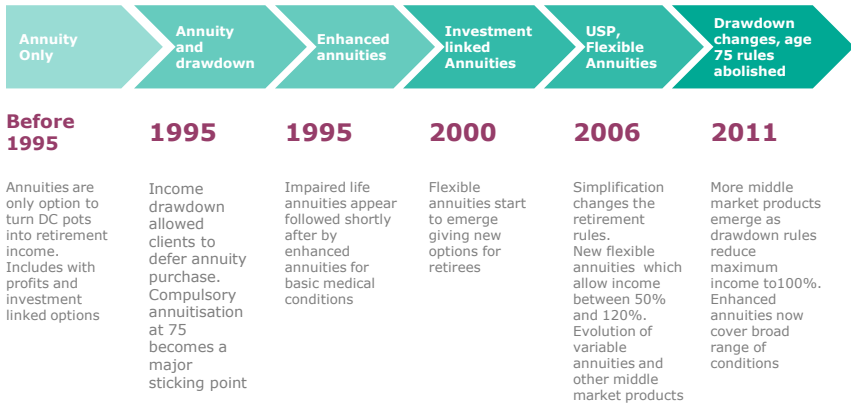
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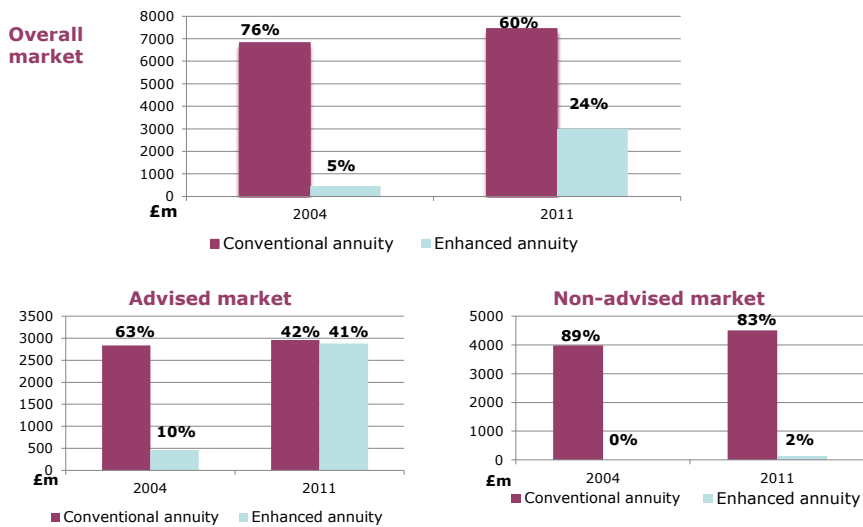
## The evolution of products



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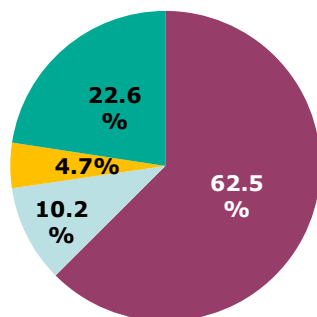
## Market: more enhanced but scope for more



Source: ABI.

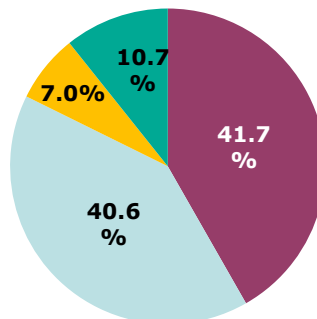
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### Advised market 2004



■ Conventional Annuity  
 ■ Enhanced Annuity  
 ■ Investment Annuity  
 ■ Income Drawdown

### Advised market 2011



■ Conventional Annuity  
 ■ Enhanced Annuity  
 ■ Investment Annuity  
 ■ Income Drawdown

15 Source: ABI, based on premium

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### The rise of enhanced annuities

#### Advised market is working - to some degree

- Enhanced annuity sales are higher
- Switch from drawdown

#### Why has advised enhanced annuity market taken off?

- Advisers trying to get better rates for clients
- Need for alternatives – changes to drawdown and fall in funds
- Technology (CQF – common quotation form)
- Number of conditions has increased – no longer only apply if seriously ill

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The logo for mgmadvantage, with 'mgm' in a teal color and 'advantage' in a dark teal color.

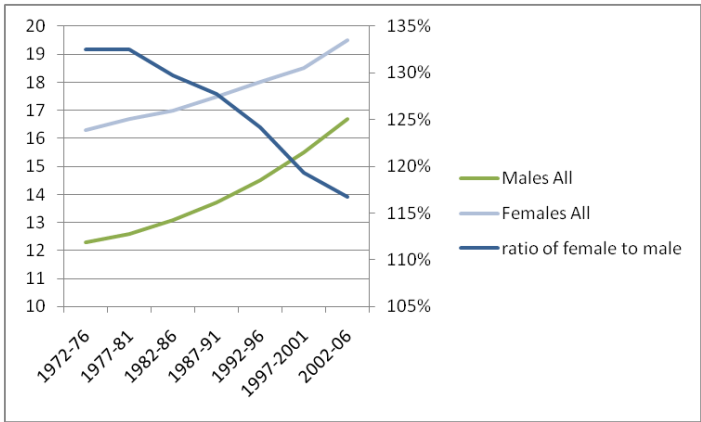
## How important is Gender?

- Population
- Other changes
- What happens on underwritten annuities?

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The logo for mgmadvantage, with 'mgm' in a teal color and 'advantage' in a dark teal color.

Changes to life expectancy at age 65

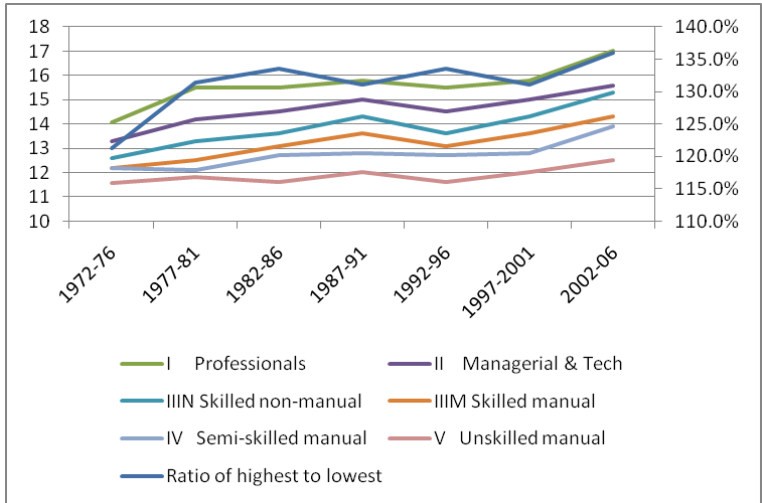


Source: ONS Statistical Bulletin February 2011

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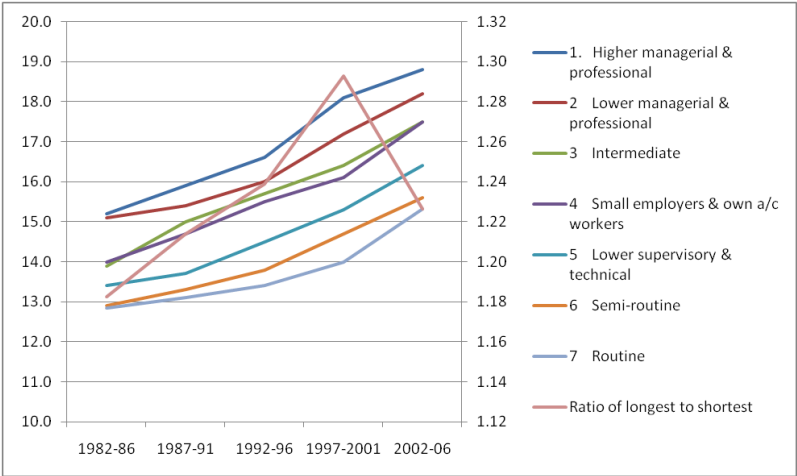
Life expectancy by Register General's social class, males at age 65



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Other groupings: Life expectancy by NS-SEC class, males at age 65

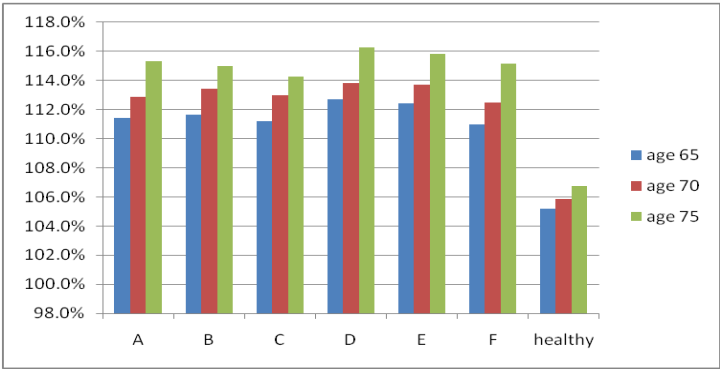


21 Source: ONS

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Effect of underwriting

Ratio of female to male MLE – source Hannover Re



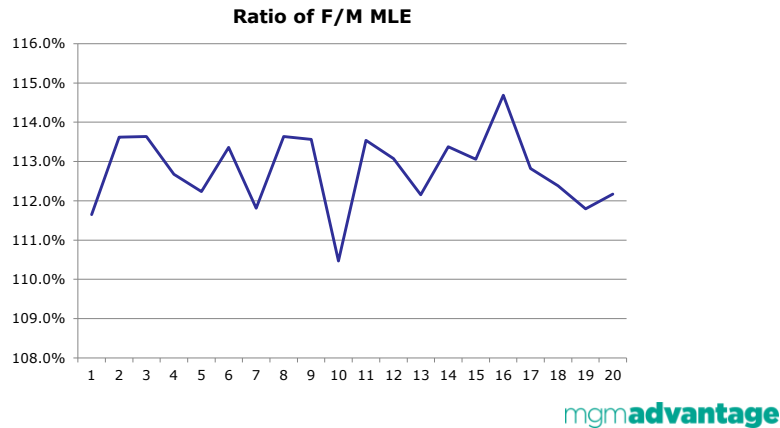
A: Heavy Smoker (25/day), overweight  
B: Diabetes, diagnosed 15 years ago, treated with insulin and tablets, retinopathy  
C: Lung Cancer, lymph node metastases, currently treated with chemotherapy  
D: Heart infarction, angioplasty, triple bypass  
E: Morbus Parkinson, diagnosed 5 years ago, mild symptoms  
F: Chronic leukaemia, watch & wait  
healthy

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# Effect of underwriting

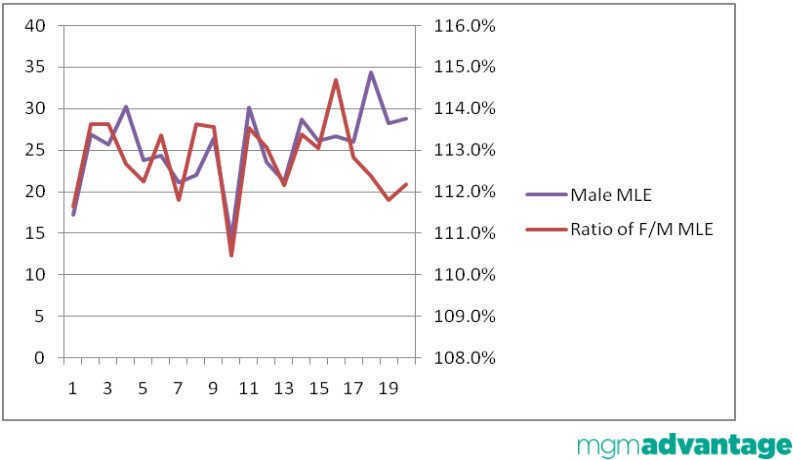
- Sample of 20 actual recent MGM sample audit cases – effect of treating as male or female



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## What else is affecting our market?

- Solvency 2
- Economic changes
- Regulatory environment
- Diversity of peoples' "retirement" plans

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## Drivers for change: Solvency 2

- Matching Adjustment
  - Basic inclusion or not??
  - Method of calculation
  - Allowable assets
- Stresses for the SCR
  - Market, Credit
  - Longevity
- Capital requirements will go up, and rates to consumer down

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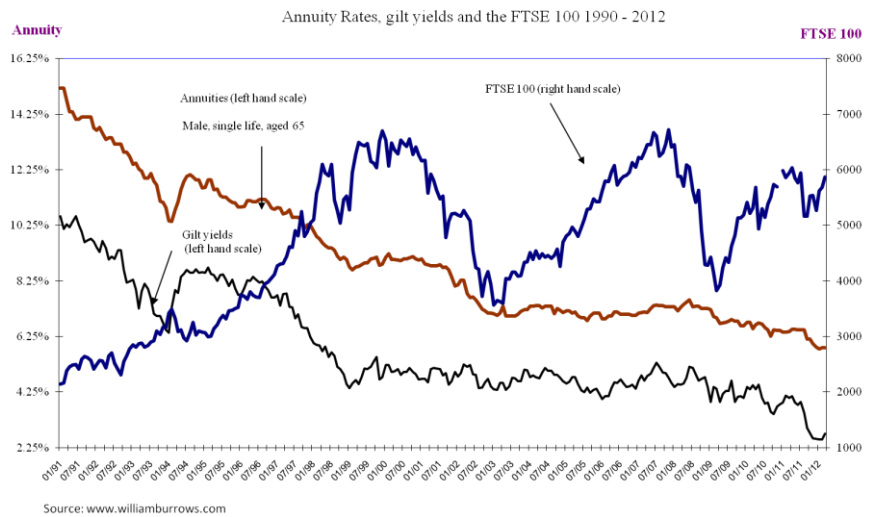
## Drivers for change: Economic

- Turbulence, turbulence and more turbulence
  - Around investments
  - Around personal lifestyles and plans
- Poor experience in accumulation side of equation
- Poor experience in the decumulation side of equation

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## Drivers for change: gilts and annuities



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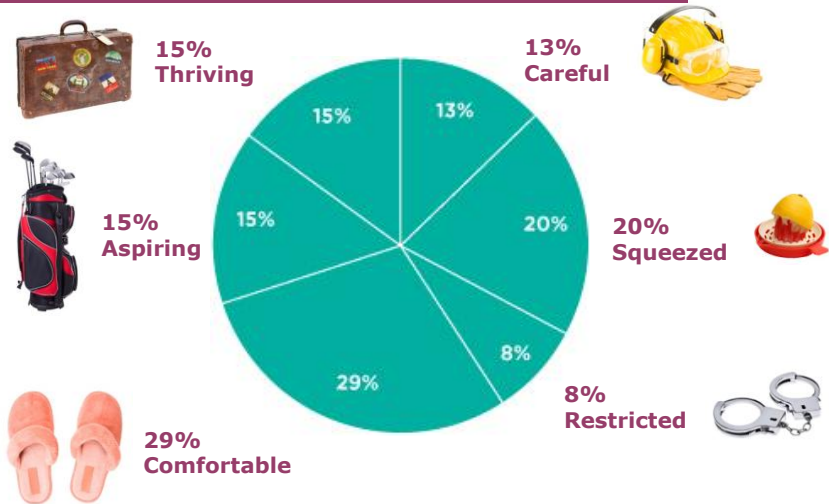
## Drivers for change: Regulatory

- RDR
- OMO and the Code of Conduct from ABI
- Increased media attention

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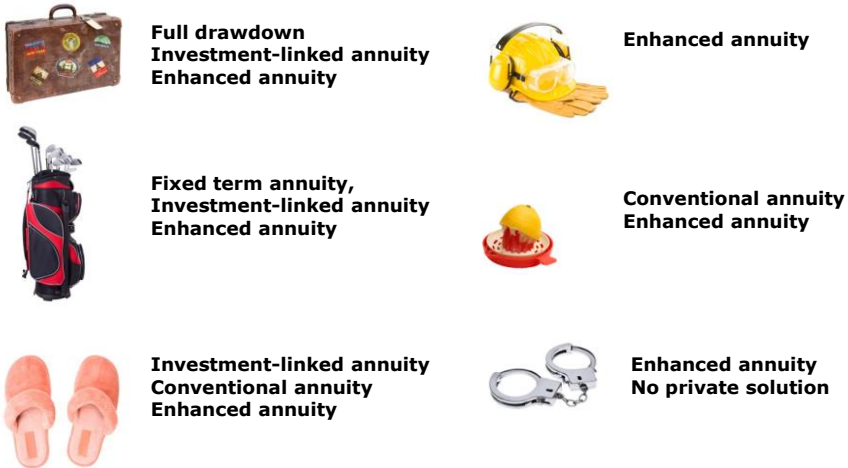
## Drivers for change: social



Source: Our Retirement Nation, MGM Advantage, Nov 11

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## Personality types & product solutions

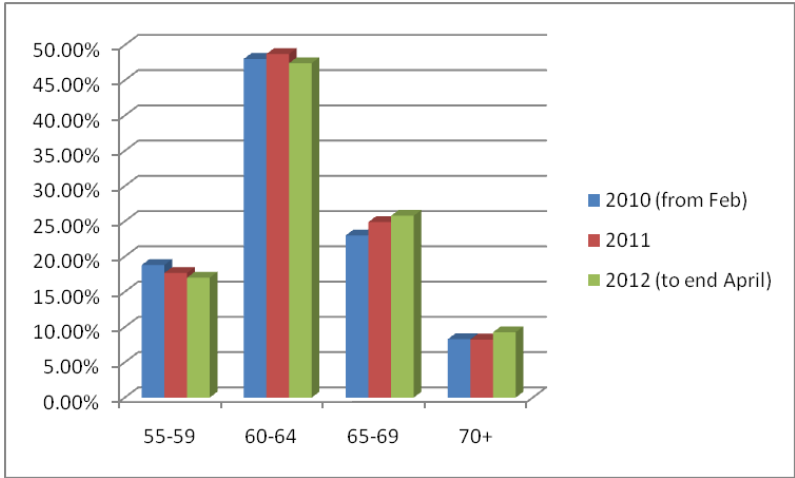


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Changing mix of new business – by age

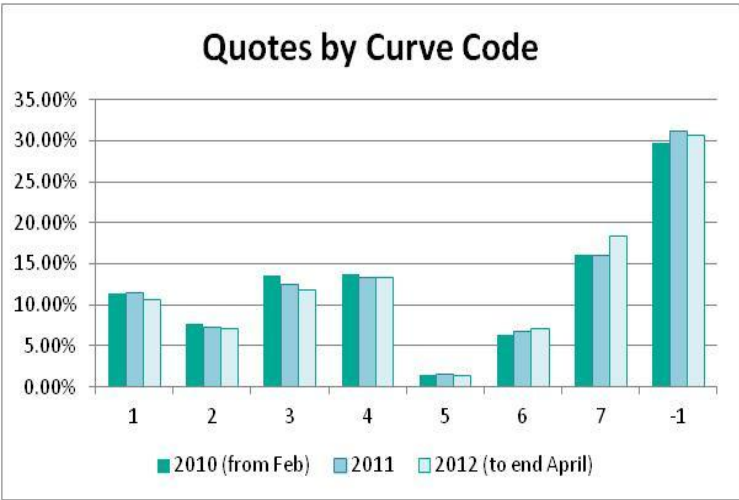


Source: Applications to MGM Advantage in each period



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Changing mix of new business – by medical condition



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  - Do we apply results to an assumed aggregate unisex table, applying different adjustments reflecting ONLY the information from the underwriting, or
  - Could (and can) we use full underwriting to produce unique mortality table for that individual, with no underlying unisex table?
- Study HMT paper expected in June
- Don't work in a silo
- Plan for the switch...

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Pension provider	When will you move to unisex rates	Current quote guarantee period (days)	Change guarantee period before Dec 21
Aegon	Q4	21	No
Aviva	Towards end of Q4	10	No
Canada Life	Will review rates before Dec 21	14	Considering
Friends Life	Closer to the end of the year	14	Considering
Just Retirement	Under consideration	45	No
Legal & General	Likely Dec 21	18	Considering
LV=	Dec 21	30	Considering
MGM Advantage	On or very close to Dec 21	45	No
Partnership	Under review	28	Likely to review
Prudential	Dec 21	14- 42*	Under review
Royal London	A few weeks prior to Dec 21	14	No
Standard Life	In time for Dec 21	14	Likely to review

\*42 days for asset backed annuity. Source: FT research

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## What could this mean – in the long term

- Treat consumers as individuals
  - Their financial needs are increasingly heterogenous
  - Their health statuses are increasingly heterogenous
  - Our underwriting and medical skills are growing
- There will be increased delays in retirement and in annuitisation due to financial turbulence and Solvency 2
  - Increased age of annuitisation makes individual underwriting and pricing increasingly important
- So we WILL end up with all annuities tailored to that particular individual– It is just a matter of when...

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