Asia's Senior Markets:
More opportunities than challenges?

Asia's rapidly expanding senior markets present a broad range of potential opportunities and challenges. Death benefits are no longer the main need; today's necessities are protecting retirement income and assets to ensure that both living costs and the widening scope of health care costs and needs (especially nursing care) are covered. **Mr Ray Jeon**, **Mr Andy Hui** and **Mr Isaac Lin** from **RGA Reinsurance Company** explore.

Elders – defined as age 65 and above – are fast becoming a dominant population in Asia's mature and developing countries. Several Asian countries are soon to be in the World Bank's super-aged category – meaning a dependency ratio (ratio of elders to working-age population) of at least 20%. Furthermore, this ageing is changing senior chronic illness trends. Rising incidence of hypertension, obesity, stroke and Type 2 diabetes in this cohort is necessitating more health care capabilities targeted for elder needs.

A cultural shift is also occurring that is foreshadowing a growing need for access to elder care. Historically, elders requiring caregiving support relied on informal home care or unpaid caregivers such as family members. Today such options are far less available, as these individuals are in the workforce, necessitating even greater elder access to health care support.

Finally, the ongoing low interest rate environment and its stagnant long-term rates, coupled with customer preferences for products that offer either return of premiums upon death or the sum assured in case no other claims were made, are making certain traditional products even more expensive.

Governments in the region are currently working out how best to meet this growing need through social development programmes, but affordability is the ongoing challenge. For insurers, this can mean substantial potential opportunity.

The challenges

Offering protection products to older individuals has never been simple, for several reasons. Although sales of products that support long-term care such as home healthcare and long-term disability have been rising in some countries, penetration for other types of senior-suitable products is still quite low: a typical critical illness portfolio in Hong Kong or Singapore, for example, usually has less than 10% of policyholders of age 50 and above.

Insurers throughout Asia are stepping up to the challenges of improving life and health coverage for the region's seniors, but several issues are slowing market penetration. As seniors are a comparatively new risk category, current underwriting rule design may not necessarily be optimal for this segment. Additionally, pricing for older ages has always posed challenges, given the lack of sufficient relevant data. Thus most products in Asia are either not suitable for senior applicants, or the benefits are not sufficient for relevant old-age coverage.

Insurance agents also are typically reluctant to approach seniors, as they tend to need more medical underwriting than members of other cohorts. Most seniors who need additional underwriting will drop out of the application process at that point. Those who remain are likely to have impairments that require substandard loadings on their premiums, which is likely to further reduce their "buy"

Group of senior Japanese people draw paintings at Ueno Park

decisions. This is leaving most seniors in Asia unprotected or under-protected.

Meeting the needs

In recent years, insurers in some Asian markets have begun to explore alternative underwriting approaches for the age 65+ market.

Life and critical illness products are being developed that feature simplified underwriting as well as pricing that permits standard underwriting for cases with one or even two existing impairments, giving wider accessibility.

Korea, for example, scrapped its age 65 issue limit for critical illness products in 2012 with the launch of its Silver Cancer critical illness product. The product, developed for issue ages 65-80, featured simplified underwriting that enables applicants who also have diabetes and/or hypertension to be accepted without requiring additional medical underwriting or loadings. This could be done because cancer risk has significantly lower correlation with diabetes or hypertension risk, so high loadings are not needed.

This product has been successful in direct marketing channels, but it is still unknown whether such a structure might work for a senior product covering a broader range of critical illnesses. Other conditions more common in elder populations, such as acute myocardial infarction (AMI) and stroke, still require high relative loadings – as high as 200% assuming market-average underwriting. Loadings can be even higher, depend on the relative severity of the illnesses, and could make such living benefit coverage expensive.

Pricing policies for seniors

To resolve this loading challenge, one Korean insurer developed a two-premium structure for a product that incorporated hypertension. One structure was for healthy individuals (without hypertension) and one would cover individuals with the hypertension impairment. AMI and stroke were underwritten separately.

Products can also be designed and priced so that mildly impaired senior cases can be accepted, and so that those willing to provide more underwriting information could be underwritten favourably.

In Korea, this might require a review and redefinition of "preferred" for its senior market segment. Policies might, for example, be more generous about obesity than would the ordinary preferred policy.

Senior-focused product designs might also benefit from wellness technologies, and the integration of wellness with insurance coverage. Wearable devices such as the Apple Watch or the Mi-Band fitness tracker can link activity to coverage and benefit levels. One product is already being piloted in Korea that provides premium discounts to all based on pedometer metrics.

Designing products for seniors

Insurers in Singapore, meanwhile, are looking at ways to develop senior products propositions despite the lack of a comfortable cushion of senior experience. Some have designed a simplified product that uses a point-of-sale underwriting questionnaire instead of a medical examination to collect needed information for an underwriting decision. At the same time, accessibility of the product is widened by covering some mildly impaired lives at standard premium rates due to common lifestyle impairments.

Taiwan-based insurers are looking at the claims assessment process as a means of strengthening senior marketing efforts. Claim adjudicators for long-term care cases can, for example, receive training to help them read and interpret the results of a Clinical Dementia Rating or the Mini Mental State Examination tests.

Taiwan insurers are also exploring how best to serve the senior market. Although sales are good for long-term care products, their rising premiums due to persistently low interest rate environment indicate a risk that customers might not see long-term care cover as valuable if coverage triggers are too hard to comprehend (for example, inability to perform three of six Activities of Daily Living).

To address this concern, direct companies in Taiwan have begun examining how best to cover low-incidence catastrophic impairments while not offering saving elements (such as return of premium upon death) that could minimise the negative impact of low interest rates on premiums. One design that is thus far providing effective and affordable cover is a critical illness annuity that is payable only upon survival and after diagnosis of certain critical illnesses.

Conclusion

These evolved underwriting approaches are penetrating senior segments, and more comprehensive protection solutions are also coming through the agency channel without significantly compromising other risk management considerations.

As Asia's population ages and the region's markets mature, the senior market will continue to rise in importance. In both mature and developing countries, the senior cohort can offer substantial opportunities for insurers. Digital and mobile technologies can improve distribution while thoughtful innovations in product design and underwriting tailored to senior needs can strengthen interest and ultimately improve sales.

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