The EU Equality Directive and how it impacts actuaries
Update from the Profession’s Working Party
Facilitators: Camilla Bennett, Dick Tulloch, Nathan Williams, Grant Mitchell, Simon Warsop

EU Equality Directive or Gender Influences

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?**

- 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.

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**Groupe Consultatif findings (2)**

Data survey results:

Wide variation in returns to the forms.

Grouped

<table>
<thead>
<tr>
<th>Differentiation</th>
<th>% of EU Countries</th>
</tr>
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<tbody>
<tr>
<td>Large</td>
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<tr>
<td>Some</td>
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<td>Nil returns</td>
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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.

<table>
<thead>
<tr>
<th></th>
<th>M/W  %</th>
<th>Female</th>
<th>Male</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0%</td>
<td>6%</td>
<td>4%</td>
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<td>10</td>
<td>1%</td>
<td>12%</td>
<td>11%</td>
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<td>20</td>
<td>3%</td>
<td>26%</td>
<td>23%</td>
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<td>6%</td>
<td>34%</td>
<td>28%</td>
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<td>7%</td>
<td>35%</td>
<td>28%</td>
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<tr>
<td>60</td>
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<td>36%</td>
<td>28%</td>
</tr>
<tr>
<td>70</td>
<td>9%</td>
<td>37%</td>
<td>28%</td>
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</tbody>
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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

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/17/0/consult_gender_insurance120607.pdf]
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?
- 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 premium?
  - Premium
  - Expenses?
  - Propensity to buy / Elasticity?
- What factor will be next?

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?

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

Gender Experience
(Sample of Motor Insurers)

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

Age concerns?

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