



THE SOCIETY OF ACTUARIES IN IRELAND

Press Release

01 March 2011

European Court of Justice ruling - profound implications for insurance industry and consumers

The European Court of Justice (ECJ) has ruled that Article 5(2) of the Gender Directive 2004/113/EC breaches European Union gender discrimination laws. Article 5(2) currently permits individual member states to differentiate between men and women when pricing insurance where statistical evidence shows gender is a determining risk factor. The ECJ has ruled that this derogation is invalid from 21st December 2012.

The Society of Actuaries in Ireland considers that this ruling will have profound implications for the insurance industry, the pensions industry and Irish consumers.

Significant actuarial and statistical evidence exists that demonstrates marked gender differences in mortality, morbidity (sickness) and motor accident experience – and these differences are a key factor in the accurate pricing and efficient operation of the insurance industry and the pensions industry.

On average, women live longer than men, but have higher sickness rates. Women tend to have fewer and smaller motor insurance claims than men, especially at young ages. So, currently, women can avail of cheaper life cover and motor insurance than men, whereas they pay more for serious illness cover, income protection / disability cover and pensions. The Society supports the view that this differentiation validly reflects underlying risk profiles, and that, in this context, differentiation is not discrimination.

Requiring insurers to charge unisex premium rates means that they will need to make an assumption about the mix of male and female customers. They will need to allow for the uncertainty involved and for the risk of a potentially unfavourable mix. They will seek to guard against the moral hazard that, if the premium represents an average cost, people in higher risk categories may buy more insurance while those in lower risk categories may buy less or none.

For these reasons, unisex premiums are likely to be higher than the weighted average of equivalent male and female premiums. Overall costs are likely to rise, and this increase will ultimately be borne by the consumer.

Furthermore, the additional uncertainty may cause insurers to restrict the range of products that they offer, or even withdraw from the market.

The annuity (pensions) market is likely to be distorted by selective purchasing on the part of defined benefit pension schemes. Trustees may choose to buy annuities for women and pay pensions for men from the pension scheme. This would lead insurers to base annuity prices

more on the life expectancy of women than that of men, leading to increases in annuity costs (i.e. a reduction in annual benefits per euro of premium) for men but little or no reduction in costs (/increase in benefits) for women.

Overall, unisex insurance pricing is likely to result in higher prices and less choice for the consumer.

The ruling may have other social implications too. For example, unisex rates for motor insurance could lead to an increased number of road traffic accidents, since insurance may become more affordable for young male drivers and insuring more powerful cars may come within their reach.

In conclusion, the different claims patterns and life expectancy of men and women will continue to be a reality and will continue to impact on the insurance and pensions market. The implications of the ECJ ruling will therefore present considerable challenges for the insurance industry and pensions industry and will have real consequences for consumers.

ENDS

Issued on behalf of the Society of Actuaries in Ireland by:

Michael Moloney, Setanta Communications Ltd
(087) 2587264

Society of Actuaries in Ireland

The Society of Actuaries in Ireland is the professional body for actuaries practising in Ireland. Actuaries provide advice and relevant solutions for financial, business and societal issues involving uncertain future events. Most of the Society's members work in the financial services industry, and the profession has a statutory role relating to the supervision of pension schemes and insurance companies. The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value.