

DEMOGRAPHIC ANALYSIS OF AGE LIMITS FOR LIFE INSURANCE OF BORROWERS AS A FORM OF “POST – LIFE ASSISTANCE”

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Abstract: Intensive aging of population directly and indirectly affects public as well private finances. In this article, we turn to private finances and the possibilities of financial “post-life assistance”. Life insurance of borrowers is an insurance product, ensuring a borrower with additional insurance against unpredictable events, which might affect his health or life, or, indirectly, the lives of his loved ones. The paper is focused on questions of what happens if the borrower dies at the time of repayment and if the relatives of the deceased can carry the financial burden of the loan repayment. The answers are sought in social gerontology, interdisciplinary integrating experts from the fields of medicine, sociology, philosophy, psychology, law, social work, economics, and insurance providers, who set the upper age limit for insurance to 60 or 65 years. Considering the current demographic trends, the age limit for the elderly borrowers is not only morally and ethically questionable, but follows a wrong marketing logic, based on population demographics of the previous millennium. Statistical data shows 17.1 percent of population over 64 years lived in Slovenia in 2013, and by 2060 it could reach 33.4 percent, facts that should be considered from a marketing perspective for providers of banking and insurance services. Concurrently, we must realize that in the broader sense, »aging demography is fatal« for every social organism, but when realized on time, not necessarily »fatal for the aging society«.

Keywords: Aging, life insurance of borrowers, financial burden of repayment, insurance age limit, post-life assistance.

DEMOGRAFSKA ANALIZA STAROSTNIH OMEJITEV ŽIVLJENJSKEGA ZAVAROVANJA KREDITOJEMALCEV KOT OBLIKA „POST ŽIVLJENJSKE ASISTENCE”

Povzetek: Intenzivno staranje prebivalstva ima posredne in neposredne učinke tako na javne in tudi na zasebne finance. V pričujočem prispevku se posvečamo zasebnim financam in možnostim finančne »post-življenjske asistence«. Življenjsko zavarovanje kreditojemalcev je zavarovalni produkt, ki kreditojemalcu omogoča, da se dodatno zavaruje pred nepredvidljivimi dogodki, ki lahko vplivajo na njegovo zdravje oziroma življenje ter posredno tudi na življenje njegovih najbližjih. Gre za iskanje odgovorov na vprašanja kaj se zgodi, če v času odplačevanja

kredita kreditojemalec umre in ali lahko svoji preminulega prenesejo finančno breme odplačevanja kredita nase. Odgovore na to išče socialna gerontologija, ki interdisciplinarno združuje strokovnjake s področja medicine, sociologije, filozofije, psihologije, prava, socialnega varstva, ekonomije ter ponudnike oblik zavarovanja, ki zgornjo starostno mejo zavarovanja postavljajo na 60 do 65 let. Upoštevajoč trenutne demografske trende, je tako zastavljena meja za starostnika-kreditojemalca ne samo moralno in etično sporna, pač pa tudi marketinško napačna, saj jemlje za osnovo demografsko sliko človeštva iz prejšnjega tisočletja. Statistični podatki kažejo, da je v Sloveniji ob koncu leta 2013 živel 17,1 odstotkov starejših od 64 let, do leta 2060 pa lahko delež doseže 33,4 odstotkov vseh prebivalcev. To so podatki, ki bi morali iz marketinške perspektive biti zanimivi tudi ponudnikom bančnih in zavarovalnih storitev. Hkrati pa se moramo zavedati, da je v širšem pomenu „demografija staranja usoda“ vsakega družbenega organizma in, če se tega pravočasno zavemo, ni nujno, da postane „usodna za starajočo se družbo“.

Ključne besede: Staranje, življenjsko zavarovanje kreditojemalcev, finančno breme odplačevanja, starostna meja zavarovanja, post-življenjska asistenca.

1 Introduction

As a starting point, we should focus on the demographic, or better said gerontological fact of aging societies, supported by many research papers and statistic figures, some of which will be presented in our article. According to Wikipedia, “population aging” is a phenomenon that occurs when the median age of society rises due to rising life expectancy and declining birth rates (Wikipedia, 2014). Statistical facts indicate that newer before in the human history, the world has faced such an increase in the life expectancy. This phenomenon is occurring in already developed as well as in the still developing countries. The growing length of the average lifespan is an important marketing and social fact that should be taken into the consideration in the “marketing and social oriented society”. The process of aging and its accompanying impacts generate a wide range of needs for individuals and society as such, for instance receiving the proper care and being able to afford it. This and many more reasons place new challenges in front of the insurance companies and banks in the field of life insurance products, or financial products in general, as an integral part of society.

Bloom, Boersch-Supan, McGee and Seike (2011) state, that a larger share of the elderly and longer life expectancies will bring changes for business and economic performance. The business community and public policymakers (state-society) are just beginning to understand the acceleration of population aging. Those who are innovative in their marketing strategies are not only including socially responsible elements, but are also active in organizational structures and practices. According to Pettinger (2013), a dramatic rise in life expectancy will have an influence on changing sectors within the economy; the elderly consumers will create a bigger market for goods and services linked to elderly consumers. Muramatsu and Akiyama (2011) acknowledge that population aging affects not only local but also national economies, especially because of the fact that Japan has the highest proportion of older adults in the world (people aged 65 plus years in the total population: 23% in 2009). The size of older population ahead has a great impact on a society as a whole. Families, the labor market, education, medicine, social security, government, media, and consumer goods are reflected by the age of a population (Morgan, Kunkel, 2006).

2 Do we really know what age – aging means?

Aging is a process that starts with birth. Even though we are not aware of the changes that occur, especially in our younger years, we age since the moment we are born. Until the 30th year, we are in a process of maturing, and after the 30th, changes begin to happen, which mean a gradual decline of all organ systems (Ramovš, 2003). Individually speaking, aging is a combination of biological, social, cultural and other processes knitting together as well as with other characteristics of an individual, such as race, sex, and socio-economic class. All that is inherited, and how we exist through time (our eating habits, life-style, work, place of residence), affect the way of aging. Old-age befalls to each and every one who lives long enough, although people experience and perceive it very differently. The fact is that sooner or later, aging brings certain losses on important fields of life for every one of us. The ability of an individual to adapt to these losses as well as his reactions to them, greatly affect the quality of his life (Milošević Arnold, 2003). The conditions for dignified aging are created on many levels, though: on the level of the legal state,

the civil society, and families (Stanojević-Jerković, 2006). The process of aging progresses slowly and traverses from phase to phase. Old-age is a part of life, which needs to be acknowledged and accepted, the good as well as the bad sides of aging confronted with, but most of all, life has to be given meaning (Kobentar, 1998). Experiencing meaning is a basic driving force in human life. When a person loses the feeling that his life, work, and experience are meaningful, he sinks into despondency, what Viktor Frankl (1994) calls existential emptiness or existential vacuum. Though, he can search for a way to a new meaning and reestablishment of a new quality of life. Old-age can be very beautiful and meaningful, if accepted and lived to the fullest, but it can also be a “nightmare” for us and for others, if we are not capable of accepting it and giving it meaning (Frankl, 1994).

3 Statistical facts about increased longevity

As around the world, the population in Slovenia is aging, too. By the statistical data from the Statistical Office of the Republic of Slovenia, there were about 2.060.000 inhabitants in Slovenia at the end of 2013, slightly above 352.000 of which were over 64 years of age, which stands for 17.1% of the population. Among Slovenian women, 20.2% were aged over 64 years, and among men, there were 13.9% older than 64 years (the proportion of older men was somewhat lower than the proportion of older women). Five years ago, the percentage of the elderly among the whole population was exactly one percent lower. The projections for Slovenian population show an even more significant raise in the percentage of the older population (Statistični urad Republike Slovenije, 2013). By the year 2060, nearly every third Slovenian citizen supposedly will be older than 64 years. There will be a significant increase of the population older than 60 years of age, from 23.7% in 2013 for about 15% by the year 2060. More so, the population aged 80 years or more will significantly increase as well, from 4.5% in 2013, up to nearly 14% in 2060 (Statistični urad Republike Slovenije, 2011). The increased percentage of elderly population, as well as the increase in longevity, importantly affects the society and the quality of life of its members. Nowadays, the quality of life is rising as the age of population raises as well, a fact that must be considered in social politics and by insurance providers. A person, who is 60 years old today, is less at risk than a 60 year old was twenty or thirty years ago. Scientific and technological advances, socioeconomic development, better medical support, food, and many more factors have helped to increase the life expectancy and reduce mortality rates (Ageing Societies, The Wisdom Years, 2014). The significant increase of the elderly population and the increased longevity mean major changes for the society as a whole, and must bring changes to the economy and new, innovative approaches in marketing, too. A re-consideration of life insurance policies offered by the insurance companies is needed, that being one of the essential factors of ensuring financial and social security, in a way that considers the current demographic trends.

4 Life insurance

Life insurance is a type of personal insurance that ensures financial and social security for the insured. With it, a person can insure a loss of income and, with inpayments, save money that can be spent in a time of a possible unemployment, and with that, the life standard of the insurant can be preserved. In the range of possibilities the life insurance offers, it also ensures provision for the family after the death of the insurance-taker, serves as a payment for the debt of the debtor, as well as ensures financial help for other persons specified on the life insurance policy as the rightful claimants. A rightful claimant is a person, in whose favor an insurance policy is taken out, and is entitled to an insurance fee from the insurance company in the event of an insurance case. In the case of profitable business of an insurance company, the insurants are entitled to partake in the profit if they take such a risk. Therefore, life insurance is a financial investment in a better, safer future and protects the insured from unexpected events.

A person expresses a will to take out an insurance policy, for self or for others, with a signed offer, presenting a suggestion for an insurance contract. Based on such offer, an insurance company decides on acceptance into insurance, considering a person's health in the event of life insurance with inclusion of risk of death, and then issues a life insurance policy (Rakar, 2004). A legal standing for issuing an insurance policy is an insurance contract – a classic consensual two-sided legal business, which occurs when contractors sign an insurance policy or a certificate of insurance coverage (Gornik, 2007). The umbrella legal acts that standardize insurance contracts are the Code of Obligations, in articles 921 through 989 (Obligacijski zakonik) and the Insurance Act (Zakon o zavarovalništvu). An insurance-taker, or an insurant, enters into a contract for life insurance with an insurance company, which commits to out pay him, or a contractually determined third person, a one-time sum of money or annuity in an event of an insurance case (either the endowment or the death of an insurant), based on an obligation of an insurant to pay an insurance premium in a predetermined time-period. Classic life insurances, offered by insurance companies can mostly be taken out by persons from 14 to 65 years of age. Life insurances are usually long-term contracts, signed

for a time-period from 5 to 30 years¹, combined with a saving component, and as such have long-term consequences. Therefore, a choice of a life insurance in accordance with the insured's financial ability, wishes, and needs is important.

4.1 The basic forms of life insurances

There are many ways to classify life insurances. By the type of out payment of the predetermined insurance sum, we differ between capital insurance, whereas the out payment is a one-time sum of contractually determined insurance fee, and annuity insurance, where the out payments are predetermined multiple recurring sums (Ploj, 2010). By the number of insureds, insured on the same insurance policy, we classify them as individual or collective insurance. The time of occurrence of an insurance case categorizes life insurances in life insurance in the event of death and life insurance in the event of endowment. Most frequently, though, so-called mixed life insurances are taken out.

4.1.1 Life insurance in the event of death

In the event of a death of an insured, whereas the cause of death is irrelevant, in duration of an insurance policy, an insurance case occurs, based on which an insurance sum is paid to a rightful claimant, but if an insured outlives an agreed insurance time period, an obligation of an insurance company ceases to exist. Such type of insurance is cheaper, though it does not include a saving component, and is meant especially for family members of an insured person. Besides the classic life insurance in events of death, there are other possible variants. Commonly, a lifelong insurance is taken out, which is different in that its insurance period is not defined, but a person is insured and pays an insurance premium for the rest of the life; therefore, in the event of death of an insurance policy holder, a rightful claimant receives an insurance sum decided beforehand (Čarobna moč življenjskega zavarovanja, 2014). Another variant is a time-limited insurance in the event of death or risk life insurance, whose feature is that a rightful claimant is entitled to an insurance sum only when an insured dies in a predetermined time period of an insurance policy. Different insurance companies offer different possibilities, so for instance, insurance for the event of death with a descending insurance sum or so-called credit life insurance exists as well.

4.1.2 Life insurance in the event of endowment

An endowment insurance case occurs, when an insured person reaches a contractually agreed endowment age and that is when an insurance company is obliged to out pay an insurance sum to a policy holder. In the event of death in duration of insurance, an obligation of payment ceases to exist; therefore, such type of saving is suitable for single persons who are at the same time rightful claimants for insurance fees.

4.1.3 Life insurance in the event of death and endowment

A mixed life insurance is insurance as well as savings, which includes both types of life insurances, as a rightful claimant is entitled to an insurance sum whether an insured reaches policy-determined endowment age or dies within it. An insurance company invests a savings part of a premium in a long-term business fund. It is a safer type of insurance, where an insurer does not assume an investment risk, and an insurance company guarantees an out payment of a guaranteed insurance sum or possible profits but does not guarantee the amount of attributed profits. Similar to the model of mixed life insurance is life insurance with a predetermined deadline for out payments, where an insurance company out pays an insurance sum only when an insurance time-period expires and is, therefore, suitable for ensuring capital in a certain period of time.

4.1.4 Investment life insurance

A life insurance with an investment risk is a newer financial product on an insurance market, which besides insurance in the event of death, with a part of an insurance premium ensures saving in chosen mutual or investment funds. For an insured though, it means a higher investment risk for fluctuation values of wealth units on the capital market, as an insurance company cannot guarantee a profit in advance. Besides the possibilities for reaching higher profit, its advantage over a classic life insurance is in its higher adaptability in regard to changing insurance sums and premiums, as well as in offering a possibility of an advance, an anticipatory out payment of a part of a future

¹ Only life insurances for a time-period of 10 or more years are exempted from 6.5% insurance businesses tax, which is charged if insurances are taken out for more than 10 years are discontinued beforehand.

value of an insurance sum, and a buyout, a preliminary cessation of an insurance coverage at a request of an insurance policy holder, with fulfillment of certain conditions defined in an insurance policy, where an insurance company out pays a redemption price of a policy (Čepelnik Knez, 2001).

4.1.5 Life insurance in the event of a serious illness

Inasmuch as an insurant falls ill of a critical illness (for instance cancer, heart attack, stroke, multiple sclerosis, kidney failure), which is defined in general insurance conditions that are an integral part of a contract on life insurance, an insurance company must out pay a predetermined insurance sum or a part of it. In most cases, this type of insurance is marketed in connection with other insurance products and is recommended for entrepreneurs and leading personnel, subject to stress in their workplace, or whose possibility of illness in their families is higher.

4.1.6 Life insurance of borrowers

Life insurance of borrowers is a special subtype of insurance of an insured person's credit obligation during its payment, where the credit is paid in the occurrence of specific insurance events that are predetermined in a confirmation of insurance. Lately, this type of insurance can be taken out in banks, where the credit is obtained, as banks signed contracts with insurance companies for marketing purposes. As taking a bank loan is an important long-term financial decision for every consumer, its planning should also take into account a possible occurrence and consequences of what happens if the borrower dies during the outpayment and if the relatives could bear the financial burden of the rest of the loan payments. Taking out a life insurance policy of borrowers, the relatives of the insurant are insured against financial distress or even a loss of property. With credit offers, banks mostly offer life insurance for borrowers as well, where they assume a role of an intermediary for insurance marketing.

Table 1: Slovenian insurance companies, offering life insurance for borrowers, 2012

Insurance companies in Slovenia	Number of branches	Number of employees	Life insurance market share, 2012²	Upper age limit for taking out life insurance
Maribor	292	881	12.72%	65 years
Triglav	140	2405	32.37%	65 years
Adriatic Slovenica	167	1010	2.08%	65 years; exp. 70 or 75
Generali	9	381	3.73%	60 years
Grawe	15	190	3.45%	65 years
Tilia	37	372	1.68%	65 years; exp. 70 or 75
Merkur	2	139	6.74%	55-65 years; exp. 70 or 75
Wiener Städtische-branch	2	27	2.63%	No data; exp. 80
NLB Vita	1	38	6.01%	66 years
ERGO	1	12	0.54%	65 years; exp. 75

Source: Statistical insurance bulletin of 2013

Generally, the insurance companies in Slovenia, in cooperation with banks, offer life insurance with an age restriction. Mostly, the upper age limit for taking out a life insurance policy is set to 65 years, in some cases to 60 years of age, while the limit for the expiration of the insurance policy is mostly set to 70 or 75 years. The highest age limit is set by an Austrian insurance company, branched in Slovenia, which is the only one that sets the limit to 80 years of age, giving an example for others to follow. Another such indication of following the current trends is the so called "Zlata jesen" (Golden fall) insurance, offered by Tilia insurance company, raising the lower age limit requirement for taking out a policy from 50 to 70 years, and premium payment is offered either until the event of death of the insurant or reaching 91 years of age. Regardless of the two examples, most of the insurance companies in their policy-making fail to adhere to the current intensive population aging and still cling to the previous life expectancy trends that set the insurance age limit accordingly.

5 Conclusion

Based on the data about insurance companies, operating in the Slovenian insurance market, we obtained the current demographic state of banking and insurance services. The fore mentioned is mirrored in a product, differently

² Market shares based on total premiums of 10 insurance companies that operate under the Insurance Act

named by different insurance companies, though all are in search for a solution for heirs of the borrowers. To explain it in a caricatured way, we can say that the image is black and white, while it should be quite colorful. The reason for such statement is the statistical data of aging population, not only in Slovenia but around the world, too. The vast majority of providers of banking and insurance services in Slovenia still set a "critical" age limit of insurance and banking business at 70 or 75 years of age (exceptionally 80 years). In that, they neglect the demographic facts, which are scientifically studied in social gerontology, the very interdisciplinary science that can in the sphere of economics – marketing contribute to necessary changes, dictated by the aging society and the elder consumers. In this case, that being the increase of the upper age limit of insureds, as well as the more active following of the demographic trends, which dictate a change of the suggested age limit.

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