

HOUSE OF LORDS  
MINUTES OF EVIDENCE  
TAKEN BEFORE  
THE SELECT COMMITTEE ON THE EUROPEAN UNION  
(SUB-COMMITTEE G)  
**EQUAL GENDER ACCESS TO GOODS AND SERVICES**

WEDNESDAY 5 MAY 2004

MR STEPHEN SKLAROFF, MS SIAN LEWIS, MR STEPHEN RICHARDS and  
MR MARTYN PARKER

MR DAVID PAUL, DR DEBORAH COOPER and MR DEREK NEWTON

Evidence heard in Public

Questions 64 - 161

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WEDNESDAY 5 MAY 2004

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Present

Colwyn, L  
Dundee, E  
Greengross, B  
Harrison, L  
Howarth of Breckland B  
Howie of Troon, L  
Williamson of Horton, L (Chairman)

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**Memorandum submitted by the Association of British Insurers**

**Examination of Witnesses**

Witnesses: **Mr Stephen Sklaroff**, Deputy Director General, ABI, **Ms Sian Lewis**, Managing Director, Diamond Insurance, **Mr Stephen Richards**, Head of Mortality Risk, Prudential Plc, and **Mr Martyn Parker**, Chief Executive Officer, Swiss Re Life & Health Ltd, examined.

**Q64 Chairman:** On behalf of the Sub-Committee may I welcome you to this session. I will mention one or two practical points. Perhaps you would be kind enough to introduce your colleagues and then I will give you the floor to make an opening statement. It is quite a difficult inquiry. The last one we found was moderately difficult, but this one is even more so. The session is open to the public and it may be recorded for broadcasting, so all your minor asides may be picked up in the broadcasting and we all have to watch out for that. There will be a verbatim transcript and that will be sent to you for correction and then published. You will have an opportunity to see the transcript. Otherwise, the session will be entirely open. If you want to respond to any questions later in writing, of course you will let us know. Can I first of all ask you to introduce your colleagues? Some of them I know have

already sent us their observations on behalf of their companies, but it would be helpful to know who is who.

**Mr Sklaroff:** May I first of all say how sorry I and my colleagues were to hear of Baroness Brigstocke's tragic death, and to extend our condolences to her family and friends and to the Committee.

**Q65 Chairman:** Thank you very much.

**Mr Sklaroff:** I would also like to say, on behalf of the Association of British Insurers, how pleased we are that the Committee has decided to investigate the important issue we are discussing today. I will briefly introduce myself and ask my colleagues to introduce themselves, before making a few short opening remarks. I am Stephen Sklaroff. I am Deputy Director General of the Association of British Insurers and, among my specific responsibilities at the Association, are EU affairs.

**Mr Parker:** My name is Martyn Parker. I am the Chief Executive of Swiss Re Life & Health for the UK business and the Irish business. We are a professional reinsurance company, so we do not transact business with the public; but if you can think of us in terms of being the insurance company that looks after insurance companies, I think that would be a fair benchmark. We work with our clients – many of the UK household names – in many ways, in terms of product design but, in particular in this regard, with respect to pricing. Reinsurance is not involved in investment or savings, but very much in mortality and risk assessment. Currently, if a policy is sold in the UK, approximately 80 to 90 per cent of the value of the policy will pass through to the reinsurance marketplace. Swiss Re Life & Health has a global market share of some 24 per cent. Our global headquarters are in the UK. The EU generates about 25 per cent of our global premium income.

**Ms Lewis:** I am Sian Lewis from Diamond Insurance. I am the Managing Director. The company has 280,000 customers. We are a direct insurer and part of the Admiral Group.

**Mr Richards:** My name is Stephen Richards. I am the Head of Mortality Risk at Prudential. Prudential is a major annuity provider in the UK, paying about three-quarters of a million annuities every year, and we have around one third of the industry data on annuities and longevity.

**Q66 Chairman:** Thank you very much indeed. The acoustics are very bad in this room, so perhaps you would generally keep up your voice at all times.

**Mr Sklaroff:** I know that the Sub-Committee has many questions that it would like to cover and that our time is limited. Our written evidence has, I hope, set out our views clearly and I hope that the Committee has found that helpful, but I would like to make one or two brief introductory remarks. First, I would like to stress that the industry fully supports the stated objective of the Directive proposed by the EU Commission: that is, that unfair discrimination on grounds of gender should be outlawed. Existing UK law, as representatives of the Government made clear last week, does exactly this. Secondly, existing national law allows the use of gender-based data in insurance where it can be shown to be objectively relevant and reliable. This is a stringent test and one which the industry is happy to be asked to meet. However, the Directive as currently drafted would go well beyond this and would ban the use of gender-based data even where such a test can be met. Thirdly, the industry does not argue that unisex insurance would be impossible to implement, but that it would have unintended and adverse consequences for our customers. The resulting price rises will hit women and poorer customers particularly hard. The average woman is likely to be worse off over her lifetime as a result of the Directive's provisions. This seems to the industry to be an undesirable outcome and one that we hope the EU Member State governments will wish to avoid. Fourthly, the industry is very willing to participate openly and fully in a proper cost-benefit analysis of the Directive before it is finally implemented. It is partly because of the absence of such an impact assessment that the unintended consequences highlighted in the

written evidence received by the Committee have only now come to light. To sum up, the industry recognises that it will be for the Government to make a final decision on this Directive. Our concern is that they should have a clear understanding of the consequences when they do so.

**Q67 Chairman:** That is very helpful and, as I said, we do have your written evidence in front of us, which we will use in the course of our inquiry. Perhaps I may turn to a number of questions which we would like to pose. They mainly centre on Article 4 of the proposed Directive, because that is the one that would ban the use of sex in the calculation of insurance premiums and benefits. I judge from your intervention that you would describe this as justified discrimination, because the way you do things now is based on some objective factor. Can I ask whether you would assume that if our practice were continued, that would be applied right across the Union?

**Mr Sklaroff:** We have certainly suggested – by “we” I mean the industry across the EU – that the Directive as currently drafted should be amended in order to apply the objective relevance test that I referred to earlier. As I said in my opening statement, we are also completely committed to the proposition that unfair discrimination should be outlawed.

**Q68 Lord Howie of Troon:** We have been told that the possible consequences of the Directive for insurance, and so on, have not yet been fully identified. We have also been told that the Commission now accepts that insurers may take sex into account, provided it does not result in price differences based on sex. That confuses me a bit. Does it confuse you?

**Mr Sklaroff:** It would be fair to say that there is still a great deal about this Directive that we and other participants in the debate do not understand. I think that has become clear during discussion in the Council of Ministers’ Working Group. On this particular point, the core of our argument is that the adverse effects to which we are drawing attention would be in terms

of higher prices for our customers. So it is precisely those higher prices, those price effects, that we are most concerned about.

**Q69 Lord Howie of Troon:** They seem to say that you can take sex into account, provided it does not result in price differences. I do not understand that. Do you? If you take sex into account, surely there must be price differences, must there not?

**Mr Parker:** We do not know what is behind the comment but, extrapolating into it, if we were to write business on a unisex basis – a common rate – the industry would need to do some complex calculations to decide whereabouts that rate should be. It would not necessarily be midpoint between the male and female rate. We would then have to keep a very close eye on business mix between the genders that arrive to our portfolio of risks, because we will be putting reserves behind those policies to make sure the financial integrity of our insurance companies is strong enough to meet the claims as they arise. So if there is any sort of imbalance between the mix of males and females in a portfolio, one way or the other, around the price axis, we would need to make sure we had adequate reserves and, hence, would need to monitor and take into account the mix of genders arriving into the portfolio. However, the Directive as framed seems to say, “That part of the monitoring is okay, but the price you charge cannot be adjusted as a result of it”. That is the only interpretation we have of it at this stage.

**Chairman:** That is very clear.

**Q70 Lord Colwyn:** Would it be fair to say that each year, whether the policies change or not, your overall business would be the same? Women would pay more, but would not men pay less? So that, at the end of the year, the amount that is being insured and the amount of money you are dealing with is always the same. Is that of importance to you or are you purely representing females’ interest in this?

**Mr Parker:** We are keen to maintain gender differentiation. Say the male rate is 10 and the female rate is 8. We will not crystallise on a rate of 9 for the whole community – for two reasons. One is the substantial advantage for, say, a man rated at 10 now to buy at rate 9; so they may buy bigger volumes and bigger-sized policies than they would otherwise have purchased on the affordability scale. For life assurance, ladies live longer and so life assurance is cheaper. Ladies currently paying 8, having to pay 9 in the future, may feel a disincentive in continuing to take life assurance with us. So if we build a portfolio of people who should have paid 10 but who pay 9, we would need to strengthen our reserve basis and put some capital behind that. Purely illustratively, the rate would probably be somewhere between 9 and perhaps closer to 10, to help us to be able to manage the business mix. Whilst I am on that part of the question – and it is just an observation while I remember to mention it – the price rises that females would face is a big concern for the industry, in the sense of being a disincentive for ladies to take out life assurance protection. Our concern is that, as an industry, we have seen some research by the ABI on savings and by Swiss Re on protection. We identified some very significant gaps in the public’s savings and protection in the UK population – to the point that we would prefer as an industry to keep the prices as low as possible and sell more across the spectrum than to see the gaps increase because we put the prices up.

**Q71 Lord Howie of Troon:** If there is an actuarial difference between males and females on the risks involved, why should they pay the same?

**Mr Parker:** Our contention is that they should not pay the same. Our contention is that we pool risks and the members of that pool should pay a premium equivalent to the risks they bring to the pool, on as fair and competitive a basis as the industry can sustain, and we would prefer to see the difference in rates.

**Chairman:** I think that it is true, is it not, that under the latest UK legislation you do not now have to have an annuity when you are transferring your pension? You can do things in other ways, which in the past you could not do. Under the latest legislation, if you do not want to have an annuity you can do something else. I suppose it is possible that would mean that some business would be lost. That is a comment.

**Q72 Lord Harrison:** Later I will be asking about motor insurance, but perhaps we could just forget about that for a moment because I do not think that it exactly applies to the question I am going to put. If the population stays the same – and the argument on motor insurance is that it may not stay the same in terms of insurance – your risk at the end, what you might need to pay out, will stay the same. Then why should it be, as you say, Mr Parker, a complex calculation, when in fact you have taken one element away from the calculation, namely that of, in a sense, differentiating? If the population stays the same – and the risk you have to take on, and the end result of what you have to pay out – why should that require you to be even more prudent in setting aside capital to satisfy the demands being made upon you? There are two questions there, which I think are fundamental to this.

**Mr Parker:** The key to the answer is that the insurance industry cannot be assured at the beginning of issuing policies that the population will remain the same.

**Q73 Lord Harrison:** We will come on to the population change, because that is an interesting argument. However, why should you have an expectation that, especially in the non-motor insurance areas, it would change? Even if the population were to change, it is surely up to you and your business acumen to perceive, understand, and then enter the market by offering insurance?

**Mr Parker:** All things being equal, if today's current policyholders were a mirror image of tomorrow's policyholders, in terms of gender differentiation, age, and so on, then effectively,

by adjusting to a unisex rate, it would be a perfect answer if we collected the same amount of money and paid out the same amount of money. What goes against it being possible for the industry to take that as a starting position is that we cannot be sure that any sort of price adjustment – in some cases to males' advantage, in some cases to females' advantage – will result in that mirror image population of policyholders. It could well change the population of policyholders.

**Lord Harrison:** On this particular point then, your argument is that indeed the population will change. So you do not accept what I predicated at the beginning: that if you have a population the same, therefore the risk becomes the same, and therefore the insurance charge ought to be capable of being simple, not complex.

**Q74 Baroness Howarth of Breckland:** What you are saying is that the behaviour of people will change, because of the differentials?

**Mr Parker:** We have to anticipate that the behaviour may change. You may have seen some information recently, where the FSA submitted a paper. Callum McCarthy, the Chairman of the FSA, was speaking recently about the extent of the differentiation which may come across the products; but he underlined that by adding that a significant amount of capital would be needed by the industry behind the policies for the uncertainty factor, and that was quoted to be in excess of £1 billion.

**Chairman:** We will come back to motor insurance in due course. Can we move on to European Union comparisons and what the other Member States or their organisations think?

**Q75 Baroness Greengross:** I was very interested in the CEA, the European committee, whom you quote – obviously to strengthen your argument. We understand that France and some other countries have decided not to use gender. Given that some countries are

experimenting, or have done, are you not somewhat surprised that the CEA came out with the evidence that way – that you got that support?

**Mr Sklaroff:** I think that the industry across Europe feels that it would be more sensible to allow there to be a choice as to whether or not gender information is used in particular markets. It is certainly true, as you say, that across the EU, both when it was 15 states and now when it is 25 states, there is a huge variation in practice, not just between countries but also between different markets. So with the example of France that you cite, it is the case that there exists mono-sex or unisex pricing in some parts of the life market and annuities market – and, if it would be helpful, we could talk more about that and why we think that is quite different from the UK situation – but it is nonetheless the case that gender factors are used in motor insurance pricing. There is quite a lot of difference, therefore, across different markets. I think that the reason why the industry across Europe backed the line that you see that the CEA took is simply that they would prefer to be able to use genuinely objective risk factors where it seems sensible to do so – which is not the same as saying that some companies in some places will choose not to, for particular reasons.

**Q76 Baroness Greengross:** Is it not also that the type of insurance cover, annuity cover, and so on, varies enormously?

**Mr Sklaroff:** It does indeed. I think that this is fundamental to the issue of the French annuities market in particular. The French annuities market is a very small market. It is a voluntary market. It is a market which to a large extent, we understand, is used as a tax shelter for relatively high net worth individuals. It is also a market in which precisely the price effects that we have been describing as the possible effect of the Directive have been seen. However, one of the reasons that those price effects have not had a widespread social effect is precisely because it is such a small market. It is not a compulsory market, and

therefore you do not have the mass population of relatively less well-off people, relying on those annuities for their retirement income.

**Q77 Baroness Greengross:** Given that the insurance industry or the financial services industry is terribly important to the UK and that most of you are international providers and companies – not the ABI but the others – would you then actually match what happens in France with your French sales? So that if this went through with each country having its own freedom as to how it behaved, would you join in that, or would you aim to put the UK model round Europe?

**Mr Sklaroff:** To go back to what we were discussing earlier, the European industry has suggested that the Directive be amended in order to reproduce fairly closely what exists in UK law at the present time. That is certainly one of the industry's preferences. More generally, the industry ideally feels that it can serve its customers best if it is free to make decisions, for a particular retail market in particular parts of the EU, which are appropriate to those markets, because the markets are very different and the circumstances are very different.

**Chairman:** I think that the EU comparisons are quite important because, in the negotiation, they will obviously be part of the discussion.

**Q78 Baroness Howarth of Breckland:** We have had a number of specific examples, and I know that the markets are very different, but is there any sort of evidential base, any research, that gives a broader sense of all these areas, how they vary, and how you respond to them?

**Mr Sklaroff:** This is one of the key concerns we have had over the production of this Directive: that we believe there is a great deal of such research which needs to be done. Our own knowledge at the ABI of the detail of what happens in other markets across the EU is patchy. We know more about some than others. It seems to us that one of the important

prerequisites for such a Directive is that we should all of us have as complete an understanding as possible of what the effects would be in different parts of the market.

**Q79 Baroness Howarth of Breckland:** But, as Baroness Greengross was suggesting, you do operate across a number of these markets, because you are international players. How do you adjust, and would you not have a lot of this information from which the evidence could be extrapolated?

**Mr Parker:** The insurance industry prices on statistics, which range from government-based national statistics in each country to the insurance industry's own statistics and then, ultimately, for the particular insurer's experience. So there is a lot of evidence there, and one must conclude that it is not always collected on a consistent basis. Interpretation has to be made of the various stats. For Swiss Re's European business, we will work with the clients in the marketplace – and I will contain my remarks to life assurance protection. Stephen may want to make some remarks about the annuity markets. On life assurance protection, however, we work with price on the same basis as they operate. Currently, if we were to write for clients in France, we would follow the unisex rate. Today, we would not be placing an argument that it is not possible to do so; we would be placing an argument that it actually creates unfairness. We are very much about fair price for the risk, rather than equal price for the risk across the genders. I can say that at the moment, with the exception of France, we work on a gender-discriminated basis in life assurance across the Community, and also in some Eastern European countries.

**Q80 Baroness Howarth of Breckland:** So all other countries in the EU are on the same basis as you, except for France which is a different kind of marketplace, as you would say?

**Mr Parker:** Bearing in mind that we are an insurer to the insurance companies, and so we are not selling policies on the high street; but that is how we operate at the current time.

*Mr Sklaroff:* Stephen, do you want to say anything about the annuities market?

*Mr Richards:* The annuities market in the UK is unique. It is the largest annuity market in the world, and certainly in the EU. About £7 or £8 billion of maturing pension funds buy an annuity each year in the UK. This particular Directive, while it would affect annuities across the 25 EU Member States, would have a completely disproportionate impact in the United Kingdom and Ireland from what it would have in many of the other Member States, like, for example, France, where annuities are not a mainstream product.

**Q81 Baroness Howarth of Breckland:** Why would sex have an effect in annuities? What is your argument about that?

*Mr Richards:* Prudential analyses its own database of three quarters of a million annuities. We find that, after age, gender is the most significant rating factor: the most significant factor for explaining future life expectancy, which is obviously critical for an annuity. We find that gender is still the most significant, even after taking into account things like income, wealth, lifestyle, socio-economic group. Even after taking into account lifestyle differences, gender is still the second most important rating factor.

**Q82 Baroness Howarth of Breckland:** Do you think that will change if it was put onto an equal basis?

*Mr Richards:* Do you mean if gender were removed?

**Q83 Baroness Howarth of Breckland:** Yes.

*Mr Richards:* It would still be possible to price annuities on a basis without gender. However, as Martyn mentioned earlier, it would change the nature of the annuity market quite a lot. In particular, as Lord Harrison alluded to earlier, it would also change behaviour quite a lot. I have said that about £7 or £8 billion goes into the annuity market each year. This is

small relative to the large market for defined-benefit pension schemes – final salary pension schemes – variously estimated at between £600 billion or a trillion pounds. If we were to price on a unisex basis, from midpoint, we would be charging men more than the cost of the annuity to us; we would be charging women less than the true cost. If there were a true middle rate, then defined-benefit schemes would have the opportunity to buy out members' benefits at less than the true cost of providing them. So the behaviour would change in the annuity market and you would actually see the annuity rate not settling on the midpoint, but probably going very close to the old female rate – because behaviour would change so radically.

**Chairman:** This is a substantive point – and we will come to this in more detail – about annuities. Can we proceed a bit more on the extent to which there has been consultation and research? I know that this is sometimes a little boring, but I think that for the conduct of the further negotiations in Brussels it is important that we get the best information we can about the extent of consultation and research. It may influence whether proposals go forward or are sent back.

**Q84 Lord Howie of Troon:** To what extent have you and your counterparts elsewhere in the European Union been consulted before the draft was drawn up?

**Mr Sklaroff:** There was no formal consultation with the industry before the draft was produced.

**Q85 Lord Howie of Troon:** There was not?

**Mr Sklaroff:** No. We did have one meeting with the Commissioner, Commissioner Diamantopoulou as it then was, and the staff. That was a meeting at our request, chaired by the CEA, the European federation. We asked for that meeting because we had heard that such a Directive was in preparation.

**Q86 Lord Howie of Troon:** I was going to ask you if you thought this was adequate.

*Mr Sklaroff:* I think that it would be fair to say that we felt it was inadequate.

**Q87 Lord Howie of Troon:** After that somewhat shaky start, if indeed it was a start, is there any consultation now?

*Mr Sklaroff:* Because of the nature of the process, no. What has happened is that, having sent the Commission our views on the likely results of the Directive, as we understood it was likely to be, we heard little more from them until the Directive was published: at which point it went straight into the decision-making process, which in this case is the Council of Ministers.

**Q88 Lord Howie of Troon:** That has dealt with the Commission. Is the performance of the UK Government more promising?

*Mr Sklaroff:* I think that it is a good deal more promising. We have been very pleased with the discussions we have had with officials and with ministers in the UK Government, as the Council of Ministers has continued its deliberations on the Directive. We have felt that we have had a very fair hearing, and that we have had an opportunity to explain to various departments of government what we think the effects of the Directive would be.

**Q89 Lord Howie of Troon:** Do you think that the Government are moving in your direction?

*Mr Sklaroff:* We believe that the Government have taken account of the industry's concerns in discussions which have taken place in the Council of Ministers' Working Group.

**Q90 Earl of Dundee:** What do we know about the research upon which the Commission has based its proposals? Have you seen it, and is it publicly available?

*Mr Sklaroff:* We have seen it and it is publicly available. The Directive, when it was published, alluded to some studies which the Commission argued supported much of the argumentation in the preamble to the Directive. It did not, however, cite those studies. We therefore requested information from the Commission about what those studies were, and did not receive a reply. There was then a question put down in the European Parliament, which elicited the information we had requested. We now know that there were five scientific studies, dating from the last two to five years: two of them concerning the United States; three of them concerning Europe. They are publicly available; they are academic papers and have been published. We can make them available to the Committee, if that would be helpful.

**Q91 Earl of Dundee:** Have they just come to you or did they come to you some while ago and you have studied them?

*Mr Sklaroff:* We have had a chance to look at the papers and I might ask some of my colleagues perhaps to comment on what they made of them.

*Mr Parker:* Especially there is a part of the paper which is called the “Sex mortality differential”. This was directly stimulated for us by sight of the studies that the Commission had used. More correctly, stimulated by the evidence the Commission had recorded in the Directive – the impact assessment from the studies. We felt that it rather picked out the pieces that supported this argument and left some other important information behind. Swiss Re therefore set about the collection of independent research, offering our comments to the Committee to consider. We started it as an open-minded piece of research and we said that we wanted to contribute to the debate, but we did not have a preset mind. We collected data from a variety of sources. The academics will debate that there is biological difference and maybe there is a lifestyle difference; it is very hard to separate out both elements. However, our study, the research we produced, shows that there is a consistent link across almost every

measure, across almost every country – a difference in the life expectancy of males and females, with ladies living longer. A country-by-country analysis.

**Mr Richards:** In every single Member State of the European Union women outlive men. That varies by country. The biggest difference is in Estonia, where women outlive men by 12 years; the smallest difference is Cyprus – three and a half years. Most European Union nations have a difference between male and female life expectancy at birth of around six years. The European Commission was fairly selective with its use of statistics and, in some cases, factually incorrect. Most researchers do accept that there are both behavioural and biological reasons why male mortality is so much higher than female mortality. Nobody disputes that there are both biological and lifestyle differences. Within Prudential, we do our own mortality studies. We take account of behavioural differences where possible, and we still find that gender is the second most important rating factor for explaining mortality differences.

**Q92 Earl of Dundee:** Your written evidence refers to the assessment of the Chairman of the Financial Services Authority. He thinks that the possible consequence of the Directive is an additional capital provision of £1 billion. Do you agree with that estimate, and have you been consulted?

**Mr Sklaroff:** The FSA is in the best position to come up with such an estimate, because they are the authority which sets capital requirements for the industry and they are in possession of a complete set of data from all the companies in the market. We are therefore entirely content with their estimate. It seems to us a perfectly reasonable one.

**Mr Parker:** The FSA have also published expected changes to the premium rates for females for life assurance, as an example. Stephen may then want to come in on the annuity side. Swiss Re have independently done some calculations and can confirm that they are very close to the FSA's findings. We do not know the FSA's methodologies; we do not know their

assumptions; but we worked independently and came up with differences in price changes very approximately the same as the FSA.

**Q93 Earl of Dundee:** It goes without saying, from what you have just explained, that you have your own methodologies, you deployed these and came up with the same figure as the FSA did – although you do not know what their methodologies happen to be.

**Mr Parker:** That is right.

**Q94 Earl of Dundee:** Anyway, you are both singing from the same hymn sheet.

**Mr Parker:** Indeed.

**Q95 Lord Colwyn:** I took something out of the *Sunday Times* a couple of weeks ago on this statement by Mr McCarthy. His final quote was that “...good social objectives will override the realities of life expectancy and actual behaviour...it is not surprising that such a policy will have unintended consequences for both men and women”. Is that not going against what you have just been talking about?

**Mr Parker:** No, we would support that comment. Maybe I have not been clear. Our expectation is that, for some classes of product, ladies will see a modest decrease in their policy charges; for others they will see an increase. Overall, however, if you add up the contributions of all the men and all the women in future generations of policyholders, as a result of this Directive, if it is carried, the consumer will pay more. That is the unintended consequence.

**Q96 Lord Howie of Troon:** I am wondering if Ms Lewis has a slightly different view on this or not. That is a highly sexist and male chauvinistic comment, for which I apologise!

**Ms Lewis:** I can only speak for the motor market in particular, where we see the cost of claims coming from the young male driver being at least 60 per cent more than a female

young driver of a similar age. We would say why should they pay the same premium when the risk is clearly very different.

**Q97 Lord Howie of Troon:** And you look at it purely objectively?

*Ms Lewis:* Yes.

**Chairman:** We have a couple of questions before we come on in a little more detail to motor insurance and Ms Lewis will be able to give us quite a lot of information then. There are two more points on annuities and pensions specifically. One is on adverse selection, which is an important point because it is a major part of your argument. The other is on the implementation period, because there is a specific proposal on that. I will ask Baroness Greengross and Baroness Howarth to deal with those points, and then Lord Harrison can have a field day on motor insurance!

**Q98 Baroness Greengross:** You have talked about adverse selection but I think that it would be very helpful to us if you clarified exactly how that works and what it would mean.

*Mr Parker:* I would be very happy to. As an industry, we need to be very careful about jargon and proceeding on the assumption that everybody understands this. “Adverse selection” is an industry term. It is important for an insurer to defend its financial viability from adverse selection. It is a very important feature. What we are saying we need to do is guard against a policyholder effecting cover when he or she knows that the price is below the risk that they bring to the pool. It is not the activity of one individual that we concern ourselves with; it is the activity of a number of individuals, which could tip the balance of our financial results. If we have unisex rates for life assurance, effectively what would happen is that the male premium would be, to an order, subsidised by the female premium, and adverse selection would take place if men said, “This is a great deal. Let’s all go and buy lots of life assurance cover at this new, cheaper rate than we used to be able to buy it at”. In terms of

annuities, if we had unisex rates of annuities, females would get it at a rate subsidised by males, because females live longer, males live shorter lives, and so females would be getting a better deal. The female population could then start buying more policies than they would have done in the past – larger policies perhaps – and the subsidy by the males would actually encourage adverse selection. This comes back to our earlier point about the unpredictability of the business mix, and the fact that you may get more of a particular class of life coming to you – at a risk premium cheaper than the premium they would otherwise pay without the gender Directive. So we would have to price prudently and we would have to prudently provide capital. It comes back to the two points we have made. As an example of when adverse selection can take place, in the 1980s one of the high street names in life assurance put out an insurance product into the marketplace which had no underwriting – no selection questions at all, no health questions – if your policy was being taken alongside a mortgage loan. The theory of the pilot was to say to ourselves, “If people are buying a 10-year mortgage, life assurance is incidental”. What actually happened with that book of experience was that it was seriously adverse to the expected experience. Many more, in terms of payments, coming out of the organisation; many more paying claims than premiums collected by some margin. It showed that human behaviour is such that you can see an opportunity and you can adversely select to buy from that company rather than a different company that takes your medical history. The less healthy lives were buying cover and getting claims and having benefits under the policies. Adverse selection, with that example, is a real phenomenon that changes people’s behaviour.

**Q99 Baroness Howarth of Breckland:** The point you have just raised leads to the next question I was going to ask. It demonstrates that behavioural predictions are notoriously difficult over the longer term. The Commission’s proposals include the possibility of an

extended implementation period of eight years. Would that not give enough time for the insurance business to adjust? And why should consumers suffer?

**Mr Sklaroff:** I think that the short answer to this is that the length of the transition period is to some extent irrelevant to the adverse consequences that we are describing for our customers. So whether it takes one year or eight years to get to a point at which prices are higher, it seems to us that our customers would still suffer. Of course, it is true that the longer the transition period the easier it is, or the more time companies have, to adapt to the new system; but that does not in any way undermine what we are saying about the effects on our customers – which would be the same anyway. We therefore think that the issue of the transition period is a bit of a red herring.

**Q100 Lord Harrison:** Before I get on to motor insurance, can I clarify something at the start? Whilst the ABI may have poor relations with the Commission and better ones with the British Government, do I take it from your answer about an MEP putting down a PQ for it that you do have good relations with British MEPs – as I know you did 10 years ago, when I was in that position and ABI visited Brussels at least annually?

**Mr Sklaroff:** We do have very good relations with British MEPs, and I think that the results of the vote which was taken in the European Parliament recently on this Directive illustrates that very well. We had a very strong majority of British MEPs voting in favour of the amendment which the industry had proposed. Could I add one comment? I would not characterise our relationship as an organisation with the Commission as bad. We have been disappointed with this particular Directive, which I have to say rather stands out, compared with most of best practice in other parts of the Commission with which we deal regularly.

**Q101 Lord Harrison:** That is very helpful. Let us pass on to motor insurance. Ms Lewis has already talked about the difference between young men and young women. Perhaps you

could say a little more about why that is the case: why there is a differentiation? Then, given that you collect a whole series of other statistics in order to measure a person's reliability or otherwise, or risk for motor insurance, does that mean that sex or gender as a difference diminishes as people get older, and they then have a history of driving which you can turn to? Would it in any way affect the middle-aged and the older driver, or is it confined simply to the young?

*Ms Lewis:* What we find is that gender is very predictive, particularly in young drivers. Yes, you are right that we do collect a lot of information on occupation, lifestyles, et cetera. However, we do find the genders are much more predictive in terms of accidents, claims, et cetera. It is much more predominant in the younger market. Particularly in 17 to 19 year-olds, if you compare men and women, the cost of claims for a man is 60 per cent higher than that for a woman of the same age. So we see marked differences.

**Q102 Lord Harrison:** Can I ask the same question the other way round? If it were to come in that it was to be done on a unisex basis, would you have difficulty in producing a product for market, as it were, for post the early years, when you are getting into the middle-aged and older market? Would you still be able to gauge fairly accurately the risk that you were taking on, because you are using this gamut of other indicators?

*Ms Lewis:* It would be very difficult to price the risk accurately if we were to take gender out of it.

**Q103 Lord Harrison:** Why would it be? Surely something like what a person's history has been in terms of accidents is pretty good, is it not? That is a really good indicator.

*Ms Lewis:* It is later on in life, but when you are talking about a 17 or a 19 year-old ---

**Q104 Lord Harrison:** No, I am saying when you have moved on from there. When someone has then begun to build up a history of driving and so on, do not these other factors come very much more to the fore?

**Ms Lewis:** We do see that the gap, particularly in claims costs, narrows the older the person gets. So by the time you get to 35-plus the gap is narrowing.

**Q105 Lord Harrison:** For people like me, it is time that I had a 30 years' no claims bonus! May I ask again about the situation in the EU? We learned last week from our enquiries that there did not seem to be another country in the European Union that was actually working on the basis proposed by the European Commission. Is that right, or is there a point of comparison within the European Union – or indeed elsewhere in the world – where they are marketing and putting their product on a unisex basis?

**Mr Sklaroff:** There are a number of markets in some parts of the EU and in some parts of the rest of the world where unisex pricing in the motor market has been tried. There is indeed some evidence, particularly from Canada, of some adverse effects from having introduced such a policy in some of the provinces and not the others – so they were able to compare and contrast. There was a study of this done and I think that we made that available to the Committee. The situation in the EU, as I was saying earlier, is rather mixed. There are some countries, including Denmark, where, as we understand it, unisex pricing is applied in the motor market, despite the fact that it is not a legal requirement. That goes back to what I was saying earlier. I think insurance companies generally across Europe would prefer to have the choice – and the choice may be made for all sorts of market-related reasons – rather than to have it mandated across the entire market.

**Mr Richards:** May I add that it is worth pointing out that, within the United Kingdom, we do have unisex pricing for one specific type of insurance. That is, for protected rights annuities.

These are annuities bought from pension funds built up from contracting out of the state pension. By law, these must be priced on an equal basis for men and women that retire.

**Q106 Lord Harrison:** Has that been successful?

*Mr Richards:* It is a very small proportion of the annuity market: perhaps only around five or six per cent of the total annuity market. It does not drive the annuity market, but certainly at Prudential we price using female mortality rates, to guard against the risk of adverse selection, as Mr Parker pointed out.

**Lord Harrison:** I would like to go back to the question of population change, which is the one I introduced.

**Lord Howie of Troon:** Before you do that, could I ask a question which relates specifically to the question of young male and female drivers? There is some anecdotal evidence that young women are becoming more assertive in their driving than they once were.

**Baroness Howarth of Breckland:** This is sheer prejudice, Lord Howie!

**Q107 Lord Howie of Troon:** I said “aggressive” last time, but I have used the neutral word “assertive”! It is anecdotal evidence. Would that show up in your statistics in the demands which young males and females are making on your industry when they bang into each other?

*Ms Lewis:* Yes, it would show up eventually.

**Q108 Lord Howie of Troon:** Has it done? Is there any trend?

*Ms Lewis:* No real trend at the moment.

**Q109 Lord Howie of Troon:** Not as yet.

*Ms Lewis:* No. The driving patterns between men and women are still very different.

**Q110 Lord Colwyn:** From my experience, having children now ranging from 38 to 21, my daughters in particular have been unable to insure their own cars until they are in their late twenties. In fact, I am picking up my wife's car this weekend from an accident that my 21 year-old has had. Can you tell me whether that information is available to you directly? Because it is under my policy, at my age, will that show up in your records and be part of your statistics? There are a lot of younger people who do not actually insure on their own policies; they insure on other people's policies.

**Ms Lewis:** We do collect the data of the driver involved in the accident. So, yes, we would collect that data.

**Chairman:** You have given us evidence in your written report showing the claims history of men and women right through from 17 to 40. I think that there is a misprint, if I may say so, in one column, which no doubt you have noticed yourself. Your evidence shows that, over that period, women's claims are always less than men's. So I think that there is a fairly substantial body of information there.

**Q111 Lord Harrison:** Before Lord Howie asked his question, I was going on to the clearest example that I think we can find of where the population might change as a result of applying unisex rules, which is in the case of younger people and motor insurance. Is it not right to say that, if we have unisex, we then have more young men feeling that they are paying a lower premium and therefore can take a faster car, drive it more quickly, and so on? Are we saying that it is a by-product, as it were, of introducing the unisex, but what you are actually doing is increasing the population which is possible to insure? Would it not be the case that that is the first result? I think it is what you call adverse selection. You are drawing in those whom you less want to insure. Is this not then a question to you as the insurance market: that you are fighting shy of taking on those with a greater risk? Those who were more entrepreneurial would say, "We are doing something which must be beneficial to the market because we are

growing the potential market. Even though some of those in the population may be a greater risk, we should be devising the products whereby we are able to cater for that market". And, if I may pursue the point one more step, if that is the case and larger populations are always beneficial to markets, is there not a compensating saving by getting rid of certain administration costs by applying unisex prices? There are certain things which you are taking out of the system which otherwise you would have to put in because you are applying the difference between males and females.

**Mr Sklaroff:** May I come in on the final point that you made there? Just on this issue of would it not be cheaper because it would be simpler if you had removed one of the rating factors, one of the important things to understand is that, for more than one reason, it would not be cheaper. In order to construct a new system on a new unisex basis, you would have to do just that: you would have to put in place a new system which was pricing, looking at other factors in a different way and setting a price on the basis of a different set of information than you had before. So you are not removing something; you are actually changing the system. Any system change has a cost. But, to be honest, that is not the main concern the industry has. The concern the industry has is about the price effects on its customers.

**Q112 Lord Harrison:** But if you are able to compete more effectively in the marketplace because you devise something here based on unisex which is more competitive than that which is offered by your slothful competitors, that is to your advantage. What you are implying here is an enormous degree of complacency and complicity in the insurance market.

**Mr Sklaroff:** In point of fact, we probably have the most competitive motor insurance market, the most competitive insurance market, anywhere in the world in the retail sector. The level of competition in the motor market is very strong indeed, and it has precisely the beneficial effects that you suggest. In other words, if a company in the market can price its product more keenly on the basis of a better understanding of the risk factors, then it has a strong

commercial motive to do so. Indeed, this is part of our argument, because what we are saying is that we would prefer not to have a law passed which would make it less easy to do that.

*Ms Lewis:* On the earlier point you made about attracting more male drivers and about premiums, what we would say is that our statistics show that female drivers are a much better risk. If we were to attract more male drivers, we would have to reflect that in the risk that they bring to the pool – you were talking about adverse selection. We would see that premiums for women would go up, we would suppose round about 40 per cent, and we would end up offering lower premiums to men, who would actually bring an adverse risk to the pool.

**Q113 Lord Howie of Troon:** This part of the argument, I must say, has slightly lost me. I shall read it up carefully. But is not insuring the lesser risk rather than the greater risk a good idea?

*Ms Lewis:* Yes, it makes more commercial sense.

*Mr Sklaroff:* And one would want the price to reflect that.

**Lord Harrison:** But is not Lord Howie being helpful again? What I am suggesting to you is that ultimately you could diminish the size of population of the market you insure, such that you would be as safe as houses – but you would not actually be performing the task that would be required of you, nor would you be active as business people. What I am suggesting is that there is every potential for growing the population of those whom you insure and there should be compensating administrative savings that really ought to make someone move into this market using unisex.

**Q114 Baroness Howarth of Breckland:** Could I add an addendum? Would that mean you would insure for the increased number of brain injury units that we would have to supply, in order to contend with fast cars and motorbikes, and the young men on motorbikes? Would it have an effect on the market?

**Ms Lewis:** Absolutely. The risk is reflected in that we charge higher premiums for male drivers because of the risk that they bring to the pool. As mentioned already, the claims cost 60 per cent higher than the equivalent females'. If we were to make insurance premiums cheaper for males, we would see more aggressive driving on our roads, more accidents, more claims, more serious injuries – road safety implications.

**Mr Sklaroff:** There would indeed be implications for the NHS therefore and for other providers of care, for people who have to deal with the consequences of accidents – which is one reason why, on the whole, we have traditionally as an industry been encouraged by governments to price in precisely the way we do price: in other words, a price reflecting the risk, in order that there is a disincentive in the marketplace for dangerous driving.

**Baroness Howarth of Breckland:** You would have to pay the compensation too.

**Chairman:** I think that we have had a pretty good discussion on motor insurance. As my 70<sup>th</sup> birthday falls this week, I want to go on to longevity and annuities if I may!

**Q115 Earl of Dundee:** On longevity, you have already given us actuarial facts across Europe. You have mentioned that in Cyprus women live three years more than men do and, in Estonia, 12 years. No doubt that is the position at the moment, but does not current evidence suggest that the longevity gap between men and women is not only narrowing but it is even disappearing? If that is the case, over a period, say, of even 15 or 20 years we might find that a different position develops from what you perceive now. Therefore, how far might you revise your first argument, which rather presented the gender differential factor as an inevitable, enduring phenomenon?

**Mr Richards:** It is certainly true that male mortality rates are falling faster than female mortality rates are. That means that male life expectancy is increasing faster than women's life expectancy is, certainly in the UK. But we do not expect the difference to disappear entirely. This view is shared by the Government's Actuary's Department, which does long-

term projections for life expectancy over the next 40 to 60 years. They do expect the gap to narrow, but they do not expect the gap to disappear. They expect the gap to stabilise at around four years.

**Q116 Earl of Dundee:** Firstly, do you accept that, for example, 20 years ago your own organisation would have made future predictions which are very different from the ones which it would make now? Therefore, secondly do you concur that the future forecasts which it will make in 20 years time will be very different from the ones which it would make now?

**Mr Richards:** What we do in the annuity market is make our estimates as to what the current levels of mortality rates are; then we also make our best estimate projections as to what future mortality rates will be for the people who we are going to sell annuities to. So we do make projections for future improvements in life expectancy and we do factor this into the annuity rates. We see, for example, annuity rates over the last 10 to 15 years have got more expensive. They have got more expensive partly because the interest rates have actually fallen, but one other reason why annuity rates have changed so much is because the life expectancy has changed. I think we will find that the life insurance industry has fairly closely tracked the sorts of changes that we actually see in the population at large.

**Mr Parker:** Under the Sex Discrimination Act 1975, provided the industry uses objective, reliable and relevant statistics, we can maintain the gender differentiation. If gender life expectancy harmonises, and potentially crosses over in time, then our statistics will dictate that we still need to be objective and have reliable prices. So the market forces would react to that harmonisation of gender life expectancy. Therefore, we would be achieving gender unisex rates, if that were to converge to that extent, without the Directive; the actual reliable evidence would be pushing us that way.

**Q117 Lord Howie of Troon:** You mean this is self-correcting?

**Mr Parker:** This would be self-correcting, yes. The insurance industry's statistics and pricing basis has been challenged through the courts under the sex discrimination legislation, where a female dentist paid a higher price for income protection than a male counterpart in the same profession at the same age. This was tested in the courts in the mid-1980s and the insurance industry prevailed. The court case is, by and large, the only time the way in which the insurance industry uses its evidence has been tested. When we say the evidence has to be objective and relevant, we would not be using US statistics or French or German statistics; we have to have our statistics on a local basis.

**Q118 Earl of Dundee:** The Commission suggests that lifestyle is a better assessment than gender. Why do you reject that view so categorically? I suppose, in defence of the Commission, while it may be so at present that in Cyprus women live three years longer than men do, to what extent might that actuarial fact simply reflect the improvement and superior lifestyle of women in Cyprus rather than necessarily a genetic inevitability that causes them to live three years longer?

**Mr Parker:** The research that we conducted and our understanding of mortality is predicated on the biological difference between females and males. There are certain illnesses and certain conditions which either sex will face which can affect their longevity. Our contention would not be to ignore lifestyle factors. The Commission's contention is that you can ignore the biological piece but you cannot ignore the lifestyle piece, which has a great influence. When we referred to the Commission's research earlier today, we mentioned that they had leveraged statistics from the five studies to support their case. I think that the industry would say there is an equal and perhaps greater amount pointing towards the biological side of the argument. If we compare our ladies in Cyprus who exceed male life by 3.6 years and look at the Estonian life expectancy, which is an additional 12, there could be a hypothesis – and I must stress that this is a hypothesis – that the lifestyle of men in Estonia, perhaps their own

drinking habits, maybe would be part of that increased life expectancy for ladies. So the ladies outlive their male counterparts by 12 years because of the men's lifestyle habits. If you took that away, however, we think there would still be a biological residue for lifestyle differences, perhaps on a more persistent basis.

**Q119 Lord Howie of Troon:** Has this difference got anything to do with the actual ages at which people die? If they die at 40 and 43, they maybe die at 80 and 86.

*Mr Richards:* I am not sure that I fully understood the question.

**Q120 Lord Howie of Troon:** Suppose their expectation of life was about 40, as it once was, there could quite easily be a difference of three years between men and women. If the proportion was the same and their life expectation was 80, it might easily be the fact that it was six years. Does the actual length of the life show up in that difference?

*Mr Richards:* In answer to that I would say that, for example, in 1901 – which is as far back as I have looked at the statistics in the United Kingdom – life expectancy was much shorter than it is today, but women have consistently outlived men throughout the whole of the 20<sup>th</sup> century.

**Q121 Lord Howie of Troon:** Was the difference the same? Was the difference always six years?

*Mr Richards:* The difference does vary, but there always has been a difference and it has been consistent.

**Q122 Earl of Dundee:** Perhaps I may pick up Lord Howie's point. You refer to the relevant statistics from 1901. Over the last 103 years would not the pattern reflect that the longer both women and men live, then the narrower the differential? If you take 1900 to 1930 you probably find a wider gap between women's and men's longevity when neither sex lived as

long as it now does. Then, conversely for the later twentieth century when life expectancy for all has improved you probably find that the gap between women's and men's longevity will have narrowed.

**Mr Richards:** Certainly if you wanted to express the difference in terms of years relative to the actual life expectancy then, yes, it would appear to be narrowing. However, the mortality rates are still very different. It is the mortality rates that we actually use for pricing. Within the annuities field, even a difference of three years – which is obviously a lot less than the 12 years it is for Estonia – means paying out an annuity three years longer than for the other sex. So that is still very significant for pricing.

**Mr Sklaroff:** Perhaps I may add to that discussion a point made earlier. As these gaps narrow, if indeed they do continue to narrow further, the market will continue to adjust as it has done in the past. The differential rate has narrowed as the gap in longevity has narrowed, and there is no reason to suppose that will not continue.

**Q123 Baroness Greengross:** I agree with you that these differences have persisted, but we do know that the actuarial forecasts have been somewhat conservative – if you take into account what has happened over the 20<sup>th</sup> century with the gains in life expectancy. Just to put the other case, however, and not yours for the moment: we know that women live longer – to be disabled longer, to be chronically ill longer. If those chronic sickness figures change, then women might actually go on living longer still, only fitter – because very often they die in the end from the chronic diseases, which women tend to get more than men. In a way, that would increase the differential, because men will not catch up with that necessarily. How long does it take you to adjust? If this goes wrong, if the calculations are faster – take the census data and so on, where the government statistics and so on were all taken by surprise – if these changes are faster, can you adjust quickly?

*Mr Parker:* We can adjust relatively quickly. We take observed experience and we track our actual experience against that, as I say, at the government level, industry level, and particular insurance companies' level. We would then try and reflect our expectations of mortality improvements. At the risk of becoming technical, I will try to explain it this way. We may have priced our products in the 1980s with an expected, say, half a per cent per annum premium for mortality experience. We may now have observed in the 1980s something like a one to one and a half per cent mortality improvement. The question then for the industry is, is that an indicator of future experience and for how long will it continue? The statistics have shown to us that there is a cohort of people we are observing who were born around the time of the Second World War, there is a cohort of people in the late 30s through to the late 40s, who are exhibiting very rapid improvements in mortality, which the cohort of people before them and after them do not seem to be exhibiting. So it is a conundrum for the industry. I think that the industry, as Stephen has remarked, is very competitive and it is always looking to reflect experience as quickly as possible, to make its product more attractive to the mass market. So I think that the industry reacts relatively quickly. It is looking backwards at what has happened and then each individual insurer has to take a view of what may happen in the future.

**Q124 Baroness Howarth of Breckland:** If you can make these adjustments so quickly and the market is self-adjusting in the way it is, can we come back to the question of why, if the Directive were imposed, would it be so difficult to make the adjustment?

*Mr Parker:* Again, the industry could respond if the Directive were imposed. It would respond – we come back to the question of consequences – in that prices would change. The industry wishes to offer a fair premium, not an equal premium for ---

**Q125 Baroness Howarth of Breckland:** Is it a question of speed?

**Mr Parker:** It is not a question of speed.

**Q126 Baroness Howarth of Breckland:** And the customer being able to see what is happening; whereas over time the customer does not see the adjustment? I just do not know. It is a question.

**Mr Parker:** We have not looked at the implementation phase. Each state will have two years to implement for the six-year transition phase. We have not looked at that phase. If, as we had hoped, there had been an extended impact assessment, that is the sort of work that the Commission could have helped us with – by looking across, consulting more, and having some models done on that basis. Unfortunately, we do not have that today.

**Chairman:** We do have other witnesses and we have to watch the clock. I will ask members if they have any other questions on pensions. If not, then I would thank you all very much for coming along and giving us very useful evidence.

## **Memorandum submitted by Institute and Faculty of Actuaries**

### **Examination of Witnesses**

Witnesses: **Mr David Paul FFA**, Chairman, Social Policy Board, **Dr Deborah Cooper FIA**, Member, Social Policy Board, and **Mr Derek Newton FIA**, Member, General Insurance Board, examined.

**Q127 Chairman:** Can I welcome you and apologise for being a little late. First of all, may I make a couple of practical points. The session will be recorded for broadcasting; so please think carefully before making too many asides. The Committee has to do the same. We are all labelled here, but we would like you to introduce yourselves briefly. At the end of the session, there will be a transcript which will be sent to you for correction, before anything is published.

**Mr Paul:** My Lord Chairman, thank you for your invitation to the actuarial profession to give evidence. We would like to start by adding our condolences to Baroness Brigstocke's family and to the Committee for the tragic event at the weekend. Perhaps I may briefly introduce my colleagues from the actuarial profession. We are, all three, practising actuaries. Deborah Cooper works primarily in the pensions field. Derek Newton works in general insurance which, in layman's terms, is motor, household, liability insurance. I work primarily in health insurance and life. I am leading the team as the actuarial profession regards this as an important public interest issue and in my capacity as chair of one of the profession's practice bodies called the Social Policy Board. If I may ask your indulgence, my Lord Chairman, since we are three actuaries practising in different areas, perhaps I may direct questions at the correct one of us?

**Q128 Chairman:** Please do.

**Mr Paul:** Finally as an introduction, we have offered written and oral evidence for a simple reason – in order to share actuaries’ knowledge and experience of the insurance market and to help explain the possible implications for the public of the proposed changes to the legislation.

**Chairman:** We have of course had your written evidence. Everyone has that, and we will study that carefully in the course of our inquiry, as well as the results of this discussion session today. As I understand it, you are the Institute for England and Wales and the Faculty for Scotland. Does the same pattern of actuarial professional body prevail in other parts of the European Union and do they share your views? We ask this because there is an element of negotiation which will come about on this draft Directive, so we need to know what the situation is elsewhere.

**Mr Paul:** Yes, there are counterpart actuarial organisations in all of the 15 Member States and there are embryonic actuarial associations in the new Member States who joined on 1 May. I think that particularly relevant to your question is that there is a sort of pan-European actuarial organisation called *Groupe Consultatif Actuariel Européen*. It is specifically designed to act as the actuarial profession in Europe’s counterparty on matters with the European Commission, or occasionally with the European Parliament. The way we organise ourselves as actuaries in Europe is to send delegates to the *Groupe Consultatif*, and it normally handles the consultations and the offering of our technical expertise to the Commission. I think that what has been slightly different in the case of the gender discrimination Directive is that the normal consultations which *Groupe Consultatif* have are with the Internal Market Directorate, which is normally in charge of legislation that relates to insurance across Europe. In this case, it was a different directorate within the Commission which handled this Directive.

**Q129 Lord Howie of Troon:** I am going to ask you more or less the same question I asked the last set of witnesses – about consultation. Were either your Institute or Faculty, or your European counterpart, adequately consulted by the Commission before the draft Directive was written up?

**Mr Paul:** I think that what happened was that the Directorate of Social Affairs, who steered the Directive, were not in the habit of consulting with *Groupe Consultatif*. *Groupe Consultatif*, for its part, met and discussed the issue, but internally it had differences of opinion, I think mainly springing from the fact that in different countries there are unisex rates of some sorts and therefore actuaries around Europe could not reach unanimity. Therefore the *Groupe Consultatif* did not push forward a proactive input to the consultation, and in effect we have had both sides not consulting as a result of that.

**Q130 Lord Howie of Troon:** So your UK institutions were not consulted?

**Mr Paul:** No, but the way the protocol within the *Groupe Consultatif* works would mean that that was not particularly surprising. Perhaps what was more surprising was that the *Groupe Consultatif*, as a European-level actuarial body, was not consulted.

**Q131 Lord Howie of Troon:** To what extent, in so far as you are aware of it, do you think that the Commission's research into the complexities of actuarial business has led them to take these considerations fully into account in drafting the proposals?

**Mr Paul:** I think that we could suppose from what we know of the consultation, or the lack of it, that the actuarial research could not have been as full and complete as it might have been.

**Q132 Lord Howie of Troon:** Yes, but surely actuarial matters are crucial in your line of business?

**Mr Paul:** It is our business!

**Q133 Lord Howie of Troon:** And therefore you would have expected the Commission to have gone into this rather fully.

*Mr Paul:* Yes.

**Q134 Lord Howie of Troon:** But you are not sure that they did?

*Mr Paul:* No, we are not sure that they did.

**Q135 Lord Colwyn:** I have been handed a question that Baroness Greengross was going to ask, and it is something about the actuarial profession and the role that you play. In fact, for six years I was chairman of the largest dental indemnity company in the world and I was on the board of the Medical Protection Society for 12 years. So it is about the only question in our entire inquiry to which I know the answer! As far as the Committee are concerned and the people who are going to read our report, I wonder if you could give us some brief, non-technical terms about how actuaries conduct their assessments and how their advice is used? I have to say that in the Medical Protection Society every single decision we made was based on actuarial evidence of one sort or another.

*Dr Cooper:* With regard to life insurance in particular – and maybe Derek, because he is a general insurance actuary, can add things, because the two industries do not quite work along the same lines – there are probably three areas that you highlight where actuaries are involved in life insurance. First, there is a general body called the Continuous Mortality Investigation Bureau (CMIB), which is run jointly by the Institute and Faculty of Actuaries. It acts as a sort of central clearing-house for insurance company data. So it is this body that does the investigations on mortality of those people that purchase term, whole life insurance, and annuities. The Bureau analyse all the historical data that they gather from the various insurance companies and publishes mortality tables that are very crucial for the way, not just insurance companies but also pension funds calculate their reserves, for example. The

mortality tables are a numerical representation of what you have been talking about today – so looking at the risks of death according to age and sex primarily, but also other factors are sometimes taken into account. The particular aspect that has probably been the most investigated is the criteria on smokers and non-smokers. The CMIB's focus is on representing the observed mortality of men and women separately and it does not look very much at why those differences might have arisen. For example, it has not done a lot of investigations as to whether there are lifestyle differences, behavioural differences, or other sorts of explanations for difference. That is one general service that the profession provides. Secondly, insurance companies themselves employ actuaries. They are responsible for helping to calculate the premiums that insurance companies charge. They would use as a starting point the mortality tables produced by the CMIB; also take into account their own experience, based on the policyholders that they have sold to; then analyse the experience the insurance company has over time, relative to the assumptions that were made in their premium basis – so that they can adjust premiums going forward and adjust the reserves they hold, for example. I suppose the other general, more business-related function that they have within insurance companies is to try to think about how the business will change over the long term. So they will investigate the way mortality has changed over time, for example, and how this might affect insurance and annuity policies. To a certain extent this is guesswork, based on historical experience. There is no certainty there, and so actuaries help insurance companies to assess how they can run their business, acknowledging the effect of the uncertainties that they take on when they sell business; trying to assess how much profitability they can expect to make, assuming the experience goes one particular way; and how to balance that against managing to sell policies in the marketplace, given that they work within the actual industry. The sorts of assumptions that are normally made within premium rate basis are to do with trends, about people living longer. There has been a lot of that in the

papers recently. Insurance companies have had to make adjustments to certain bases, for example, to accommodate that and a lot of that advice has come from the actuaries that they employ. In general insurance it might be different.

**Mr Newton:** In general insurance there is not the same sort of clearing-house as the CMIB. Actuaries in general insurance have been involved for rather a shorter period than they have been in life assurance and pensions. The main areas in which they are involved are in reserves and pricing, in the same way as they are on the life and pensions side. With regards to different types of business, the pricing can involve a lot of actuarial assessment and statistical analysis, for example in motor insurance or household insurance where there is a lot of data. For some of the more esoteric insurances, perhaps those written by certain Lloyd's syndicates, there is far less data on which to base actuarial assessment and statistical analysis; therefore, actuarial involvement tends to be less. In terms of reserving, there is a requirement at Lloyd's that reserves held by the Lloyd's syndicates are signed off by an actuary, that an actuary gives an opinion on those reserves. That is not a requirement in the company market at the moment.

**Q136 Baroness Howarth of Breckland:** In the interests of time, I will try to compact two questions into one and, as I do not understand a lot of this, that might be quite difficult. It seems to me, however, from what you have just been explaining in some detail that you have a lot of evidence, and presumably you use modern technology to gather your information in order to be saying what you are saying about the technical way in which you actually gather your evidence. The Commission's Explanatory Memorandum accompanying the draft Directive was rather dismissive of the importance which insurers attach to sex as a determinant of risk. How important is it in relation to the other factors?

**Mr Paul:** Could I try to pick up both the life and ---

**Q137 Baroness Howarth of Breckland:** To save time, could I ask the other part? We understand that you have the significance of many areas, but to what extent is it used as a significant determinant in other types of insurance? For example, personal accident or public liability cover? We understand that is not particularly relevant to the private health insurance in the UK. So can you say something about those other areas as well?

**Mr Paul:** If I can start with the question of whether we have a lot of data that we have access to, and do we have clever software that would allow us to process it – yes, we do and we could do that. However, in a world where there has not been this proposed Directive – and the practice of the markets for life and pensions has been to rate business based on using gender as a factor – because gender does conveniently explain a lot of the differences of experience that insurance companies will have with annuitants, for instance, in a sense it has not been necessary to do the much deeper analysis. In a sense, the Commission has been trying to ask the question, is the observed difference between the genders a physiological effect or is it a combination of physiological and lifestyle factor, or is it all about lifestyle factors? That deep, fundamental study is not something that actuaries, either in the UK or in other parts of Europe, are necessarily required to do in the course of advising insurance companies. It is begging a question that we have not had to analyse in depth. To move on to the question of personal insurances, accidents and liability: no, typically gender is not used as a rating factor, because insurance companies do not find gender to be a feature that explains the experience that they get when they accept a customer onto their books. Finally, your question about health insurance – typically, in the UK, health insurers do not use gender for rating purposes. Not because legislation stops them doing that, but because generally that is the custom and practice in that market. I have tried to answer questions quickly in the sense that you put them, but we can expand on any of these points, particularly in our practice areas.

**Q138 Baroness Howarth of Breckland:** Can I follow up your last point? If health insurance does not have the gender factor in it, do you see different implications when you look at that as against the others where at the moment gender is a factor and is likely to be removed?

*Mr Paul:* What it means in practice is that the effects of the Directive would be minimal to health insurance in the UK, whereas ---

**Q139 Baroness Howarth of Breckland:** I understand that, but are there not lessons that you learn from that, in looking at the other areas? Does it say anything about how that would be ironed out?

*Mr Paul:* I think that, on the one hand, it says that you can operate in the insurance market without using every factor that might be available to you, but I do not know that it necessarily proves the point. In the annuity market, for instance, the observed differences in the financial effects of gender are greater than they would be in health insurance.

**Q140 Chairman:** That is partly because of the NHS, is it not? We are talking about private health insurance here. Some of the risks are carried in the NHS. Those risks probably would be like annuity conditions, unlike private health insurance.

*Mr Paul:* Indeed, and arguably if the NHS was not doing that, it might not be sustainable.

**Chairman:** Can we move on to motor insurance specifically?

**Q141 Lord Harrison:** Could I invite you to give the actuarial viewpoint of motor insurance, which we did quite well in the last session? Could you focus in particular on younger motorists and how you assess risk? How useful or how much do you need to rely on gender difference in the early stages? Is there any kind of alternative, and does it matter later on, when you have so much more data coming in in terms of records of claims, and so on?

**Mr Newton:** Basically, in terms of assessing what the risk is, you are looking at things such as the ability to drive and the attitude to driving. As those two things are not directly measurable, you then try to look at a variety of other factors which might indicate the ability to drive and the attitude to driving, and therefore propensity for accidents. You start off with things such as age of the motorist, driving history in terms of convictions and length of time driving; you might look at the type of car that the people drive. These are all good indicators. But, if you are looking at the younger ages, obviously people, even if they are good drivers or bad drivers, have not had a lot of time to build up a claims record in terms of insurance claims, a convictions record, an accident record, or whatever. It is not a good indicator. Similarly, the range of cars which are available to young drivers, in terms of what they can afford, is much narrower than at older ages. Therefore, while you still look at convictions, accident record, type of car, those are far poorer indicators than they are at later ages. So you are back down to the question are there differences between genders in terms of their driving ability and attitude? The statistical analysis shows that there is a considerable difference at younger ages. That difference – stripping out all the other factors, leaving all the other factors as equal – seems to narrow as people get older. Opinions differ between insurers as to where this happens but, say, by the forties there is virtually indistinguishable difference. Later on, maybe it crosses over. However, the main difference is right at the early ages – 17 to 24 or 25, where there is a significant difference. You asked a second question – is there another way of measuring this? I have to say that we have been racking our brains on this. I think that any insurer who could find a better way of assessing who is a good driver and who is a bad driver at young ages would use it, because it would be very attractive to them to get good young male drivers onto their books – which they could do if they were able to charge a cheaper but still economic rate – but we cannot see what factors could be used to indicate that.

**Q142 Lord Harrison:** That is very helpful. I think that the indication from you is that this acts, as it were, as a taper up until the forties. More and more information is coming in which is useful, to the point in the forties where, possibly, sexual gender is not important. Interestingly, you made the point that there might even be a crossover point in the 60s or later.

**Mr Newton:** It varies from insurer to insurer, but the analysis shows that there is some sort of crossover.

**Q143 Lord Harrison:** We understand gender discrimination has been proscribed in Massachusetts. We understand – although I think that some of the evidence given in the last session repudiated this – there were some countries in the European Union which were taking the risk of proposing marketplace insurance policies which were unisex in nature. From your point of view is that true? Secondly, what can we learn from comparisons that can usefully be made?

**Mr Newton:** I know that the state of Massachusetts does not have gender as a rating factor. There, the motor insurance market is run on a very different model to that in the UK. Every year, the state's insurance commissioner sets a set of rates, and the insurers in that market cannot charge above that level. I think that they use a limited number of factors. Gender is not one of the ones that is allowed; neither is the age of the driver. That is quite different from the model which is used in the UK. Opinions differ as to whether or not it is a good model. I know a number of insurers have decided that it is not a very good model and they have exited from that market. So it tends to be a market which is driven very much by a few insurers, mostly local ones. In mainland Europe, I do not know which countries, if any, operate a unisex motor market. I do not think that any that did so would necessarily be a good indicator of whether or not a unisex approach would be a good model for the UK, because of the differences in terms of driving attitudes and even driving techniques in various countries.

For example, some of the countries have a far less dense motoring population than the UK; therefore the propensity for accidents is less.

**Lord Harrison:** Except for those speeding on those long roads in France perhaps!

**Q144 Lord Howie of Troon:** Does the existence or non-existence of speed limits have any actuarial effect on accidents that you have been able to see?

**Mr Newton:** In terms of the statistics that we see? I will give you an example in terms of Ireland. The introduction there of speed cameras and fixed penalty points a year or two ago had a dramatic effect in terms of the number of accidents, and indeed the number of serious injuries which were occurring, and actually brought the cost of motor insurance down.

**Q145 Lord Howie of Troon:** You refer to a substantial effect. Do you mean they got more or less?

**Mr Newton:** They were reduced considerably.

**Mr Paul:** Perhaps I may add one more observation on the Massachusetts example. What we find is the situation in Massachusetts is not a 'free market' insurance market. It is rather like we know social insurance to operate in this country where, through National Insurance, we do not work on an actuarial basis. Massachusetts, or the little we have discovered about it, looks like an extension of, in a sense, social insurance that is simply franchised to private providers. What the proposed Directive on gender discrimination is setting up is a prospect of a sort of halfway house between social insurance, where the rules are very clear and equality is imposed, and a sort of free market, deregulated model. What Massachusetts does not represent is that halfway house. It simply represents an example of a very regulated system.

**Chairman:** Can we turn to pensions and annuities and mainly, of course, the question of longevity?

**Q146 Earl of Dundee:** No doubt actuarial evidence is fairly sound on longevity. You can know accurately enough how long people live; and the fact that at the moment women live longer than men do. If in 20 years' time the position changed, and men were to live longer than they do now or even longer than women, you would quickly let us know. Yet let us consider other challenges to actuaries. Not least do such include the money markets? Insurers display very differing skills in their attempts to invest wisely in money markets? Do you believe that this is something which actuaries take enough into account?

**Mr Paul:** You are right to say that very large sums of money are invested by insurers who are backing annuity payments, and those large sums of money are held for many years and then drawn down on, as the annuitants need to receive their annuities. Although there is a lot of uncertainty about the performance of stock markets, and so on, over 20 or 30 years, what insurers will do is buy corporate bonds or buy government securities. These assets themselves will mature in, say, 2020 or 2035. Therefore what they are doing is buying assets which match when the annuities will fall due to be paid. By doing that, insurers strive, so far as is possible, to take the risk of the investment markets out of their performance in the annuity business. If insurers are doing that, they remove the investment risk from their activity. What they cannot do is remove all of the longevity risk. They have to estimate how long people will live. If they get that very badly wrong and people live longer than that, these insurance companies will have to find more capital in order to carry through their annuity business to the point when a cohort of annuitants reaches their ultimate ages.

**Q147 Earl of Dundee:** Yes, but are virtually all or a huge majority of insurers investing premiums in fixed stock and bonds, or do some or quite a lot – invest instead in the equity market?

**Mr Paul:** There is considerable equity investment by insurers, across the whole pitch of insurers. However, insurers who are writing annuity business will buy the matched

investments that I am describing and will hold a compartmentalised part of their assets against their annuity liabilities. You are right to say that a large part of the insurers generally are invested in the equity markets, but that does not apply to their annuity books of business.

**Q148 Earl of Dundee:** The Commission suggests that we should use lifestyle rather than gender, as a more accurate measure of what happens to people. Do you agree with that? If at the moment the actuarial evidence shows that women live longer than men – and from our last group of witnesses we heard that Estonia has a differential of 12 years and Cyprus three – to what extent, taking the Cyprus example and the fact that women live three years longer than men do there, is it not so much reflecting an inevitable genetic or biological difference between men and women there but perhaps to a large extent instead the lifestyle, where the women may enjoy better conditions than the men do? If that is the case, we might then agree that the Commission is justified in suggesting that lifestyle rather than gender paints a more accurate picture.

**Dr Cooper:** The difficulty with the question is that it is hard to get the evidence to demonstrate that. Certainly when you have differences between countries such as Cyprus and Estonia – you mentioned there the three-year age difference in Cyprus, 12 years in Estonia – it looks self-evident that a lot of the difference, particularly in Estonia, must be explained by lifestyle differences and are not genetic. But how much of a difference is genetic and how much is lifestyle is the thing that is hard to measure, and I think that possibly people have not done the necessary investigations.

**Q149 Earl of Dundee:** I suppose that leads to another question. This concerns methodology within actuarial practice. To take Cyprus again as an example, let us surmise – although of course it may not be the case at all – that the three-year differential was caused very largely by lifestyle and not too much by genetics. Within actuarial methodology therefore, how

noticeable might that distinction become, either now or at some time in the future? Would actuarial methodology be prepared to go into the minutiae – because clearly it is minutiae – of investigation between whether a woman lives three years longer in Cyprus, or anywhere else, because of her lifestyle or because of some inevitable biological and genetic difference?

**Dr Cooper:** Certainly we would be prepared to do an investigation. To a certain extent, we are beginning to do it more now than we did in the past. Women's mortality happens due to illnesses. Cancer, for example – women have breast cancer, men get prostate cancer. So there is a biological difference that affects mortality. Men perhaps have longer working lives than women. There is a lifestyle difference. The difficulty is that while, with the best will in the world, people would like to do those investigations properly, getting the lifestyle information is difficult. While you might be able to get it, verifying it is next to impossible, whereas sex is very easy to verify. It would be very hard to justify the cost, for example, of doing a full-scale investigation to try to determine exactly what were the lifestyle differences that caused the difference in mortality or longevity – assuming that they existed in those places.

**Mr Paul:** We need to make a distinction between what we can analyse historically and what we are estimating for the future. Moving away from the Cyprus example to what we do in the UK, we can see what has happened to mortality every decade through the last century; we can see what has happened to the gender gap, and so on. From that, what we have to do – because we have to make these long-term projections for insurers – is estimate what is going to happen in the future, over the next 10, 20, 30 years. In the final analysis, however, we cannot be sure that we will get this right. We do have to make estimates about how much improvement will continue and what the gender gap will be. We should highlight that we do the best job we can with that, but our analysis does not extend typically to a breakdown into what are the cohort effects; what are the lifestyle effects; are some of the past improvements

due to the occurrence of two world wars, changes in nutrition, and so on. Without being able to dissect everything as extensively as that – and I think that it is an impossible task for anybody to do anywhere in the world – you cannot pretend that you can anticipate what will happen over the next 20 or 30 years, either to longevity or to the gender gap.

**Lord Howie of Troon:** Do you try to measure at any time the actuarial differences within a smaller group of a single family? What I have in mind is that my mother died at 79 and my father at 91, but their lifestyles were pretty well identical, except that he smoked more than she did. I know that the sample would be very small, but can you try to do that where the lifestyle is the same, or would that just be a waste of time?

**Q150 Baroness Howarth of Breckland:** Could I follow on Lord Howie's question and ask my other question? It is about research. You did suggest that further research should be carried out to assess more accurately the likely consequences of the changes proposed by the draft Directive. What sort of research did you have in mind there? It is very much about the same sort of areas. Has not one of the problems been the lack of transparency in the way that actuaries make their assessments and, if you like, a common baseline, a common framework?

**Mr Paul:** Perhaps I can try to work through the sequence. Our methods are statistical methods. They require a large enough sample size for the averaging to occur. Associated with genetics/insurance debates, there have been attempts to analyse much smaller subsets of the population and to pick up common trends, but I think you could not analyse a sample of two.

**Q151 Lord Howie of Troon:** But there have been attempts to analyse the differences in relatively small groups of, for example, identical twins.

**Mr Paul:** Yes, there is currently an actuarial study that is using the identical nature of twins as a sort of scientific control experiment.

**Q152 Lord Howie of Troon:** Has this shown up any difference in lifestyle?

*Mr Paul:* I think that the twins involved have not reached an age where they have any lifestyle as yet. If I can go to Baroness Howarth's question on research ---

**Q153 Baroness Howarth of Breckland:** You said that you thought there was further research. We just wondered what it was.

*Mr Paul:* We feel that we have answered it in our written evidence. There are two particular further areas of work. In paragraph 16 we suggested that the interplay between annuities and pensions savings in different Member States should be fully explored. The proposed Directive does not cover occupational pensions but there is already a separate occupational pensions Directive. The question regarding the two Directives – do they overlap, or do they not, and what is the joint effect of the two in terms of trying to achieve the desired equality? – was one of the areas. We felt that the other thing was simply to do a little more on what we have done today in talking about Massachusetts: to study where this has been attempted; what the nature of the attempts were in different parts of the world; and what were the lessons to be learned. I think the final question that you were asking was in terms of transparency?

**Q154 Baroness Howarth of Breckland:** Yes, transparency and benchmarks, and how you have the frameworks and benchmarks in the way the assessments are made, in order to get the transparent answer to the questions.

*Mr Paul:* In any event, at the moment the Sex Discrimination Act 1975 in the UK requires objective justification. It has only been tested once in the courts but, as actuaries, we feel that there is already the obligation there that, in the advice we give, there should be an objective justification. If we were advising on premium rates for insurers or whatever, it is required of us to use a statistical justification for the differences we make. That is not the same thing as transparency, in terms of every insurance applicant understanding how they have been rated.

The point about the gender discrimination Directive that is proposed, in a sense, would not make that issue better or worse. It does not require that insurers would be explaining the internal calculations which they had done. So I do not think that it would achieve any greater transparency than we have at the moment.

**Q155 Lord Colwyn:** With the female saving patterns now changing – they are better paid and have more secure jobs – have you any studies or any knowledge whether this is likely to affect life assurance and pensions calculations in the future?

**Dr Cooper:** We would expect it to affect life assurance and calculations in the future. Certainly at the moment the information on general savings that is out there is not very good. It is certainly not very much broken down by gender; it is more done on a household basis and therefore it is quite hard to determine how much women save and how much men save. In terms of pensions, the evidence is that the proportion of women in pension schemes, for example, is increasing while the relative proportion of men is declining with that form of saving. So that will lead to some differences within the industry. I do not think that it affects the way in which actuaries would do their calculations in the future. Assuming there is no gender Directive, they would probably carry on doing their calculations pretty much as they do at the moment – just apply them to a different group of people.

**Q156 Lord Colwyn:** In your evidence you said that you were unconvinced that the “minor public policy impact...warrants the complexity that would result from insurance being included within the scope of the Directive”. Can you expand on that?

**Mr Newton:** From the point of motor insurance, I suspect that the impact would be primarily down to the young drivers, in terms of the ones who would be affected. There would obviously be a cost involved in terms of changing pricing systems, rating systems, and so on, to put this in place. I am not certain that there will be a huge benefit to society as a result.

The likely impact is that young men will pay slightly less; young women will probably pay slightly more. I am not convinced that, from the motor insurance point of view, that justifies the introduction of this Directive.

**Mr Paul:** The other point we referred to was that, as your Lordships may have seen in our appendix, we showed the differences in term assurance costs. There are undoubtedly differences in costs there, but they are not massive. In other parts we have been involved in public debates about what might be regarded as a more serious problem, in that some people are unable to access that sort of insurance at all because they are disabled or sick, and we have a sense that the public policy initiative here has not necessarily be terribly gainfully directed. When you see in that instance – and I am not making this assertion across all these markets, but in the example we gave – the differences are not great, it seems to us that these insurances remain affordable to everybody. The differences between a 30 year-old and a 40 year-old may be greater than the difference between a man and a woman.

**Q157 Lord Colwyn:** On annuities, your evidence discusses the theoretical male reactions to the removal of sex or gender criteria in setting annuity rates, but you pointed out that the present tax arrangements in the UK mean that many men will continue to invest in annuities, making it possibly a captive market. As I speak, I am in my thirty-seventh year of paying into my annuity, but the press reports that annuity rates vary very widely. Does this imply that more complex factors than longevity and gender are involved in setting these rates?

**Mr Paul:** Our appendix should give some examples of annuity rates and shows the first, the third, the sixth and the tenth best rates which were available in the market the day the figures we extracted were presented. There are some quite large variations there and, again, there are variations between insurers which are greater than the observed gender differences. The variations are explained, not by longevity and not by gender; it is largely by the operation of competitive forces. The insurers may be taking a risk that they suppose they can make larger

returns on their investments during the time they run their annuity book. They may be being more or less bullish about what is going to happen, as we have talked about what is going to happen to longevity in the future. They may simply be taking a different stance on the amount of profit that they want to earn from their annuity customers. Some may be looking to write a lot of business with small margins; others may be not wanting so much business and operate large margins.

**Q158 Lord Colwyn:** By and large, however, they are based on different actuarial advice to different companies?

*Mr Paul:* Yes, and actuaries will be advising on all the factors. They will be advising on longevity risk, on investment risk, on the profit element.

**Q159 Baroness Howarth of Breckland:** They are coming to different conclusions on different judgments.

*Mr Paul:* I am sorry?

**Q160 Baroness Howarth of Breckland:** The different conclusions give you the variation. It means that there will be a measure of judgment amongst all those variables.

*Mr Paul:* There is the measure of judgment by the actuaries, and effectively by the management of the insurer and, ultimately, by the risk tolerance of the shareholders or of the insurers. I should perhaps stress that, in the example we have given of the rankings, the annuity market is very dynamic and the company which is offering the best annuity rates in a particular month in 2004 may not be the same company in six months' time.

**Q161 Chairman:** You were good enough to give a brief description of the different types of annuity, like a level annuity, an escalating annuity, a guaranteed annuity, an enhanced annuity, and so on. I suppose that some of the figures one sees in the financial press perhaps

partly confuse the different types of annuity. I am not sure that they always reflect like-for-like comparisons.

**Mr Paul:** That is possibly the case. It may be that one newspaper publishes one version and another newspaper publishes another. You would have to be careful on the comparisons you make being like-for-like.

**Chairman:** If there are no further questions in relation to annuities and pensions, I thank you very much for coming. It is very helpful to us.