

G20 Priorities and the Insurance Sector

Keynote speech by Toshihide Endo
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Good morning, everyone. As Minister Aso mentioned in his speech, Japan holds the G20 Presidency this year. I welcome the initiative shown by the insurance industry to hold this forum on key G20 priorities, including aging and technological innovation. It is important that both the public and private sectors better understand these economic and social challenges, and that we work together to address them.

Before getting going, I would like to express my appreciation to the members and staff of the Life Insurance Association of Japan, as well as others, who helped organize this event.

G20 priorities

First of all, I would like to give you an overview of the G20's financial sector priorities. 10 years have passed since the global financial crisis, and the core elements of the regulatory reforms to address the root causes of the crisis have largely been put in place. We can now shift our focus from the past crisis towards the policy agenda of the future.

At this critical juncture, the G20 financial sector agenda is centered on three forward-looking topics. The first is addressing harmful market fragmentation coming from inconsistent, incompatible or duplicative cross-sector regulations and supervision. In the insurance sector, for example, the regulatory authority in each jurisdiction has developed its own rules. This can be problematic for large international insurance companies with cross-border activities. To help address this, the

International Association of Insurance Supervisors, or the IAIS, has been developing a common framework for the supervision of internationally active insurance groups, and it is expected that the framework will be finalized soon and implemented in each jurisdiction. During Japan's presidency, we have explored potential processes and approaches for regulators, supervisors and international standard-setting bodies for various financial sectors to help prevent the future spread of fragmentation. I hope this will contribute to more efficient and effective cross-border cooperation amongst authorities.

The second topic on the G20 financial sector agenda is technological innovation. Last year G20 Leaders agreed that the potential benefits of new technologies should be realized while the risks are mitigated. To address the risks from crypto-assets, the G20 will step up anti-money laundering and countering the financing of terrorism efforts. The G20 is also focusing on consumer and investor protection issues, as well as market integrity. While we are paying attention to the risks, we are aware that the underlying technology may hold significant potential. The FSA wants to ensure that new decentralized financial technologies will achieve their full potential – adding value to the financial sector and the broader economy.

The third topic we are focusing on is aging. To support the G20's work, the FSA, along with the Ministry of Finance and the Bank of Japan, is taking a comprehensive look at the implications of aging for fiscal and monetary policy, as well as for the financial sector. I would like to spend the rest of today's speech on the topic of aging – how we think about it, and our expectations for the insurance industry.

Insurance services in an aging society

Japan is a frontrunner among aging societies. So we must ask ourselves, what are the challenges aging will pose to Japan's insurance sector?

First, there is the possibility that the declining working-age population will shrink the domestic insurance market. If this is the case, the current business model based on quantitative expansion of insurance premium revenue may not be sustainable.

In addition, while living longer is a blessing, it will increase health and nursing care costs, as well as other living expenses for the elderly. It is necessary to increase the asset life expectancy in accordance with the longer life expectancy.

Moreover, customers with declining cognitive and physical abilities may not realize they are eligible for insurance payments, or take the right steps to claim benefits. Insurance companies may need to develop new systems to support vulnerable customers.

In light of this situation, how can the insurance sector contribute to resolving the challenges posed by an aging society? Or to put it another way, how can solving these issues bring the industry both growth and investment opportunities? I believe that the financial industry, including the insurance sector, can turn these challenges into business opportunities if it can recognize and meet the needs of an aging society.

First, to protect elderly consumers, the insurance sector may consider providing services adapted to declining physical and cognitive abilities from aging. For example, some insurance companies have developed products that incentivize policyholders to take advantage of health-enhancing activities, or products that provide not only protection for dementia, but also support for its prevention and early detection. Others have started to accept insurance claims from guardians that have been designated in advance by policyholders.

I hope that the insurance industry can go even further. For example,

insurers could incorporate academic insights from financial gerontology, and help cultivate an environment where customers have as much access as possible to financial services after their cognitive abilities have declined.

Second, since the lifestyles and financial profiles of the elderly have diversified, the insurance industry could provide products tailored to individual customers' needs, rather than one-size-fits-all products. This could be done by taking advantage of new technological innovations.

We are intrigued by the recent experience of some insurers who are using big data to develop tailored insurance products. For example, some companies are using new data sources to selectively cover customers who would have been previously excluded for pre-existing conditions like high blood pressure. Others are using new data sources like historical health records, vaccination status, and activity and stress levels to set individual insurance premiums.

If risk management becomes more sophisticated, approaches like these will allow for more products tailored to individual customers' needs. I hope that the insurance industry will develop products and services that promote financial inclusion, rather than financial exclusion, by taking advantage of the benefits of technological innovation.

Third, as life expectancy continues to rise, the importance of wealth formation as well as wealth management increases both before and after retirement. Historically in Japan, the majority of household financial assets have been held in cash and bank deposits. This has resulted in poor performance compared to the portfolios of UK and US households, which tended to invest more in stocks and mutual funds.

In this respect, it is notable that in recent years *tontine* annuities and investment-linked insurance policies have been available. These products

can help mitigate longevity risk, but given their complexity, more information be shared with customers. Insurers should also consider increasing financial planning and administrative support for their customers at each stage of life, given the need for greater financial assets in retirement.

Moreover, in light of the importance of financial literacy, the FSA has taken steps to strengthen financial and economic education in Japan. This has been mainly through an expansion of our visiting lecture program for schools and by promoting investment education in the workplace. I welcome the event held last month by the Life Insurance Association of Japan, which tackled the need for financial literacy and a greater role for the financial industry in the era of the 100-year lifespan. I would like to encourage the insurance industry to take further actions to enhance financial literacy.

Closing remarks

Let me conclude my remarks by highlighting that aging is not just a problem for Japan. According to an estimate by the United Nations, the global population of people 60 and over will be more than two billion by 2050. This will be around 20 percent of the world's total population. Also by 2050, it is forecast that the shortfall in retirement savings in major countries will amount to around 400 trillion dollars, and 150 million people will have dementia globally.

With this in mind, we have contributed to the discussion at the Global Partnership for Financial Inclusion, or the GPF, having our staff as its co-chair, on the issue of aging and financial inclusion. At its Plenary Meeting tomorrow, the GPF is expected to approve a report titled "G20 Fukuoka Policy Priorities." It highlights priorities for supporting policymakers, financial institutions and consumers in responding to the challenges posed by aging.

The FSA will also hold a high-level symposium based on this report on the following day in Tokyo. President Recaredo Arias of the Global Federation of Insurance Associations will speak at a session on "The Potential of a Longevity Economy." I look forward to hearing his thoughts on this important topic.

The FSA will continue to promote initiatives to deal with the challenges posed by aging. Taking into account various inputs from the G20 and the insurance industry, we will carry out our mandates so that the Japanese financial services can provide good sustainable business models. Insights gained from such experience could benefit other countries facing similar challenges. On that note, I look forward to hearing all the great contributions from today's guest speakers, as well as from other participants.

Thank you for your kind attention.