

KEY MESSAGES ON THE USE OF AGE AND DISABILITY IN INSURANCE

■ Insurance Europe firmly opposes unfair discrimination but supports differentiation

- Differentiating fairly between different risks on the basis of a comprehensive risk assessment is the core of private insurance.
- Insurers need to be able to assess risk accurately in order to ensure that premiums are commensurate with a consumer's risks and exposure, thus helping to reduce moral hazard¹ and adverse selection².
- Age and disability are relevant factors in pricing many insurance products, including term-life insurance, pension annuities, motor insurance, disability insurance, long-term care insurance and private medical insurance.

■ The use of information on age and disability benefits insurance consumers

A recent study by Oxera entitled "Why the use of age and disability matters to consumers and insurers" demonstrates that the use of information on age and disability is fundamental to risk assessment as it:

- encourages competition between insurance companies, which benefits consumers through lower prices and higher levels of cover;
- leads to innovation, enabling insurers to offer a wider range of services to an increasing proportion of the population; and,
- mitigates the impact of adverse selection, which could otherwise lead to insurance products being limited in scope or availability.

■ Limiting or banning the use of age and disability in insurance would result in detrimental consequences for consumers and society

The Oxera study shows that any restrictions or ban on the use of age and disability information would have negative consequences:

- Some insurance products would become limited in scope or availability and, in more extreme situations, would no longer be available. For instance, a ban on the use of age would jeopardise the viability of term-life insurance and a ban on the use of disability would mean the end of disability insurance.
- There is a risk that average premiums would increase and/or cover would diminish for all consumers due to the additional costs generated by the higher risks to insurers.
- Consumer choice would be reduced as insurers would not be able to offer some products and there would be less incentive for innovation.
- Society and the economy as a whole would also suffer. For instance, permitting younger drivers, who are statistically more dangerous, to pay significantly lower premiums when driving high-powered vehicles could have negative implications for road safety. Likewise, as a result of adverse selection, no longer allowing the use of age in pricing pension annuities would lead to only young people buying annuities. This would ultimately end the annuity market, at a time when governments are seeking to encourage individuals to save for their retirement.

■ Insurers need to be certain that they can use age and disability as risk factors

- The proposed EU Anti-Discrimination Directive³ must not contain wording that could be legally challenged in the way the European Court of Justice ruling of 1 March 2011 challenged the EU Gender Directive, as this could result in a ban on the use of age and disability in insurance.

¹ A situation in which insured individuals are encouraged to behave in a more risky way because of the protection they have from insurance

² A situation in which only the consumers with the highest risk and therefore the highest expectation of an insurance benefit are interested in purchasing insurance

³ The 2008 EC proposal for a Directive on implementing the principle of equal treatment between persons irrespective of religion or belief, disability, age or sexual orientation