



Financial Service Providers' Challenges in Dealing with Shifting Demands and Supplies

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Governmental Pension Systems

Not fully funded governmental pension systems had definitely their merits when they were introduced.

However, the disadvantages have become obvious:

- Longevity
- Demographical development
- Directions and level of re-allocation of income



Pensions are a long-term issue to be solved in short-term political processes taking into account financial, economic and labor market policies.

Clients' Increasing Needs

- Retirees are prospects rather than claims
 - Inflation protection
 - Private nursing insurance
 - Inheritance
- Life cycles have become more flexible
 - Changing family roles
 - Higher mobility during the professional career
 - Retirement process rather than retirement date



The needs are increasing due to the demographic changes. This makes it an interesting business opportunity/challenge. Since these needs are individual, the responsibility must be given to the individuals

Challenges for the Financial Industry

- Forced long-term savings versus short-term consumption
- Impact on financial markets due to preferred asset classes
- Regulatory efficiency
 - Investment
 - Products
- Centralized versus decentralized production
- Segregation of production and distribution



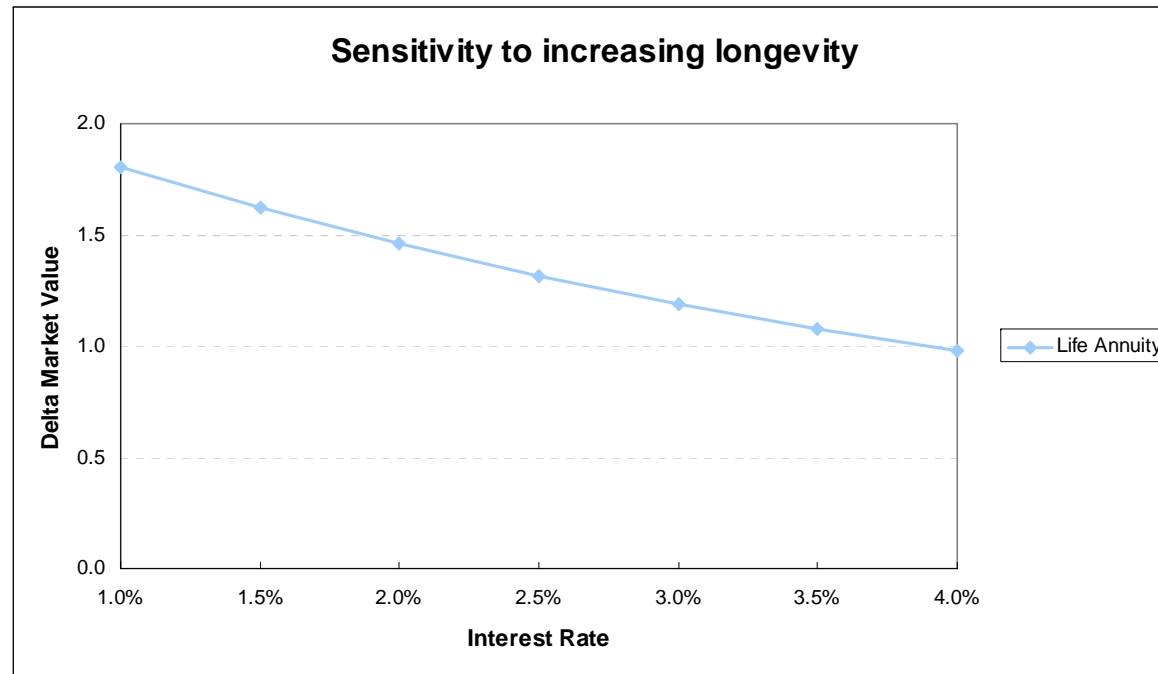
The pension world has been changing, but not at the same pace everywhere.

Biometrical Challenge

Example: Annuities



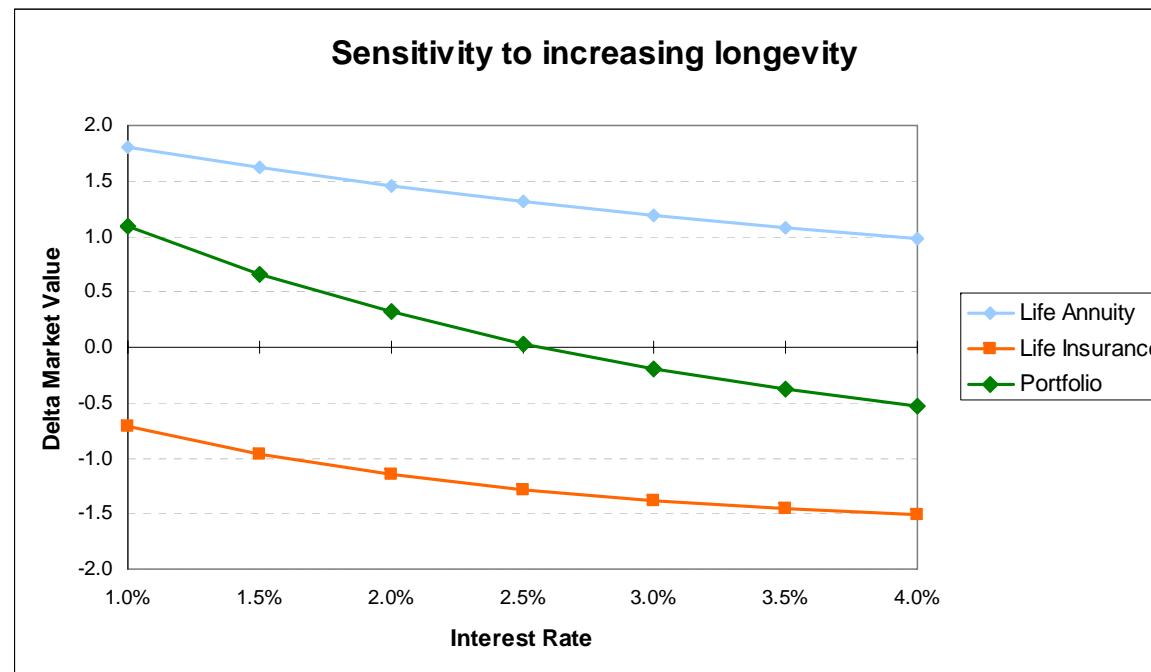
Longevity: (Modeled) trend in life expectation (pricing, reserving)
Longevity risk: Trend changes unexpectedly



Interest rates and longevity parameter are considered (stochastically) independent.
Nonetheless: if interest rates change, the longevity risk changes too.

Pension/Life Insurance Solution

Institutions that offer both annuities and capital insurance have a natural longevity hedge in place.



Longevity could be hedged dynamically, if there were a liquid financial market for it. This is not the case yet. This is one reason why pension/life insurance is attractive for these client segments.