



Roles of Insurance and Pensions in the APEC Region

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Summary

- The Asia Pacific Financial Forum (APFF) has set out six key areas to be developed in financial business in the region and every year submits recommendations to the APEC Finance Ministers from a standpoint of business side. One of these key areas includes insurance and retirement income (hereinafter referred to as insurance and pensions)
- In this area, much attention is given to strengthening the roles of insurance companies and pension funds as important players in providing long-term investment fund and at the same time addressing the aging society in the APEC region. In the financial field, Asia has such problems as the shortage of long-term funds as the financial market is mostly dominated by the short-term money centering on deposits and savings in the banking sector and inadequate infrastructures in the developing region because of difficulty in raising long-term funds to address it. In addition, especially in many East Asian countries, they are already facing with an aging society, and in the ASEAN regions, too, some of the member countries are expected to join them in the long run. In the aging society, a shortage of income after retirement for the aged is a big concern and there is a growing expectation toward the role of insurance companies and pension funds in addressing the problem.
- Countries and economies in the APEC region have a much diversified political and societal background despite their common characteristics seen in some of the economic and financial fronts, such as economic growth, population structure, household asset holding pattern and investment environment. In such an environment, “the aging of population” is a common agenda to be addressed on one level or another. Many countries in East Asian

region have already reached the aging society, and about a half of the ASEAN countries are expected to face the arrival of an aging society in the near future.

- How to address an aging society is an agenda to be recognized even by emerging countries in the ASEAN and other regions which will also experience progress in aging in the longer run. Early start of consideration will be desired since it is an agenda whose solutions should be explored together by both public and private sectors from a long-term perspective. In practice, insurance companies located in advanced economies in East Asia and other regions can start to plan changes and diversify their income structures, for instance, in the short-term, by building up their business know-how on the management of retirement income of the aged people, like pensions, (including new subscription of capital in or M&As of insurance companies in advanced economies) and in the medium to long-term, providing such business know-how to insurance companies in the ASEAN region through new capital subscription and M&As.

Full Text

Among many frameworks for economic cooperation surrounding Japan, the Asia-Pacific Economic Cooperation (APEC) is especially encouraging the financial sector to further enhance their roles in promoting economic development in the region.

Especially in Asia, the financial market is dominated by short-term funds (deposits and savings accounts) mostly pooled in the banking sector while long-term funds are in short supply. Also there are many challenges in the Asian financial sector since, despite the economic development, infrastructure is still in short supply with providers of long-term funds hard to find. Further, there is a rapid aging of the population in East Asia including Japan, which increases the importance of the roles played by insurance and pension sectors to promote a further development of the region.

In this article, the author intends to review the frameworks for the financial development in the APEC region, investigate its present economic and financial situation based on the various data available and explore the future prospect of the insurance and pension sectors.

1. Framework for Financial Development in APEC Region; Asia-Pacific Financial Forum (APFF)

(1) Outline of the APFF

In 2012, the APEC Business Advisory Council (ABAC) proposed an establishment of a platform for promoting financial development on a Public-Private-Partnership base in the APEC

region, and the platform formally started its activity as the APFF in 2013¹. In the background there was an acknowledgement that the financial function should play more important role in promoting a change of economic models in the APEC region from export-oriented model that relied on the demand of Europe and North America to domestic-demand oriented one that satisfies the domestic and intraregional demand of the region that is rapidly growing. Specifically in the financial sector, this model has been heavily dependent upon the banking sector, but it is important, the proposal said, to develop a financial structure that can provide diversified financial means to solve various problems the region faces, such as regional finance, poverty, aging population, environment issues, infrastructure etc. For these purposes, it was regarded necessary to promote the provision of long-term capital, which will require a deep and liquid capital market and active involvement of financial institutions.²

Building on the discussions at the preparatory meeting for establishing the APFF, held in April 2013 in Sydney, six priority areas were picked up for deliberation at the APFF. One of them is the insurance and retirement income. A work stream was established to address the various issues in that sector and prepare recommendations submitted annually to the APEC Finance Ministers. The report notes that given the long-term nature of their business, insurance and pension funds are expected to play a role of “long-term investor” as well as “financial stabilizer.” In addition, with the public social safety networks and medical security facing difficulty caused by aging population and low interest rate environment, insurance companies and pension funds are further required to play much more important roles for the sustainable growth and development of the region, the report says.

(2) Insurance and retirement income area discussed in the APFF

The roles of insurance and pension industry expected in the APFF are to encourage the regulatory authorities to take policies and regulatory requirements that meet the long-term business characteristics of the industry and to advise to the APEC Finance Ministers on the development of system and its funding to prepare for the longevity risks. Major issues for 2014 included (a) regulations and accounting, (b) long-term investment and capital market, and (c) solutions for longevity risks.³ Further, taking into consideration the arguments made in each year’s work stream and development of the insurance and pension industry, two issues of (d) micro-insurance and (e) hazard risk finance were added to the major agendas for the year. These

¹ Please refer to the International Financial Topic No. 262, “Discussions on the Asia Pacific Financial Forum”, 2014 (available only in Japanese) http://www.iima.or.jp/Docs/topics/2014/262_j.pdf

² APFF: “APFF Sydney Symposium Report 2014 Version”
<http://www.ncapec.org/events/APFF/APFF%20Sydney%20Symposium%20Report%202014%20Version.pdf>

³ APFF: INTERIM REPORT TO THE APEC FINANCE MINISTERS (2014)
<http://www2.abaonline.org/assets/APFF/APFF%20Interim%20Report%20Public%202014-08-21%208%2022%202014.pdf>

issues have been discussed by insurance companies, pension funds, academic experts, policy makers, financial regulators and related organizations to promote the development of the APEC region and solve the problems surrounding the region.

2. Diversity and Common agendas in the APEC region

(1) Landscape of the region

As is noted above, the banking sector dominates the finance industry of the APEC region, especially in the ASEAN countries. Funds are mainly held in the form of “cash and deposits”, which are essentially of short-term nature and liquid. In demographic structure, several countries including Japan and some East Asian economies have seen progress in aging of population.

In the meanwhile, APEC consists of broad areas of the North America region including the U.S., Canada and Mexico, Oceania including Australia and New Zealand, and the ASEAN countries like Thailand and Malaysia. This means that it is a collective body of various countries and a diversified regional society which differs not only in the economic development level but also in politico-society background. I would like to review the current state of economic and financial environment, exploring the ways where insurance companies and pension funds can be expected to further exercise their ability as “long-term investors” and “financial stabilizers” in such a diversified regional society of APEC.

(2) What can be seen from the statistics?

First I would like to review the current state of economy and finance, based on the statistics to see how the economies and finance that constitute the basis for the development of insurance and pension industry have developed to support the economy and finance in each country and region as a whole. Despite the constraints on the analysis by the lack of availability of data in some countries, the author tried to analyze them in two ways from a regional aspect (like East Asia) and from the degree of economic development in comparable two countries (like big economies or British Commonwealth economic zone). They are classified into (I) East Asia (Korea and Taiwan), (II) Southeast Asia (Singapore and Malaysia), (III) Big economies (Japan and the U.S.), and (IV) British Commonwealth economic zone (Australia, Canada and New Zealand). Factors under review include (i) economic growth rate (in real GDP in U.S. dollars) and (ii) Demographics (age structure) as the basis of the economy, (iii) flow of funds (stock) of household assets and (iv) balance sheet of household assets and liabilities to see the current status of insurance companies and pension funds in the household assets, and (v) investment environment of risk assets (stock prices and inflation rates) and (vi) 10 year government bond yields to see the base for guaranteed yield of insurance products and investment destination.

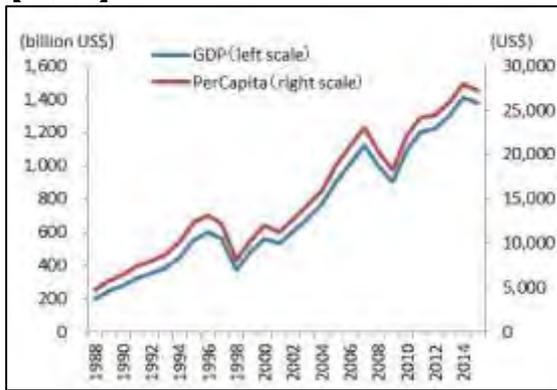
(I) East Asia (Korea and Taiwan)

(i) Economic growth rate (GDP)

These countries have had high economic growth in Asia and their per capita GDP exceeded \$10,000 at the beginning of the 1990s. Although the economic growth slowed down in both countries after the Asian currency crisis in 1997 and global financial crisis in 2008, these countries have been enjoying a long-standing economic development. (Chart 1)

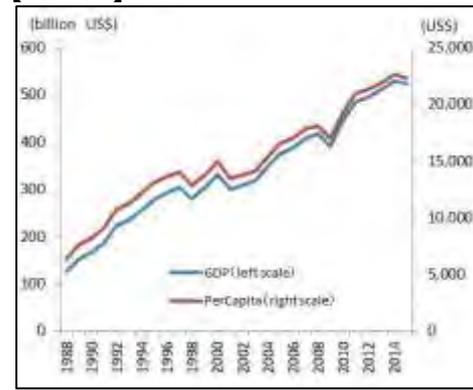
(Chart 1) Nominal GDP and Per Capita GDP

[Korea]



(Source) Korean Statistical Information

[Taiwan]



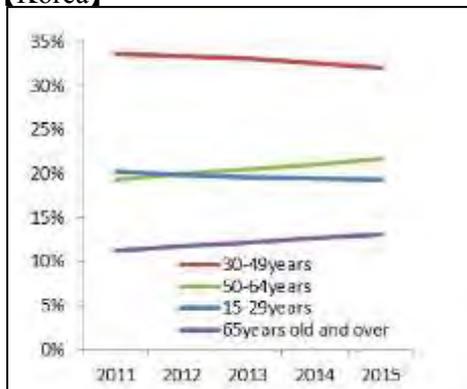
(Source) National Statistics of Service, Republic of China

(ii) Demographic composition (Age structure)

Both Korea and Taiwan have been experiencing an aging of population with declining birthrate. Especially in Taiwan, there is a rapid increase in the middle- and elder aged in 50s and early 60s, as well as senior aged in late 60s and over. Despite the increased influx of foreign labor force, it is expected both countries will see a rapid aging of population in the future. (Chart 2)

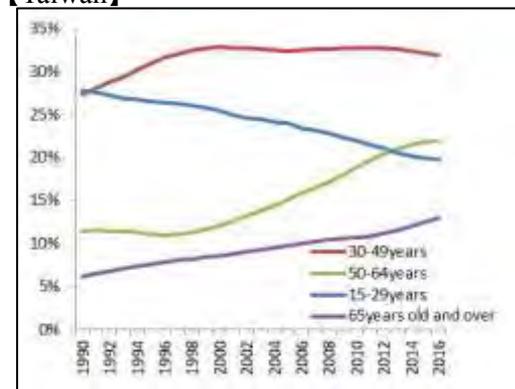
(Chart 2) Demographic Composition by Age

[Korea]



(Source) Korean Statistical Information Service

[Taiwan]



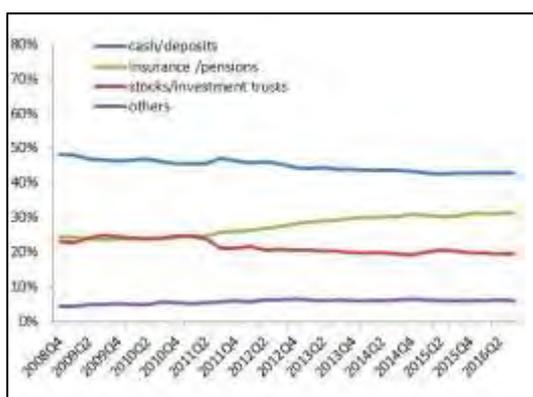
(Source) Ministry of the Interior, Department of Statistics

(iii) Flow of Funds Structure (in Stock)

As the financial characteristics of the APEC region shown above suggest, the share of cash and deposit in the household assets are the highest in Korea and Taiwan. At the same time, while other assets are on a declining trend, there is a rapid increase in insurance and pensions like term insurance supported by their high economic growth. (Chart 3)

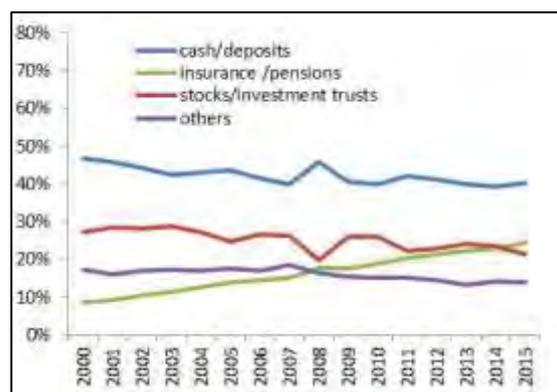
(Chart 3) Flow of Funds of Household Assets (Stock)

【Korea】



(Source) The Bank of Korea

【Taiwan】



(Source) Central Bank of the Republic of China

(iv) Assets and liabilities of household sector and its balance sheet

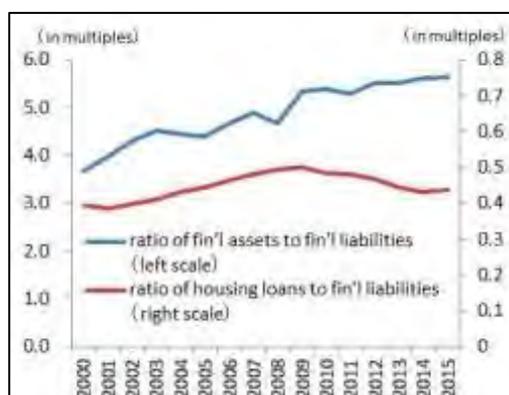
As is shown in (iii) above, the asset composition of Korea and Taiwan have more or less a similar tendency but in balance sheet they differ to some extent. In Korea, ratio of assets to liabilities (net asset) is small compared to other advanced economies with long-term liabilities like housing loans on an increase. The abundance and liquidity of assets have been rather limited, causing concerns for their impact on the economy. Meanwhile in Taiwan, net asset is on a rise with long-term liabilities like housing loans decreasing. Abundance and liquidity of household-held assets are increasing. (Chart 4)

(Chart 4) Household Assets/Liabilities and Balance sheet
【Korea】



(Source) The Bank of Korea

【Taiwan】



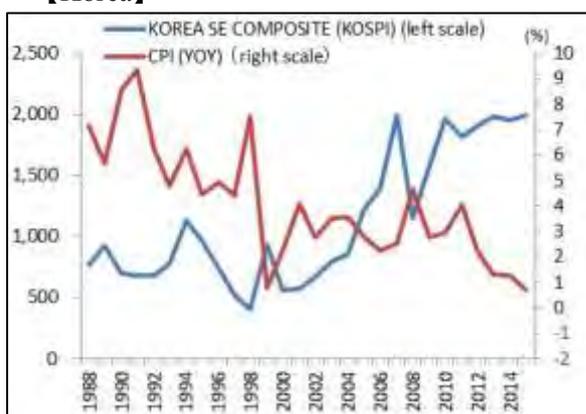
(Source) Central Bank of the Republic of China

(v) Investment environment of risk assets (stock market and inflation rate)

In both countries the stock prices tend to increase while inflation rates are declining in the long-run, giving investors a favorable environment (with rising stock prices and asset values). This would promote a shift of money to risk assets, but the actual investment position of such risk assets as stocks and mutual funds have been staying flat or falling a bit in both countries.

(Chart 5)

(Chart 5) Stock Prices and Inflation Rates
【Korea】



(Source) Datastream

【Taiwan】



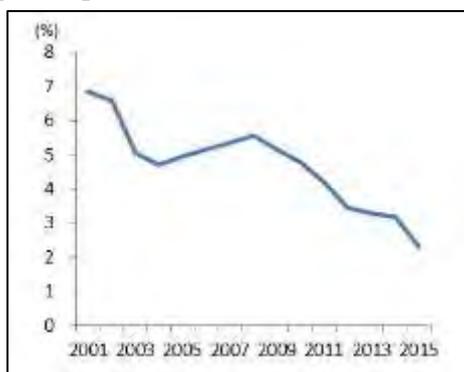
(Source) Datastream

(vi) Yields on 10-year government bonds

Yields on government long-term bonds have tended to come down in both countries over the time. This may squeeze, depending on their income structures, the incomes of insurance companies which provide products with high prospective yields to the consumers. (Chart 6)

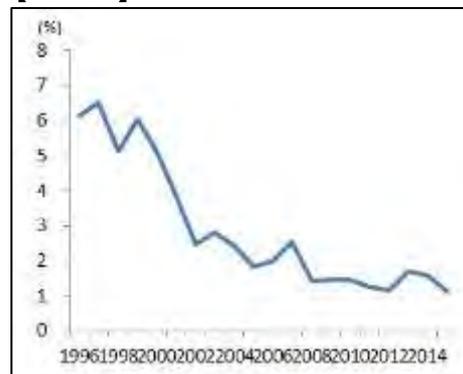
(Chart 6) Yields on 10-year Government Bonds

【Korea】



(Source) Datastream

【Taiwan】



(Source) Datastream

(vii) Section Conclusion

Based on the situations seen above ((i) to (vi)), it can be concluded that Korea and Taiwan have sustained economic growth, matured demographic structure, favorable investment environment (with some concerns in Korea) and abundant and liquid asset holdings of the household sector which offer a prospective market for the insurance companies and pension funds. However, the government bond yields tend to come down, which might squeeze the income of insurance and pension industry depending on their income structures. As both countries will face the aging of population in the middle- and long-term context, there will be a more growth potentiality, in terms of an industry's prospect, in the area of pensions and health care which represent the risks of longevity and aging.

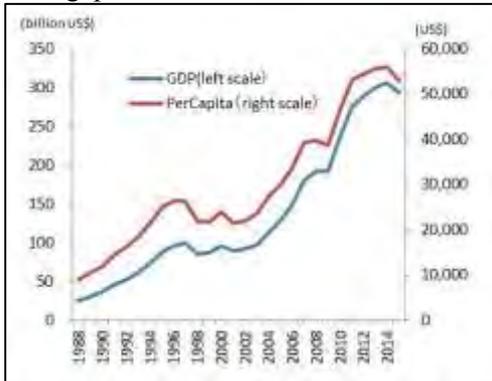
(II) Southeast Asia (Singapore and Malaysia)

(i) Economic growth (GDP)

As was the case in the East Asian countries seen (1) above, Singapore and Malaysia also experienced an economic slowdown after the Asian currency crisis in 1997 and global financial crisis in 2008, but they have achieved a long-term growth. Per capita income (GDP) of Singapore ranks the top in the Asian region while Malaysia reaching the level of US \$ 10,000 in 2013, with both having a large pool of middle-income group. (Chart 7)

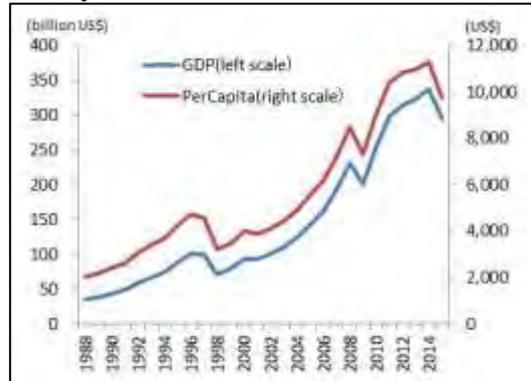
(Chart 7) Nominal GDP and Per capita GDP

【Singapore】



(Source) Datastream

【Malaysia】



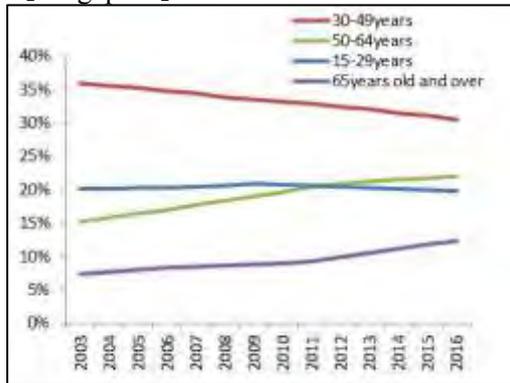
(Source) Datastream

(ii) Demographic composition (by age group)

The two countries differ in their demographic structures with Singapore experiencing a decline in the population group of 30s and 40s while the population group of 50s increasing, showing a progress of aging. On the other hand, Malaysia has a more stable demographic structure with the largest group centering in 10s and 20s, which shows that Malaysia can enjoy population bonus for a foreseeable future. (Chart 8)

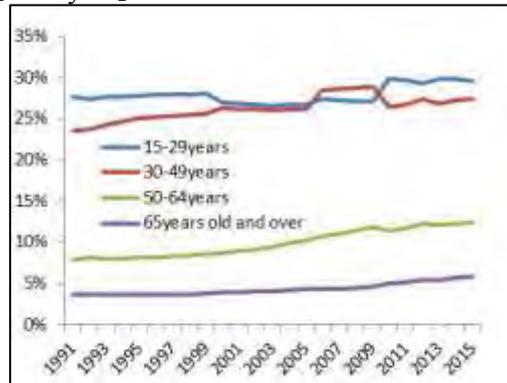
(Chart 8) Demographic Composition by Age Group

【Singapore】



(Source) Department of Statistics Singapore

【Malaysia】



(Source) Datastream

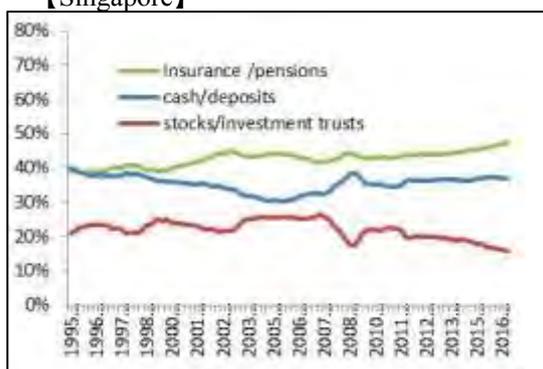
(iii) Flow of Funds (Stock)

As stated above, the short-term liquid assets like “cash and deposits” dominate the financial market also in these countries. However, in Singapore, “insurance and pensions” account for the highest share because the country implements a forced comprehensive social security plan called Central Provident Fund (CPF) which requires its citizens to set aside for retirement, as

well as for healthcare, home ownership, family protection and asset enhancement⁴. In both Singapore and Malaysia, the share of risk assets like stocks and mutual funds has been declining. (Chart 9)

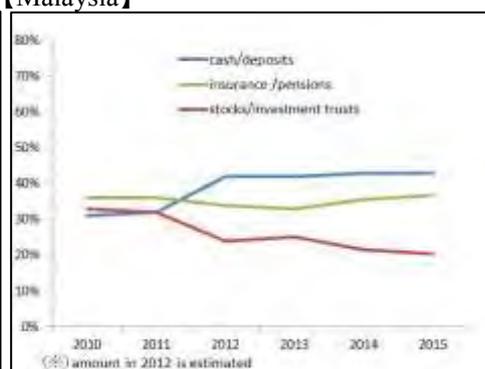
(Chart 9) Flow of Funds (Stock)

【Singapore】



(Source) Department of Statistics Singapore

【Malaysia】



(Source) Bank Negara Malaysia

(iv) Assets and Liabilities of Household Sector (Balance Sheet and Debts)

Singapore and Malaysia differ in both household assets holdings and their balance sheet of assets and liabilities. In Singapore, the share of assets to liabilities (size of net assets) has remained stable but the housing loans has a high share in the liabilities, suggesting a strong constraint on the liquidity in the household assets. Meanwhile in Malaysia, although net assets level is shifting from a plateau to a slight decline in a relatively low income environment, the share of housing loans in the household liabilities remains at stable level, suggesting households have a sustainable liquidity in their assets. (Chart 10)

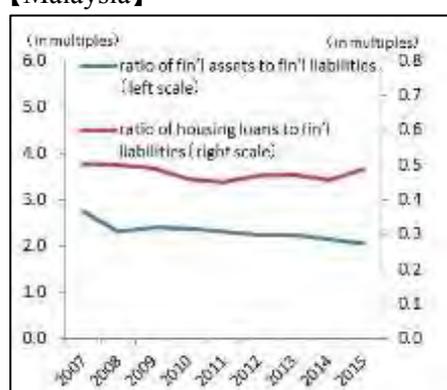
(Chart 10) Balance Sheet of Household Assets and Liabilities

【Singapore】



(Source) Department of Statistics Singapore

【Malaysia】



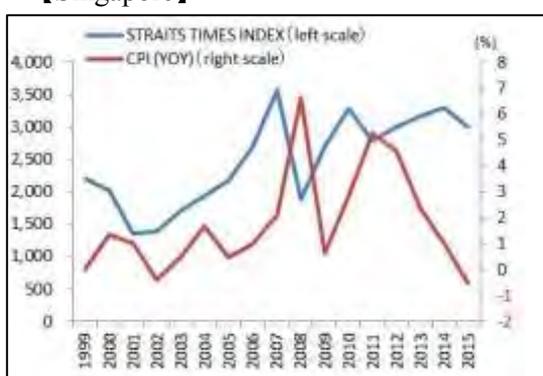
(Source) Bank Negara Malaysia

⁴ Refer to Central Provident Fund Board: “Schemes”. <https://www.cpf.gov.sg/Members/Schemes>

(v) Investment environment for risk assets (Stock markets and inflation rates)

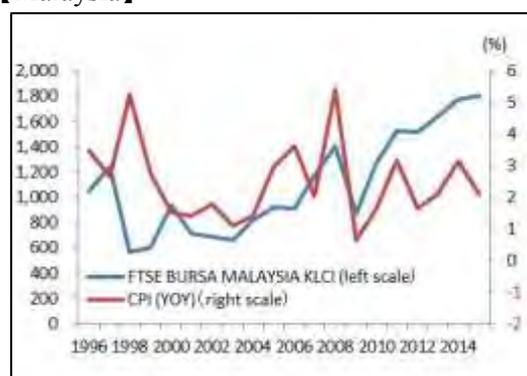
Stock prices are on a rising trend in both countries in the long-term, with inflation rates making a sustainable development except for the periods of increasing resources prices like oil prices and jumping food prices in 2008 for Malaysia and in 2008 and 2011 for Singapore⁵. However, the share of risk assets in the whole household assets continues to be flat or slightly decreasing, implying that the favorable investment environment has not been fully exploited. (Chart 11)

(Chart 11) Stock markets and Inflation rates
【Singapore】



(Source) Datastream

【Malaysia】



(Source) Datastream

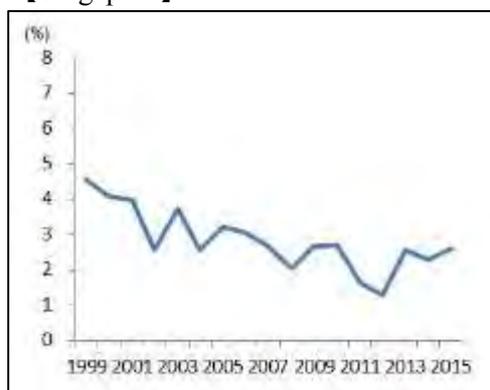
(vi) 10-year government bond yields

The government bond yields tend to decline in the long run, but the margin of decline has been smaller in recent years after temporary larger declines in some years. Therefore, government yields have not affected much the income structure and management environment of the insurance and pension industry. (Chart 12)

⁵ For Singapore refer to : Monetary Authority of Singapore 「Annual Report 2011/2012」
http://www.mas.gov.sg/annual_reports/annual20112012/index.html
For Malaysia : Bank Negara Malaysia 「Annual Report 2008」
http://www.bnm.gov.my/files/publication/ar/en/2008/ar2008_book.pdf

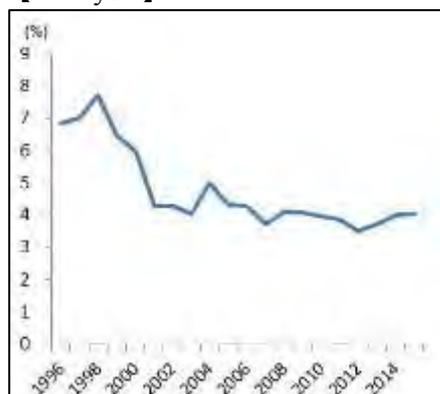
(Chart 12) 10-year Government Bond Yields

【Singapore】



(Source) Datastream

【Malaysia】



(Source) Datastream

(vii) Section Conclusion

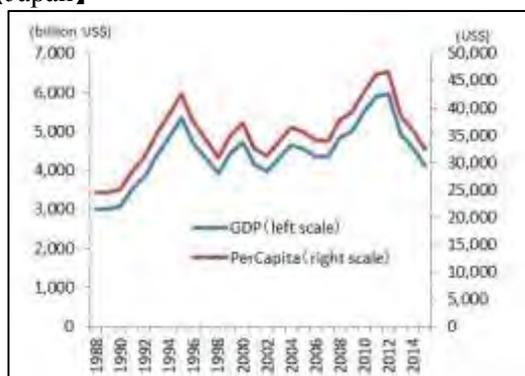
Both Singapore and Malaysia have been on a rising trend in their economy in the long run, despite the differences in their demographic structures. Singapore will see further aging of the population while Malaysia will be able to enjoy the demographic bonus with their large young generation pools and further expected increase in population. The situation of household assets shows both Singapore and Malaysia have in common a high share of cash and deposits in their assets, although in Singapore share of insurance and pension funds has been on an increase due to a national policy for the social safety network. Given the favorable investment environment and stability in the government bond markets, both countries offer a good chance for the insurance and pension industry to attract more funds, especially in the areas of pension and healthcare in Singapore which will face an accelerated aging of population, and in the areas of life insurances in Malaysia which will continue to enjoy the demographic bonus.

(III) Big Economies (Japan and the United States)

(i) Economic Growth (GDP)

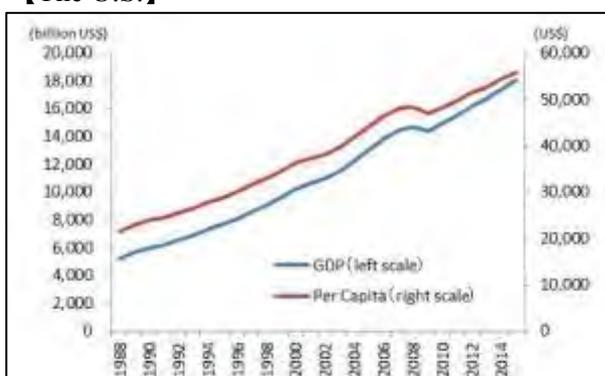
The pattern of the economic growth differs significantly between Japan and the U.S. The Japanese economy has been suffering from a prolonged stagnation since the middle of the 1990s. Although the economy recovered in 2011 and 2012 in dollar terms, the economy should be viewed as still stagnating in terms of yen given the historical appreciation of the yen against the dollar and its impact on the Japanese economic zones during that period. On the other hand, the U.S. has been expanding in the long run despite its temporary setback after the global financial crisis in 2008. They show that there are different growth patterns even among the matured economies. (Chart 13)

(Chart 13) Nominal and Per Capita GDP
【Japan】



(Source) Datastream

【The U.S.】



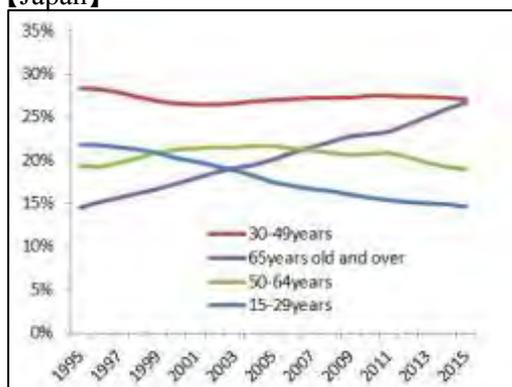
(Source) Datastream

(ii) Demographic Composition (by age group)

The demographic situation shows a different face between the U.S. and Japan since the two countries differ not only in the natural increase/decrease of population but also in their social mobility (for instance the U.S. has a large influx of people from Central America). Japan had almost the same share of elders over 65 as those in 30s and 40s in 2015, the latest year for which the data are available, with young people in 10s and 20s accounting for the smallest share in the population. This is Japan's special feature not seen in other countries. On the other hand, the U.S. has a relatively stable demographic composition although the share of elders over 65 is on a rise recently. The Japan's economic stagnation in recent years can be partly attributed to this decrease of productive-age population. (Chart 14)

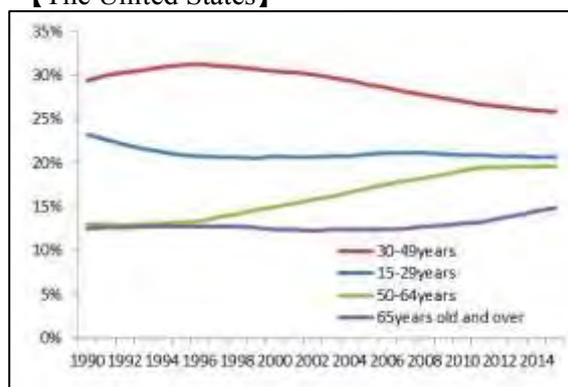
(Chart 14) Demographic Composition by Age Group

【Japan】



(Source) Statistics Japan

【The United States】



(Source) U.S. Census

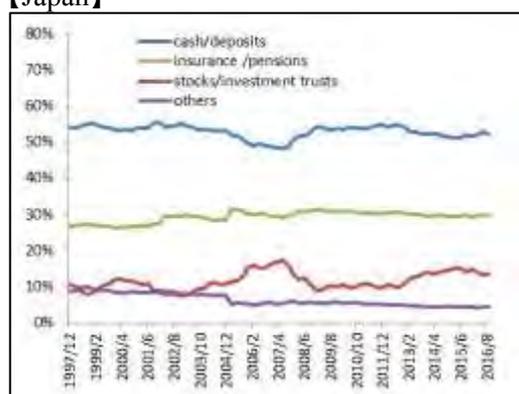
(iii) Household's Flow of Funds (Stock)

Although the risk assets like stocks and mutual funds decreased in both economies at a time

of IT bubbles crisis in 2000 and the global financial crisis in 2008, there was no big shift of funds in the household as a whole. As in other countries in Asia, Japan is notable for its high share of cash and deposits. Both countries have substantially large share of insurance and pensions but they differ in its breakdowns with Japan centering on insurance while the U.S. centering on pensions. (Chart 15)

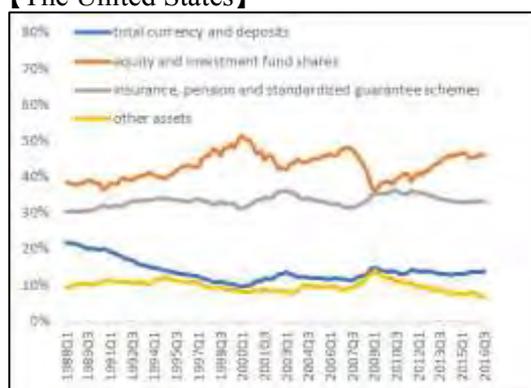
(Chart 15)Flow of Funds of Household Sector (Stock)

【Japan】



(Source) Bank of Japan

【The United States】



(Source) U.S. Federal Reserve System

(iv) Assets and liabilities of household (balance sheet and debts)

Both countries have a high share of housing loans in the total household liabilities. Although there may be some cases where the housing loans come to constrain asset liquidity, the ratio of assets to liabilities (net assets) is reasonably large and has been rising. So the impact of housing loans on assets is considered to be still small. (Chart 16)

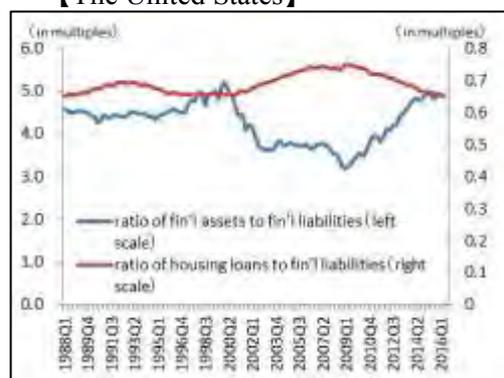
(Chart 16)Household Assets and Liabilities and Balance Sheet

【Japan】



(Source) Bank of Japan

【The United States】



(Source) U.S. Board of Governors of the Federal Reserve System

(v) Investment environment for risk assets (Stock market and inflation rate)

Situations in the stock markets have been different between the United States and Japan. In

Japan the stock market has been stagnant on a prolonged shrinking trend since 1990 despite the recent recovery since 2013. In contrast, the stock prices have been rising in the long run in the U.S., excluding the falls at a time of IT bubble crisis in 2000 and global financial crisis in 2008. On the inflation side, Japan has been seeing a long-term deflationary trend except for short-lived pickups reflecting the consumption tax hike in 1997 and 2014. In the U.S. it has recently been on a deflationary trend after being stable for a long time. It is not a favorable environment to make investment in risk assets in Japan whose stock market has been stagnant despite the deflationary trend in price movements. In the meanwhile, the U.S. has a good condition for investment, resulting in the largest share allocated for risk assets like stocks and mutual funds among the household assets. (Chart 17)

(Chart 17) Stock Markets and Inflation Rates
【Japan】



(Source) Datastream

【The United States】



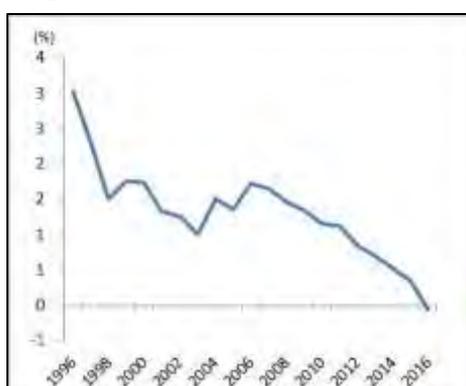
(Source) Datastream

(vi) 10-year government bond yields

The yields have tended to decline in the long run in both countries, and especially in Japan the yield has been at an historic low, dropping into negative range since 2013 influenced by the easy monetary policy. It has given a negative influence on the income structure and investment environment of the insurance and pension industry in both countries. The yields may rise depending on the future direction of monetary policy, but for the time being the industry will continue to face a hard time in the aspect of income structure and investment environment. (Chart 18)

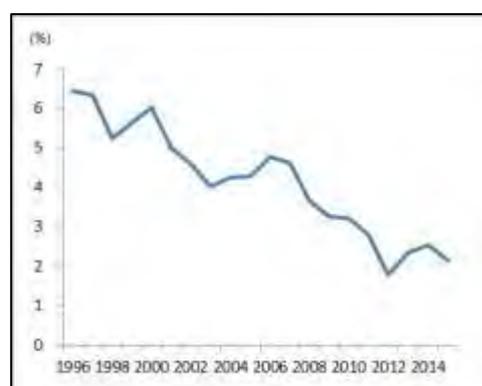
(Chart 18) 10-year Government Bond Yields

【Japan】



(Source) Datastream

【The United States】



(Source) Datastream

(vii) Section Conclusion

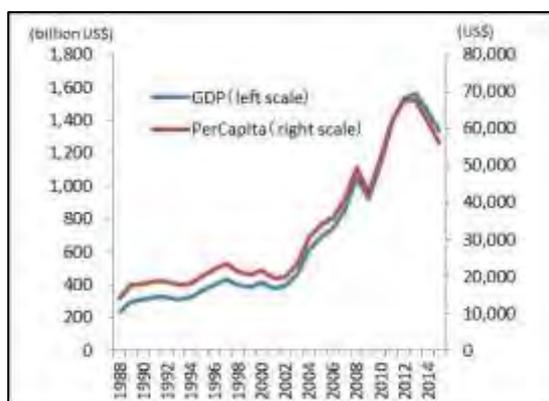
Although Japan and the U.S. have a common ground of having a large scale of GDP as economic giants, they differ in the growth base and demographic prospects and they have different investment environment for risk assets. Looking from the perspective of growth potential of the insurance and pension industry, Japan seems to have some potentiality in pensions and healthcare business to help households to prepare for the risks relating to longevity and aging, but the industry will face hardships from economic and monetary situations as well as from earning structures and investment environment influenced by such situations. On the other hand, the insurance and pension industry in the U.S. is expected to have a continued growth potential in an environment of stable economic growth and demographic structure which will provide good investment opportunities.

(IV) British Commonwealth Nations (Australia, Canada and New Zealand)

(i) Economic Growth(GDP)

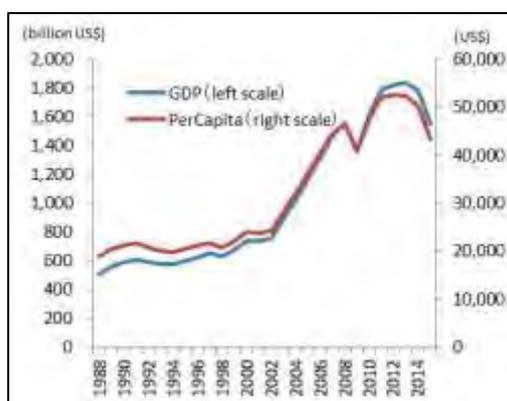
Australia, Canada and New Zealand have been enjoying a long-term economic growth since the 2000s although they all had an economic slowdown after the financial crisis in 2008. Although each of them faced a depreciation of currencies in 2015, it is regarded that they remain on a growth path from a longer perspective of time. (Chart 19)

(Chart 19) Nominal GDP and Per capita GDP
【Australia】



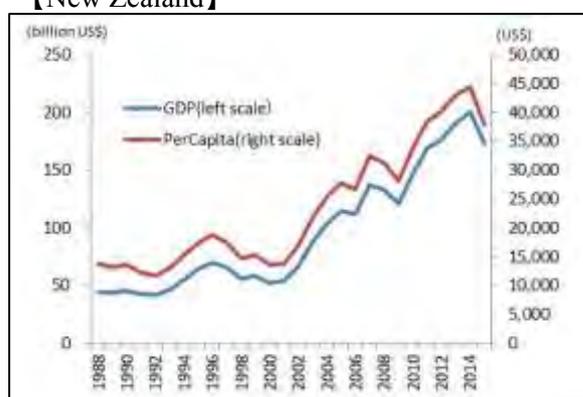
(Source) Datastream

【Canada】



(Source) Datastream

【New Zealand】



(Source) Datastream

(ii) Demographic composition (by age group)

There has been no big change seen in the demographic composition due to social increase of population reflecting the inflow of immigrants in Australia and Canada and a natural increase of population in New Zealand⁶, but in Canada and New Zealand, the population of elder group has been increasing. Especially in Canada, an increase of middle-aged and senior group has been outstanding, with further progress of aging anticipated. (Chart 20)。

⁶ ① Australian Bureau of Statistics indicates in its analysis in “Historical Population Statistic” the immigrants from foreign countries as a major factor of population increases.

<http://www.abs.gov.au/aU.S.stats/abs@.nsf/0/632CDC28637CF57ECA256F1F0080EBCC?Opendocument>

② Statistics Canada indicates the immigrants as a factor of population growth since the 2000s in its historical analysis in “Population growth in Canada: From 1851 to 2016”

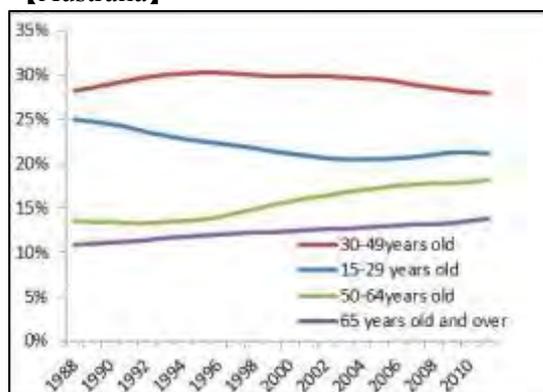
http://www12.statcan.gc.ca/censU.S.-recensement/2011/as-sa/98-310-x/98-310-x2011003_1-eng.cfm

③ Statistics New Zealand refers to a natural increase as the greatest contributor to the current population increase in “New Zealand in Profile:2015”.

http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-in-profile-2015/population.aspx#

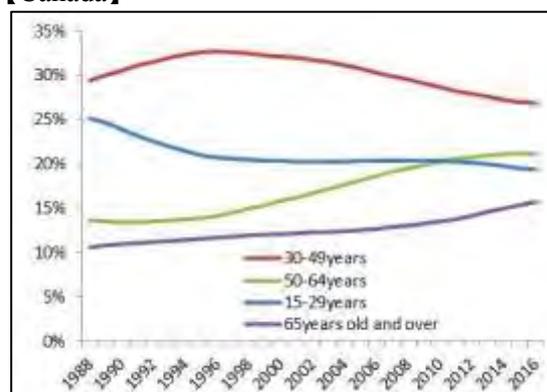
(Chart 20) Demographic Composition by Age Group

【Australia】



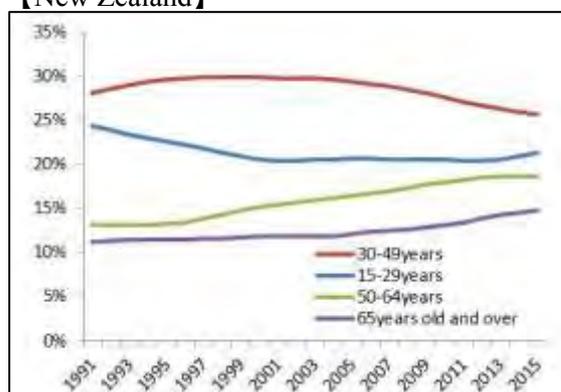
(Source) Australian Bureau of Statistics

【Canada】



(Source) Statistics Canada

【New Zealand】



(Source) Statistics New Zealand

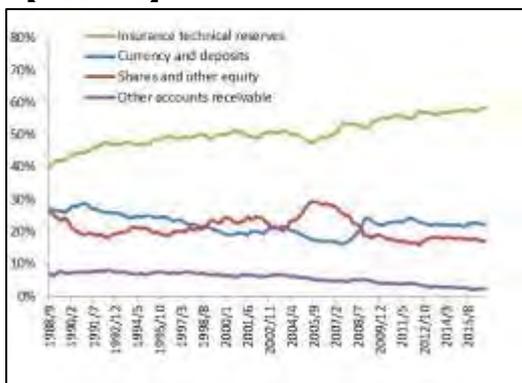
(iii) Flow of Funds (Stock base)

In Australia and Canada, insurance and pensions have dominated the financial landscape for a long time, especially in Australia due to an increased inflow into superannuation system, an Australian version of corporate financed pension⁷, and in Canada due to significant increase in mutual funds in Stock/mutual funds category. Factors behind this increase include that influence of global financial crisis was relatively less severe in Canada compared to other advanced countries and that consumers give a higher confidence in mutual funds as fitting for their consuming purposes than other financial products such as bonds and stocks.⁸ In contrast to the two countries above, stocks and investment trusts have a larger share in New Zealand especially dominated by non-listed stocks and those of non-incorporated companies. (Chart 21)

⁷ For details of Superannuation Scheme, see Australian Securities & Investments Commission “ASIC’s MONEY SMART” <https://www.moneySMART.gov.au/Superannuation-and-retirement>

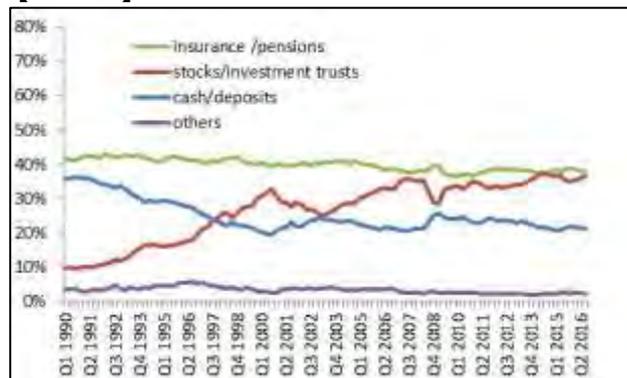
⁸ The Investment Fund Institute of CANADA “The History of Mutual Funds” <https://www.ific.ca/wp-content/uploads/2013/09/2013-Annual-Report-to-Members.pdf/5494/>

(Chart 21) Flow of Funds (Stocks) of Household Assets
【Australia】



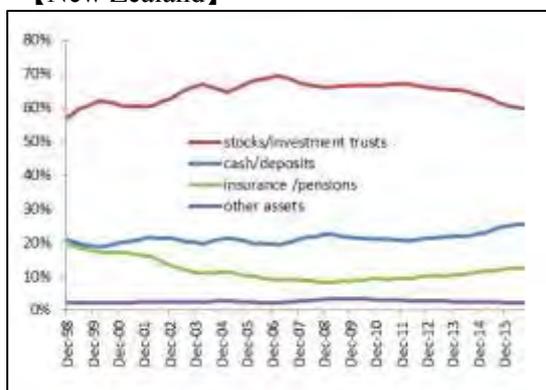
(Source) Australian Bureau of Statistics

【Canada】



(Source) Statistics Canada

【New Zealand】



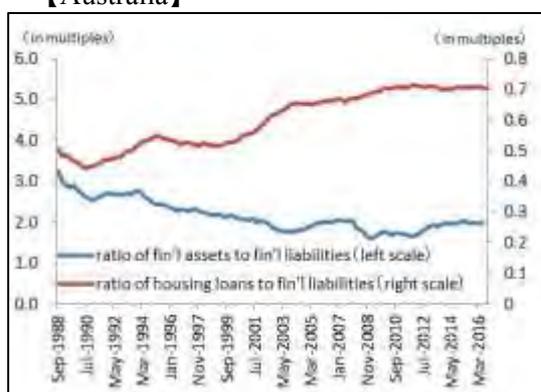
(Source) Reserve Bank of New Zealand

(iv) Household Assets and Liabilities (Balance Sheet and debts)

Ratio of assets to liabilities (magnitude of net assets) differ in each country with the ratio declining in Australia and New Zealand and especially in Australia from a relatively low level as compared to other advanced economies. Housing loans take a larger share in liabilities in all of three countries, depicting a common feature that they all have higher debts in long term liabilities. (Chart 22)

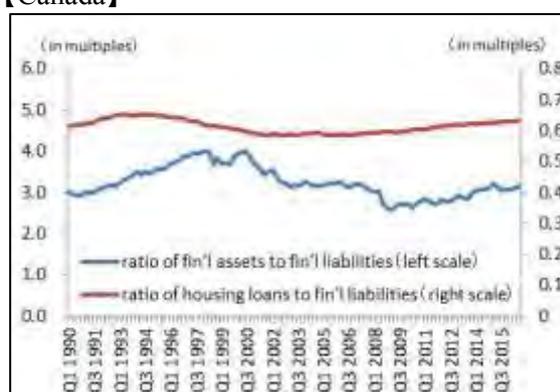
(Chart 22) Balance Sheet of Household assets and Liabilities

【Australia】



(Source) Australian Bureau of Statistics

【Canada】



(Source) Statistics Canada

【New Zealand】



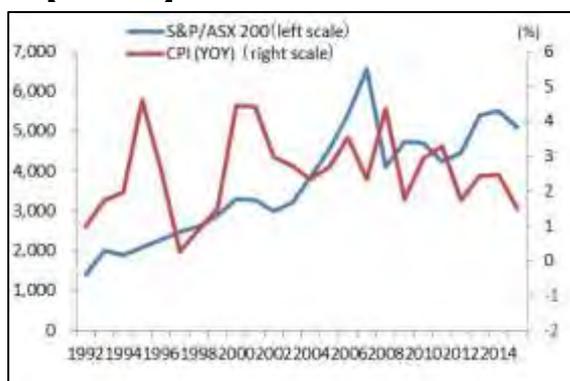
(Source) Reserve Bank of New Zealand

(v) Investing environment for risk assets (Stock markets and Inflation Rates)

Stock markets in Australia and Canada are on a rising trend in the long-run. In New Zealand, the market had stagnated after the global financial crisis of 2008, but it is recovering momentum. On the inflation side, led by New Zealand, these countries have adopted for some time an inflation targeting policy to make the price movement stabilize, thus maintaining a stable price level albeit on a slightly deflationary trend. Thus the indicators imply a better environment for investment in all of these countries. (Chart 23)

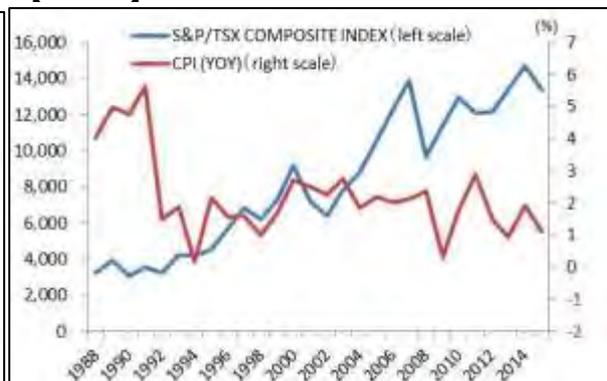
(Chart 23) Stock Market and Inflation Rates

【Australia】



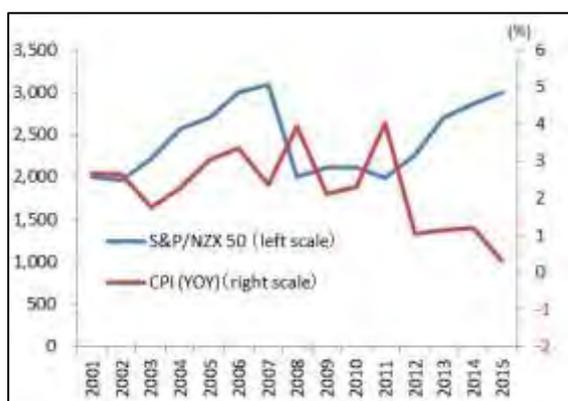
(Source) Datastream

【Canada】



(Source) Datastream

【New Zealand】



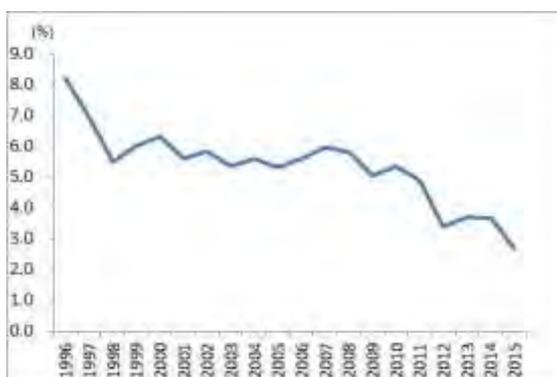
(Source) Datastream

(vi) Yields on 10-year government bonds

In all of the three countries yields have been tended to go down in the long run with an inflow of funds from other advanced economies. Depending on the income structure of each insurance company and pension fund, this will affect their income margins if the long-term fixed income products constitute the main part of their investment. (Chart 24)

(Chart 24) Yields on 10-year Government Bonds

【Australia】



(Source) Datastream

【Canada】



(Source) Datastream

【New Zealand】



(Source) Datastream

(vii) Section Conclusion

The three countries have enjoyed a long-term economic growth with a moderate change of demographic composition due to an inflow of immigrants from foreign countries and a natural increase of population except for Canada where the more rapid progress of aging is expected.

On the household assets, in Australia insurance and pensions are on the increase due to superannuation scheme (corporate financed pensions), and although they are expected to continue to increase as the change in demographic composition is relatively small, it will be important for them to take into account the impact the decrease of net assets will have on them. In Canada, despite the large magnitude of insurance and pension funds, given the progress of aging of population and increase in risk assets like investment trusts, further slowing is expected for the growth of insurance and pension funds. In New Zealand, aging of population is occurring although the demographic change is small. Currently the share of insurance and pensions is small, but as in the case of Australia it is expanding centering around the pensions, and there will be a possibility of further growth.

(3) Common Agendas for the APEC Region

As was seen in section (2) above, high holding ratio of cash and deposits among household assets is a common feature for the economic and financial structures both in East Asia and Southeast Asia. The APFF as a regional framework has been promoting the development of insurance and pension industry by encouraging the household on holdings of long-term assets like insurance and pensions, but still in many countries cash and deposits constitute major parts of the household assets which center on the short-term and safer assets. Yet they show a different feature in their net household assets and magnitude of long-term liabilities.

The demographic changes in countries reviewed in (2) above show that except for Malaysia, the population of elder group (and decline in the number of children in some countries) has been increasing although with a different speed. The prospect of demographic composition for these countries and ASEAN countries shows that the elder people are expected to increase notably especially in East Asian countries and Singapore. Among the ASEAN countries Thailand and some others are expected to have an early arrival of the aged society with a half of other ASEAN countries reaching an aged society in the longer run. (Chart 25)

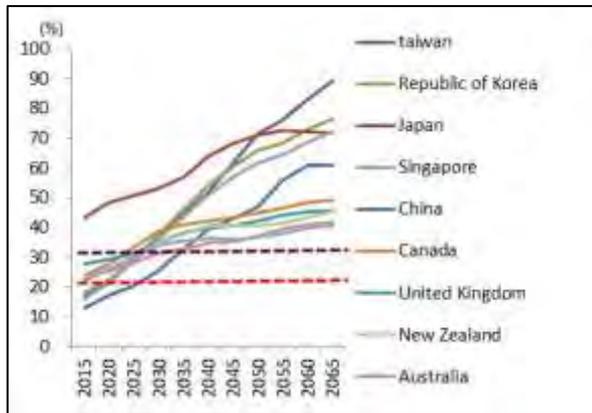
On the other hand, looking at the labor participation ratio of women in the lower 30s to forecast a direction of declining child-births, its ratio is rapidly increasing in East Asian countries and in Singapore. (Chart 25) Amid the hardships in their work style, housekeeping and childcare environment, it is analyzed to be a factor for the decline in birth rate that the diversification of values and improved education level have encouraged women increasingly to stay unmarried, or marry later and delay the birth⁹. Meanwhile in the ASEAN countries, the labor participation ratio has not changed much in many countries except for Malaysia where the participation ratio has been rising. Future prospect of its participation ratio should be carefully watched because the ratio will change depending on the women's choice of work style and housekeeping and child care environment. (Chart 26)

⁹ Cabinet Office; Comparison of measures for a society of declining child birth in Asia, 2008
http://www8.cao.go.jp/shoushi/shoushika/research/cyousa20/hikaku/mokuji_pdf.html

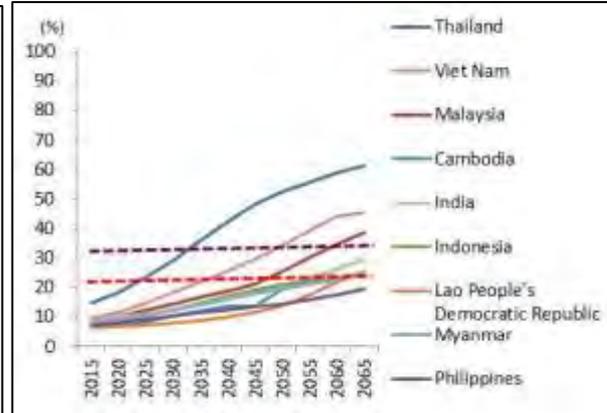
(Chart 25) Forecast of Ratio of Aged People to Population of Productive Age¹⁰

【Advanced countries in APEC】

【ASEAN and other countries】



(Source) United Nations

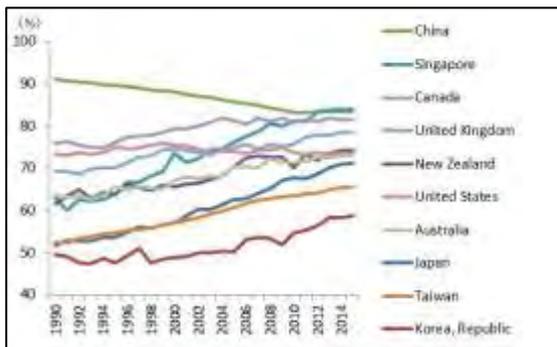


(Source) United Nations

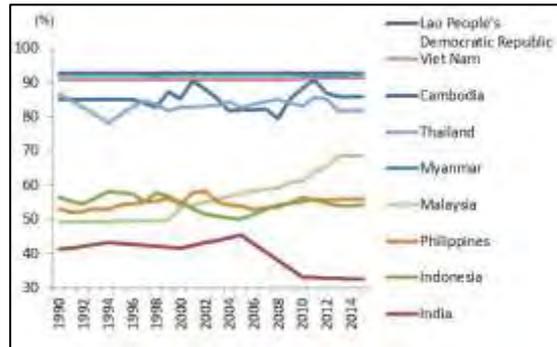
(Chart 26) Labor Participation Ratio of Women in early 30s¹¹

【Advanced countries in APEC】

【ASEAN and other countries】



(Source) ILO



(Source) ILO

(4) Direction of Possible Solutions to Common Agendas

As I touched at the beginning, longevity risk has been discussed as one of the main agendas in the work streams for insurance and pension field of the APFF, together with the discussion on the desirable income security schemes after retirement that include pensions. In the future, in addition to income, many other diversified agendas will be discussed from the perspective of “aging risk”. In such diversified trends and developments in the APEC region, it is expected that the social system and business know-hows accumulated in the highly aged societies centering in East Asia and public-private combined efforts on pension system like superannuation system in Australia and their business know-hows will furnish rich examples for the construction of social

¹⁰ In the forecast, medium level was used for “fertility rate”. Productive-age population is defined as those of 15 to 64. The dot line in purple indicates the level at the start of super-aged society of Japan (data for 2005, the nearest year in every 5 years, although actually the level exceeded 21% of total population in 2007). The dot line in red shows the level at the start of aged society (1995)

¹¹ Taiwan is estimated from the data of “Asian other non-specified areas”

system and development of business in the ASEAN and other countries that will face longevity risks in the future. Especially introduction of a “compulsory funding method” that accompanies a legal obligation for funding of a certain ratio of total contributions, as is seen in the superannuation system in Australia, may accelerate the flow of funds from cash/deposits to long-term funds on its binding power. That is what has been occurring in Australia. The income scheme after retirement like pensions closely relates to the paradigm of a country, so much will be subject to its political and administrative developments. However, introduction of a similar system on a private initiative into the ASEAN countries will be considered an alternative option to be encouraged from the perspective of development of private insurance industry.

3. Conclusion

The APEC region, while showing diversified aspects despite many economic and financial similarities, faces a common challenge of aging of population. It is projected that the process of aging population will accelerate especially in East Asia and Singapore, and about half of major countries in the ASEAN and others will see a start of aged society in the long run.

In such economic circumstances, social system and its business know-hows built in the East Asian countries and Singapore and pension system jointly supported by public-private partnership and its business knowhow in Australia that has a fast growth of insurance and pension industry will be utilized as examples and lessons for those countries including ASEAN countries which will face an aging society in the middle and long term. In that process it is anticipated that insurance companies in advanced economies will plan a shift and diversification of their business structure from that of traditional homeland-oriented income base to the one based on expanding into other countries. They will acquire more business know-hows through new capital subscriptions to or buyouts of those insurance countries in advanced economies in the short run, and then in the medium to long run will provide business know-hows thus constructed to other insurance companies located in the ASEAN countries and others through new capital injections to or buyouts of the latter companies.

In this respect, it is quite important to watch the political and regulatory developments related to post-retirement incomes schemes for the elder population, such as pensions. The post-retirement incomes including pensions of the elder people should be taken into account from a longer term of perspective in addition to short-term developments in the financial market and others. Even in the countries where the aging has not started yet, the issue of post-retirement incomes should be discussed at an early stage.

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