



Institute  
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# GIRO Conference 2022

21-23 November, ACC Liverpool

**#GiroConf22**





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# Postcode Lottery?

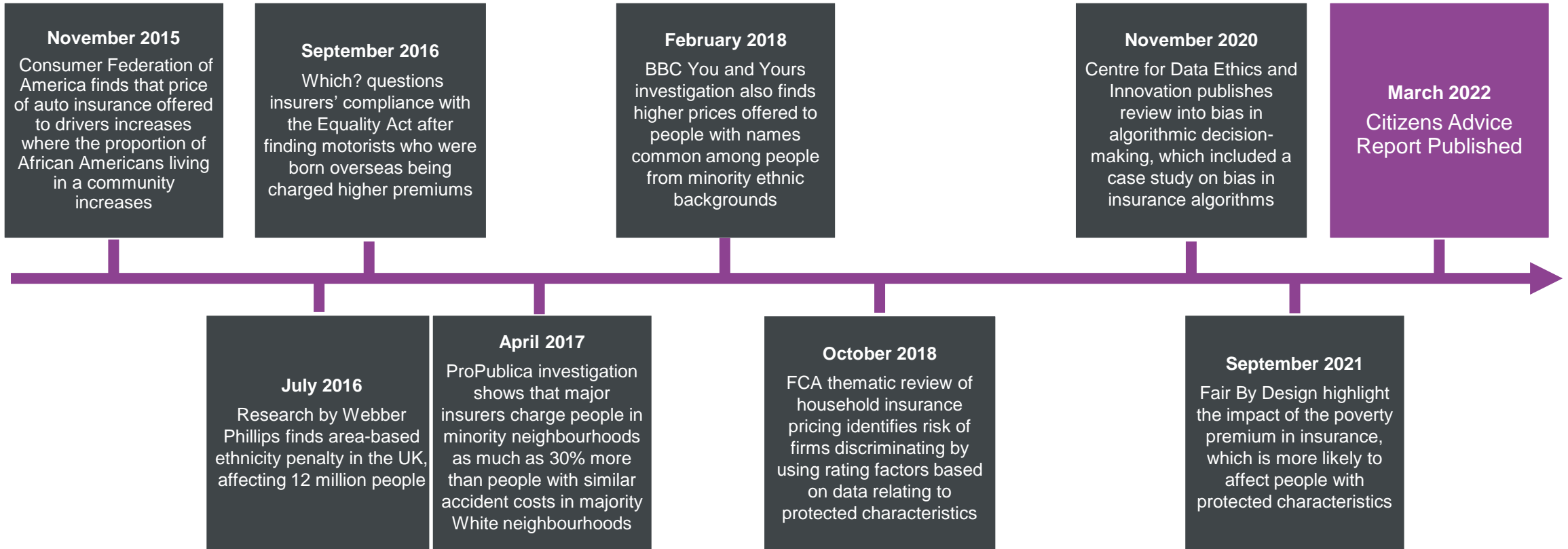
James Rakow, Deloitte

Grant Mitchell, Soteria Insurance



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# Is Insurance Pricing Discriminatory?



Source: [Citizens Advice - Discriminatory Pricing report](#)



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# Citizens Advice

## Discriminatory Pricing – Exploring the ‘ethnicity penalty’ in the insurance market March 2022

### Discriminatory pricing

Exploring the ‘ethnicity penalty’ in the insurance market

citizens advice

Tilly Cook  
Aiden Greenall  
Emer Sheehy

- Mystery shopping to explore impact of ethnicity on motor insurance pricing
- No statistically significant price differences in prices paid by customers with names common in different ethnic backgrounds

### BUT

- Significant price differences between prices charged in different areas
  - In postcodes with a high proportion of Black or South Asian inhabitants, customers were quoted at least £280 more for car insurance compared to areas where the population is largely white
  - The difference could not be accounted for through other geographical risk factors.



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# Citizens Advice

## Discriminatory Pricing – Exploring the ‘ethnicity penalty’ in the insurance market March 2022

### Discriminatory pricing

Exploring the ‘ethnicity penalty’ in the insurance market



Tilly Cook  
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Emer Sheehy

*“We are concerned that the opaque pricing algorithms used by insurance companies....could be reflecting and perpetuating human biases or wider inequalities caused by systemic racism.”*

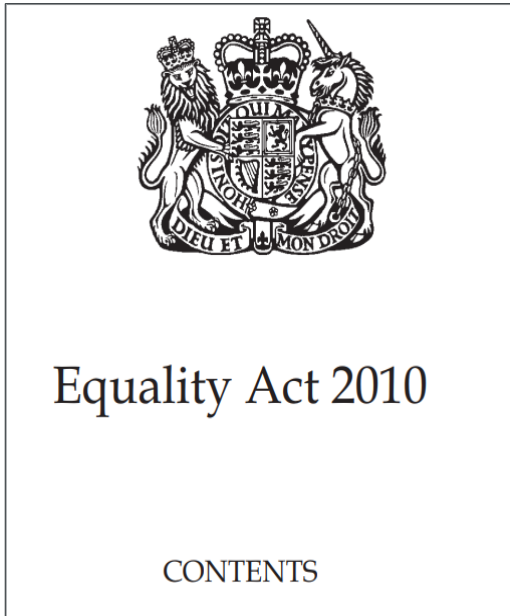
- We can all pick holes in the statistical robustness of the methodology – but that misses the point.
- Does the insurance industry have a prima facie case to answer?
- If the differences in price are real, do they reflect higher claim costs in areas with high ethnic populations?
- If so, why? How can this be addressed?
- If not, what is driving price differences? Are behavioural models inherently biased?



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# (In)direct Discrimination

Under the Equality Act 2010, people in Britain are protected from discrimination, harassment and victimisation. There are two broad categories of discrimination:



## Direct discrimination:

- Treating a person worse than another because they have a protected characteristic, someone thinks they have protected characteristic, or are connected to someone with that protected characteristic.
- Their circumstances must be similar enough to the circumstances of the person being treated better for a valid comparison to be made
- To be unlawful, the treatment must have happened in one of the situations that are covered by the Equality Act. For example, in the workplace or when you are receiving goods or services.

## Indirect discrimination:

- This is when there is a policy that applies in the same way for everybody but disadvantages a group of people who share a protected characteristic
- If the organisation can show there is a good reason for its policy, it is not indirect discrimination. This is known as objective justification



# What Does the Regulator Say?

Proactive published an article in March'22 quoting the FCA's response: "FCA to consider evidence of car insurance 'ethnicity penalty'"

"Their analysis highlights a risk of discrimination based on race and raises some potentially challenging questions for insurers," the FCA said in a statement. "We will continue to consider any evidence we receive of concerns around pricing."

The Centre for the Study of Financial Innovation released an interview on YouTube in April'22 with Matthew Brewis, the FCA's Director of Insurance And Conduct Specialists:

"the CA report is about indirect discrimination, and not about insurers collecting information that they shouldn't be"

"The possibility of direct discrimination happening cannot just be ruled out so arbitrarily"



# What is the Industry's Response?

The Guardian, March'22  
James Dalton, the director of general insurance policy at the Association of British Insurers, said:

“Insurers never use ethnicity as a factor when setting prices, and our members comply with the Equality Act. All other rating factors being the same, two people of different ethnicities who live in the same postcode will pay the same premium for their car insurance.”

“Insurance is priced on individual risk levels, and there are many different risk-related factors that are used to calculate the price ... but ethnicity is not one of them.”





# What are the Politicians Saying?

9.43 a.m.

Mr. David Marquand

(Ashfield)

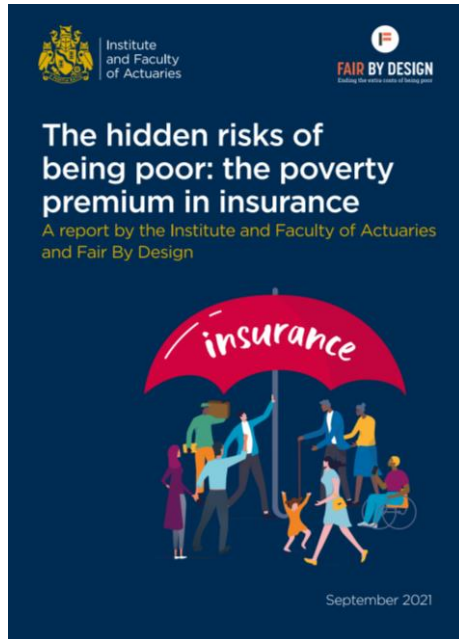
I am very grateful to have the opportunity to raise the question of racial discrimination in the field of insurance, even at this hour of the morning. And if I may say so, I am even more grateful to my hon. Friend who has been here all through the night in order to have the pleasure of replying.



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# IFoA / Fair By Design

The hidden risks of being poor: the poverty premium in insurance - September 2021  
Inclusive insurance bulletin 3 – Tackling exclusion – August 2022



*“The average household in poverty pays almost £500 a year extra for essential services.”*

*“Insurance has become the biggest contributor to the poverty premium, with some people paying nearly £300 a year more for car insurance because they live in a deprived area. And if you can’t afford to pay all in one go, you could pay an extra £160 to pay monthly.”*



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# IFoA / Fair By Design

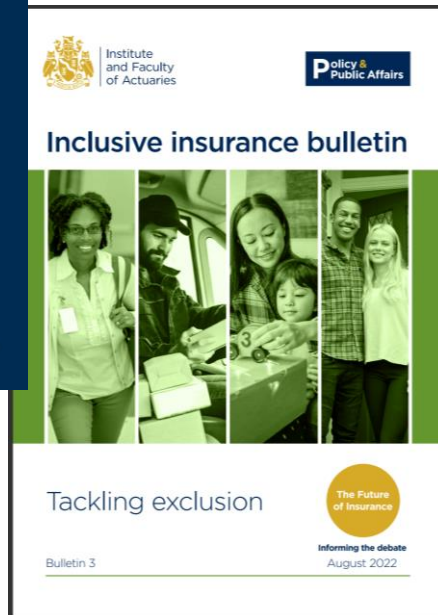
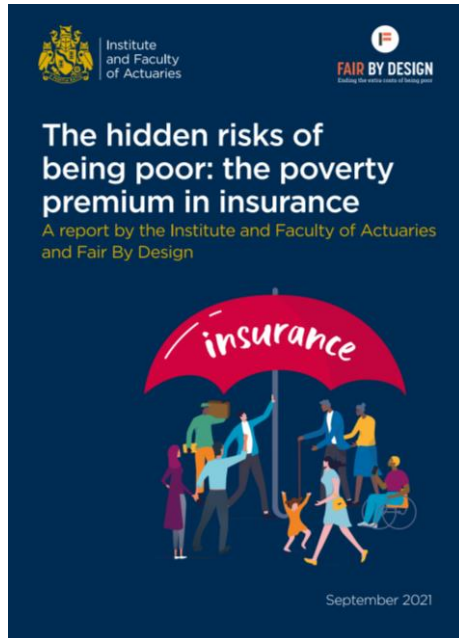
## The hidden risks of being poor: the poverty premium in insurance - September 2021 Inclusive insurance bulletin 3 – Tackling exclusion – August 2022

*“Vulnerable and low-income consumers can present a higher risk to insurers, due to a range of factors often outside the consumers’ control.”*

*“Those who need insurance the most are often the ones who are least able to access it and the protection it affords.”*

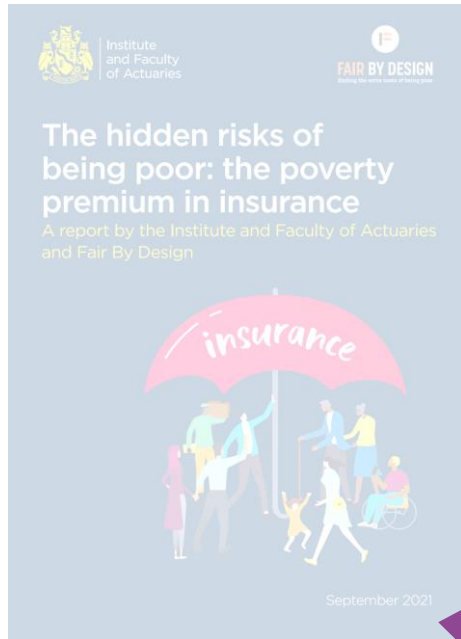
*“Some protected characteristics are associated with increased exposure to certain poverty premiums. These include race, sex (in the case of single mothers), disability, age (where young workers are much more likely to be in poverty than other age groups).”*

*“The evidence also points to certain groups with protected characteristics being more vulnerable to experiencing the poverty premium, even when compared to low-income households as a whole.”*



# IFoA / Fair By Design

The hidden risks of being poor: the poverty premium in insurance - September 2021  
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So

what is fair pricing?

*“Vulnerable and low-income consumers can present a higher risk to insurers, due to a range of factors often outside the consumers’ control.”*

*“Those who need insurance the most are often the ones who are least able to access it and the protection it affords.”*

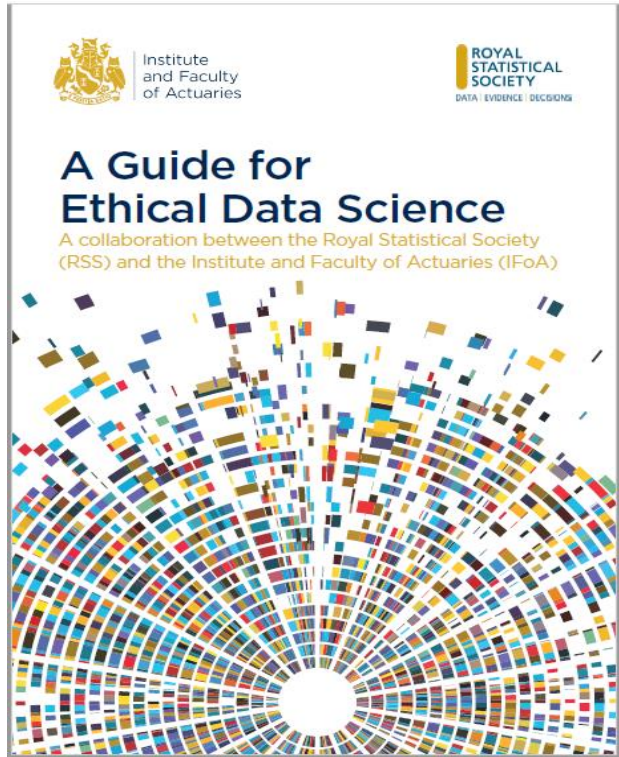
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*“The evidence also points to certain groups with protected characteristics being more vulnerable to experiencing the poverty premium, even when compared to low-income households as a whole.”*



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# Ethical Use of Data Science



**Seek to enhance the value of data science for society** – attempt to seek outcomes within their work which support the improvement of public wellbeing

**Avoid harm** – work in a manner that respects the privacy, equality and autonomy of individuals and groups, and speaking up about potential harm or ethical violations

**Apply and maintain professional competence** – apply best practice and comply with all relevant legal and regulatory requirements, as well as applicable professional body codes

**Seek to preserve or increase trustworthiness** – considering ethical principles throughout all stages of a project, transparent and honest when communicating about the way data is used

**Maintain accountability and oversight** – being mindful of how and when to delegate any decision making to systems, and having governance in place to ensure systems deliver the intended objectives



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# International Comparisons - USA



BUSINESS

How to Get Cheaper Car Insurance:  
Be White

*The Atlantic*

It's part of the industry's business model to charge different drivers different prices. But when does that become unfair?

(2015)

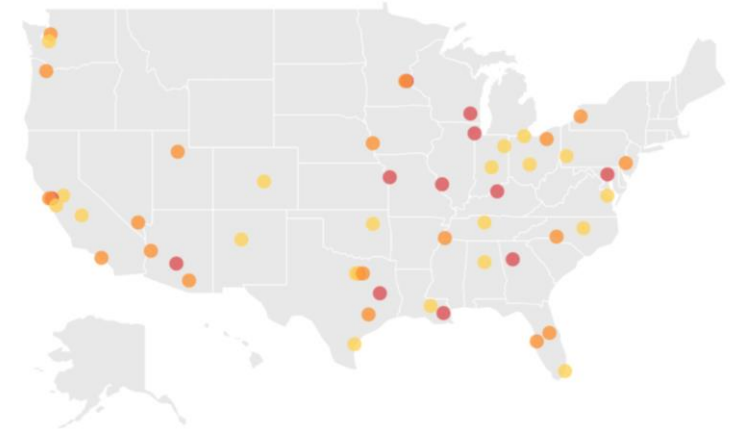


(2020)



(1998, 2008, 2021, ...)

52 Cities Where Less-White ZIP Codes  
Have Higher Car Insurance Premiums



Share

moneygeek  
YOUR MONEY. SMARTER

(2020)



(2020)



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# Consumer Expectations

**Fairness** – but what does that mean? Equal prices or equal profitability?

**Control** – not being penalised for factors outside of their control

**Transparency** – allowing consumers to challenge if assessment is based on inaccurate data

**Compliant** – but the law around indirect discrimination and the use of proxy factors is not clear-cut

**CHEAP!**

## Citizens Advice Recommendations to FCA

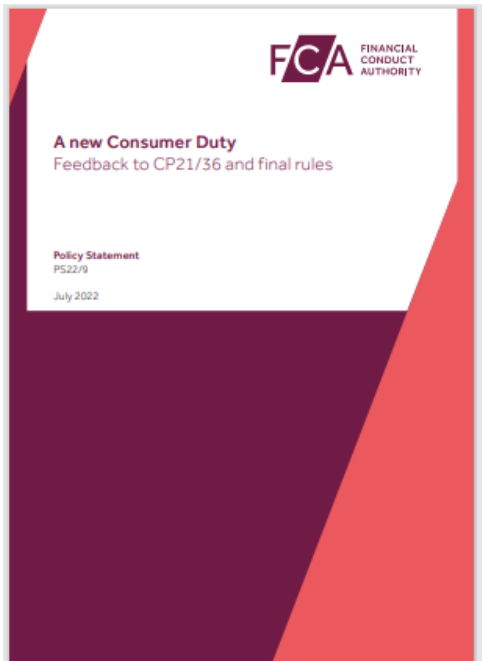
1. **Publish a public statement** setting their expectations for how firms should demonstrate compliance with Equality Act and fair pricing regulations.
2. Require firms to **audit and monitor pricing outcomes** to identify any racial disparities.
3. Conduct work to **measure any correlations** between profit margins and the racial composition of geographic areas.
4. **Take enforcement action** against firms found to be in breach.
5. Assess and build capability for effective oversight and **monitoring of algorithmic decision making**.



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# Consumer Duty Expectations

## PS22/9 para 13.11



“We have clarified in our rules and guidance that we expect firms’ monitoring to identify whether distinct groups of customers, such as those with characteristics of vulnerability or those who share protected characteristics, are receiving worse outcomes. This does not mean we expect firms to systematically gather sensitive data from all their customers on protected characteristics.....We expect firms to use their judgement and monitor to see whether any distinct groups of customers (for example longstanding customers, customers from a particular geographical region or those who purchase a product through a specific distribution channel) are getting worse outcomes or experiencing foreseeable harm. Our expectations apply based on what is reasonable. We do not expect firms to exhaustively segment their customer base to identify differences in outcomes between all possible groups of customers.....

..... Firms will also need to comply with their obligations under the Equality Act 2010 and equivalent legislation.”



# What might happen next?



... what do you think?



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# Questions

# Comments

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

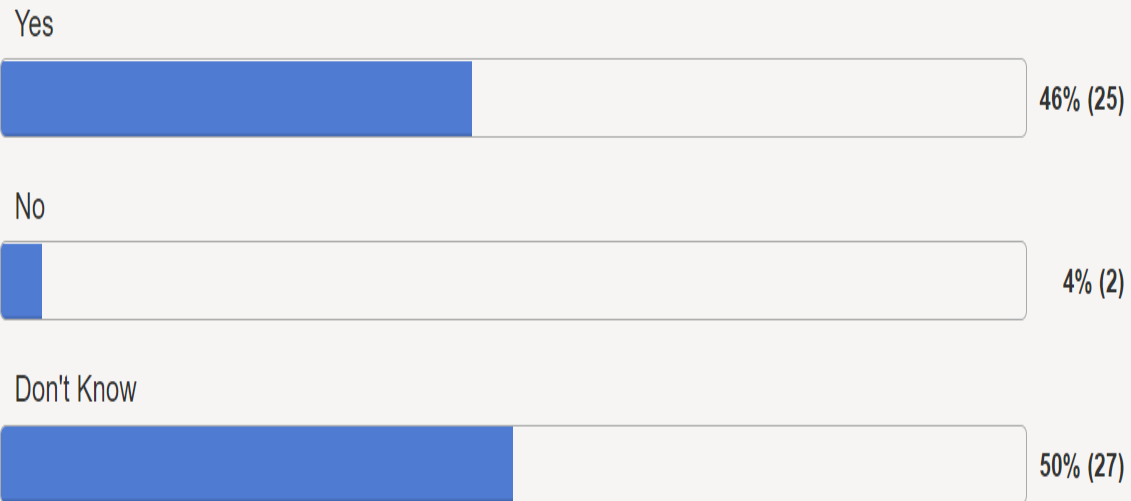
The views expressed in this presentation are those of the presenter.



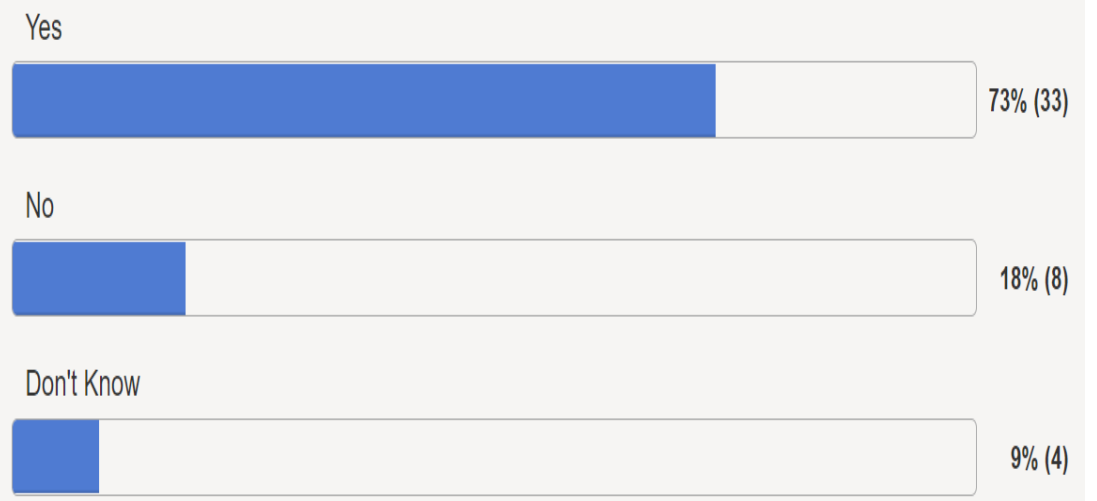
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# Live Poll

## 1. Does the Industry have a prima facie case to answer?



*\*Poll taken at the beginning of the workshop*



*\*\*Poll taken at the end of the workshop*

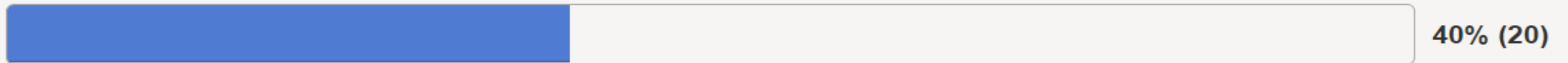


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# Live Poll

2. If the differences in prices are real, do they reflect higher claim costs in areas with high ethnic populations?

Yes



No



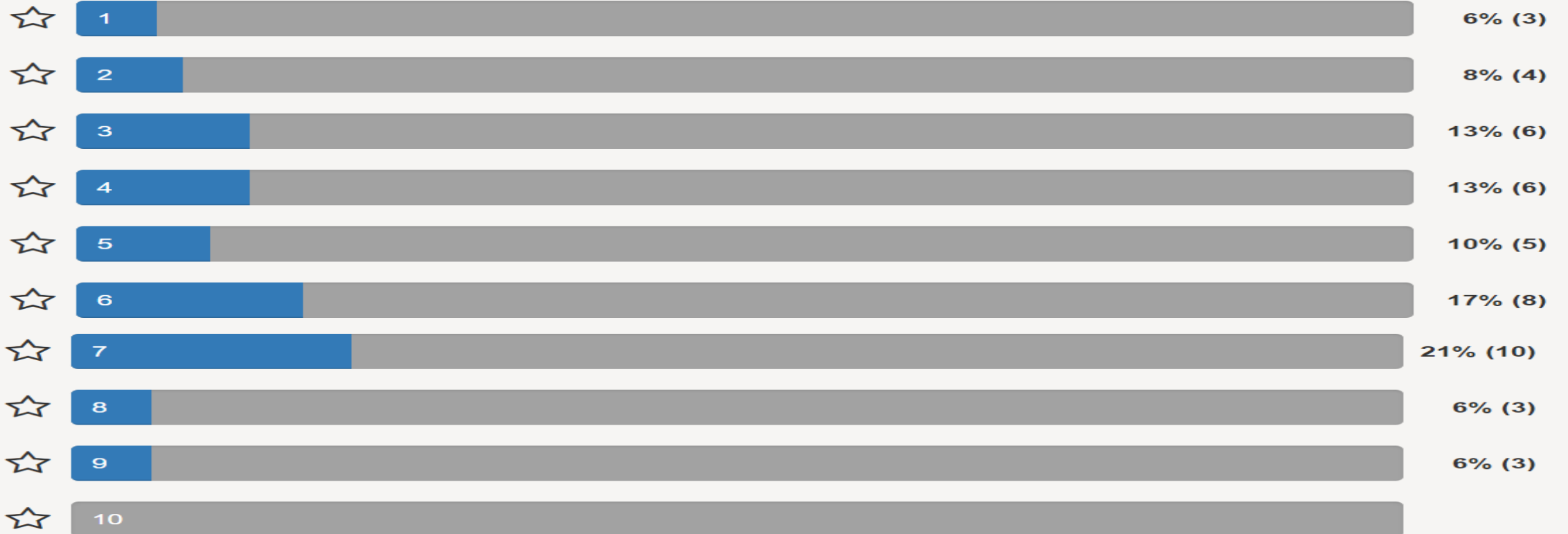
Don't Know



# Live Poll

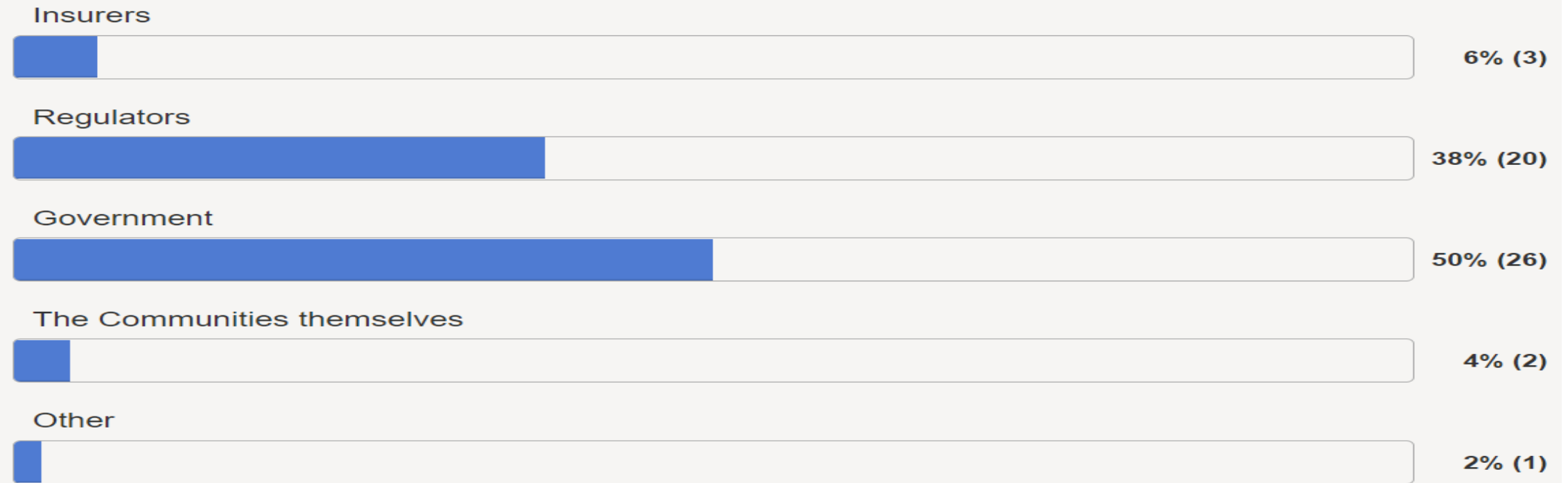
3. On a scale of 1-10 (1= not worried at all, 10 = extremely worried) how worried are you regarding what might be revealed when the regulator/ firms look more closely at this issue?

Average Rating 5.1

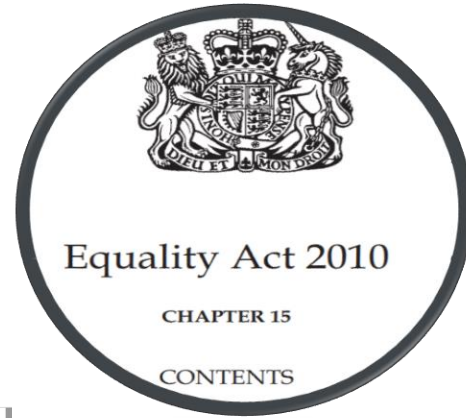
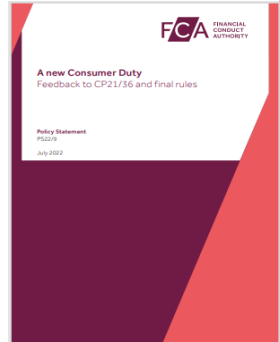
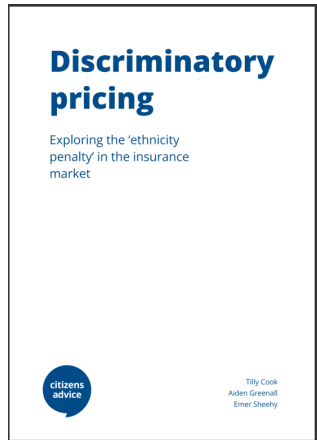


# Live Poll

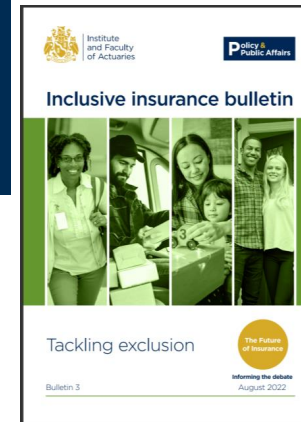
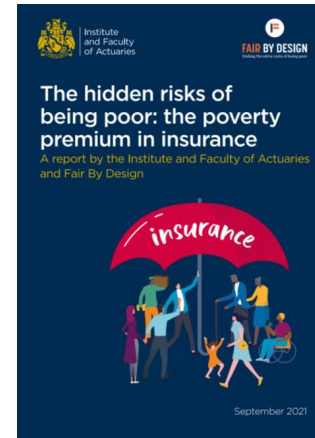
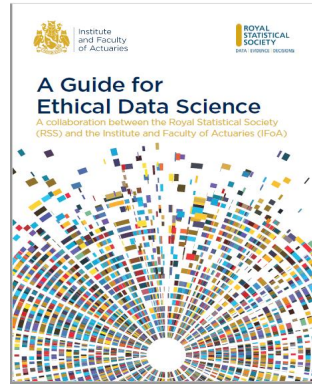
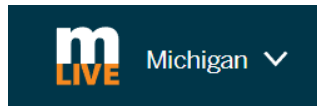
## 4. Whose responsibility is it to solve the issue of higher premiums for certain communities?



# Bibliography



*The Atlantic*





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# Thank you



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