

8th International Sustainability Leadership Symposium

Impacts of Demographic Change on Financial
Service Providers: Markets and Managerial Issues

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The Geneva Association

- The International Association for the Study of Insurance Economics
- Existing since 1973 in Geneva
- Formed by a maximum of 80 CEOs from the most important insurance companies in the world
- Think-tank for the insurance industry
- Research the growing importance of insurance activities world-wide in all sectors of the economy

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- Identify fundamental trends and strategic issues in or linked to insurance
- Develop and encourage initiatives concerning the evolution - in economic and cultural terms - of insurance, risk management and the notion of uncertainty in the modern economy
- Organisation, co-organisation and sponsoring of conferences, seminars and lectures
- Publication of several newsletters, the Geneva Papers and special books/reports

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A Changing Landscape



A changing landscape

- demographic change is one of the, if not the, key driver for our economic and social development in the coming decades, especially in Europe
- it will have an immediate and direct impact on financial services providers
- the impact will be felt in two key areas:
 - markets (i.e. products) and
 - management (i.e. production)
- this is where most of the challenges to existing operations will arise and where the big chances for future development can be found
- companies will have to deal with these challenges proactively, especially in view of the competitive position of financial services providers in other parts of the world (esp. Asia)

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Four accompanying trends

- In recent years, the financial services industry has been affected by a series of important developments that, in most cases, will not only continue but reinforce themselves.
- Those drivers for change are the following:
 - Globalisation and market convergence
 - Regulation goes international
 - Increase of the public-private debate
 - ...and for insurance the incursion of other players

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Globalisation and market convergence

Key aspects:

- the concentration process in the insurance industry and the emergence of transnational companies
- the tighter relations and integration of worldwide financial markets
- the emergence of similar risks around the globe and the increasing importance to control systematic risk exposures
- the appearance of global clients that seek (coherent and streamlined) international solutions to their international problems
- the closer organisation of nation states in supranational bodies
- the creation of more international bodies that project regional and national civil ideas and convictions onto the global level

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Globalisation and market convergence

- This trend has triggered the need to co-operate at a new, now global, level
- Necessity to lead larger debates involving more players with different home markets and diverging strategies but increasingly shared problems.
- As the financial industry globalises, so do the bodies that define the frameworks under which it operates

=> Financial institutions need:

- The right risk identification and management instruments to confront increasingly complex and mutually interdependent risks on a global scale

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Regulation goes international

- Regulatory and supervisory bodies have started to communicate and co-ordinate their actions on an international level
 - The "Basel System" (BIS, FSF, IAIS IOSCO, etc.) has gained much more traction in recent years
 - Insurance, banking and securities regulators work more closely with other financial sector standard setting bodies and international organisations to promote financial stability
- => There is a clear need for the world financial industry to jointly discuss developments and topics affecting regulation, supervision and the relative positions of the different parts of the financial services industry in relation to each other.

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Increase of the public-private debate

- The division of activities between public and private initiatives has been a continuous theme since the emergence of the modern society and its economic system.
 - In recent years, questions that directly affect the financial services industry have gained in importance, in particular the organisation of the modern welfare state
 - The financial services industry has to define its role and find ways how to operate for some customer groups alongside or in complementarity to public solutions.
- => Key Question: What services can be organised efficiently in the marketplace and what requires (direct or indirect) participation by the state?

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Incursion of other players – the insurance view

- Increasingly, other players find the insurance sector a potentially rewarding field for some of their operations. This is especially true in the life insurance arena
- These players exploit several potential advantages, e.g.:
 - Strong distribution channels
 - Regulatory arbitrage
 - Little legacy issues
 - Business complementarity
 - Transfer of strong brands
- Incumbents have not been especially innovative and product design is often not fully reflective of customers' future needs

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Two Specific Challenges



1) Markets (products)

- an ageing population will need different products than a younger one
 - different time horizon
 - different position in life-cycle
 - bequeath motive and stronger altruism
- the risk-shift from public to private puts more responsibility into the hands of individuals than before
- the demise of public pension systems and the strain on employer-sponsored solutions require more individual action

=> chance for new and more products

**However: financial literacy is a necessary precondition....
.....and too often not met!**

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1) Markets (products)

- greater sensitivity to the issue of old-age security and greater financial literacy contribute to a better informed and more demanding (potential) customer
- increased consumerism requires companies to rethink their products
- globalization requires the adaptation of products to the needs of a more internationally mobile target customer
- business across boundaries requires additional attention to regulation
- a changing financial environment allows for different and more efficient solutions while legacy systems and products are weeded out

But: these new products often require more diverse and liquid financial markets for producers to offer them (at attractive conditions)

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1) Markets (products)

- it is difficult to target the group of the "new old" due to little previous experience and changing behaviours
 - they behave different from previous generations and display a greater heterogeneity within age cohorts
 - ageing today is not the same as ageing yesterday
 - time horizon and investment theory point to "younger" old
 - age limits are being pushed back:
 - biologically and medically (longer life spans in good health!)
 - Socially and culturally ("eternal youth" phenomenon, increase in retirement age etc.)
 - more disposable income and greater accumulation of assets = more investment means and greater decision freedom
 - distinctive asset de-accumulation and demand shifts of the elderly will generate differentiated inflation
- => are the elderly (in developed countries) the new risk takers?

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2) Management (production)

- an ageing population will change the composition of the workforce
- recent trends of early retirement are being broken
- increasing (real and statutory) retirement ages will contribute even more to an increasing share of older people in the workforce
- a shortage of educated labour in Europe will see (even) financial services providers recruit more vigorously and in previously neglected, non-standard sections of the populations (older, female, handicapped, part-timers, second jobbers, etc.)

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2) Management (production)

- companies will have to adapt their HR management to the different requirements of non-standard but especially older employees
- the retention of knowledge and expertise in production systems will be a key challenge
- increased consumerism requires companies to rethink their production, communication and compliance systems
- globalization will require operations to be re-tailored flexibly to different environments, so that production can fit products efficiently
- companies will have to influence public policy to implement legislative and regulatory changes that favour the implementation of more efficient systems

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