Demographic Change in Japan
- its Challenges for Financial Service Providers -

DIJ International Symposium, 3 October 2008
Uwe Michel, Chairman of Allianz Life Insurance Japan Ltd.
Topics

1. Short Introduction of Allianz
2. Demographic Changes in Japan
3. Challenges and Opportunities for Financial Service Providers

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<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890</td>
<td>The Year founded in Germany</td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>The Countries providing our services</td>
<td></td>
</tr>
<tr>
<td>181,207</td>
<td>Our Employees worldwide</td>
<td></td>
</tr>
<tr>
<td>80,000,000</td>
<td>Our Customers in the world</td>
<td></td>
</tr>
<tr>
<td>€ mn 1,061,149</td>
<td>Total Assets of Allianz Group in FY2007</td>
<td></td>
</tr>
</tbody>
</table>

Life Insurance Market in Japan

World’s ‘Model’ function regarding challenges and opportunities

- Japan is undergoing fundamental change:
  - demographics
  - social systems
  - investment behavior

- World’s third largest life insurance market

- Demographic development in Japan is ‘ahead’ of Europe and the U.S.

Key to success is the capability to serve clients with a wide range of product solutions for their specific needs.
Three Major Changes in Japan

- **Population ‘twin peaks’**
  The population pyramid shows notable twin-peaks due to baby boomer generation and its children.

- **Asymmetrical wealth distribution**
  More than half (52%) of the nation’s wealth lies with 33% of elderly people’s households.

- **Growing 60+ generation**
  By 2025, this age group will be almost 40% of Japan’s population.


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Ailing Social Systems and New Financial Needs

Approx. ten million baby boomers born between 1946 and 1950 have either recently retired or will soon reach retirement age.

The remaining life expectancy at age 65 is 18.5 years for men and 23.4 years for women.

<table>
<thead>
<tr>
<th>Life expectancy</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>at birth</td>
<td>79.0 yrs</td>
<td>85.8 yrs</td>
</tr>
<tr>
<td>at age 65</td>
<td>18.5 yrs</td>
<td>23.4 yrs</td>
</tr>
</tbody>
</table>

Source: OECD 2006

Elderly generation: Need for pension solutions, financial management and health care

Younger generation: Faced with double burden of providing for their family and preparing for retirement on the background of shrinking public pensions

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The changing demographics brought a major paradigm shift in life insurance products from zero interest saving products to both accumulation and decumulation products.

From Saving To Investment

- Pension Reserve
- Life Insurance Reserve
- Stock/Mutual Fund
- Bond
- Cash/Deposit

Source: BOJ

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Consequences for the Individual
- Need for strategies to protect household -

- How much money will I need to lead a comfortable life after retirement?
-Education costs for children / grandchildren
-How to protect against inflation
-Regular income after retirement?
-Care for family
-Rising medical expenses?
-What if I outlive my savings?
-What if I need nursing care?

But I do not know what to do...

Yet: lack of knowledge, unawareness about individual financial planning
Two Basic Customer Needs
depending on life stage and personal circumstances

Accumulation

Earnings, Savings, Investments

Assets

Decumulation

Expenses

...daily, medical, social etc...

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Specific Insurance Needs

- **First baby boomer and elderly generations (55 – 65 yrs):**

<table>
<thead>
<tr>
<th>DECUMULATION</th>
<th>Pension Needs</th>
<th>Financial Management Needs</th>
<th>Health Care &amp; Nursing Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Guaranteed and constant pension income stream</td>
<td>Secure but opportunity-related wealth management</td>
<td>‘Affluent’ health coverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax-optimized inheritance concepts</td>
<td>Need for supplementary products to fill the gap of non-covered health expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Proper decumulation of wealth</td>
<td>Financing of nursing and other services for the elderly</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>‘Luxurious’ medical products for wealthy clients</td>
</tr>
</tbody>
</table>
Product Solution Example: Variable Annuities (1)

- Annuities with a variable rate of return through exposure to investments
- Periodic payments for a period of time in exchange for the customer’s upfront investment
- Popular as a retirement solution to receive predictable payments
Product Solution Example: Variable Annuities (2)

Four basic types of guarantees:

- Guaranteed Minimum Death Benefit
- Guaranteed Minimum Accumulation Benefit
- Guaranteed Minimum Withdrawal Benefit
- Guaranteed Minimum Income Benefit
Reaching Out to the Silver Market

The ‘Universal’ Company:
- Providing customers with an appropriate selection of products that are flexible to meet diverse needs, accessible for everyone, easy to understand and sustainable.

Sponsoring Activities:
- Supporting AED (Automated External Defibrillator) program in 40 Tokyo metropolitan parks:

Offering comprehensible products for every individual.

Delivering optimum services to every one.

We aim to be such a universal company.
Specific Insurance Needs

- **Second baby boomer generation (35 – 45 yrs):**

  **Existing Needs**
  - Higher education needs/costs of children
  - Preparing for retirement on the background of shrinking public pensions

  **Developing Needs**
  - Education financing insurance
  - Pension insurance, annuities
  - Flexible whole life cycle products
  - Medical supplementary insurance for all household members

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Product Solution Example: Regular Payment Annuity

Basic Product Image

- Account Value
- Death Benefit
- Issue Date
- Annuitization Date
- Premium Payment Period
- Payout Period

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Future Outlook

- Individuals will increasingly need to take care of their finances personally.

- Risk of two-class society has to be avoided.

- Government / state will have to encourage and foster private post-retirement planning.
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