

Targeting the Boomer Market, Japan's Largest Demographic Segment

In Japan, eight million people were born in the three-year span of 1947 to 1949. Although the baby boom was occurring in other countries too, Japan's baby boomer generation form a huge cohort rarely seen elsewhere. Now that this generation has reached statutory retirement age, all eyes in the Japanese market are focused on this large demographic with concentrated spending power. Here's an overview of dynamic moves made by the life insurance and travel businesses to lure boomers.

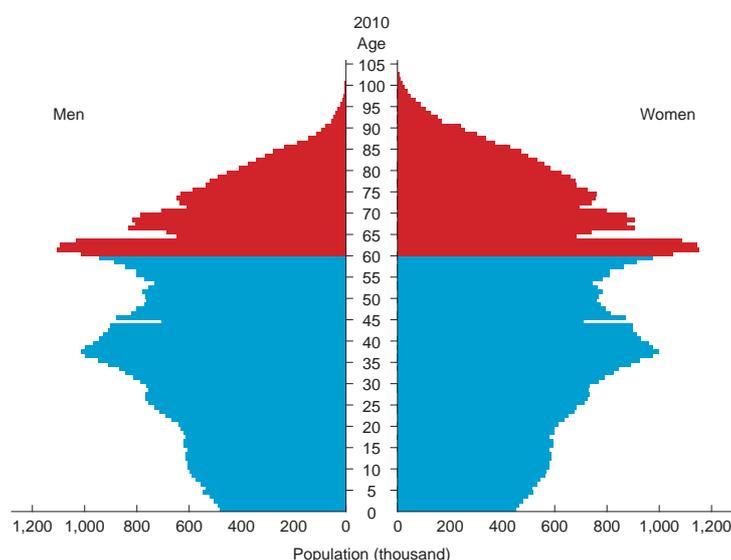


Retirement Pay Said to Total 80 Trillion Yen

In Japan, the baby boomer generation refers to those born between 1947 and 1949 (in the market, this group sometimes includes those born up to 1955), where they are known as the *dankai* generation, from the Japanese for the geological term "nodule."

The boomer generation is turning 60, the minimum statutory retirement age in Japan. This means not just that Japan will lose vast numbers of skilled, experienced workers between 2007 and 2009 but also that companies are facing the substantial burden of retirement pay for all these employees. According to some estimates, *dankai* group workers will take away retirement pay totaling 80 trillion yen, a sum equivalent to the yearly national budget.

Japan's population pyramid (2010 forecast)



Today's baby boomers account for the largest segment of the population. The next largest segment are baby boomer children who are turning 35.

Source: National Institute of Population and Social Security Research

On the other hand, this mass retirement will have economic plusses, because this generation is asset-rich and can expect to enjoy a long retirement period.

Life expectancy in Japan today is 86 years for women and 79 years for men, the longest in the world for both sexes, and average longevity for both men and women is 82.5 years. That means a 20-year retirement.

The *dankai* generation has also been the driving force behind expansion of demand for the latest goods at every era of the consumer lifestyle, be it homes, cars, color TVs, air conditioners, washing machines or refrigerators. They were the ones responsible for popularizing American casual fashions and for readily catching on to the new style of shopping at large shopping malls and other innovations.

Still, it wasn't all smooth sailing for everyone. In their middle and later years, today's new retirees spent their available income on child rearing, and from their late 40s on, experienced the country's long drawn out recession following the collapse of the bubble economy. According to Mr. Haruki Takatsu, managing director of the Research Institute for High-Life, "men of this generation, often caricatured as corporate warriors, continued working themselves to the bone even with the threat of downsizing. Many people are sure to see retirement as an opportunity to start thinking again about all the things they wanted to do but had put off until now.

"I think that the successful business model will focus on a stock-oriented asset rather than flow-oriented. What we are seeing now is a foreign companies' active entry into in the financial services market."

Financial products such as individual annuities, high-end travel products and other goods and services are increasingly focusing on the retirement generation centering on baby boomers.

Flourishing "Active Senior" Business

According to Mr. Takatsu, the *dankai* generation do not take

to products marketed explicitly to them. They don't like being pigeonholed as boomers in the eyes of people either older or younger than them. On the other hand, the word "silver," often used in Japan to describe products or services for seniors, seems to them to imply "withdrawal from society" or "old age," and many retirement-age people dislike it.

He continues, "boomers perceive themselves as very youthful. Various surveys indicate that they think of themselves as at least 10 years younger than they actually are. They are positive about what lies ahead, and many of them have things they want to do."

For a number of years now, the virtual world has been aware that the *dankai* segment has a lot of spending power and is computer-savvy, and many portal sites aimed at this demographic have sprung up. The companies behind the sites provide information about things boomers were enthused about in their younger days—photography, listening to music, playing a musical instrument or singing in a chorus, group hiking, or tips for country living or stock market investing—and they run banner ads in the hope of attracting business worth billions of yen. Those sites are aimed at people in their 50s and 60s rather than specifically at boomers. The business world calls these people "active seniors" who are still physically fit enough to enjoy leisure pursuits.

For example, NEC started up a portal site called "BIGLOBE Station 50," a collection of sites "for mature adults" or "(for learning) once again." BIGLOBE Station 50's previous incarnation, "Bon Vivant—a salon for mature adults," operated jointly by NEC and major publisher Shogakukan, centered exclusively on the hobbies of active senior males but after many people expressed a desire for information for couples, not just men, the new portal site was created. "Couple-oriented" is one of the keywords of the boomer segment business.

Aiming for Couples

Travel is the most popular way of spending leisure time, and Mr. Motohisa Tachikawa, public relations senior manager at JTB Corp., the Eastern world's largest travel corporation, opines that "trips for couples are very popular.

"We conducted a domestic travel survey of about 10,000 men and women born between 1946 and 1950, and in response to a question asking who they wanted to travel with on a trip commemorating the husband's retirement, 93.8 percent of respondents said 'spouse' far outdistancing the 10.1 percent who replied 'daughter.'" Among trip destinations, Europe ranked first for both men and women, with Hokkaido in second place, so couples agree on where they would like to go.

JTB offers a new product for seniors, a series of courses held during summer vacation in cooperation with national universi-



Haruki Takatsu, managing director of the Research Institute for High-Life

ties in various areas of Japan. Course subjects range from industry or history to famous personalities or culture closely associated with the local area of the respective universities, imparting information not readily accessible elsewhere. This program, stimulating boomers' strong intellectual curiosity, has proven a great success, and many couples have participated.

But Mr. Haruki Takatsu, of the previously mentioned Research Institute for High-Life, cautions that "there are many misapprehensions where the *dankai* business is concerned. One is that it tends to be male-oriented. But half of this generation consists of women, and in Japan it is women who hold the household purse strings. Women have had a strong say in how the family's money is spent, so the business has to take this factor into account.

"Men retire at the age of 60, but they still have 20 years of retirement ahead of them. Nuclear families are the norm now, so the couple's offspring have left home, and not only does income decline but the value of their pension declines in relative terms as consumer prices rise, so the couple have to help each other out as they grow older. There's no way the boomer business can succeed (if this reality is ignored)."

But JTB's Tachikawa says that "although the couple is in agree-

ment as to who they want to travel with on (the husband's) retirement trip, the answers are different when the question is who they want to travel with 'past the age of 60.' In that case, the top answer among men is 'with my wife' (72.5 percent), followed by 'by myself' (10.7 percent) and 'with friends' (7.4 percent). Among women, on the other hand, 48.7 percent say 'with my husband,' followed by 22.5 percent for 'with friends' and 7.6 percent for 'with my daughter(s),' so the enthusiasm level differs between the sexes."



Motohisa Tachikawa, public relations senior manager at JTB Corp.

Individual Variable Annuity a Popular Option

As part of deregulation by the Japanese government, banks have been allowed to sell individual annuities since October 2002. An individual variable annuity is a product developed by American insurance companies, where insurance premiums from customers are invested as basic funds in stocks and bonds and the proceeds are paid out to them in the form of an annuity.

Initially, many of the products were based on schemes to invest in different types of funds according to the customer's risk tolerance, but recently an increasing number of products that guarantee the basic funds and the total payout have emerged in the market as well. Given that variable annuity products are sold through banks, a channel familiar to consumers, sales have been growing steadily.

According to The Life Insurance Association of Japan, premium income of Japanese life insurers totaled 28 trillion yen in FY2006. Meanwhile, the total amount of in-force sum assured for individual variable annuities (total basic funds for annuities) was

14.5 trillion yen, and this amount is expected to grow further. Some analysts expect the amount to increase several times over the next few years.

Changing demographics—the low birth rate and population aging—is the reason behind this spurt in sales of individual variable annuities in Japan. Among the retirement generation's concerns for the future, "financial uncertainty in old age" consistently comes out at the top of the list in survey after survey. Moreover, Japan's public pensions only start at age 65. The five-year gap with the minimum statutory retirement age of 60 is proving fertile ground for the growth of the individual annuity market.

Japan today is an aging society where seniors account for 21 percent of the population. Considering the fact that the fertility rate is slumping at 1.3 in addition to the aging of the boomer generation, it will be difficult to bail the nation out of being a rapidly aging society with a falling birthrate. The time has come when everyone must prepare for their own annuity. According to "AXA Retirement Scope—Wave 4," a survey on people's attitudes toward retirement conducted in

26 countries by AXA Group, one of the world's largest insurance groups, 76 percent of Japanese (sample structure: 300 working and 300 retired people) answered that "individuals should be responsible for providing their retirement income." AXA, headquartered in France, established AXA Life Insurance, a fully-owned

subsidiary, in Japan in 1994 and commenced sales the following year. In 2000, it acquired Nippon Dantai Life by investing 200 billion yen and obtained a huge customer base that included large corporations, government and other public offices and SMEs. Since 2002, it has also been focusing on sales of individual annuities through banks and has grown dramatically. Behind this rapid growth lies thorough market research, and "AXA Retirement Scope" is one example.

Mr. Paul Sampson, president and representative director of AXA Life Insurance Co., Ltd. and AXA Japan Holding Co., Ltd., commented as follows. "We are not just in the business of selling insurance products. We want to protect our customers and support them in leading a happy retirement life." AXA has indeed been focusing on supporting the retired generation worldwide, and by utilizing the best practices developed in other countries, it develops products tailored to the Japanese market.

Mr. Sampson added the following. "Since the *dankai* generation accounts for a substantial proportion of the population, its potential buying power is attractive. However, as this generation is not by any means uniform, we have been working in partnership with banks, analyzing this segment and providing products and services that closely target customer needs. We've also started training retirement advisors, who have a thorough knowledge of retirement plans and risk management, with the support of

Waseda University's Finance Research Center, where they will study the culture and attitudes of the retirement generation."

Boomers Not a Uniform Cluster

It's common to assume that the baby boomer group, viewed as the symbol of numerous post-World War II phenomena in Japan, is uniform in composition, when in fact it is not a single nodule but a highly diverse agglomeration. Some men want to live in the country, whereas women thirst for city life. Some couples might splurge on a luxury cruises; others prefer to visit a regional city and take an intensive course at the local university. Bus tours to familiar places are popular too.

Although this generation has been very family-oriented, families are nuclear and dispersed, and half of the *dankai* group believe that divorce is an option. Their overall shared traits are strong purchasing power and choosiness. The Research Institute for High-Life's Takatsu comments that "boomers are seasoned consumers. They don't jump at products just because they're new or inexpensive, but when they encounter something that meets their needs, they spread the word."

Mr. Tachikawa of JTB says: "Before going on a trip, many active seniors spend time studying the language and culture of the countries they will visit or the scenery or wildlife they want to photograph. They want to be active participants in their travels."

For foreign companies in the Japanese market, it seems that the secret to success in the *dankai* market is knowing this segment's consumption behavior inside and out.

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