



MACQUARIE UNIVERSITY
AUSTRALIA'S INNOVATIVE UNIVERSITY

Department of Actuarial Studies 2006 Seminar Series

(Wednesday, 1 March 2006)

You are warmly invited to attend the following presentation on Wednesday 1 March 2006, as part of the Department of Actuarial Studies 2006 Seminar Series.

Speakers: Prof Piet de Jong and Shauna Ferris

Title: Modelling Adverse Selection

Date & Time: Wednesday, 1 March 2006 at 4 p.m. to 5 p.m.

Location: E4A, Seminar Room 623

Abstract: Risk classification can be controversial: it can lead to discrimination based on age, sex, race, genetic inheritance, or socio-economic class, possibly causing financial disadvantage for those who are already socially disadvantaged. Insurers would argue that such discrimination is both actuarially fair (i.e. based on statistical data) and necessary. It is necessary to prevent adverse selection, which can cause increases in the cost of insurance and even (in extreme cases) a breakdown in the market.

Suppose that the government decides that there are good reasons to impose restrictions on risk classification. Under what circumstances will this lead to adverse selection? How can we predict the potential costs to the insurers and to customers? In this paper we develop a model to answer this question.

As an example, we consider the current proposal to introduce unisex rating in the UK life insurance market (in response to an EU directive). We apply the model to estimate the impact of this legislation on the annuity market.

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