

Gender Directive



A challenge for the life insurance industry

From the 21st December 2012, there will be a fundamental change to how insurers calculate premiums for insurance policies. While existing contracts will generally be unaffected, gender can no longer be taken into account in determining insurance premiums or benefits for new policies going forward.

For years now, European and Irish law ensured that people have equal access to goods and services, regardless of what gender they happen to be. There was however a specific derogation (or exemption) for insurance products, as it was deemed that a differential was justified on the basis of sound statistical information.

This derogation was challenged by a Belgian consumer group ("Test-Achats"), and their challenge was successful, with the European Court of Justice ruling that that as and from 21st December 2012, the derogation no longer applies. This ruling will have an impact on the insurance industry and on its customers.

Winners and Losers - New Policies (issued on/after 21st December 2012)

As with many things in life, the Gender Directive will produce winners and losers, and when we look at the Gender Directive we clearly see that for every winner there will be a loser – a zero sum game.

Initially, it is likely that life insurers will simply calculate new premium rates based on the expected mix of males and females in their portfolio of business, using the existing separate premium rates which they have for males and females as a base. There will be some uncertainty about the mix of new business between males and females, and therefore insurers are likely to take a somewhat conservative view on business mix to begin with.

- **Life Cover – males win / females lose:** Males will end up paying a similar rate to current rates for life insurance, and females paying significantly more. So, for females needing life insurance cover, now is the time to buy.
- **Serious Illness Cover – no clear winners or losers:** While at some ages males pay more than females and vice versa, overall the difference between the two are modest so the new gender neutral rates are expected to fall close to both.
- **Cancer Cover – females win / males lose:** Cancer is the dominant cause of serious illness claims in Ireland. For females it is far more prevalent than in males and for that reason, female premiums are higher than males at most ages. After the move to gender neutral pricing, the male rates will tend to go up significantly; so for males interested in Cancer Cover now is the time to buy.
- **Income Protection – females win / males lose.** While insurers take into account additional information such as occupation, all other rating factors being equal, females are currently charged significantly more for Income Protection cover compared to males. So, for males thinking about taking out Income Protection, now is the time to act, before the more expensive gender neutral rates come in.
- **Annuities – females win / males lose where gender neutral rates apply.** There is some uncertainty however around whether annuities purchased from the proceeds of employer sponsored defined contribution pension schemes will fall under the new gender neutral rules, or whether the

gender can still be taken into account. The reason for this is that the directive only applies to insurance contracts which are "separate from the employment relationship". Further analysis is required before this issue is resolved.

Existing Business

Life insurance contracts are typically written on a long-term basis. The Test-Achats judgement in general does not impact the premium rates which Life insurers can charge on existing contracts, even where gender has been taken account of in calculating those rates. This means that clients with existing contracts need not worry that their premium rates could be increased as a result of the introduction of gender neutral pricing. However, you need to be aware that some changes made to existing policies, which are not part of the original terms and conditions, may result in a need to apply gender neutral pricing.

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... Thomas Synnott, Product Solutions Actuary, Zurich Life

Pipeline Management

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Brokers and insurers alike will need to ensure that all policies for people adversely affected by this change get issued before 21st December. Simply submitting a proposal by this date will not secure cheap life cover rates for a female client, for example. Life companies cannot apply any discretion in this rule.

The good news is that there is time to manage this so that your customers are not affected. Ensure you take steps to run any campaigns for female Life Cover, male Cancer Cover or Income Protection Cover for males well in advance of the deadline and work with Life offices to effectively manage your pipeline in the months approaching the deadline.

Conclusion

The Gender Directive is one of the most significant developments affecting the Irish insurance market in recent years. The relative impact on male and female premiums will be based on the gender mix insurers expect to have on their book of business and will differ by product lines. In force business will largely be unaffected, while some new customers have a limited opportunity to take out cover now to lock into more favourable terms, based on their gender. To avail of opportunities like this, and to ensure customers are not disappointed, it is vital to manage your pipeline so that policies get issued before 21st December.