

Gender Based Insurance Risk Pricing



“Statistically young male drivers are more prone to accidents than young female drivers”

Brett Pickett

On 1 March 2011 the European Court of Justice (ECJ) confirmed that, in future, insurance companies will not be able to use gender to price insurance products in the EU. The ECJ ruling means that, with effect from 21 December 2012, insurers will be required to offer unisex insurance premiums and benefits.

Background

The EU Treaty regards non-discrimination, on grounds of gender, as being a fundamental right under EU law. The Gender Directive prohibits all discrimination based on gender in the access to and supply of goods and services. However, an exemption under Article 5(2) of the Directive allowed member states to permit gender as a risk factor to determine insurance benefits and premiums, provided that it could be supported by relevant and accurate actuarial and statistical data. In the UK this supporting statistical data is published by the Continuous Mortality Investigation Bureau (CMI).

Landmark case

The Belgium consumer's association Test-Achats contested the application of the exemption in Belgium and brought an action before the Belgian Constitutional Court in June 2008.

The Advocate General agreed with Test-Achats and recommended to the ECJ that the exemption for insurers be removed. The ECJ agreed with the Advocate General that equal treatment was a priority under EU law and that the exemption for insurers should end with effect from 21 December 2012.

How this ruling will affect an individual depends on the type of insurance they wish to purchase. We have looked at a few examples.

Your car insurance premiums

It is expected that the ECJ ruling will mean that females will pay higher motor insurance premiums and males will pay lower premiums. Statistically young male drivers are more prone to accidents than young female drivers. As a result males currently pay higher car insurance premiums to compensate insurance companies for this higher risk. One estimate is that male drivers between the ages of 17 and 20 pay around 75% higher motor insurance premiums than their female counterparts.

Cost of buying a pension

On average, females are expected to live longer than males of the same age. Therefore, female retirees currently receive a lower annuity for the same premium compared with males retiring at the same age. This is because the annuity for the females is expected to be paid for a longer period. Following the ruling, insurers are likely to be considering combining male and female premium rates. Therefore, compared with the current position, the ECJ ruling means that females will receive higher annuities and males will receive lower annuities in future.

Implications for Insurers

Insurance companies will have to take action to comply with this ruling. Systems will have to be amended to ensure that gender is no longer used to price products in a way that means unequal treatment for men and women.

Insurers may also need to review options under existing policies to see if they can be sustained. In addition, they will also need to review their approach to new business to see whether other factors should be given greater prominence, once gender is no longer used.

Channel Islands Impact?

The Channel Islands are not part of the EU and therefore not directly affected. However, most insurers active in the Channel Islands are UK based and likely to follow EU principles. This might give an opportunity to a non EU insurer active in the Channel Islands to still use gender in underwriting to achieve a competitive advantage. However, as the Channel Islands are a relatively small market, this may not be seen as worthwhile.

What other areas may be affected?

Pension schemes also use gender as a factor for certain calculations, such as transfer values and converting pension into lump sum at retirement. While the EU ruling applies to insurance companies, there may be pressure for pension schemes to move to the use of unisex factors.

What next?

Over the coming months the implications of this judgement will become clearer. The Association of British Insurers has already published a research paper on the use of gender in insurance pricing.



Location | PO Box 68, Albert House
South Esplanade, St Peter Port
Tel | Guernsey, GY1 3BY
Fax | +44 (0)1481 728432
Web | +44 (0)1481 724082
www.bwci.com