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Demographic Change in Mexico (Part II)

Opportunities and Challenges for the Insurance Industry

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CHANGING TARGET POPULATION

The potential market for insurers will undergo major change over the coming decades. As we can see in Table 5, following the projection of our Base scenario, the population aged 50 or over will grow by 2060 by 39.3 million people, while the population of young people (from age 25 to 49) will only grow by 7.4 million. The absolute growth of the age ranges is not the only important factor. The proportion of the population aged 50 and over will grow from 19% in 2015 to around 40% by 2060. In other words, almost half the population will be 50 or over.

Table 5
Distribution of the Population by Age Range (Mexico, 2015–2060)

Age Range	2015	2060
25–49	42.5 M (35%)	49.9 M (32%)
50–69	17.4 M (14%)	38.3 M (24%)
70+	5.2 M (4%)	24.3 M (15%)

Source: Gen Re—Own calculations based on the data "Conciliación Demográfica de México1950–2015, Consejo Nacional de Población (CONAPO), 2018." *https://www.gob.mx/conapo/acciones-y-programas/conciliacion-demografica-de-mexico-1950-2015-y-proyecciones-de-la-poblacion-de-mexico-y-de-las-entidades-federativas-2016-2050.*

This anticipated change represents a challenge to the insurance industry for various reasons. Firstly, it will be necessary to develop suitable cover for an elderly population. Various elements of the design of current products, such as the maximum ages of entry and of cover, will have to be adjusted to cater for the anticipated increase in life expectancy. This will entail different challenges given that available claims experience is limited as the current focus within the target population is rather different.

Secondly, it will be necessary to design and offer attractive products at affordable prices. It is important to take into account the fact that the disposable income in Latin America, which retired people have available for insurance, is limited. The OECD[1] estimates for Mexico that, under the present pension regime, an average contribution of 6.5% would enable a salaried person to achieve a replacement rate of just 26% by the time of retirement. Accordingly, affordable cover for the real needs of retired people will be needed. This process of creating an adequate range of products to offer will have to be accompanied by efforts to educate consumers on the financial risks which longevity entails, and hence on the need to make suitable provision to minimize that risk. Indeed, a study published recently in Austria looking at people aged between age 50 and 79 found that 67.7% of those interviewed fear physical disorders, pain and illness, while 62.9% also had concerns about their mental health and were frightened of suffering from dementia.[2] This percentage rose further (71.2%) among people over 70.

CHANGES IN THE RISK PROFILE

It is highly likely that in future there will be people actively working who would today be considered retired. Accordingly, we may expect a change in the risk profile of insurance portfolios in the form of higher sums insured on elderly people.

In life and health insurance, medical underwriting is currently a process with a variety of functions, for instance:

1. Identifying risks which will require special terms, such as an increased premium, reduced benefits, or modified cover

2. Classification of risks in order to ensure appropriate pricing

3. As far as possible, matching the assumptions made in the pricing with the risks taken on

4. Avoidance of uninsurable risks

5. Guaranteeing that there is a suitably insurable interest, e.g., financial underwriting

The morbidity of many illnesses, especially chronic ones, increases with age. Accordingly, an aging population throws up additional challenges that entail extending the functions of insurance underwriting. Emerging technologies mean that it is already possible today to identify segments within a portfolio with a lifestyle that is conducive to chronic health risks.[3] Integrating this kind of service into an insurer's own range of insurance policies allows the insurer to design personalized measures that will incentivize and promote a more healthy lifestyle. This could undoubtedly lead to the stabilization of the state of health of an aging portfolio.

DIVERSIFICATION OF SALES CHANNELS

Recent years have seen a growth in the importance of new sales channels, such as the Internet or, more recently, mobile applications. These channels coexist with traditional sales channels such as agents or bank insurance channels. Each of the sales channels has different target users. Whereas the younger generations gravitate more towards telecommunication media, the elderly population has a greater tendency to remain loyal to traditional sales channels. In future, as the general population ages, it will be important to take into account the sales channel preferences of the different age groups in order to avoid excluding a significant proportion of potential insured persons who are unfamiliar with certain channels. In other words, although certain channels may be more cost effective, we cannot forget that they may also have limited reach when it comes to an ever more elderly population.

NEW AND MORE COMPLEX PRODUCTS

A growing life expectancy will probably change the type of products offered on the market. A person who expects to live longer will be more interested in products that confer benefits while alive and less in those that insure against his or her death. Accordingly, we will see a growing demand for policies that transfer the risk of longevity to the insurer, such as annuities, long-term care insurance and products with a savings component. In health insurance products, we will see more extensive ages of cover. Similarly, we shall see growing demand for policies that grant wider cover for the treatment of illnesses, many of them chronic, which tend to manifest themselves at advanced age, such as dementia or Parkinson's disease. The inclusion of treatments and therapies that arise due to scientific advances, at reasonable prices, will be key to adapting the policies offered to a population with different needs.

Among the range of current protection insurance focusing on an elderly population, we may highlight the following ideas:

Over-50 life cover. This range of products has become increasingly popular in the UK. This type of insurance involves guaranteed acceptance cover, meaning that there is no kind of underwriting—either before or at the time of the claim—with a level premium, for the purpose of providing a modest sum insured to persons who are between 50 and 80 years old and who would not be eligible for insurance under a normal medical underwriting regime. The aim of such policies is to provide funds for such things as funeral costs or the payment of debts outstanding at the time of the policyholder's death.

Long-term care. In Latin America we can currently see the first products venturing into the field of disability cover geared towards elderly people who have retired from working life, in which the benefits (a fixed sum insured or a temporary annuity limited to a few years) are activated by the continuous and permanent failure of different (usually three or four out of six) activities of everyday life (ADLs), even with the use of suitable aids. These activities are normally defined as follows:

- The ability to move from one room to another across a flat surface
- The unaided ability to wash oneself
- The unaided ability to dress oneself
- The ability to consume drinks or eat, once the food or drinks have been prepared
- The ability to get in and out of bed, a chair or a wheelchair
- Continence

Many chronic illnesses present in old age entail an inherent risk that the sufferer will lose physical abilities and that this will prevent him or her from living a normal life (defined as the performance of the ADLs. This kind of policy is clearly designed to provide the financial aid necessary to initially fund the lifestyle changes necessary to maintain a decent quality of life.

Specialized cover for people with chronic illnesses. Particularly in South Africa, life and disability products designed specifically for people suffering from diabetes or HIV have become very popular. Previously, these risks were considered uninsurable or at best only acceptable with great underwriting efforts. However, medical advances have not only allowed these to be converted into insurable risks but even to allow these risks to be accepted rapidly and with surcharges which are geared to the actual state of the illness in question, therefore better reflecting the condition of the person seeking insurance. In future it is highly likely that medical advances will permit the insuring—at reasonable premiums—of risks, many of them age-related, which are at present regarded as uninsurable due to the extent of the risks.

Products geared to biological age. Generally the terms and conditions of an insurance policy are geared to the actual age of the insured person, on the assumption that age itself is a factor indicating the insured person's actual state of health (at least from a statistical viewpoint). In other words, the older a person is, the greater the risk he or she is deemed to represent (whether of death or disability), and this is therefore reflected in the policy premium. Currently, though, cover can be found that goes beyond mere age and takes different factors into account (including on a regular basis), which could be better indicators of health (that is, indicative of a given physical or biological age) and, accordingly, of the risk to be insured. These factors may include the following:

- BMI
- Systolic and diastolic pressure
- Triglycerides
- Cholesterol (HDL & LDL)
- ALT, AST & GGT
- HbA1c
- Glycosuria and Proteinuria

Specialized medical expenses products for persons of advanced age. In certain countries, such as the U.S., we find major medical expense products designed specifically for the needs of people over 50. Clearly, the modules making up such products will differ from those required by younger people. For example, whereas the maternity or childcare modules would no longer be required by an elderly person, the insurance profile would be oriented more toward areas covering joint or hip problems or perhaps cardiothoracic surgery.

CHALLENGES AND OPPORTUNITIES FOR PRICING

For insurers, longevity risk is the risk that their insured lives live longer than expected. This is a risk which, if any of the scenarios projected above were to become reality, could have a major impact on the profitability of a product should the various guarantees (e.g., level premiums, ages of cover, etc.) have been inadequately priced, or should reality fail to conform to the initial assumptions; for instance, due to a greater than expected reduction in mortality. Moreover, under a Solvency II regime, all the guarantees, including those relating to longevity risk, come at a price, reflecting the increased capital requirement. Accordingly, it is necessary to apply models that allow for:

- Improvements in mortality
- The dynamic between the demographic variables and their impact on the various risks assumed
- The economic environment and backdrop, as well as their impact on the different variables

It is clear that those insurers who succeed in better understanding risks and have greater analytical capabilities will be able to make more informed decisions and offer their customers better products.

CONCLUSION

Over the past few decades, Mexico has undergone a profound demographic transformation. Mortality rates tumbled between 1950 and 1990, while the same period also saw a rapid fall in fertility rates. Both factors, combined with the phenomenon of migration, have contributed to the ageing of the Mexican population. Various projections demonstrate that this trend will continue over the coming decades and will reach levels that can already be observed in certain countries of the European Union. This societal change will bring with it a corresponding change in the target market of insurance companies, both in terms of its composition and in the type of products required. Not only the design but also the pricing of products and underwriting of risks will increasingly have to focus on an ageing population. Moreover, in order to remain sufficiently competitive through stable premiums, insurers will have to develop underwriting mechanisms aimed at promoting and maintaining health within an ever more elderly portfolio. The future will pose challenges. However, every challenge also offers growth opportunities and mutual benefits that can be shared by the insurer and the insured. ■

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ENDNOTES

1 OECD Reviews of Pension Systems: Mexico, 2016 OECD.

2 *https://www.versicherungsjournal.at/markt-und-politik/die-finanzielle-lage-der-generation-50-plus-19151.php?vc=rss_artikel&vk=19151.*

3 PAI—Personal Activity Intelligence, *https://www.paihealth.com/.*