KEY MESSAGES ON THE USE OF AGE AND DISABILITY IN INSURANCE

- **Differentiating fairly between different risks is the core of private insurance**
  - Insurers need to be able to assess risk accurately to keep the price of insurance as competitive as possible and to provide cover that is adequate for consumer needs.
  - Age and disability are important factors in pricing many insurance products, including term-life insurance, pension annuities, motor insurance, disability insurance, long-term care insurance and private medical insurance.
  - Accurate risk pricing helps to reduce moral hazard[1] and adverse selection[2].
  - Differentiation is not discrimination: equal treatment means treating comparable situations in the same way and different situations differently.
- **Consumers benefit from the use of information on age and disability in insurance**

  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 and benefits consumers by:
  - encouraging lower prices and higher levels of cover through competition between insurance companies;
  - stimulating innovation, thus enabling insurers to offer a wider range of services to an increasing proportion of the population; and,
  - mitigating the impact of adverse selection, which could otherwise lead to insurance products being limited in scope or availability.
- **Consumers as well as wider society would lose out if there was a limit or ban on the use of age and disability in insurance**

  The Oxera study shows that any restrictions or ban on the use of age and disability information would have negative consequences:
  - All products examined in the study 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 if people's access to affordable insurance products affected their ability to be financially resilient. For instance, as a result of adverse selection, no longer allowing the use of age in pricing pension annuities would ultimately damage the annuity market, at a time when governments are seeking to encourage individuals to save for their retirement.
- **Insurers need legal certainty that they can assess risk fairly**
  - The proposed EU Anti-Discrimination Directive[3] must provide legal certainty confirming that insurers can continue to use age and disability and other risk factors to assess risk fairly for all consumers.

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