EUROPEAN COMMISSION

MEMO

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Factsheet: EU rules on gender-neutral pricing in insurance

What will change on 21 December?

From 21 December 2012, insurance companies in the European Union will have to charge the same price to men and women for the same insurance products, without distinction on the grounds of sex. The change will apply to all new contracts for insurance products, including car insurance, life insurance and annuities.

This 'unisex' or gender-neutral pricing means men and women with the same characteristics (e.g. age, state of health depending on the product) should pay the same price for the same product. Pricing will have to be based on other risk factors than sex, such as driving behaviour in the case of car insurance. This means people will no longer have to pay more, or less, simply because of their gender.

The change will apply to contracts concluded from 21 December, but some insurers offer customers the possibility of concluding contracts before this date for policies which start later – up to 90 days in some cases.

Why is this happening now?

Gender equality is a fundamental right in the EU. The European Court of Justice ruled on 1 March 2011 that differences in insurance pricing based purely on a person's sex are discriminatory (MEMO/11/123). The EU's Court of Justice ruled that different insurance premiums for women and men constitute discrimination on the grounds of sex and are thus not compatible with the EU's Charter of Fundamental Rights. Member States are not allowed to derogate from this important principle in their national legislation.

The Court gave the insurance sector a transitional period of 21 months to adapt their pricing structures to the new rules, with a final deadline of 21 December 2012. One year ago, on 21 December 2011, the European Commission issued guidelines to help the sector adapt to the new rules (IP/11/1581).

How will this affect prices for customers?

The change will have an impact on individual premiums for certain insurance products. In the past, men and women sometimes paid a different price for different types of insurance because of their sex. Those customers who previously paid less (such as young women for car insurance) will likely see rises in their insurance premiums. But by the same measure, those who paid more (such as men for term-life insurance), are likely to pay less in future.

Overall, the changes should balance out over time, but the actual impact of the changes is hard to predict. This is because several other factors come into play when insurers calculate their prices, including the percentage of men and women in the insurer's portfolio, the transition cost and risk margin to adapt to a new system and the level of competition in a specific market. For example, there are signs that prices in some markets and sectors, for example car insurance in the UK, have been falling overall in the run-up to the changes, due in part to increased competition.

Example 1:

John and Mary are both 18 years old and drive the same type of car. John currently pays 1200 euros a year for car insurance and Mary 900. Under the new rules, John and Mary will pay the same premium, which should therefore increase for Mary and decrease for John.

Example 2:

Mark and Karen are both 40 years old, do not smoke and have no health problems. Mark currently pays 10 000 euros a year for private insurance to complement his future pension (annuities) and Karen 12 000. If they were to sign up to a new contract in 2013, it is likely that Karen will have to pay less for the same level of benefit while Mark's premium will increase.

Example 3:

Sarah and Ben are both 30 years old, do not smoke and have no health problems. Currently they pay respectively 105 and 150 euros a year for term life insurance. If they were to sign a new contract in 2013, they would pay a unisex premium which is likely to be higher for Mary and lower for Ben.

How can customers avoid heavy increases in their insurance premiums?

Under the new rules, insurers will determine individual premiums on the basis of relevant factors unrelated to sex (e.g. driving behaviour for car insurance). This means that when premiums are mainly based on other risk-rating factors than sex, it is likely that they won't be affected by the new rules. A safe driver will generally pay less than an unsafe one, whatever their sex.

Example 4:

Sandra currently pays 500 euros a year for her car insurance. She is a safe driver and has been driving for 20 years. If she were to sign a new contract in 2013, it is very likely that her premium would not be affected by the new rules. For this reason too, men and women might end up not always paying the same price for the same insurance product, because of different individual characteristics unrelated to sex.

Example 5:

Under the new rules, Philip and Jane, who have just obtained their driving licences, both pay 1000 euros a year for car insurance. However, if over time Jane appears to be a safer driver than Philip, her insurance premium will decrease more quickly than his based on her individual driving behaviour.

Nevertheless, there are steps consumers can take to limit the impact of any possible price rises. Some insurers offer the possibility of concluding contracts under pre-gender neutral pricing (i.e. before 21 December 2012) for policies which only start later. Others offer car insurance policies which monitor driving via a 'black box' device and reward safe driving with discounts on premiums.

Finally, many countries have price comparison websites, which offer consumers the possibility to directly compare different companies' policies and find the best deal for their own case.