

Case studies

The use of factors like age and disability to price insurance policies is not discriminatory. Pricing decisions are made on the basis of objective, reliable and relevant data built up over a significant period of time. The following examples concerning the age factor speak for themselves in respect to 1. health insurance, 2. travel insurance, 3. motor insurance.

1. Health insurance

The risk premium reflects the cost of the average theoretical probability for a loss to occur. Please see Annex 2.1 which gives an example on the evolution of expenditures according to age in the German health insurance market, and Annex 2.2 which shows in a different way the direct relation between the age of a person and the evolution of medical expenses. According to the latter, for example, medical expenses for a man between the ages of 56 to 65 are double those for a man between the ages 26 to 35.

This explains why older people pay higher premiums. If the premiums are to be calculated for all ages, younger people will have to pay part of their premiums for the costs of older people and affordability will become an issue for them. This means that less younger people and proportionally more older people will join the insurance pool and premium level will rise again.

It is important to see this in the broader context of an ageing population as well. The so called baby boom generation largely outnumbers the younger generations. Many studies and reports show the financial burden this will put on younger generations already now. It may not be regarded appropriate to increase this burden even further via unintended effects of discrimination legislation on insurance products.

2. Travel insurance

The principal function of travel insurance is to protect the customer from the cost of needing medical treatment while abroad, which can be very high. Health status is therefore a principal underwriting factor in travel insurance and this is very closely linked with age.

Travel claims data in the UK shows that the likelihood of claiming on a policy increases sharply beyond age 65. People aged over 65 are three times more likely to make a travel insurance claim than those aged 35, as shown in a table from Ipsos Mori in Annex 2.3.

The cost of claims made by older travellers is on average also relatively higher, largely driven by health problems that produce claims for both medical treatment and travel arrangement cancellations. The second graph in Annex 2.3 shows that the claims made by over 65s are nearly three and a half times more expensive than for under-50s.

3. Motor insurance

Motor insurers use, among other factors, age as a risk indicator, since statistics show that there are significant differences in claims frequency and claims costs depending on the age group of the motorist.

One example is the 18-24 age group. The enclosed data (Annexes 2.4-2.6) shows that this age group causes on average more accidents. This leads to higher claims costs on average. This age group is not only characterized by its lack of road/driving experience and a higher inclination to take unnecessary risks, but also by an innate attraction towards high-powered vehicles. This increases the accident probability since the age group's road/driving inexperience precludes them from controlling such vehicles properly. Furthermore, young drivers are shown to carry more and generally young passengers in their cars. This explains the overall high rate of road fatalities among the young people.

It needs to be pointed out that according to the SafetyNet¹ records about 70% of the road fatalities among the young people are young drivers. Since there is often more than one person injured, which means that the claims costs are relatively higher.

The European Commission monitors the 16-24 age group in the context of road safety, since young people are on average at almost twice the risk of dying in a road traffic accident than the average person¹. Last year's Road Safety Day was especially targeted at young drivers².

The insurance industry fully supports the initiative to take measures to enhance the safety record of young drivers in order to reduce the number of claims and the claims cost, which will then lead to a reduction in motor insurance premiums.

¹ SafetyNet Young people 2005, p. 3.

² http://ec.europa.eu/transport/roadsafety/road_safety_day/index_en.htm