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CIGI Conference 2013
'Fairness in Insurance Pricing'
Discrimination Working Party
GIRO 2012 Presentation plus Update

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May 2, 2013

Fairness in Insurance Pricing

- Background
- Quick overview of paper
- Consumer views of fairness
- Impact of pricing restrictions
- Alternatives to pricing restrictions

Fairness in Insurance Pricing

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Working Party Background

- GIPEC instigated GIRO working party to develop Profession's position in the discrimination debate
- Profession NOT Industry
- Focus on consumer
- Engage in public debate around fairness
- Audience is non-specialist interested parties
- Assist policymakers in making informed decision on how to share burden of costs
- NOT impact on industry, except where it impacts consumer
- NOT how industry deals with new legislation



Potted history of gender pricing in Europe

- 2004 EU gender directive requires equal treatment in insurance
- Opt out for insurance if accurate and relevant statistical data is published and regularly updated
- Test Achats: European Court of Justice ruling March 2011

Article 5(2) of Council Directive 2004/113/EC of 13 December 2004 implementing the principle of equal treatment between men and women in the access to and supply of goods and services is invalid with effect from 21 December 2012.





Potted history of gender pricing in Europe

- Test Achats: Advocate General Kokott opinion September 2010



... legally inappropriate to link insurance risks to a person's sex. Differences between people, which can be linked merely statistically to their sex, must not lead to different treatment of male and female insured persons.... in particular, that gender is a characteristic which, like race and ethnic origin, is inseparably linked to the insured person as an individual and over which he has no influence. In addition, a person's gender, unlike, for instance, his age, is not subject to any natural changes.



All in a backdrop of UK and European political pressure

- Growing sense that Fairness = Equal Treatment
- Differentiation should be understood by and pertain to the individual
- Age and location may also be under threat as rating factors
- In the UK, motor insurance industry particularly under pressure from OFT and Competition Commission



Growing public questioning of how insurance is priced; what personal data is used, and how; the use of proxy data



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Discrimination or Differentiation



Differentiation

- Different treatment based on a factor that can, in its own right, be justified as a predictor of risk
- So, in health, health status can be considered, meaning that it is legitimate to apply a different underwriting approach to each gender because it is physical differences that are directly related to gender that mean a customer is susceptible to a particular form of cancer



Discrimination

- Different treatment based on a factor that cannot, in its own right, be justified as a predictor of risk
- So in motor, gender has been used as an (effective) proxy to attitude to risk, level of testosterone, and is therefore now deemed to be discrimination



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Not a typical GIRO paper

- Written for non-specialist interested parties and policymakers
- In discussions with Profession as to how best to engage with policymakers
- Themes
 - Basic history and explanation of insurance
 - Including motor as a liability product
 - Impact of competition and adverse selection
 - Fairness in insurance
 - Impact of factor removal
 - Alternatives to controls on premiums
 - Consumer research on fairness in insurance
 - Have followed up with more recent research since GIRO paper

The impact of competition



Consumer Research

- Independent research carried out
- Over 1,000 buyers of Motor Insurance surveyed
- Surveys in both 2012 and 2013
- Work carried out by Consumer Intelligence
 - Part of on-going research into:
 - fairness,
 - third party data,
 - telematics,
 - consumer buying processes in General Insurance

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A Consumer's View on Fairness

Letter to the Daily Mail

I AM 21 and hold a full driving licence. As a qualified stonemason I need a car to find work, but the cheapest insurance quotes I can find are around £3,000, even for a small one-litre-engined cars. Obviously, I can't afford this. I've been using a 125cc motorcycle for more than a year and have made no claims or been given any convictions, so how are insurance companies able to get away with charging such ridiculous prices? When fuel prices go up by a penny a litre, the papers are full of public outrage, but when car insurance for young people goes up by hundreds of pounds, no one says a word. We're being penalised before we've even been given the chance to prove ourselves. **Up to 99 per cent of young people need a car to find work, but how can they when insurance is so high?**

I don't think it's fair to discriminate against young people. Treat us with respect and give us a chance.

A Consumer's View on Fairness

Article in the Lancashire Telegraph

A CAMPAIGN has been set up to reduce high insurance premiums in BB postcode areas caused by fake insurance claims.

In just four days more than 1,500 people have joined a group set up on Facebook protesting about high insurance costs.

The campaign has received the backing of Blackburn MP Jack Straw , who has spearheaded a campaign to overhaul the industry, due to rocketing premium costs.

He is also concerned about companies selling clients' details to personal injury firms.

Rob Daye, 38, from Galligreaves, Blackburn, who set up the group, has also launched an e-petition in the hope of getting get 100,000 signatures in order to get the issue brought up in the House of Commons.

Mr Straw said: "The campaign is a fantastic idea, I give it my full backing. This is something that I have been pushing for the past 14 months and will continue to do so.

"I think that it is outrageous that people can be made to pay more for their insurance based on where they live rather than the risk they pose to others as a driver.

"It's like paying more for health insurance because you live next door to someone with cancer.

"I am going to see an insurance company about a case of someone in the BB1 area whose insurance premium increased by £700 because she moved from one part of the postcode to another part."

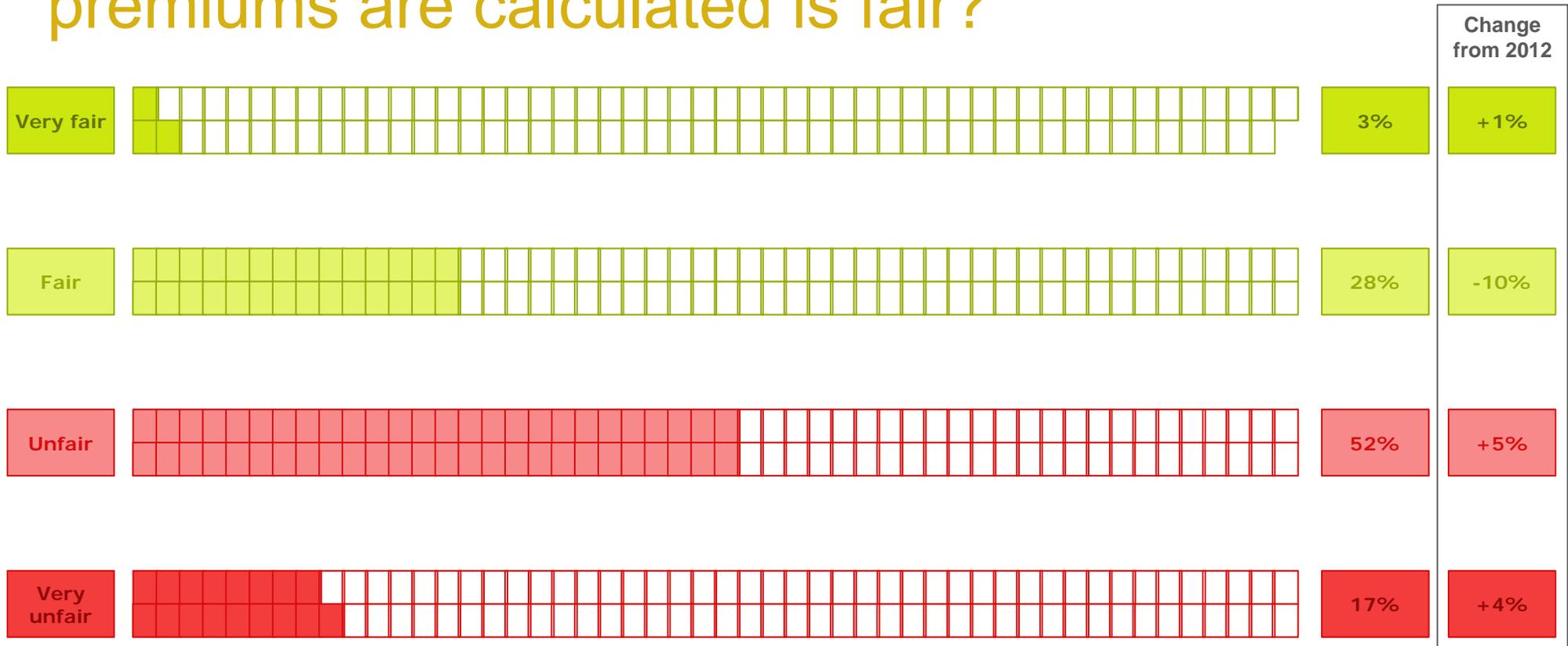
Mr Daye said: "I see it as victimisation, that people in BB postcode areas are paying for the wrong doing of a few people who scam the system.

"I personally have seen my insurance cost rise from £600 to £930 in just three years for a Peugeot 106 which only costs about £400."



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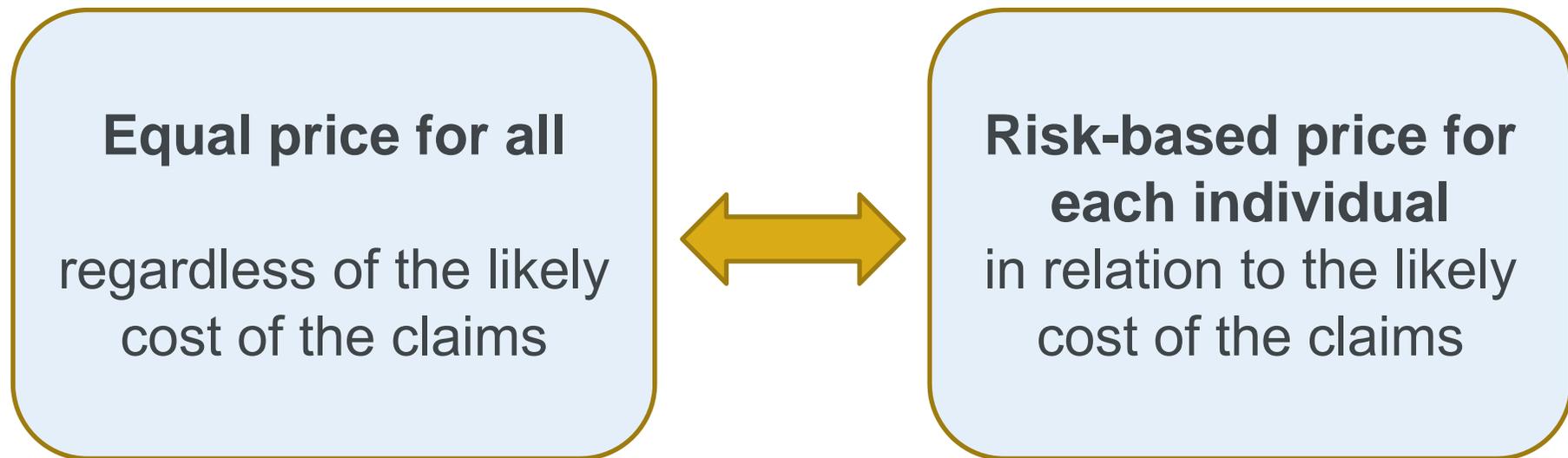
Q1: Do you think the way that car insurance premiums are calculated is fair?



Research by Consumer Intelligence: Sample 1,200 Motor Insurance Purchasers; June 2012;
 April 2013 © Consumer Intelligence



What's fair?



So what does fair mean? – Motor Example



- Impact on you and your loved ones (or those you represent)
- ‘True factor’ vs proxy (Differentiation or Discrimination)
- Factors you can control vs those you can’t
- Fairness in the public debate often centres around the extremes in pricing when it starts hitting affordability
- Compulsory insurances
- Should cross-subsidies be used to force affordability?

Q2: How do insurance companies CURRENTLY work out how much you personally pay for your CAR insurance premium?

Q3: How SHOULD insurance companies work out how much you personally pay for your CAR insurance premium?

Question 3

2013 (2012)

Question 2

	Everybody pays the same	How I have driven in the past	How well I am expected to drive	How well people like me drive
Everybody pays the same	3% (1%)	7% (7%)	0% (1%)	2% (2%)
How I have driven in the past	4% (2%)	19% (27%)	3% (4%)	4% (6%)
How well I am expected to drive	3% (0%)	10% (7%)	2% (1%)	3% (1%)
How well people like me drive	3% (2%)	30% (29%)	1% (4%)	6% (5%)

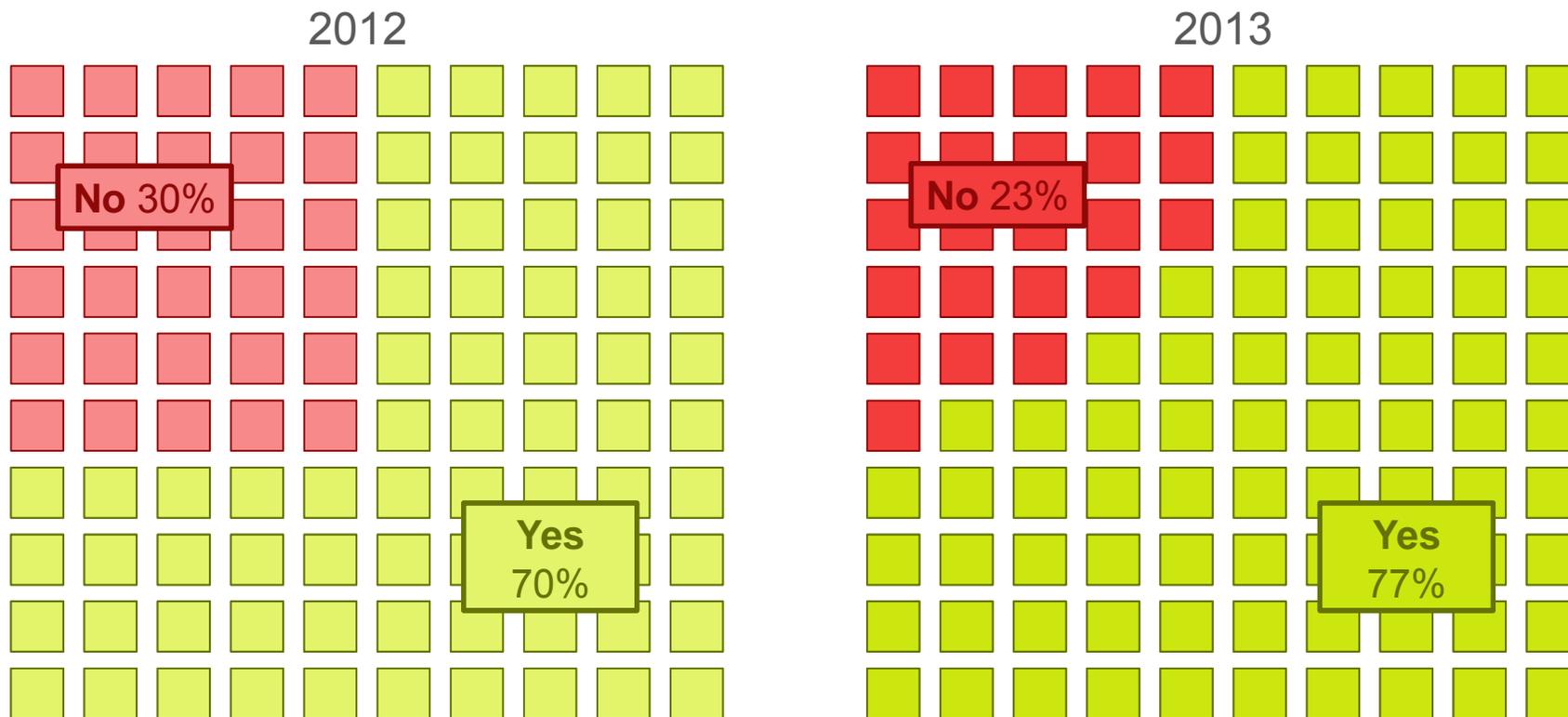
Research by Consumer Intelligence: Sample 1,200 Motor Insurance Purchasers; June 2012; April 2013
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Q4: So would you be happy to have a box fitted to your car that tracked your driving patterns and used the information to calculate your insurance premiums?

Only asked to those who said "How I have driven in the past" to Q3

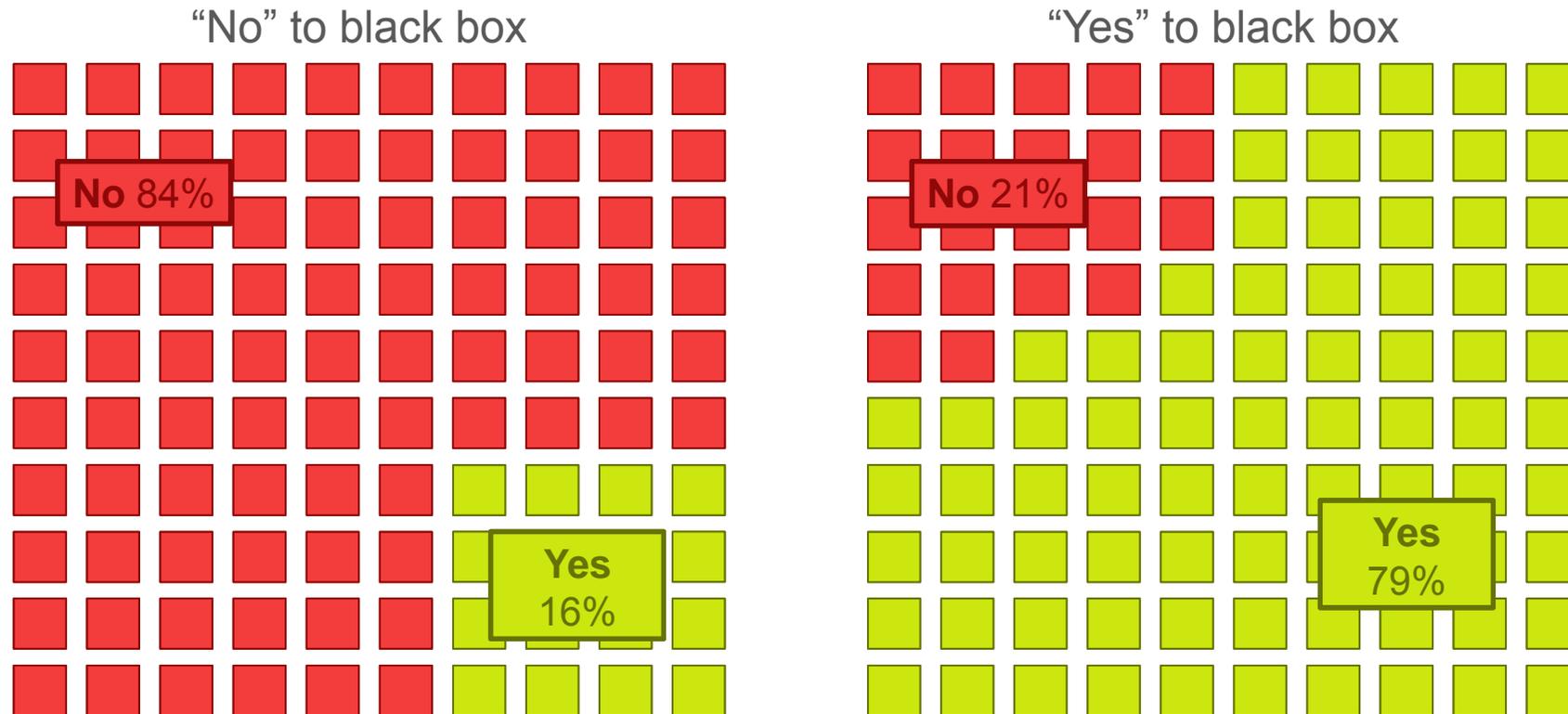


Research by Consumer Intelligence: Sample 1,200 Motor Insurance Purchasers; June 2012; April 2013
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Q5: And would you be happy to use a mobile phone app that tracked your driving patterns and used the information to calculate your insurance premiums?

Only asked to those who said "How I have driven in the past" to Q3



Research by Consumer Intelligence: Sample 1,200 Motor Insurance Purchasers; April 2013
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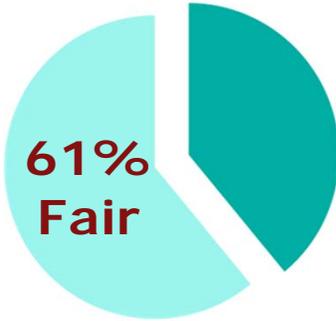
Q6 - What do you think of the EU Gender Ruling introduced in December 2012 (where men and women are treated equally for insurance)?



Overall



Men



Women

Research by Consumer Intelligence: Sample 1,200 Motor Insurance Purchasers; April 2013
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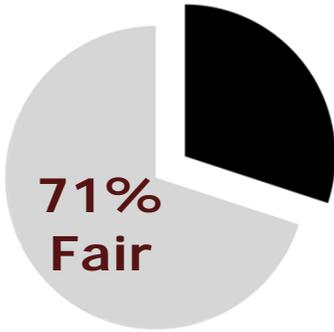


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Q6 - What do you think of the EU Gender Ruling introduced in December 2012 (where men and women are treated equally for insurance)?



Overall



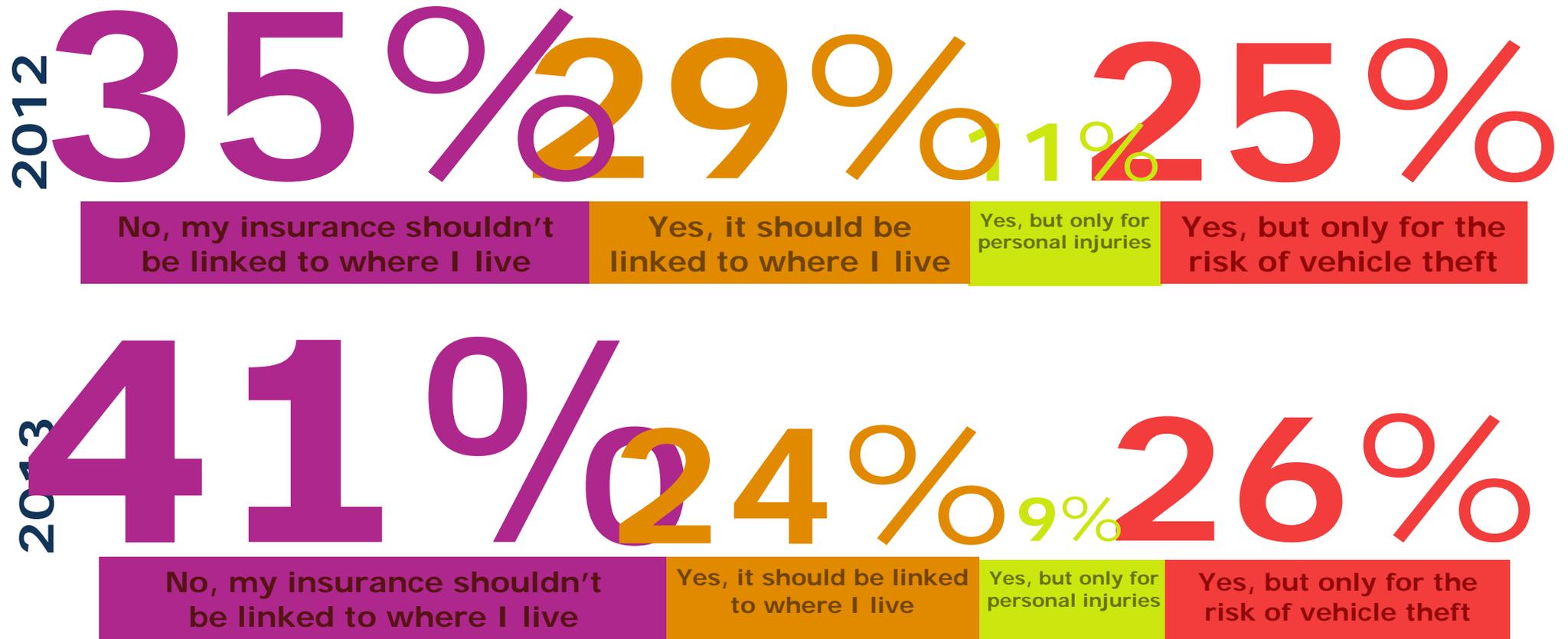
Under 30s

Research by Consumer Intelligence: Sample 1,200 Motor Insurance Purchasers; April 2013
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Q8: Should insurance be linked to the area you live in?



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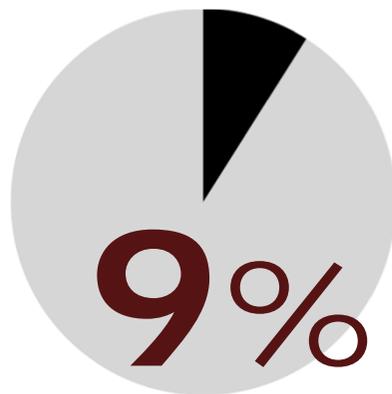


Q17 - Do you live in an area which has been flooded during recent years?

Q18 - Do you live in an area which is at high risk of flooding?

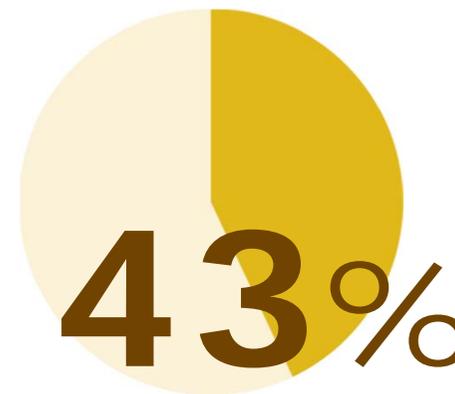
Of those who have been flooded, are they in a high risk area?:

Q17



Yes

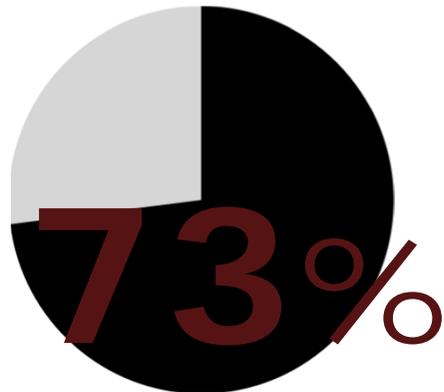
Q18



No

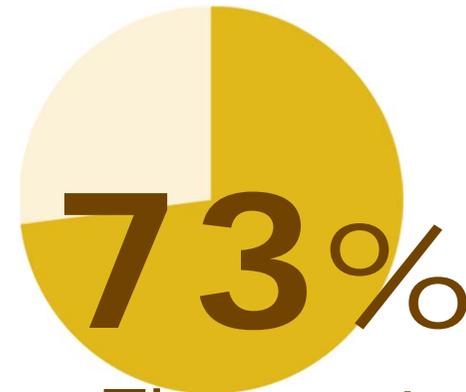
Q19 - Should people pay the same for flood insurance or should those who are more at risk of flooding pay more?

Flooded previously and live in a high flood risk area:



Everyone should pay the same

No previous floods and don't live in an area at risk of future flooding:



Those at risk should have to pay more

Research by Consumer Intelligence: Sample 1,200 Motor Insurance Purchasers; April 2013
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A Consumer's view on Fairness: What does it all mean?

- Consumer's view of fairness is very volatile
- There is a massive need to educate
 - The perils of not educating are a consumer backlash
- Education is about the way you talk to consumers
- There is a MASSIVE need to engage consumers on their terms

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Restricting rating factors – so what?

- In the first order, it redistributes costs, rather than changes overall costs
- But there are second order effects with consequences for:
 - Purchasers (Customers)
 - Sellers (Insurers)
 - Everyone Else (General Public)
- Leading to a financial and wider effect on society

Restricting rating factors – so what?

Consumers (Purchasers)

- Redistributes cost burden from higher to lower risks
 - may change purchasing behaviours
 - may reduce incentive to manage risk
- May have to provide data to substitute for old proxy
 - more questions or telematics

General Public (Non-purchasers)

- Impact of making higher risks cheaper to insure
 - e.g. more accidents & road deaths
- Impact of making lower risks more expensive to insure
 - e.g. could lead to increased uninsured driving



Restricting rating factors – so what?

Insurers

- Higher expenses
 - to change to new regime
 - on-going e.g. obtaining external data, telematics
- Pricing uncertainty
- Required to hold more capital
- Increased purchasing by high risk customers

Most of which drive up premiums for everyone

- Higher prices reduce demand
- Reduced demand reduces capacity
- Which leads to yet higher prices



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Is there another way ... ?

- Fairness in the public debate often centres around the extremes in pricing when it starts hitting affordability
- Reducing high claims costs associated with high risks will tend to reduce differentials without the need for price controls
- Perceptions of inaccessibility can be tackled via improved customer information



Reducing the high risks

Reduce the chance of a claim

- Young drivers
 - Telematics (education)
 - Restrictions on number of passengers
 - Increased minimum driver age
 - Improved training
 - Graduated licenses (and re-testing for very old drivers too)
- Flood
 - Improved flood defences
 - Improved planning regulations

Reduce the size of a claim

- Bodily injury costs
 - Whiplash Fraud
 - Remove referral fees
- Maintain or increase discount rate
- Reduce legal costs
- Pay to 'make people better' rather than General Damages on Whiplash claims

Improve consumer information

- Improve sign-posting to insurers who cover niche markets
 - e.g. older consumers
- Improve accessibility of information showing the claims cost differentials
 - e.g. split of claims by type, split by age etc
- Engage with customers and regulators to build understanding

BEN, 18, QUOTED £100k TO INSURE £350 FIAT PUNTO

EXCLUSIVE by RYAN SABEY
and RICHARD MORIARTY

A TEENAGER on the minimum wage tried to insure his £350 Fiat — and was quoted almost £100,000.

Ben Kinsey, 18, passed his test in December but has not yet been able to afford to drive his ten-

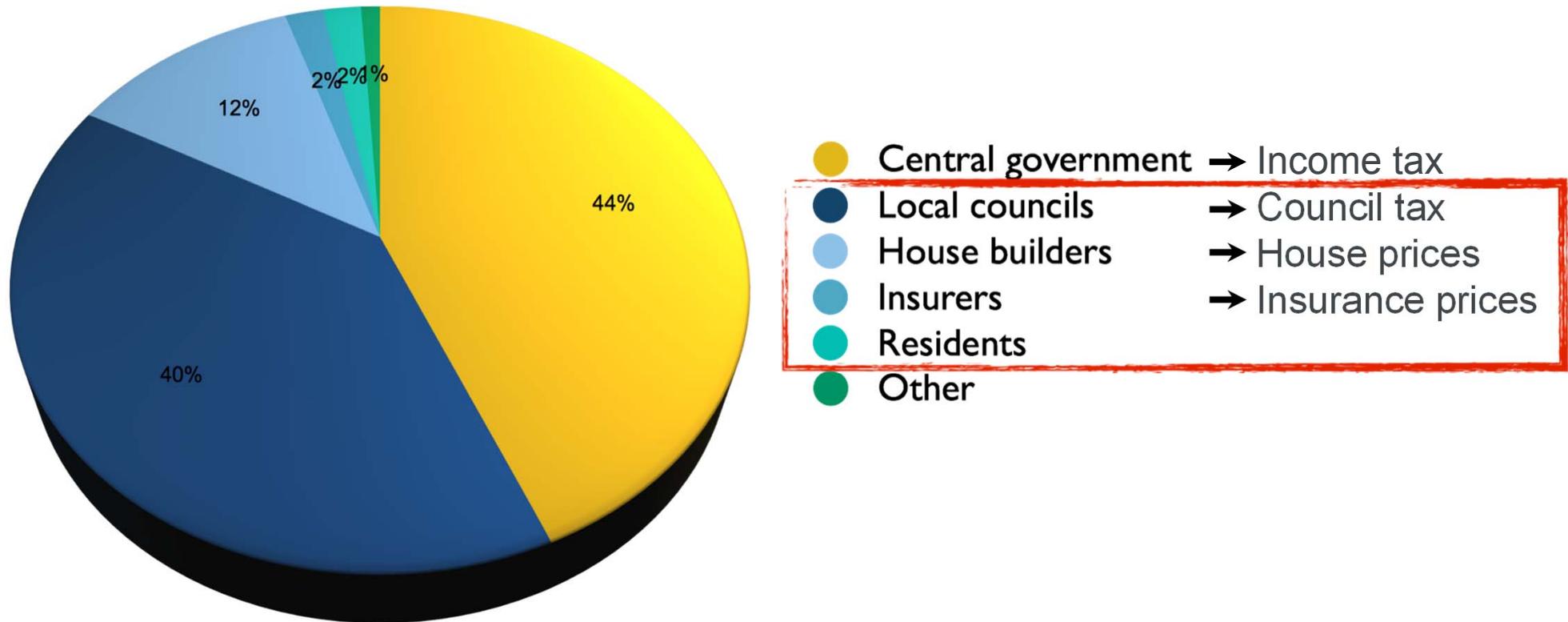


Fed up . . . Ben can't drive motor



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Q20 - Who do you think should be responsible for providing flood defences to reduce the likelihood and the impact of flooding?



56% thought residents should pay

Conclusions

- There is no simple definition of what is fair
- It is not our role to determine what is fair
- It is up to policymakers to decide, but....
- Important they understand implications of decisions
- Extreme differentials in pricing are better addressed by tackling costs rather than pricing controls
- How well people understand and sign up to definitions of fairness depends on understanding of insurance and how it is priced

Membership

- Liz Michael (chair)
- Fod Barnes
- Andy Goldby
- Ian Hughes
- Owen Morris
- Gordon Rigg
- Jay Stewart
- Graham Wright
- Gary Yeates

Questions

Comments

Expressions of individual views by members of The Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.



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