Ageing and insurance: The opportunities of an older Europe

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Europe is getting older. While the ageing population could put pressure on economic growth and welfare provision, it could also open up valuable opportunities for insurers as affluent Baby Boomers head for retirement. Alfred Oosenbrug and Albert Zoon look at how to reap the rewards and manage the risks of an ageing society.

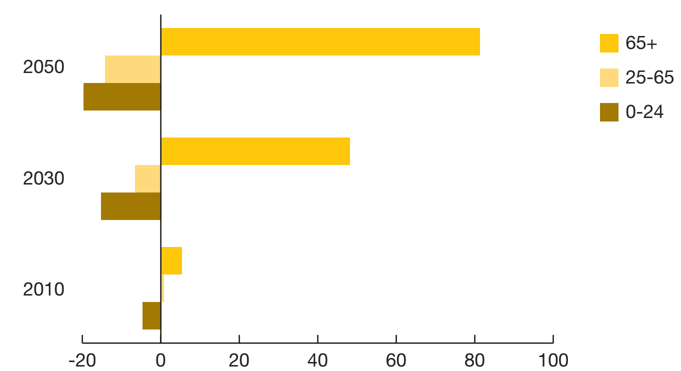
Europeans are living longer and having fewer children. Within the EU, the share of people aged 65 or over will nearly double from 16% in 2005 to 30% by 2050.[1] At the same time, the most economically active 25 to 64-year-old age group will shrink as a proportion of the population from more than half (55%) to less than half (47%) in 2050.[2] This significant shift in the age balance could exert increasing pressures on labour supply and welfare systems in the lead up to what has come to be known as the 'demographic time-bomb'.

As Figure 1 highlights, over the coming decades:

- The share of retired people will increase substantially;
- The share of people potentially available for the labour market will shrink; and
- The ratio of retired people to the potential labour force will be reversed.

In addition to the decline in the 25-64 age group overall, those within the active workforce are also set to get older. For example, in 2050 people aged 25-39 will only account for 35% of the total potential workforce, compared to 40% in 2005. At present, statistics suggest that employees in the ages leading up to retirement tend to be off sick more often and are less proficient in new technology than their younger colleagues and therefore potentially less productive. Statistics also indicate that elderly workers suffer more from chronic diseases, and that workers suffering from chronic diseases may be absent more and when present may not be as productive.[3]

Figure 1 **Cumulative change of the share of some age categories within total population (EU 25)**



Source: PricewaterhouseCoopers

Looking ahead, therefore, a smaller and older workforce will not only face the challenge of sustaining output, but will also have to support an ever-larger retired population by giving up a growing part of GNP to pensioners (see Figure 2 overleaf). The strain on funds available to pay-out pensions and healthcare budgets is set to heighten as more and more people will become retired and demand for this welfare provision increases. These economic and welfare challenges are, in a nutshell, the bases for concerns about a 'demographic time-bomb'.

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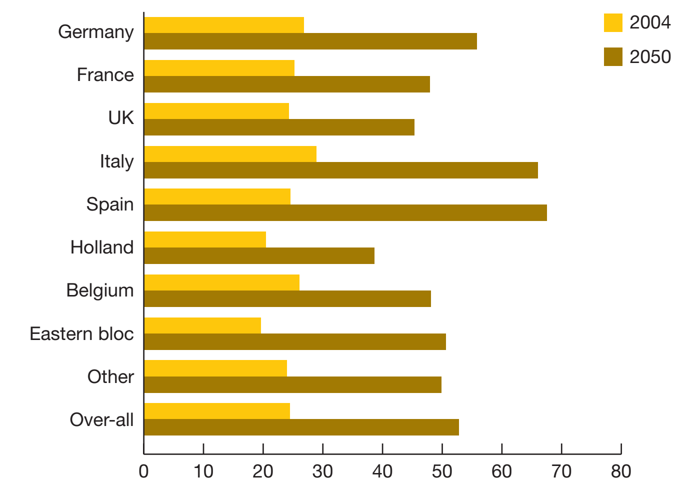
1 All demographic figures presented in this article are derived from figures published by Eurostat (2004), Projections for EU's population trend 2005-2050.

2 As more people wait until after higher education to enter the workforce, 25-64 rather than the traditional 15-64 is now seen as most representative of the potential workforce.

3 See, for example: World Economic Forum in co-operation with PricewaterhouseCoopers (2007), Working towards wellness: accelerating the prevention of chronic diseases, and European Commission (Luxembourg, 2005), The contribution of health to the economy in the European Union.

FIGURE 2 **Old age dependency ratio in 2004 and in 2050 within the EU**

(Number of people aged 65+ as percentage of people aged 15-65)



Source: PricewaterhouseCoopers

The good news about ageing

However, others would argue that ageing is set to generate a raft of new and expanding economic opportunities. The people born in Europe's postwar baby boom who are now reaching the end of their working life are generally healthier and wealthier than ever before and are looking forward to a long and fruitful retirement. Europe's ageing will therefore be coupled with all sorts of structural changes in society, including marked shifts in consumer needs and capital flows, leading to a dynamic economic environment, which will stimulate innovation and the supply of new services.

From daily convenience goods to extraordinary holidays, a new generation of relatively affluent pensioners will boost general consumer demand. There will also be greater need for specific age-related products and services, many of which will involve insurers. The first and perhaps most obvious opportunity will be the requirement for ever-more private health and pensions provision as demand increases and state health and welfare systems come under strain. Other new and related opportunities are also now coming to the fore.

Integrated health management for employees

Companies' sickness risks and disability risks are likely to increase as the existing labour force grows older. Wellness and health management programmes could help to mitigate the risks of an ageing workforce. Innovative insurers could prepare for this by offering integrated health management packages. These could include wellness programmes, healthcare and specialist follow-up services to help sick or disabled employees back to work or into another job or working place more suitable or adapted to their needs and capacities. The higher the degree of ageing, the more profitable it will be to invest in health management.

Employers, employees, insurance companies and society in general will profit from more effective and cost-efficient approaches to health management. Healthy people are more productive, are happier and generate less health care costs. Many insurers already augment their standard medical cover with rehabilitation services and elements of wellness and health management programmes.

Employers and employees will also need to make provision for carers' leave as more and more workers need to take time off to look after sick and elderly relatives. In the Dutch market, life insurance products offering income compensation during a period of compassionate leave are already well-established. Employers could also benefit from the availability of insurance cover to compensate for carers' leave among staff. In an era of increasing workloads and pressures there is likely to be a growing risk of stress and burnout if employees do not have the opportunity to take carers' leave when needed.

Pension and investment services

Naturally, ageing will create new opportunities to market personal and corporate pension and investment services. More people will be coming to the final stage of their working lives and therefore realising the need to make more provision for their retirement. Their expectations of how they will want to enjoy this time are evolving as the marked increase in spending on older-orientated travel and other leisure services testifies.

In turn, capital accumulation to cover pension rights will increase, triggering the need for more and more sophisticated investment services. The rising costs of pension plans will make it necessary to analyse, monitor and manage the development of costs and investment returns more intensively. For many pension funds, this has already included greater use of outsourcing.

At the same time, clients will demand more supplementary advisory services in areas such as the structuring of their pension plans and asset-liability management. Insurers offering integrated and sophisticated packages covering such supplementary advisory services will have a competitive advantage and will have the opportunity to realise higher profit margins.

Investment strategy and asset-liability management

The ageing of society will have a strong impact on capital markets. At present, the accumulation of pension savings has helped to fuel what, despite recent falls, are still relatively high stock market prices, along with relatively low interest rates. As more and more people enter retirement in future years, the benefits paid out could come to exceed premiums received, and there could therefore be a steady withdrawal of capital from the markets and hence downward pressure on values. For the moment, this scenario seems especially relevant for countries with strongly capitalised pension funds, such as the UK and the Netherlands. But other countries could also be forced to modify there pay-as-you-go systems to secure the sustainability of public finances.

Appropriate investment strategies, including the use of sophisticated structured products, could help insurers to offset and even profit from these shifts in the demand and supply of capital. Developments in investment strategies also offer opportunities to enhance the matching of assets and liabilities. However, companies will need to take account of any compliance controls and related possible risks emanating from such strategies.

Even if countries such as Germany, France, Italy and Spain cling to their pay-as-you-go pension systems, the pressure on capital markets could still be comparable. Without adequate measures, national debts and government deficits could avalanche. The average national debt within the EU is currently 63%, but could reach 200% in 2050 and structural government deficits could rise from 2% to 5.5%.[4] Again upward pressures on interest rates and downward pressures on stock market prices will be the result, though insurers could apply mechanisms to manage this.

Financial planning

Ageing and welfare budget deficits are already leading to increasing financial insecurity. The 'gold-plated' pensions of recent years are now being steadily downgraded. To secure the sustainability of public pension systems, retirement ages could increase. The pension age has already been increased in Italy, France, Sweden and the Netherlands. The UK and Germany are set to follow. At the same time, many people still cherish the hope of retiring early so as to enjoy the fruits of their pensions and savings while they are still relatively fit and active.

All these trends could create opportunities for insurers to provide consumers with more effective financial lifecycle planning. While insurance companies are already familiar with many of the component

4 European Commission (Brussels, 12-10-2006), The long-term sustainability of public finances in the EU.

services, there is still a huge market to win by enhancing the services on offer and making them one of the spearheads of the business. Creating operations that can capture, retain and deliver profits from customers through their lifetime will demand a significant investment in data gathering and relationship management.

Assuring comprehensive care

To control healthcare budgets, a number of 'luxury' services are already being withdrawn from public cover. Contributions for public and private healthcare insurances are also increasing, while the insurance cover given is curtailed by introducing more and more exclusions. The resulting demand for supplementary healthcare insurance could grow strongly. There could also be opportunities to develop and market products offering differentiated insurance cover.

The growing number of wealthy pensioners could in turn create demand for more luxurious hospital care. Similarly, it could become sensible to arrange foreign trips for operations and other medical care that could be combined with recuperation and leisure opportunities. Exotic destinations such as India and Jordan are already offering such care and cure packages.

Investing in health and wellness

Prevention is better than cure and certainly cheaper! Incidences of chronic diseases such as hypertension and diabetes are already high and are a major cause of death and disability. As society ages, the prevalence of such ailments could increase substantially, leading to a strong upward pressure on healthcare costs.

On the other hand, many so-called lifestyle diseases can often be prevented and mitigated through relatively simple measures such as tackling poor diet, smoking and lack of physical activity. By doing so, lifetime healthcare costs can be reduced substantially. At a time when the pressure on healthcare budgets could lead to an increase in calls for individuals to be made more personally accountable for the cost of their treatment, there could be a rise in demand for health-enhancing preventive packages covering such areas as nutritional advice and fitness coaching.

In Germany, a decision was taken recently to make individual's contributions dependent on their participation in health advice programmes. In the Netherlands, health insurers have made funds available to stimulate innovative approaches to care and cure.

Total care concepts

Today's generation of over-65s is not only now wealthier, but also more discerning and assertive than perhaps ever before. This includes the desire to live independently in their own homes through the provision of appropriate support, rather than entering residential care as many would have previously. The fast growing numbers of older people living alone will spur further demand for so-called total care concepts. Total care is not only a valuable opportunity for insurers in itself, but could also help to foster customer loyalty as part of lifecycle relationship management approaches.

The leading Dutch insurance group, Achmea, has already committed itself to developing and promoting long-term care policies that should make it possible for older people to stay independent for as long as

possible. ING Real Estate recently invested substantial amounts in a retirement housing project and in a care project in Canada, along with financing three whole villages developed especially for senior citizens in Australia. There are also competitive opportunities to offer intercession and healthcare specifically geared for older and frailer people.

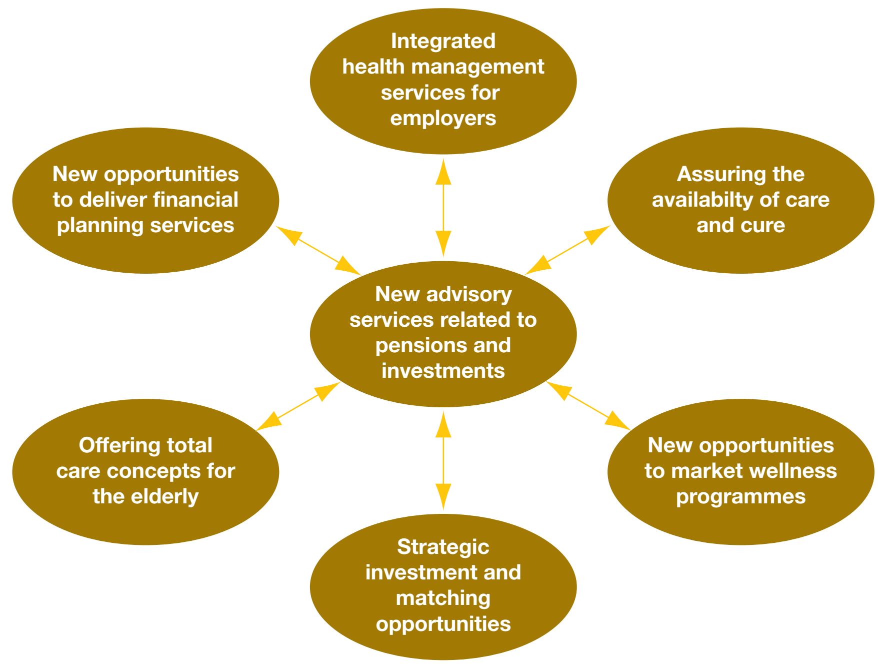
Estate planning

As property capital accumulated in the housing boom and as wealth in general has increased, the demand for tax-efficient estate planning and transfer are likely to increase. Life insurers can play an important role in facilitating effective estate planning, while life insurance products can provide to realise a tax-efficient estate plan.

Reputational and compliance risks

As the management of more healthcare and pension provision passes to insurers, scrutiny and regulation are likely to increase. The regulatory and reputational risks of mis-selling or poor customer care and therefore the need for effective governance, compliance and risk management are likely to be heightened by the increasing social role and responsibility of the insurance industry.

FIGURE 3 **Overview of opportunities for innovative insurers**



Source: PricewaterhouseCoopers

Customers themselves are likely to become more financially literate as they take more responsibility for their own affairs. One consequence will be the demand for ever-greater transparency and accountability at a time when the internet is making it easier to compare products and services and help customers judge where best to place their business.

Taking better care

A rapidly ageing population is often presented as a challenge or even threat to society. However, much of the pensions, healthcare and labour supply pressures could be addressed and insurers can play a key part in making this possible. Ageing will stimulate innovation and the supply of new services and smart insurers will be at the forefront of realising the potential opportunities to provide healthy, secure and enjoyable retirements (see Figure 3). As the great American movie mogul Adolph Zukor remarked on reaching the grand old age of 100: ‘if I had known I would live this long, I would have taken better care of myself’. Insurers can help to bring that care into reach. □

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