ARTICLE

The Impact of Increasing Longevity on Financial Services Firms

The financial services industry is one of the most affected by increasing longevity. From pensions and asset management to insurance and banking, longevity is changing the balance between assets and liabilities in ways that will have far reaching impacts. The firms that get this right will be well positioned for the long run.

“Longevity is not a new topic. It is a megatrend [that is] already reshaping societies, markets and our lives.” says Richard Burton, Head of Client Solutions at UniCredit. **“We believe longevity is more than just a demographic shift. It's about how societies and economies grow and how we as a financial institution support the people, businesses and communities we serve.”**

Increasing longevity offers huge potential opportunities for the financial services sector. Resultant changes will be mostly positive for the sector and for society as a whole. **“Increased longevity is one of the best challenges a society can have,”** says Keith Metters, President of Fidelity International. **“As asset managers, we have a crucial role to play in coming up with new solutions in ensuring that people can have enough capital to fund a good retirement.”**

However one sector that will be impacted negatively by the increase in people's life spans is the public pension systems as these are funded on a pay as you go basis. These schemes were designed for a world in which there are many more people in work than in retirement. With that ratio now flattening, or even in some cases, inverting, the maths no longer adds up. **“In these systems… an inverse [demographic] pyramid, just won't work,”** says Professor Michael Spence, Nobel Laureate in Economic Sciences, Professor and Dean Emeritus, Stanford Graduate School of Business, Senior Fellow at the Hoover Institution, Stanford. **“It is time to declare it completely unsustainable.”**

The opportunity this presents for asset managers is to provide the secure retirement that public pensions no longer can. For banks and asset managers this means a radical rethink across savings and investment products as individuals take more control over their retirement plans. **“The opportunity for financial services firms is in undertaking financial planning for clients who are going to live beyond 100 years,”** says Nic Palmarini, Director of the UK's National Innovation Centre for Ageing (NICA).

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This shift from public to private in pension provision needs to be accompanied by a shift in focus from the creation of wealth to the creation of an income in retirement. **“You cannot have a good longevity experience if you do not have financial security,”** says Robert C. Merton, Nobel Laureate in Economic Sciences, Professor of Finance at MIT Sloan School of Management. **“It is not total wealth, but rather total income in retirement that is important. And asset managers need to start telling their clients what their portfolio means in terms of retirement income rather than size or total returns as in the past.”**

According to Merton, a good retirement income can be achieved from a number of different pillars such as a self-funded pension pot, immediate and deferred annuities, and reverse mortgages (sometimes called home pensions). He also calls for governments to issue what are called Retirement Security Bonds. These are long-dated government securities in which all the interest is deferred until retirement, not before. These have already been successfully issued by the government of Brazil.

The range of products that individuals will need to access for a well-funded retirement will all come from financial institutions, either directly or as intermediaries. **“Longevity is going to enhance the business of financial services institutions, not take it away,”** says Merton.

INSURANCE SOLUTIONS

One sub sector of financial services that is already grappling with the challenge of increasing longevity is insurance, in particular health insurance. If people stay alive for longer, but are in poor health, which is covered by insurance, this will increase their liabilities. As a result, insurance companies are already changing their strategies to mitigate the risks of this scenario.

“We are moving from a product-based system to one in which we provide more comprehensive solutions”, says Dr. Arne Holzhausen, Head of Insurance, Wealth and ESG Research at Allianz SE. **“Incentives can be given to people to encourage them to live more healthy lives. We also offer more solutions that are tailored for older people such as home safety, fraud protection, and equipment testing, as well as the traditional insurance products like health coverage.”**

This emphasis on bringing prevention and protection together by offering premium discounts, is already underway in a number of markets.

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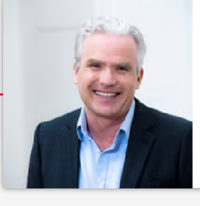

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Insurance companies will also play a crucial part in helping to ensure that people's health spans and their wealth spans are aligned. Indeed this could be a form of integrated product development focusing on both health and wealth, such as protection, savings, and services in one package that can help people to manage their longevity risks. Insurance companies can also develop new products that cover some of the specific aspects of ageing, such as long term care and annuities.

"We would like to see ourselves more as risk consultants to our clients," says Holzhausen. **“What does that mean? Financial security remains core and our key promise is financial peace of mind. But we also offer a lot of adjacent services… so that people can stay in their own homes for as long as possible.”**

BANKING OPPORTUNITIES

Increasing longevity is a trend that many might find unsettling. Banks' role as a trusted adviser to their clients is increasing in importance, as customers look for guidance and advice. In particular wealth management and financial planning are crucial services in helping customers to overcome the challenges of increasing longevity, while also taking advantage of the opportunities.

“At UniCredit we believe that good banking is not just about products, it's about people,” says Burton. **“It is part of our commitment to long-term, responsible banking and to helping shape a future where people not only live longer, but live better.”**

A key element in helping people plan for the financial aspects of a longer life, is allowing people to do more with the wealth they have accumulated. In particular, many people want to devote the final third of their lives to giving back and helping others. Banks can assist their customers with setting up these philanthropic activities, helping them to bring purpose to life. **“One of the biggest opportunities arising from increased longevity is the greater amount of time there is for people to give back,”** says Manuela Soncini, Head of Wealth Advisory at UniCredit. **“Our philanthropy and purpose services are already performing very strongly.”**

LONGEVITY AS AN INVESTMENT THEME

On the investing side, megatrends such as increasing longevity create opportunities for profitable investing, especially in terms of the equities markets. **“Longevity is very popular from a thematic investing perspective,”** says Fiona Melrose, Head of Group Strategy & ESG at UniCredit. **“It is happening, and it is not something that you can ignore anymore.”**

Aneta Wynimko is a Portfolio Manager at Fidelity International who manages a fund that specifically invests in equities that will benefit from increasing longevity. She notes that the current generation of retirees (baby boomers) share some common attitudes that are affecting their consumption patterns. **“Boomers want to stay active and stay in work longer than previous generations,”** she says. She is investing in stocks in the healthcare, beauty, and automation and robotics sectors.

While the speed with which society ages is not fast, it is inexorable. Demography is destiny. Similarly, the scale of the investing opportunity caused by increasing longevity is enormous. According to NICA, consumers over the age of 60 will have USD 22 trillion of spending power globally by 2030. By 2050 there will be more than 2 billion people over the age of 60 on the planet. Companies that can tap into this cohort will make rewarding investments. Indeed, NICA reports that for the last three year, Saudi Arabia's Public Investment Fund has been investing USD 1 billion a year into strategies that will benefit from increasing longevity.

Increasing longevity also demands changes to not just what people invest in, but how they invest. Put simply, classical wealth management theory suggests that you invest in equities until about five years before retirement and then you shift the resulting portfolio into fixed income securities. With increasing longevity this changes. People need to remain in the accumulation phase of equity exposure for a long as possible. **“One of the biggest lessons we have learned is how important it is to get people invested into equities as early as possible, and then to stay invested over the course of multiple cycles,”** says Metters at Fidelity. As an example, Metters cites a study that shows how expensive it can be not to be in the market. If an investors missed the five best single trading days of the global equity markets over the course of the last 30 years, then there overall portfolio would be 35% lower than it could have been. That is a real opportunity cost.

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CONCLUSION

Increasing longevity provides significant opportunities for companies across the financial services landscape. These include new savings and pension products that can replace state retirement plans. New investment products such as Retirement Security Bonds can also be profitably structured and sold. Insurance companies are widening their product set, while investors can benefit from the rise in longevity itself.

UniCredit is closely following the emerging trends in longevity. Through on-going dialogues with our clients, we have the expertise to support them as they shape their strategies that respond to these societal changes.

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The people quoted in this article were speaking at the Longevity Economic Forum, hosted by UniCredit in Milan on 28 May 2025.