

Life Insurance

INCOME PROTECTION PLAN

Answers for Advisers

TOWER
Protection Policy

Facts and fiction:
Female Insurance Rates

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EQUALITY UNDERSTANDING

Is equality always possible?

The days of inequality between men and women are fast disappearing in today's society. Most women have achieved an equal footing in all aspects of life including employment opportunity, income and education. Even in domestic roles the imbalance is gradually changing.

However, there will always be some areas where conclusive research deems it impossible to offer equality. One such area is personal insurance and in particular, income protection.

Many of you will have noticed that female income protection rates are generally higher than male rates, even when risk factors such as age and occupation are the same. Is that fair? Are women being discriminated against?

It is time to separate the facts from fiction

Fundamentally, the occurrence of higher premium rates for female insurance products is not driven by a biased attitude toward women, or an effort at cross subsidisation of a company's business. The opposite is in fact true. The price difference reflects the underlying inherent difference in risk between males and females. The fact is that females have a greater propensity to claim on insurance policies, and once on claim, are likely to stay there for a longer period of time than their male counterparts.

What experience tells us

An examination of claims data over an extended period provides evidence of the need to charge higher rates for female policies. Specifically, there are two key areas of claims experience which provide the best explanation.

1. Claim incidence rates — Claim incidence rates are the expected proportion of lives insured, which are not currently disabled, that will commence a claim at a given age. A high claims incidence rate results in a higher number of claims expected and consequently a higher claims cost. A higher premium is therefore required to cover the risk.

2. Claim termination rates — Claim termination rates reflect the expected proportion of claimants, who are currently disabled, that will recover or die and cease claiming benefits at a given age and claim duration. A low termination rate results in less claimants recovering or dying. This reflects longer average claim periods and therefore requires higher premium payments to cover the increased expense to insurers.

The incidence rates have a slightly greater impact on premium pricing than termination rates. However, in both areas the experience of insurers internationally has been that females have less favourable experiences when compared to males.

CREDIBLE CONCLUSIVE RESEARCH

The most recent Australian study into disability income claims is the Report of the Disability Committee conducted by The Institute of Actuaries of Australia in 1997.

This study analysed the combined incidence rates and average claims duration of 17 life offices during 1992 and 1995.

The report confirms a significantly worse experience for females. The overall incidence rates for females were 138% of male incidence rates. When analysed over different occupation and waiting period categories, female incidence rates were almost always worse than the corresponding male category.

The study also found longer average claim durations for females. In aggregate the average claim duration for women was 131 days compared to 110 days for men. The data analysed reviewed cause of claim and occupation, and the results demonstrated an experience for females which was almost always worse than males.

An interim report by the same Committee was produced in 2000. This study reviewed the period of 1995 to 1998 and reported similar relative female incidence rates as the 1997 report. Australian insurance companies also rely on their own claims data, overlaying industry research with their experiences to determine premium rates appropriate to the expected profile of lives they insure. Each company's premium rates also reflect differing definitions of disability, underwriting and claims practices. However, rates will generally be higher for females than for males.

In order to address client concerns a rational explanation of the facts and a focus on the overriding need for cover is required. To assist in this process TOWER has published a client leaflet which explains the above information in simple terms. To obtain your copy, or for additional sales information contact your TOWER Sales Manager today.



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Children's Cancer Institute Australia is the only independent medical research institute in Australia solely devoted to research into the causes, prevention and cure of childhood cancer. TOWER donates \$1.50 for every completed policy to Children's Cancer Institute Australia.

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