

Aging and longevity

Implications for life insurers

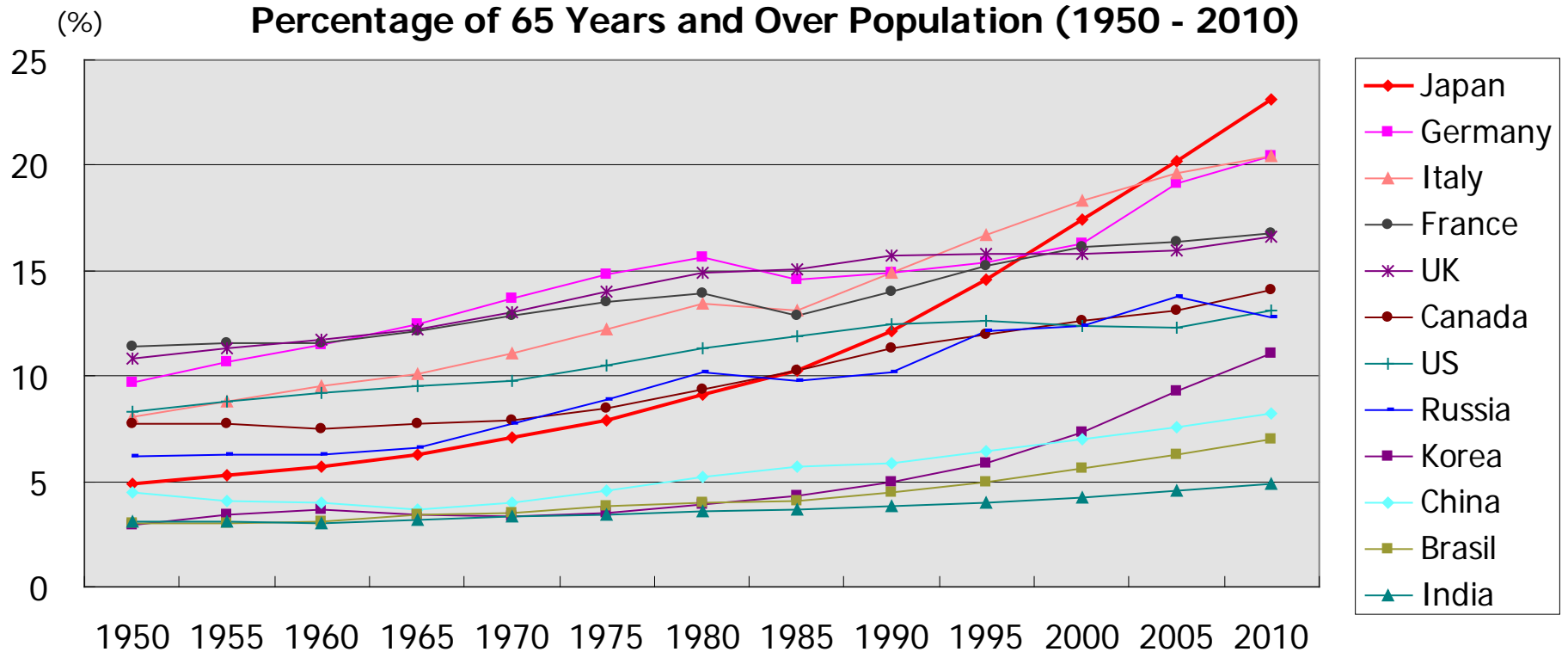
OLIS Symposium
16 November 2012, Tokyo

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Rapid aging

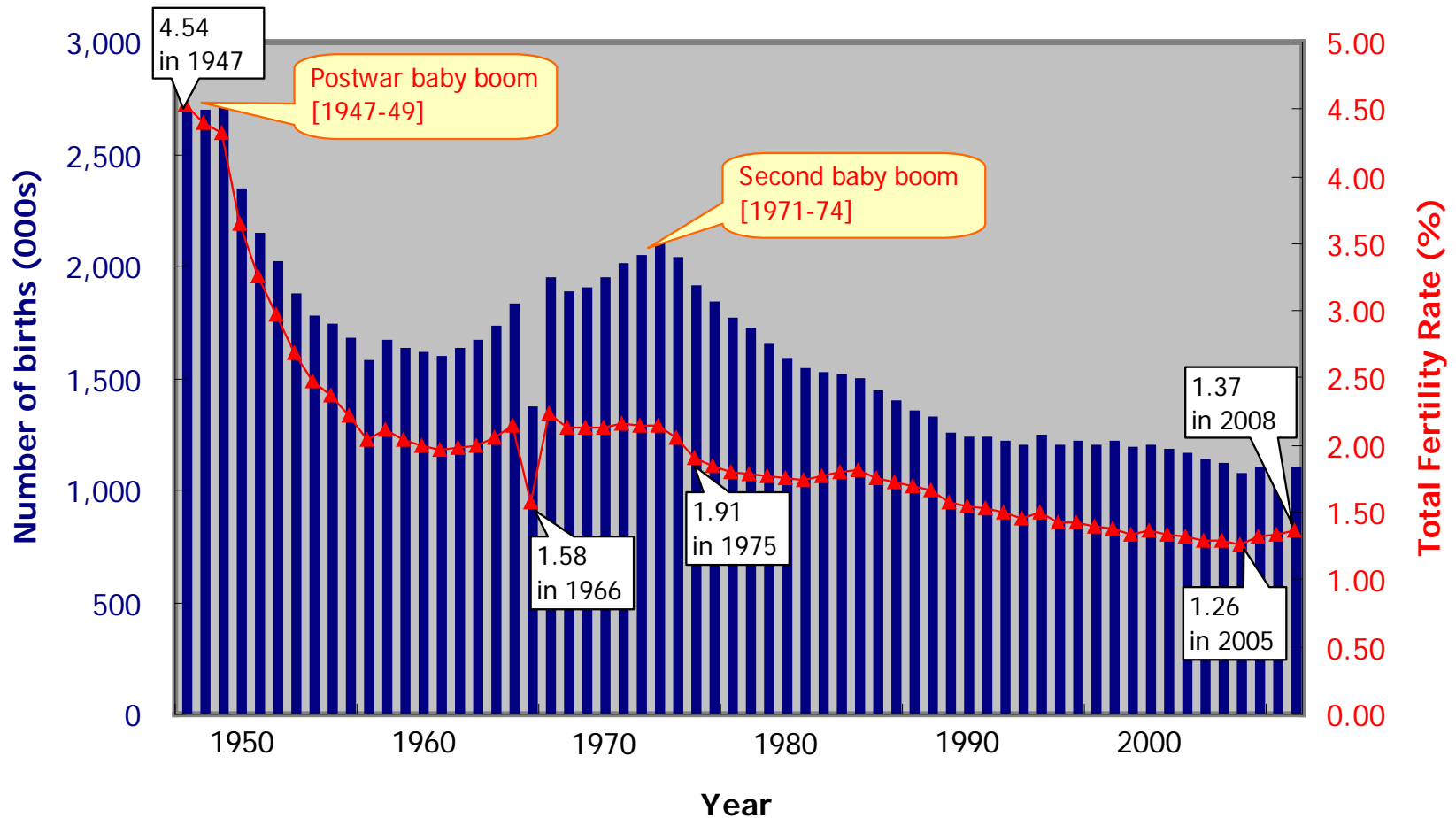
- Japan was in the lower-rankings until the 1980s, in the middle in the 1990s, and is already the highest in the early 21st century



(Source: Statistic Bureau, Data is based on United Nations, "World Population Prospects," The 2010 Revision
Note: Data for Japan is based on "Population Census of Japan")

Lower fertility rate - Trends in number of births

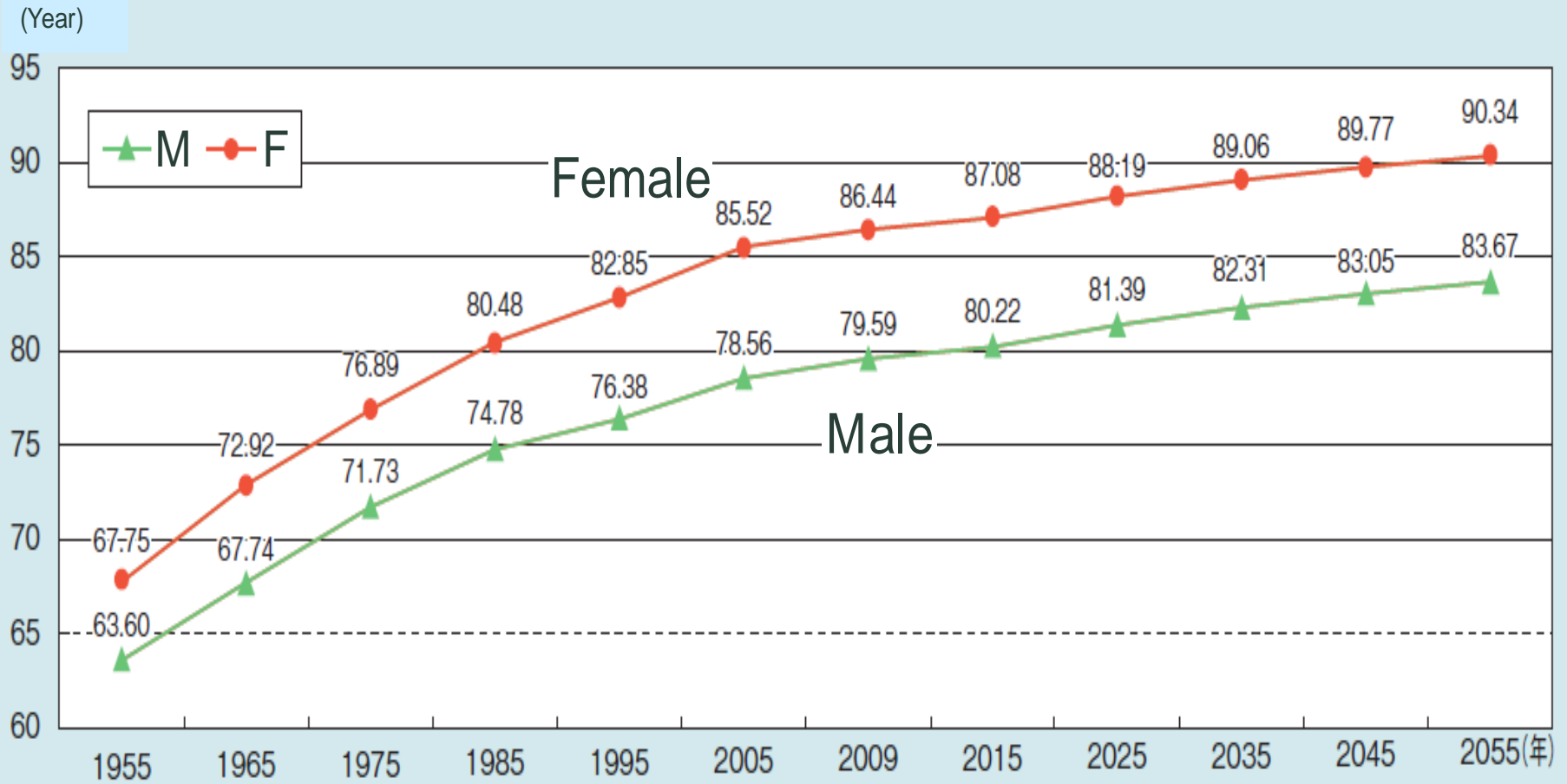
- Total fertility rate has dropped from 4.54 in 1947, to 1.91 in 1975, and to 1.26 in 2005



(Source: Ministry of Health, Labor and Welfare, Vital Statistics)

Longer lifespan

- Japanese life expectancy is among the highest in the world.
- Many Japanese women live alone for around 10 years after their husbands pass away.

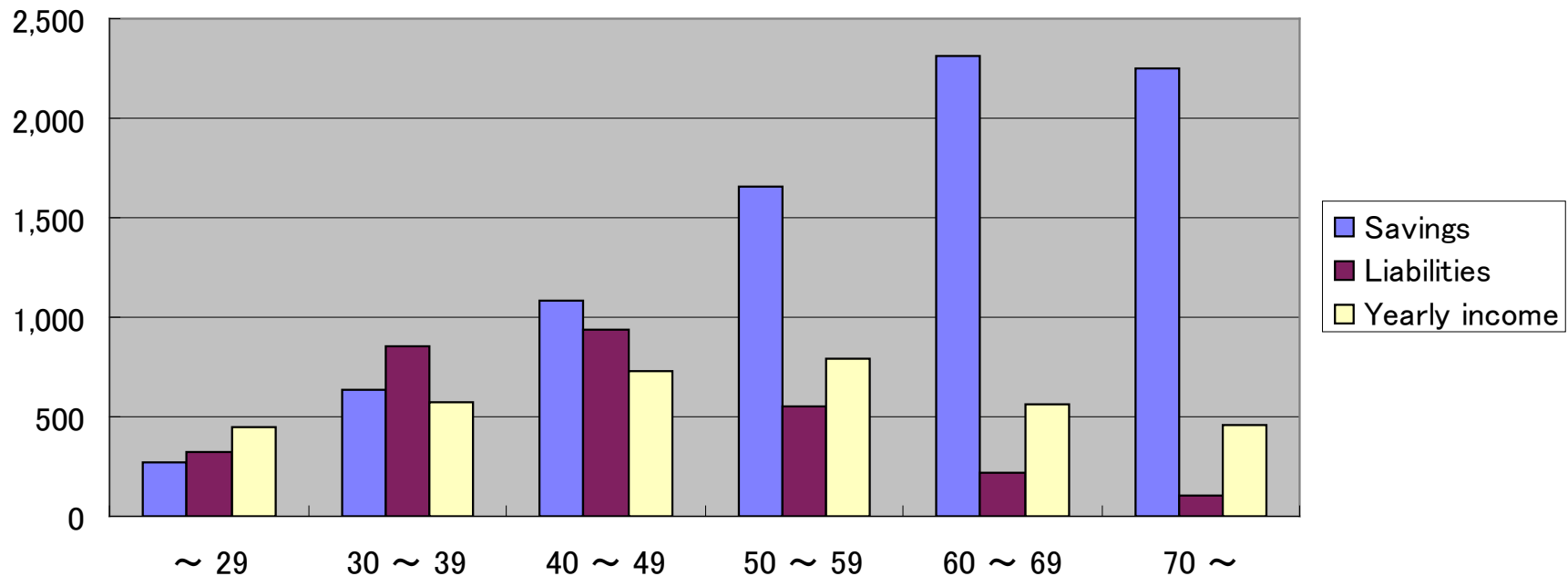


Source: Ministry of Health, Labour and Welfare and National Institute of Population and Social Security Research ; courtesy of Swiss Re Japan.

Savings higher as age increases

- Savings per household by age in 2010
 - Savings are 2.7 million yen for a householder under age 30
 - 8.5 times larger at 23.14 million yen for a householder age 60 or older
 - Liabilities to be higher as age increases up to the ages 40 to 49, at which age they peak and begin to decrease

(million yen)

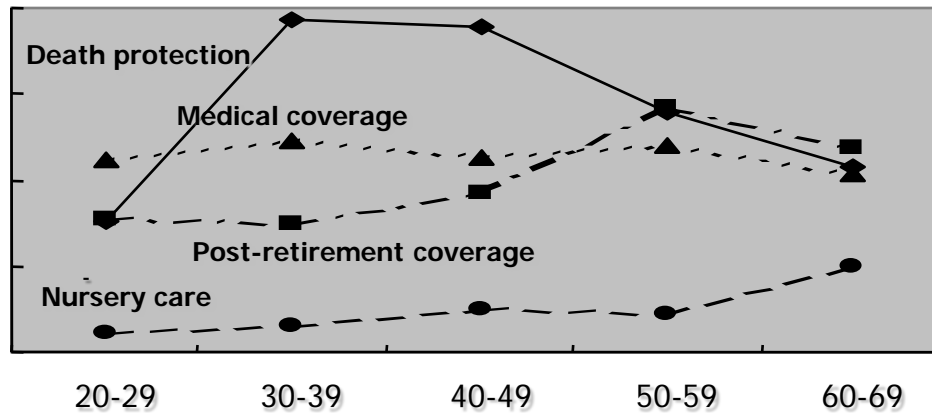


(Source: Annual report on the family income and expenditure survey. Income and expenditure, Statistics Bureau, Ministry of Internal Affairs and communications 2010)

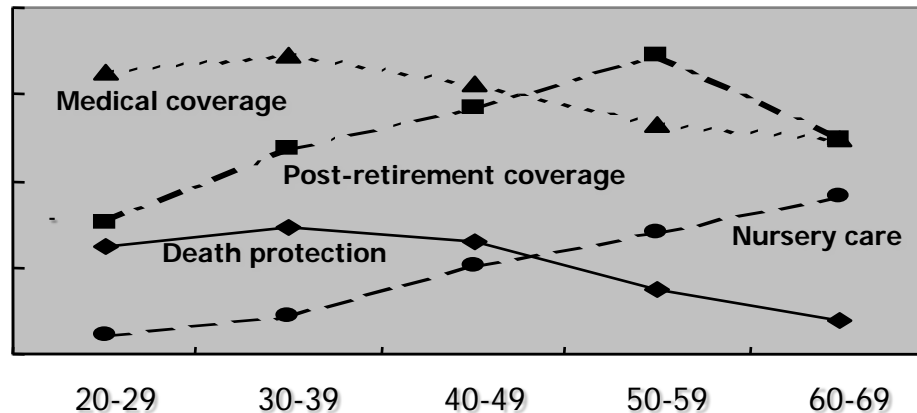
Changing life insurance needs

- In recent years, the baby boomers became aged over 50 with independent children, and needs are shifting from death protection to medical and post-retirement coverage

[Men]



[Women]

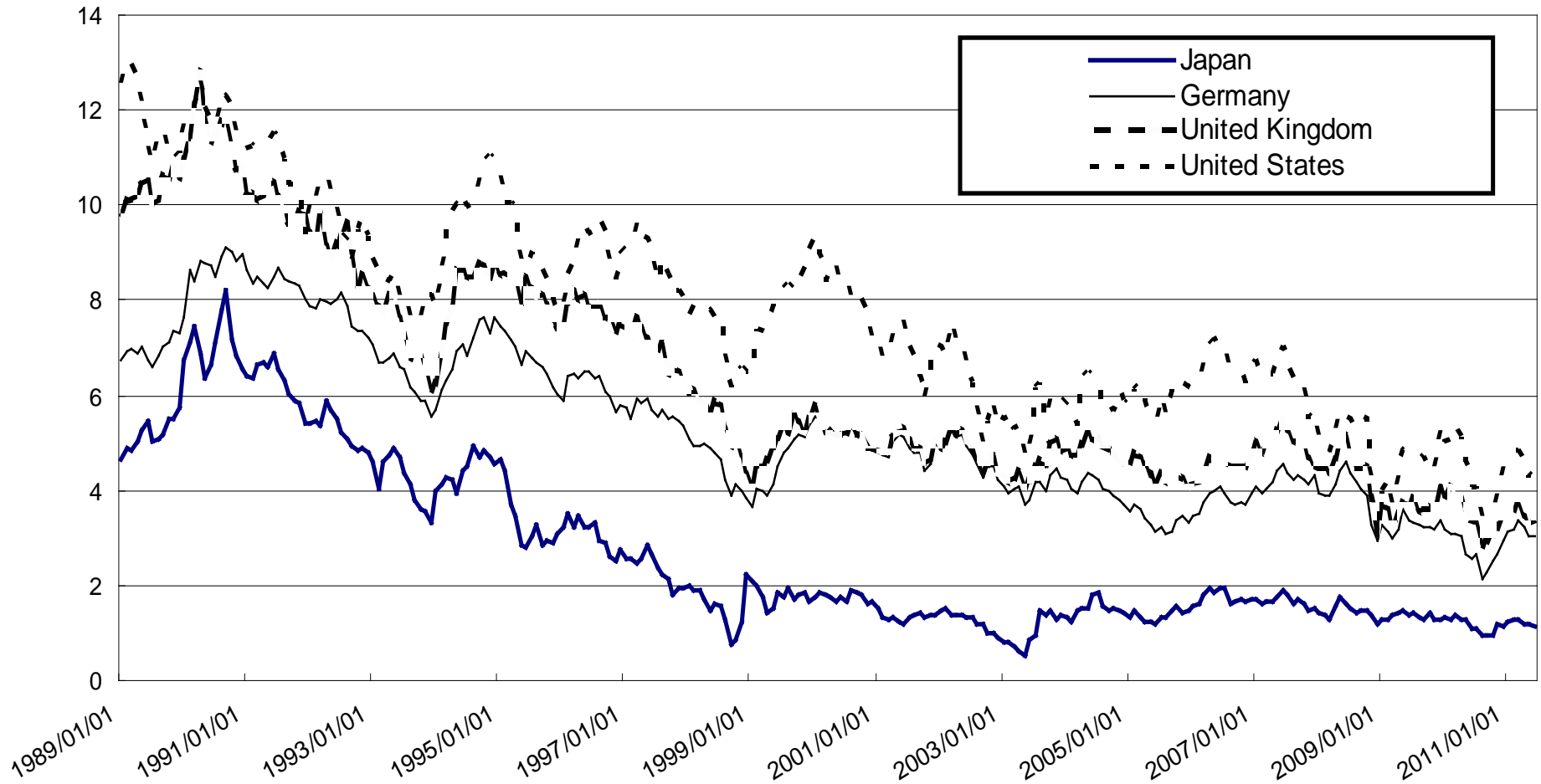


(Source: Japan Institute of Life Insurance "Survey on coverage")

Japan experienced a low interest rate environment

■ Low interest rates becoming a worldwide trend

Government / Treasury Bonds (10 year) Interest Rate



Stock market has been also disappointing

- Low interest rate coincided with poorly-performing stock prices



Issues for discussions: aging and longevity

- The following issues may have implications on aging and longevity

- What are the roles of life insurers in social security?

Life insurers vs. Public pensions/Healthcare

- How to report pension and insurance liabilities?

IFRS: Fair value accounting for pension/insurance liabilities

- How to regulate pensions and insurers?

EU is proposing to introduce an economic-based solvency regime for occupational pensions as well as insurers (VAR 99.5%)

- How to secure retirement income? Who are taking risks?

Defined benefit plans vs. Defined contributions plans

Long-term protection products vs. Investment products

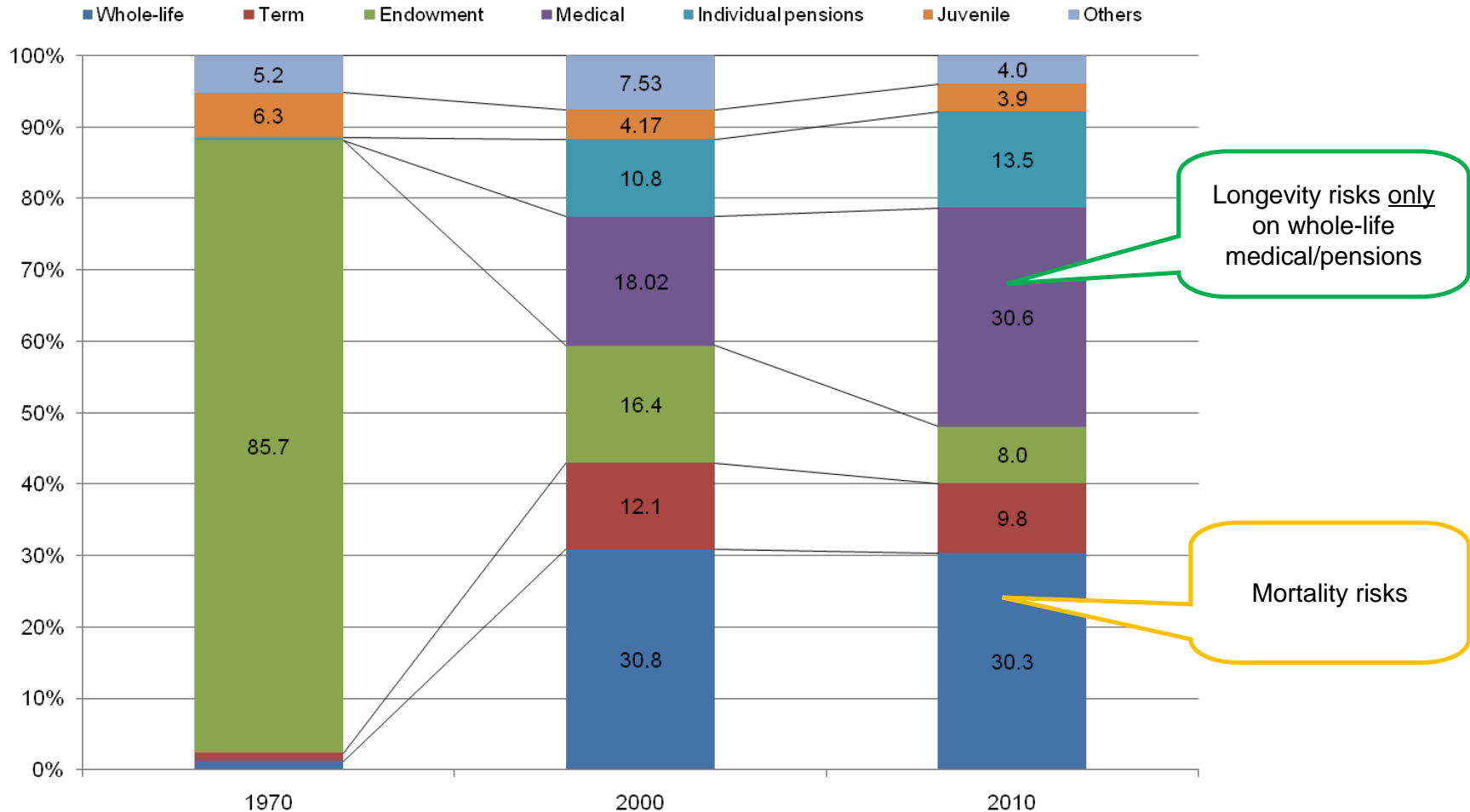
- How to deal with longevity risk?

Joint Forum is now looking at this issue

Offsetting between longevity risk and mortality risk

- Japanese life insurers' exposure to longevity risk is limited but gradually increasing

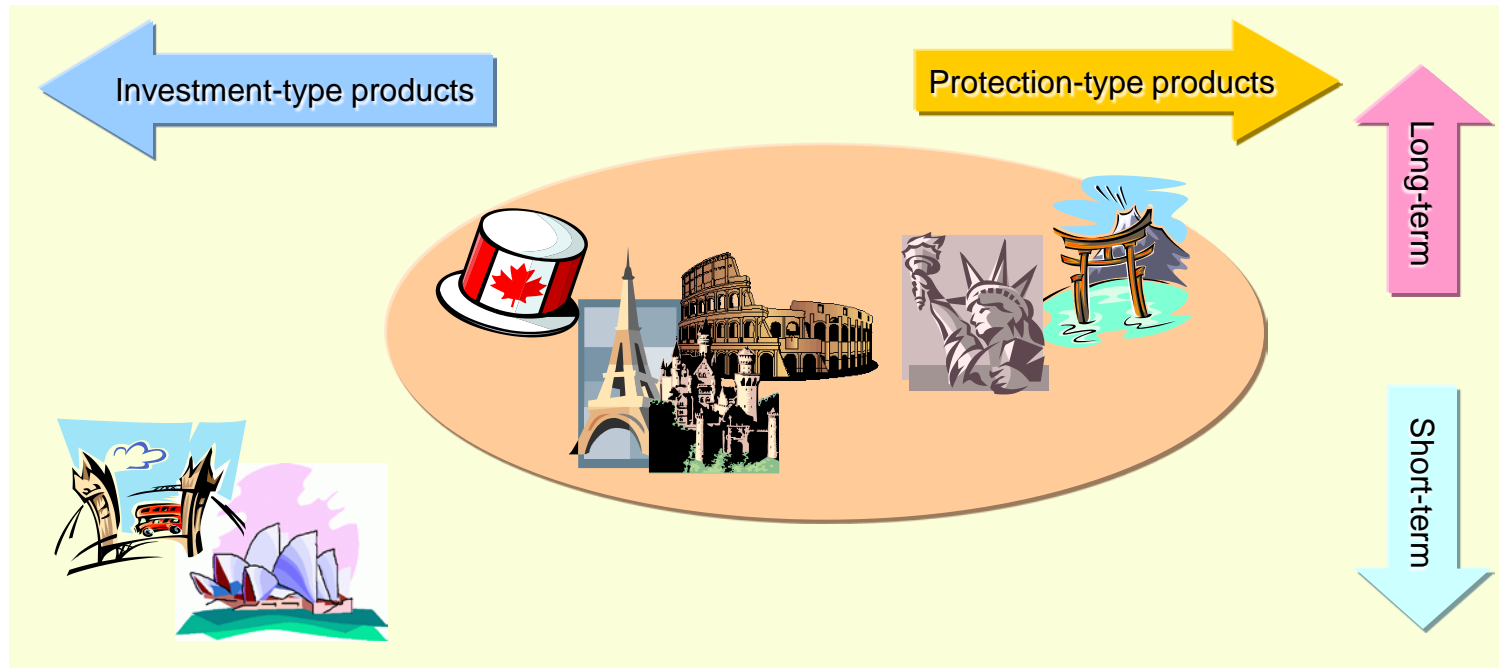
Changes in Product Portfolio (Number of Policies in Force)



(Source: Life Insurance Association of Japan)

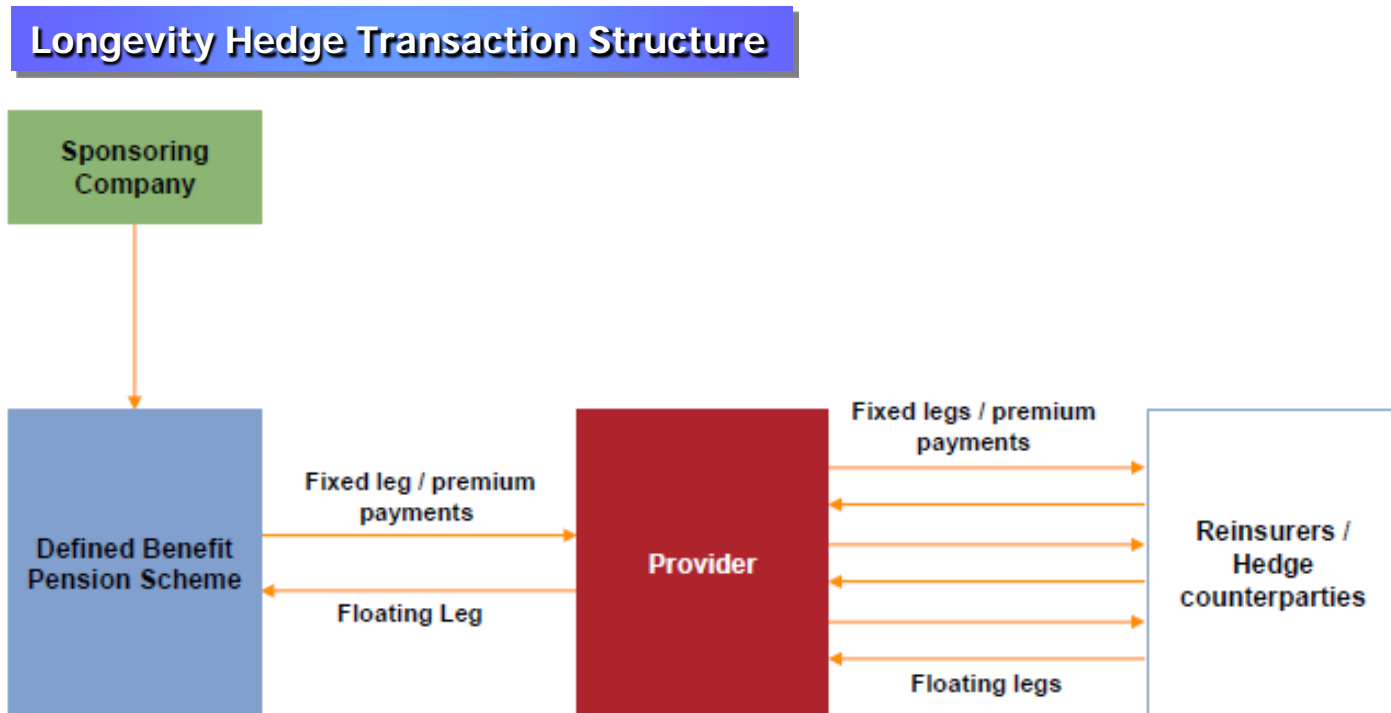
Insurance business models and consumers

- Different business models by jurisdiction that reflect:
 - Different risk preference
 - Expected roles of the insurers
 - State of development of financial markets



Other measures to mitigate longevity risk

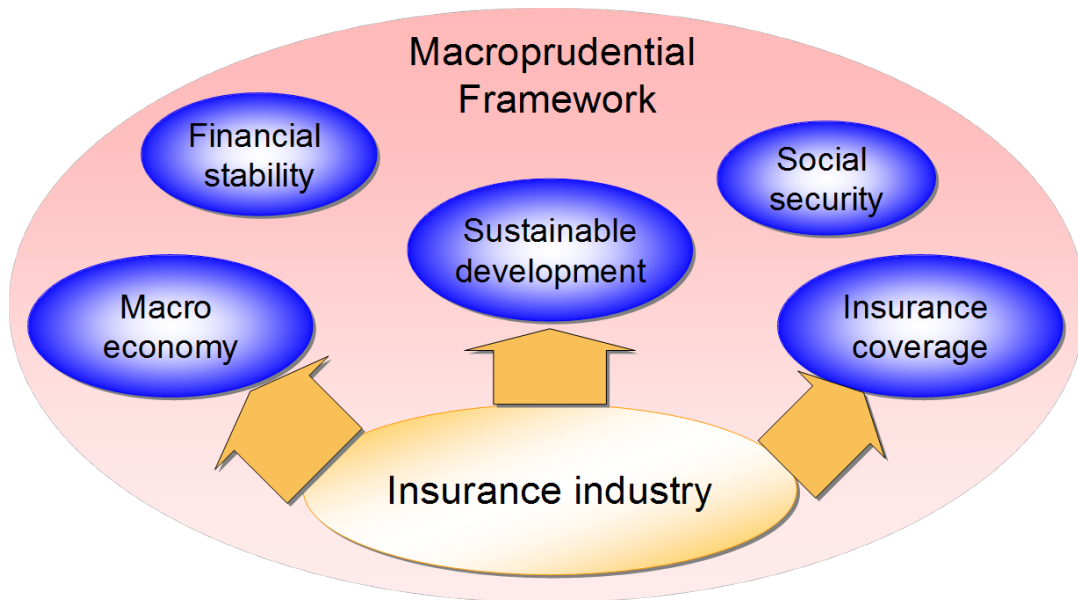
- Longevity Risk Transfer
 - Buy-out & Buy-in
 - Longevity Swaps
- Longevity as asset class for investors?



(Source: Deutsche Bank AG)

Conclusion: yin and yang

- Tao of macro-prudential supervision and risk management with a holistic framework



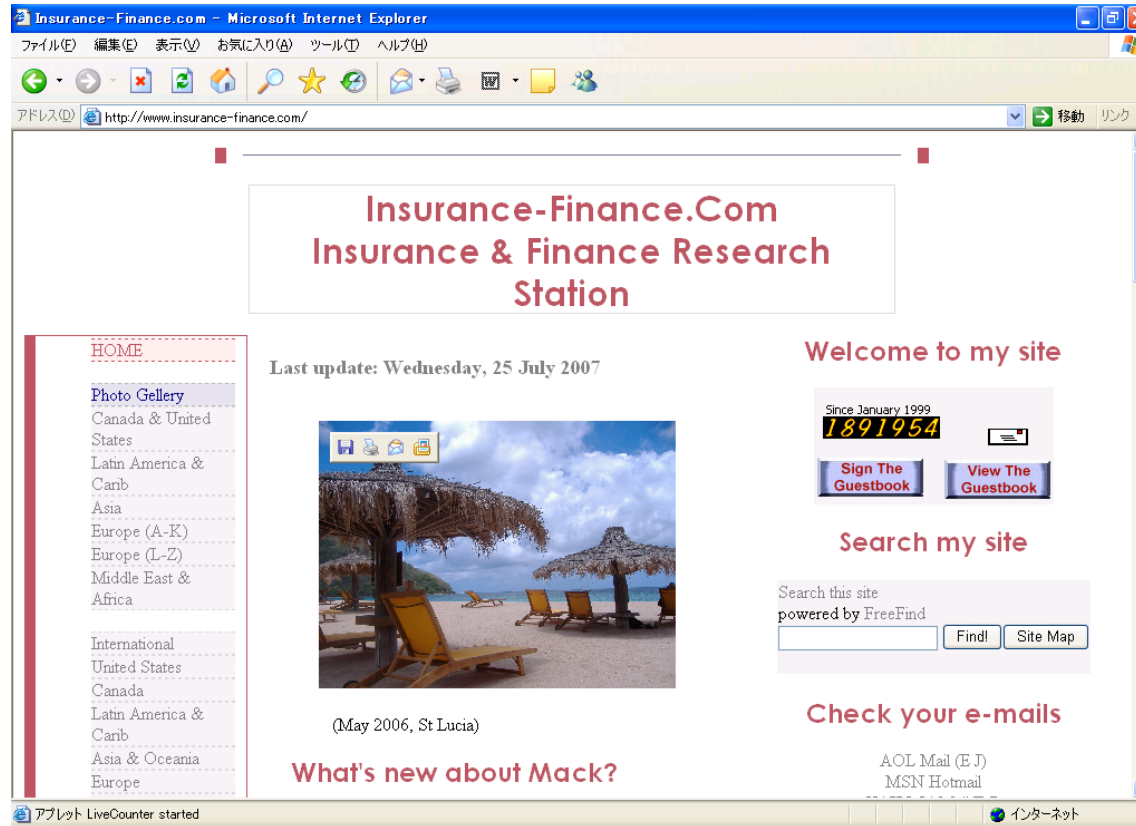
(Photo – Tao Garden, Chang Mai, Thailand)

- Some words from Taoism

- Be aware that the world is cyclical
- Don't go to the extreme, otherwise you will fall
 - Bring the balance of yin and yang to the universe
- In order to manage the world, control yourself
 - In order to implement international standards, you should first know your own country



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