Asia Pacific Demographic Trends

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Asia Pacific is home to 61% of the world’s population. Asia Pacific is home to 61% (4.4 billion) of the world’s total population and to three of its four most populous countries. China, India and Indonesia together account for 40% (2.9 billion) of the world’s population. Asia Pacific’s large population, estimated at 4.2 billion in 2010 and projected to increase to 5.2 billion by 2050, has been a key factor in the region’s rapid economic development.

Growth driven by demographic dividend... Growth is closely related to demographic transition. It is estimated that as much as one third of Asia’s strong growth to date can be attributed to its “demographic dividend”, that is its large population of young people and therefore young labour pool. However, an underlying theme of current demographic trends is that of an ageing population.

- Average population growth in Asia Pacific is forecast to fall to 0.1% by 2050 from 1.1% in 2012. China’s population is expected to shrink from 2031 onwards.
- The number of people aged 65 and over in Asia Pacific is estimated to grow to 911 million in 2050 from 288 million in 2010.
- By 2045–2050, life expectancy in many countries will be at or over 80 years.
- The fertility rate in many Asia Pacific countries is expected to fall below the replacement rate of 2 by 2045–2050. This has already happened in China, Hong Kong, Japan, South Korea, Singapore and Thailand.
- The region’s working-age population is expected to peak at 68% of the total by 2015.

... and rapid capital accumulation and savings. In addition to its young labour pool, Asia-Pacific’s growth has also been driven by rapid capital accumulation and high savings, and hence investment rates. According to economic lifecycle theory, savings are usually high during the working-age years and low or negative during the early and later stages of life. With many of the region’s countries still in early stage of development but also having ageing populations, there are concerns that Asia-Pacific will “grow old before growing rich”.

The level of old-age dependency is likely to rise in coming decades. A shrinking working-age population to support a growing older population will likely lead to rising old-age dependency. Many governments in Asia Pacific are reforming their pension systems in response to this dynamic. Some countries have introduced “pay-as-you-go” (PAYG) pension plans which are financed by current worker contributions. With the exception of a few ‘younger’ countries such as Indonesia and India, however, the ageing population means heightened longevity risk. This could render PAYG plans unsustainable in the longer term as the cost of supporting the old aged in retirement may be too great a burden for the younger generations to bear.

Increasingly, longevity risk will need to be dealt with at the individual level. With longer retirements and progressively less government and employer support for the post-working years, it is likely that individuals will increasingly need to make their own funding arrangements for their old-age years. The life insurance industry can provide solutions, such as with life annuity policies which provide policyholders with periodic pay outs until death.

This has implications for the health insurance sector too. Ageing population risk also has implications for the health sector. With longer lives there will be rising demand for and associated expenditure on medical care services. Moreover, advances in medicine and increasing demand for customised services will likely inflate the cost of treatments. Financing this expenditure will be a key challenge for both governments and individuals. The authorities in Asia Pacific will face a heavy burden for total healthcare expenditure if current financing patterns remain unchanged. It is estimated that if the ratio of healthcare spending-to-nominal GDP stays at current levels, the region’s health protection gap will reach USD 197 billion in 2020.1 This is not least because of the likely growing need for healthcare provisions in retirement given the rapidly ageing trend in many countries.

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Funding healthcare, especially long-term care (LTC) services is a pressing challenge. To date the majority of healthcare expenses have been financed either by government (e.g., in Japan, Thailand, Australia, South Korea and China) or by individuals privately as out-of-pocket expenditure (e.g., India, Singapore, Vietnam). Faced with rising healthcare costs and constrained budgets, governments in the Asia Pacific will likely struggle to meet the care needs of their expanding elderly populations. The trend will increasingly be towards a sharing of the costs between the individual, state and the insurance industry.

The impact of changing demographic patterns also has implications for non-life insurers. For instance, the age profiles in Asia Pacific support continued strong growth of outbound tourism which could lead to increased demand for travel insurance. The changes in consumption patterns and wealth accumulation among the healthy elderly are gaining increasing attention from insurance companies. Meanwhile, older drivers tend to have accidents more frequently, but these are of lower severity. This has an effect on claims behaviour and therefore also motor insurance pricing. Separately, the higher levels of disposable incomes that come with more double-income households could generate growing demand for personal accident or casualty insurance.

Scope of this report

The opportunities and challenges of changing population dynamics in Asia Pacific for the life and non-life insurance sectors are addressed in this report. This comes after a more detailed examination of the trends and socio-economic impacts of the demographic transition underway in the region. In this report Asia Pacific refers to the geographical region including Asia and Oceania. Data for the Asia Pacific region is used where available, mostly from the United Nations Population Division. Otherwise indicators are limited to Asia as dictated by availability of information from national statistics bodies and other. Not all demographic factors (e.g., morbidity patterns, education profiles and divorce rates) are covered in the report.

UN data do not include Taiwan. Figures for Taiwan are obtained from US Census and Taiwan Executive Yuan, and will be incorporated in the analyses wherever appropriate.