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Group Communications

Press

Allianz sees demography as predictable challenge

Today Allianz held a press briefing in Budapest on the current demographic development in Central and Eastern Europe (CEE). On this occasion the regional business division of Allianz and Allianz Global Investors (AGI) presented its latest study on the development of the pension systems in 11 CEE countries.

As in most parts of the world, life expectancy in the CEE countries is increasing. Better standard of living and nutrition as well as access to improving medical services are the main driving forces behind this trend, not only, but as well in Central and Eastern Europe.

Under current conditions each generation in the EU CEE countries will only replace itself by about 60 percent. The population is set to shrink eventually. An increase in immigration could offset the trend in natural population change, but no immigration wave into these countries of sufficient size is in sight.

In the absence of any sizeable immigration, fertility decline is leading to shrinking population, while increasing life expectancy is boosting the average age. The age group comprising people over 65 is the only one expected to grow in the future. Overall, the population in EU CEE countries is forecasted to shrink by about 15 percent, or roughly 16 million people, from 102 million to approximately 86 million by 2050.

Most striking in all countries is the increase in the share of the over 65 year olds between now and 2050. One in three citizens will be over 65 in Bulgaria, in Hungary the figure is 28 percent and in Poland 29 percent.

“Life expectancy is rising which is the most valuable possession of an individual. At the same time one must consider how to keep the standard of living when retiring. This means people will have to plan carefully how to finance life in old age”, commented Werner Zedelius, Allianz board member responsible for growth markets, on the demographic development.

To a certain degree, some of the CEE countries have already actively responded to the pending changes of their societies. The pension reforms enacted over the last one and a half decades were undertaken with an eye on demographic developments. As a result the pay-as-you-go financed part of the pension systems became less important and funded parts more important.

Allianz’s aim is to be the most trusted financial services provider to its customers. “Allianz entered the CEE markets at a very early stage. We have 18 million customers from Prague to Vladivostok. Through our well-developed distribution network we are in a constant dialogue with our customers. With Allianz’s international expertise and local knowledge, we

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are in the position to deliver solutions to the needs of our customers from the whole range of life insurance, pension funds to asset management", said Werner Zedelius.

Allianz Global Investors: Pension markets in CEE countries expected to grow 19 percent per annum until 2015

Allianz Global Investors' latest study shows that eight out of the 11 CEE countries analyzed have introduced new defined contribution (DC) mandatory individual pension plans. These plans have created a capital-funded second retirement 'pillar'; they are managed by external pension funds and are not linked to occupational schemes.

Brigitte Miksa, Head of International Pensions at Allianz Global Investors, said, "We expect pension markets in CEE countries to grow at 19 percent per annum until 2015, representing an increase in total funds from 51 billion euros to 245 billion euros." Poland is the biggest market, with a 60 percent share of all CEE markets at present. Together, Poland, Hungary, and the Czech Republic will account for 80 percent of the expected market volume in 2015, even though they only represent 55 percent of the population.

"By introducing capital-funded mandatory pension accounts, CEE countries have ensured a higher sustainability of their pension systems in terms of public finance and are ahead of many Western European countries in terms of diversification of retirement income," Brigitte Miksa observed.

When mandatory individual pension accounts were first established, CEE countries opted for quantitative restrictions on asset classes as a means of regulation and in many countries there are limits on equity holdings and foreign assets. Additionally, many countries imposed relative or absolute return guarantees, which also have the effect of restricting equity holdings.

Brigitte Miksa said, "CEE governments need to strike a careful balance between the desire to develop national capital markets and the desire to promote efficient pension fund investing". The report notes with interest the trend in CEE towards more sophisticated 'lifecycle' investing strategies that aim to match the asset allocation to the individual's risk profile, based on his or her age. "Some CEE countries have taken the first steps towards this strategy by allowing or requiring providers to offer more than one fund with different combinations of equities, bonds and money market instruments", she added.

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