



FALIA Invitational Seminar in Japan  
“Risk Management Course”

# Overview of Life Ins. Industry in Japan

November 9th, 2016

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Chief, International Affairs

The Life Insurance Association of Japan

I Basic Information of Japan

II Japan's Position in the World Life Insurance Market

III Overview of Life Insurance Business in Japan

IV Brief History of Japanese Life Insurance Industry

V Addressing the issues

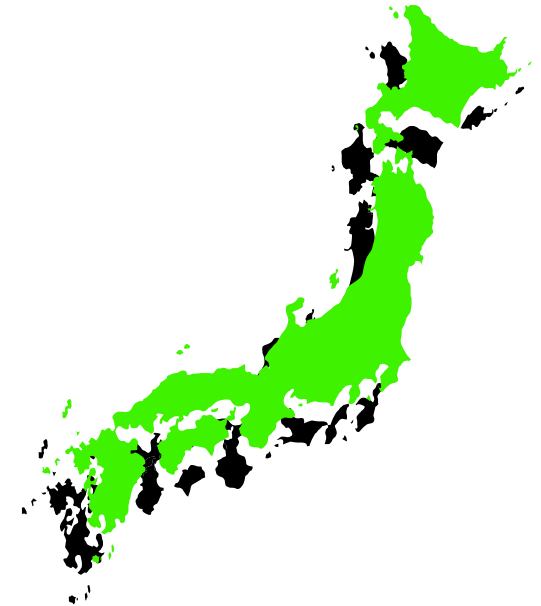
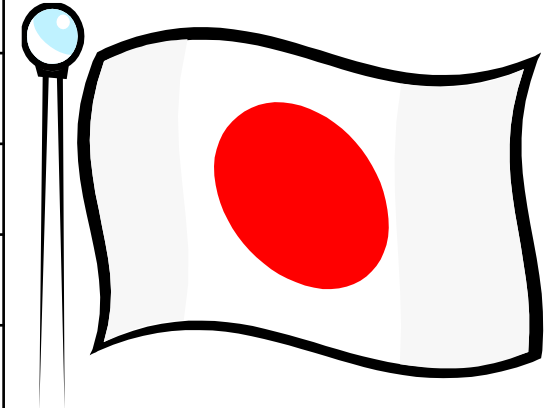
VI The Life Insurance Association of Japan

# **I Basic Information of Japan**

# I Basic Information of Japan

## 1. General Information

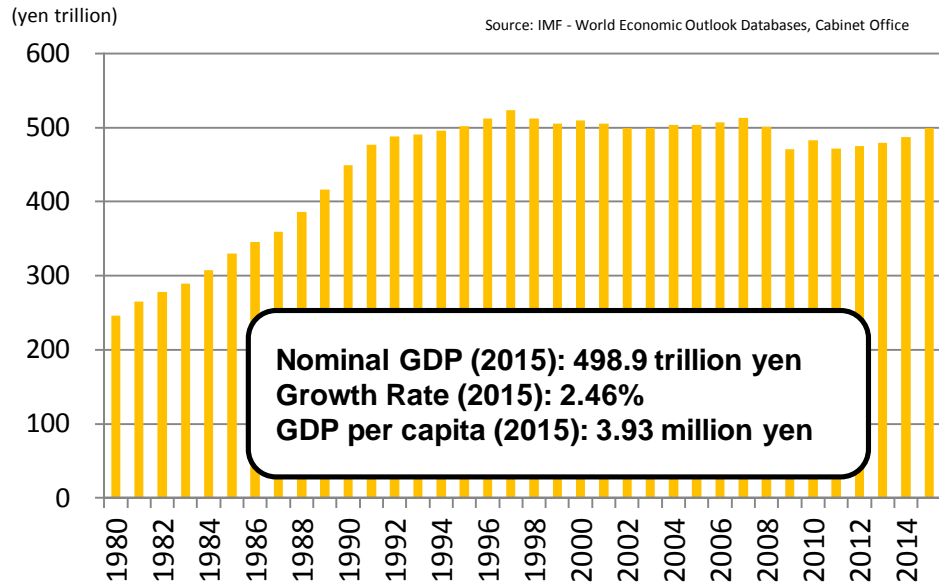
Name	Japan
Area	377,914km <sup>2</sup> (rank 60 <sup>th</sup> )
Population	127 million (rank 10 <sup>th</sup> )
Capital	Tokyo
Language	Japanese
Main Religion	Shinto/Buddhism
Government	Prime Minister: Shinzo Abe (Liberal Democratic Party)
Trade	Import: crude oil, petroleum products, LNG (liquefied natural gas), clothes, coal, non-ferrous metal, semiconductor electric component Export: automobile, auto component, steel, semiconductor electric component, boats and ships, plastic, engines and turbines



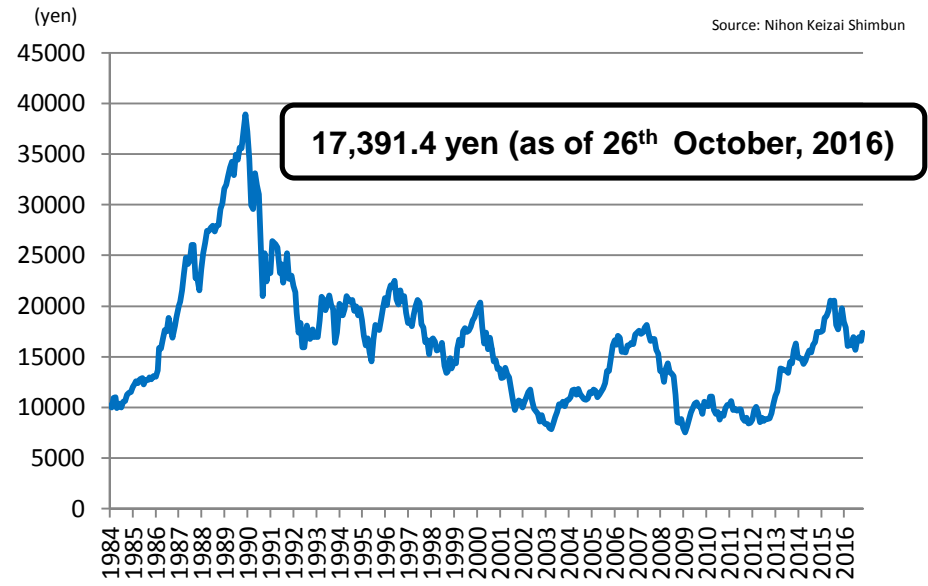
# I Basic Information of Japan

## 2. Economic Trends

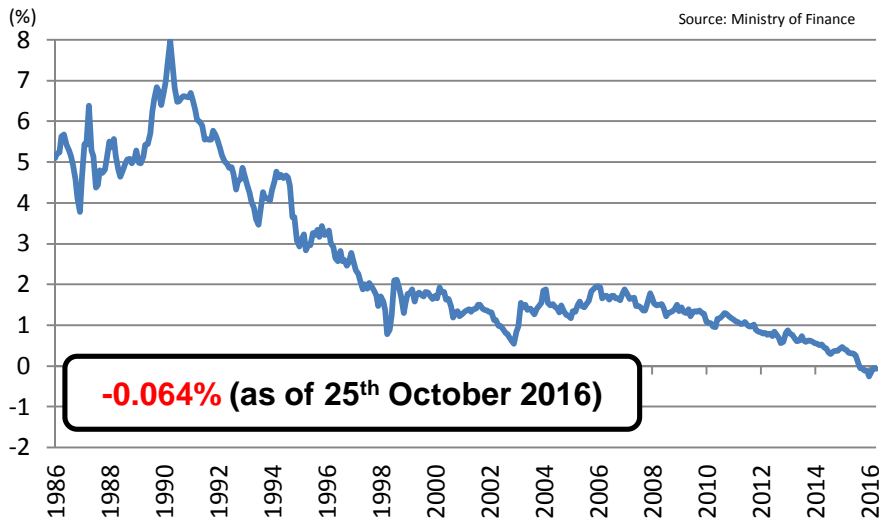
### (1) Changes in Nominal GDP



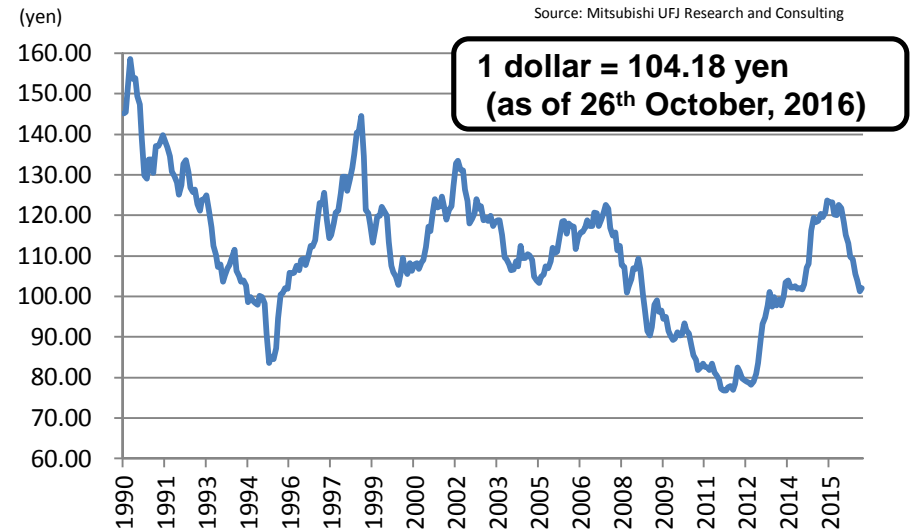
### (2) Stock Price (The Nikkei Stock Average)



### (3) Interest Rate (JGB 10-year yield)

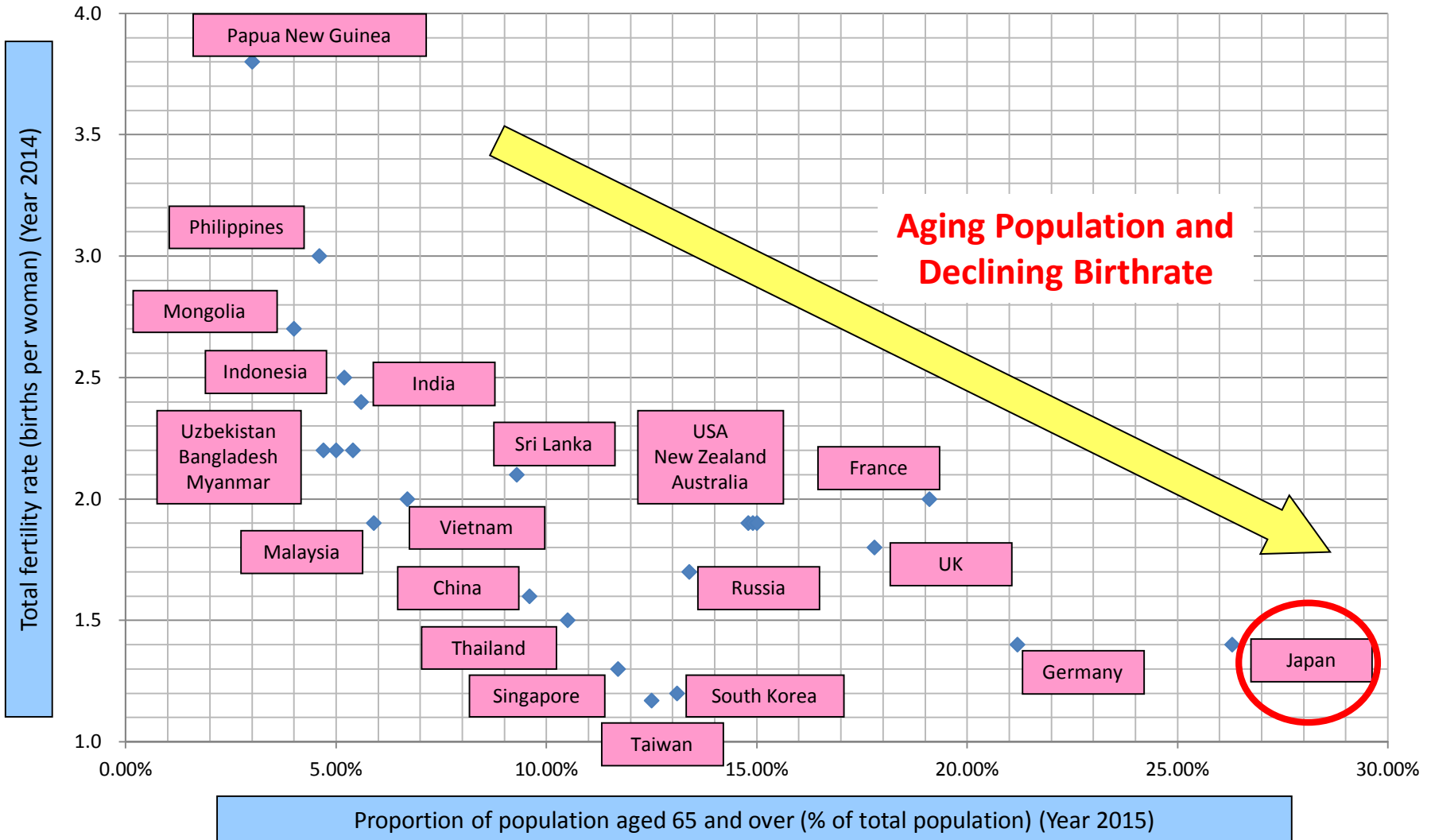


### (4) Yen-Dollar Exchange Rate

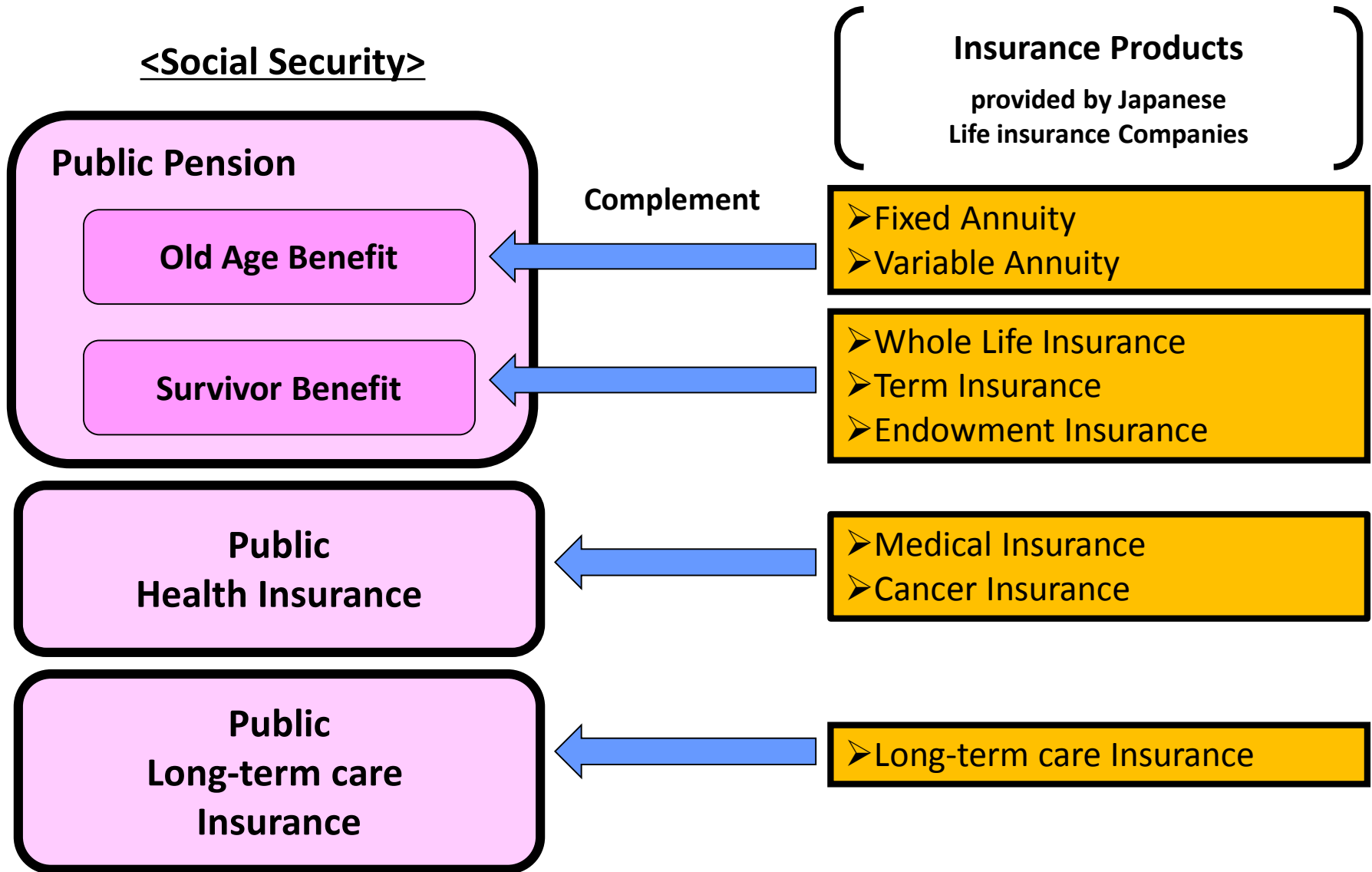


# I Basic Information of Japan

## 3. Aging Population in the World

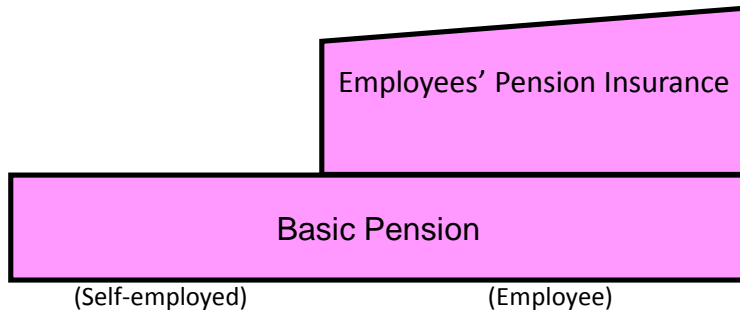


## 4. Overview of Social Security System

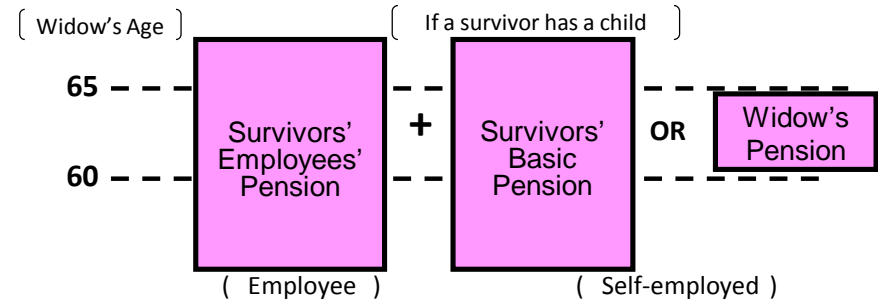


## (a) Public Pension

### Old Age Benefit



### Survivor Benefit

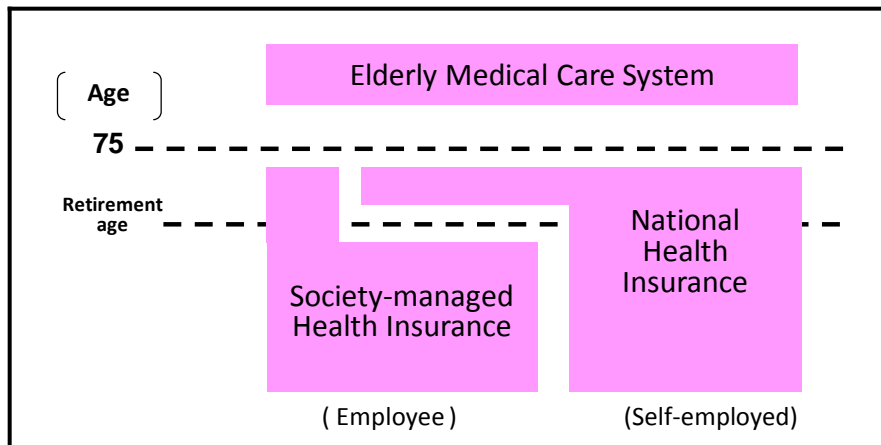


- Cost
  - National Government Subsidies
  - Premium
    - self-employed ... ¥16,260/M
    - employee ... 18.182% of salary
- ✓ Public Pension can use fund (¥135 trillion) to ensure paying benefit sustainably.
- Benefit
  - Starting age
    - 65 years old
- ✓ Some older people can receive it from 60 years old.
  - Amount
    - self-employed ... ¥780,100/Y
    - employee ... income-related amount/Y
- ✓ Amount is adjusted not only for price fluctuation but also for a decrease in population.
  - Eligibility to receive pension benefit
    - premium payment for 25 years(to be 10 years after Oct 2017)

- Cost
  - ✓ Paid as Public Pension (Old Age Benefit)
- Benefit
  - Survivors' Employees' Pension
    - Eligibility ... Employee
    - Amount ... 3/4 of Old Age Benefit(Pension)
  - Widow's Pension
    - Eligibility ... Self-employed
      - Age of widow in age 60-65
    - Amount ... 3/4 of Old Age Benefit(Pension)
  - Survivors' Basic Pension
    - Eligibility ... Employee and Self-employed
      - Survivors have children
    - Amount ... ¥780,100/Y
      - + ¥224,500/Y per child
  - Lump-sum payment
    - Eligibility ... Not falling under abovementioned categories
    - Amount ... ¥120,000~320,000 proportional to the payment period

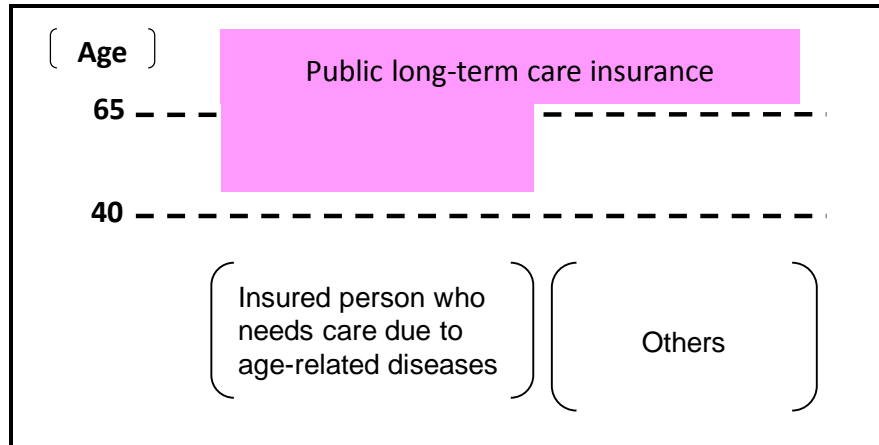


## (b) Public Health Insurance



- Cost
  - National and Local Government Subsidies
  - Premium
    - Society-managed Health Insurance fixed % of salary
    - National Health Insurance/Elderly Medical Care System premium determined by local government
- Benefit
  - Benefit in Kind
    - 70% of Medical Service Cost
    - ✓ 70% may increase to 80% or 90% when insured person is under 6 years old or over 70 years old.
    - ✓ Out of pocket expense is limited depending on age and income of insured person.
    - ✓ Medical Service doesn't include some highly-advanced medical technology.
  - Benefit in Cash
    - Child birth allowance

## (c) Public Long-term Care Insurance



- Cost
  - National and Local Government Subsidies
  - Premium
    - Insured persons who are 40-65 years old premium fixed depending on Public Health Insurance
    - Insured persons who are 65- years old premium determined by local government
- Benefit
  - Benefit in Kind
    - 90% of Long-term Care Service Cost
    - Insured persons who are 40-65 years old can receive benefit only when they need long-term care due to age-related diseases.
    - ✓ Out of pocket expense is limited depending on age and income of insured person.
    - ✓ Long-term Care Service Cost is fixed depending on care-needs of insured person.

# **II Japan's Position in the World Life Insurance Market**

## II Japan's Position in the World Life Insurance Market

### Japan's Position in the World Life Insurance Market

<Life Insurance Premium Volume by country in 2015>

Ranking	Country	Share in World Market
1	United States	19.90%
2	Japan	<b>13.57%</b>
3	United Kingdom	8.47%
4	PR China	8.32%
5	France	5.93%
6	Italy	4.93%
7	South Korea	3.88%
8	Germany	3.82%
9	Taiwan	3.14%
10	India	2.24%

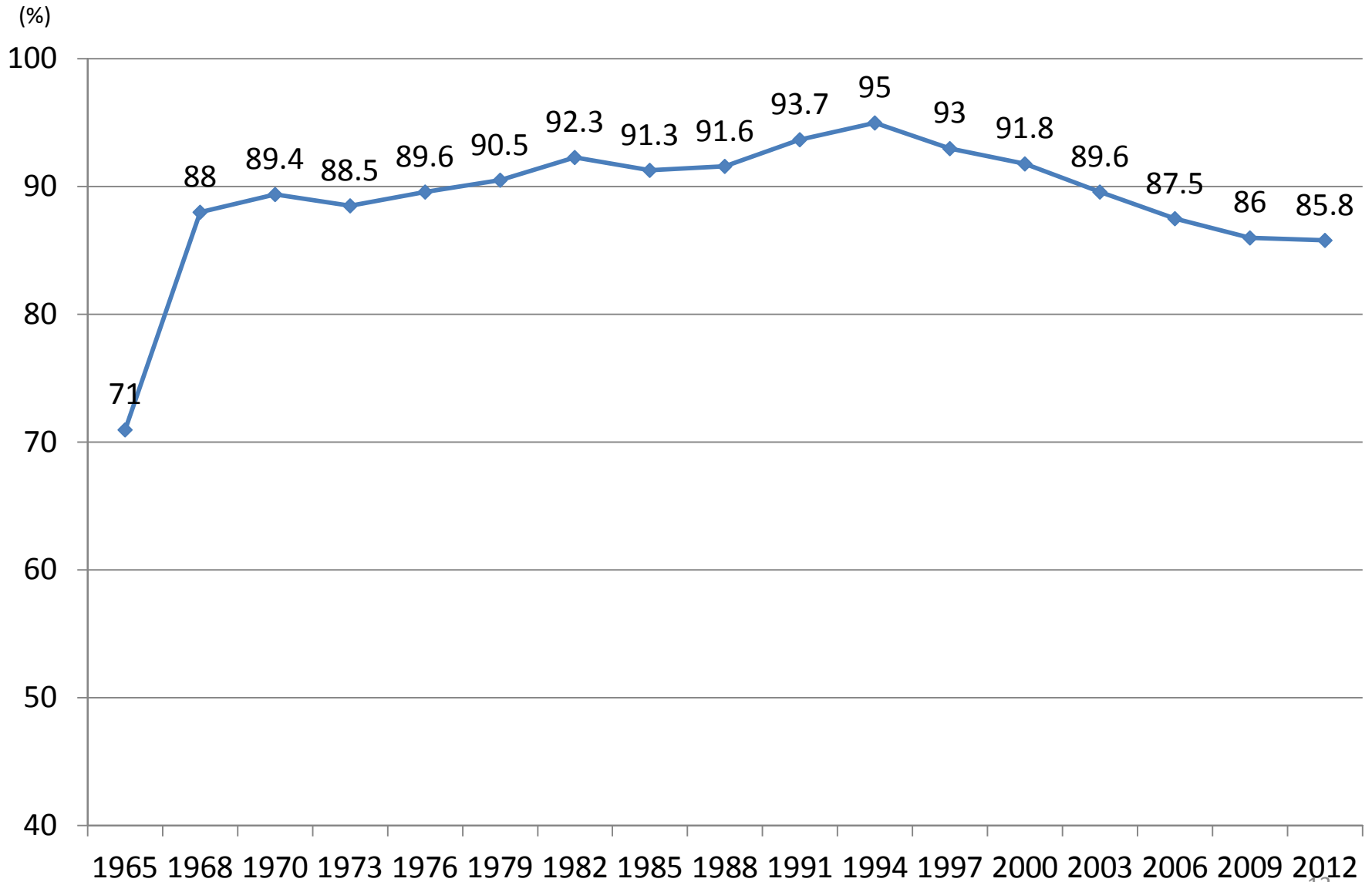
<New Premium Written by company in 2014>

Ranking	Company name	Ranking	Company name
1	UnitedHealth Group Inc.	11	People's Ins (Group) Co of China Ltd.
2	AXA S.A.	12	Prudential plc
3	Allianz SE	<b>13</b>	<b>Japan Post Insurance Co., Ltd.</b>
4	Assicurazioni Generali S.p.A.	14	Ping An Ins (Group) Co of China Ltd.
5	Anthem, Inc.	15	Zurich Insurance Group Ltd.
6	China Life Insurance (Group) Co.	16	National Mut Ins Fed Agricultural Coop.
7	State Farm Group	17	Humana Inc.
8	Kaiser Foundation Group of Health Plans	<b>18</b>	<b>Dai-ichi Life Insurance Company, Limited</b>
9	Munich Reinsurance Company	<b>19</b>	<b>Nippon Life Insurance Company</b>
10	Aetna Inc.	20	Berkshire Hathaway Inc.

# **III Overview of Life Insurance Business in Japan**

### III Overview of Life Insurance Business in Japan

#### (1) Changes in Life Insurance Ownership Rate per Households (including Annuity)

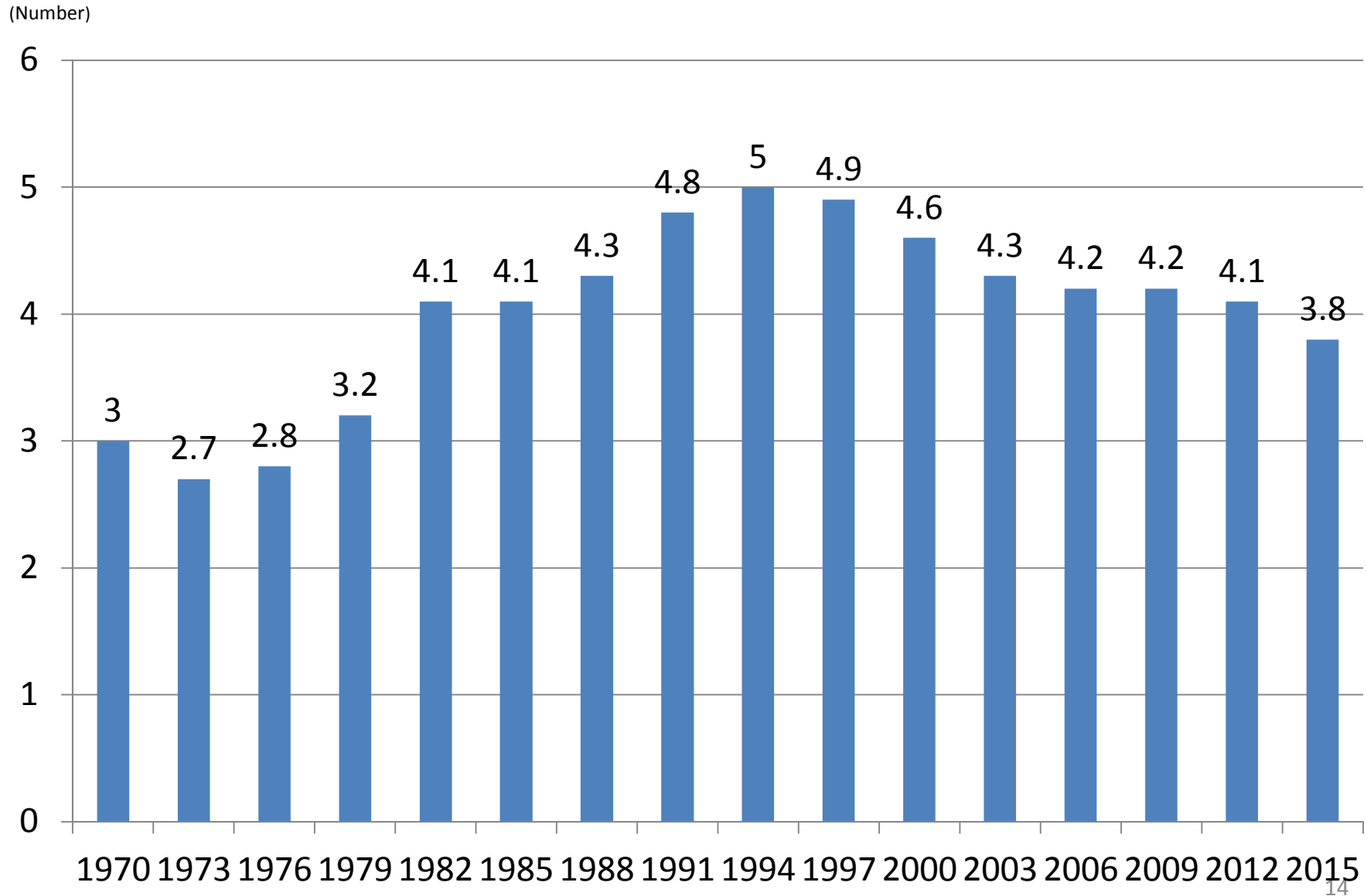


Source: Japan Institute of Life Insurance: Consumer Survey

Note: The data includes the total of private life insurance (including Japan Post Insurance), postal insurance and JA cooperative

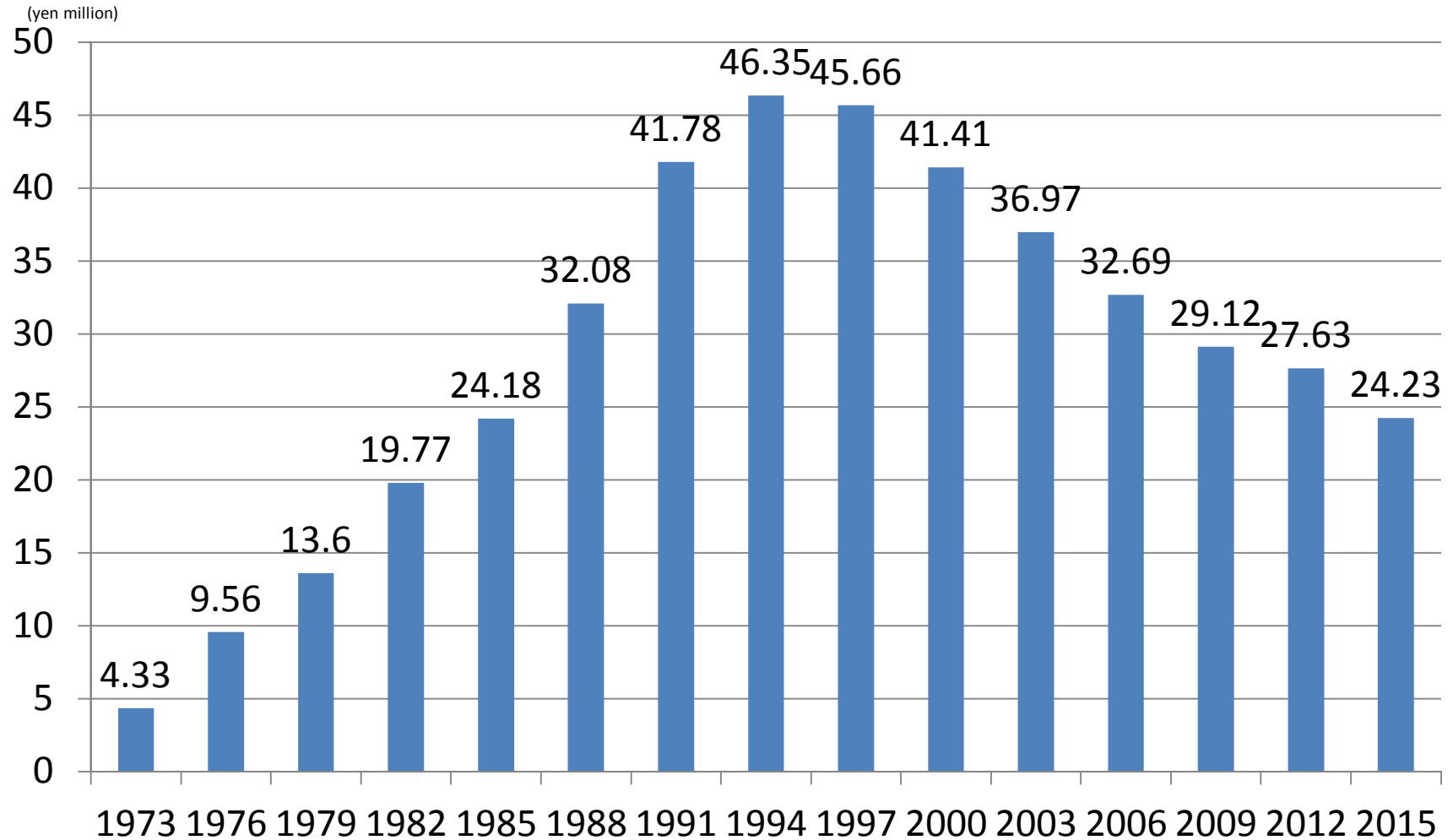
### III Overview of Life Insurance Business in Japan

#### (2) Number of Life Insurance Policies Owned by Household



### III Overview of Life Insurance Business in Japan

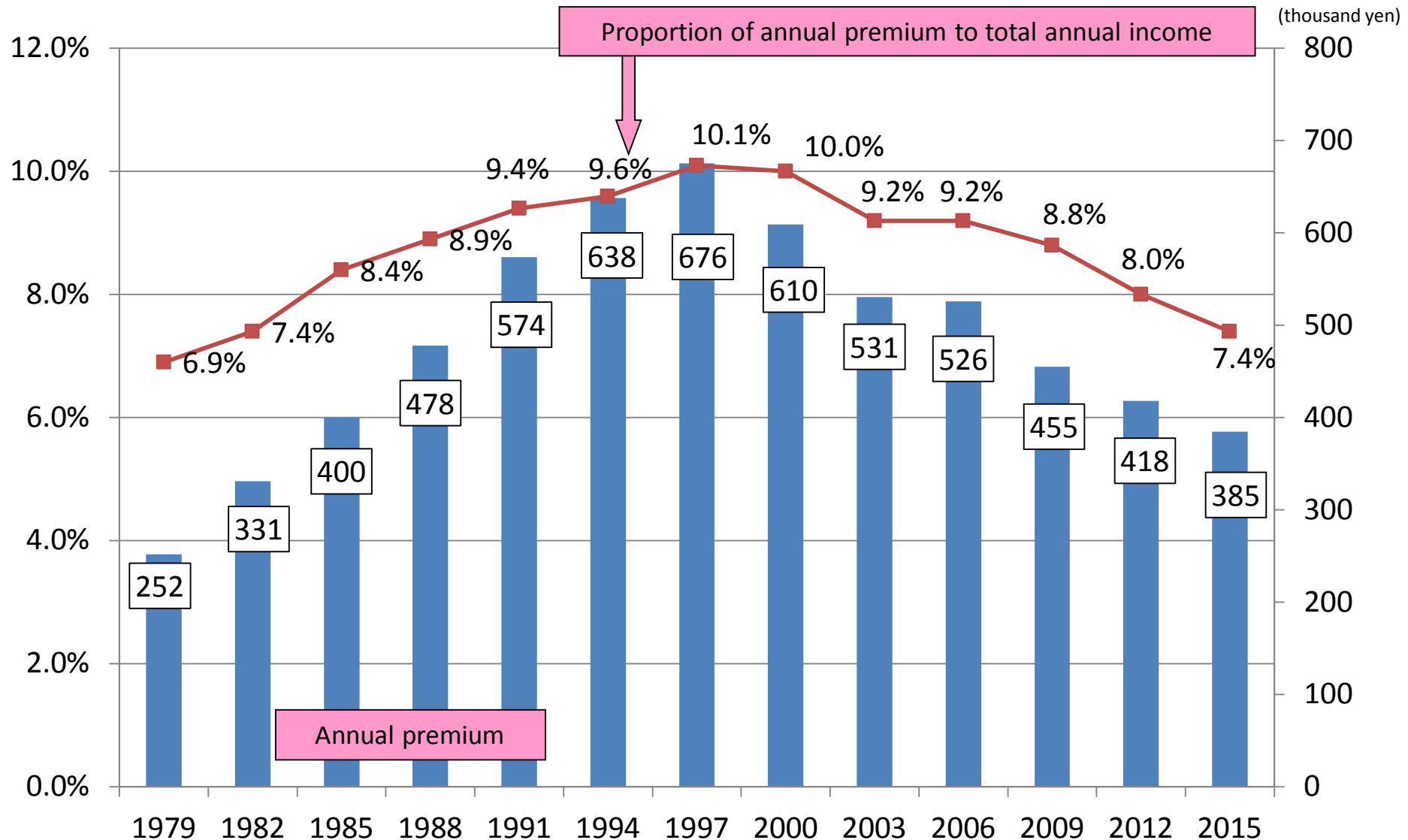
#### (3) Average Amount of Coverage per Household



Source: Japan Institute of Life Insurance: Consumer Survey

### III Overview of Life Insurance Business in Japan

#### (4) Annual Premium Payment per Household

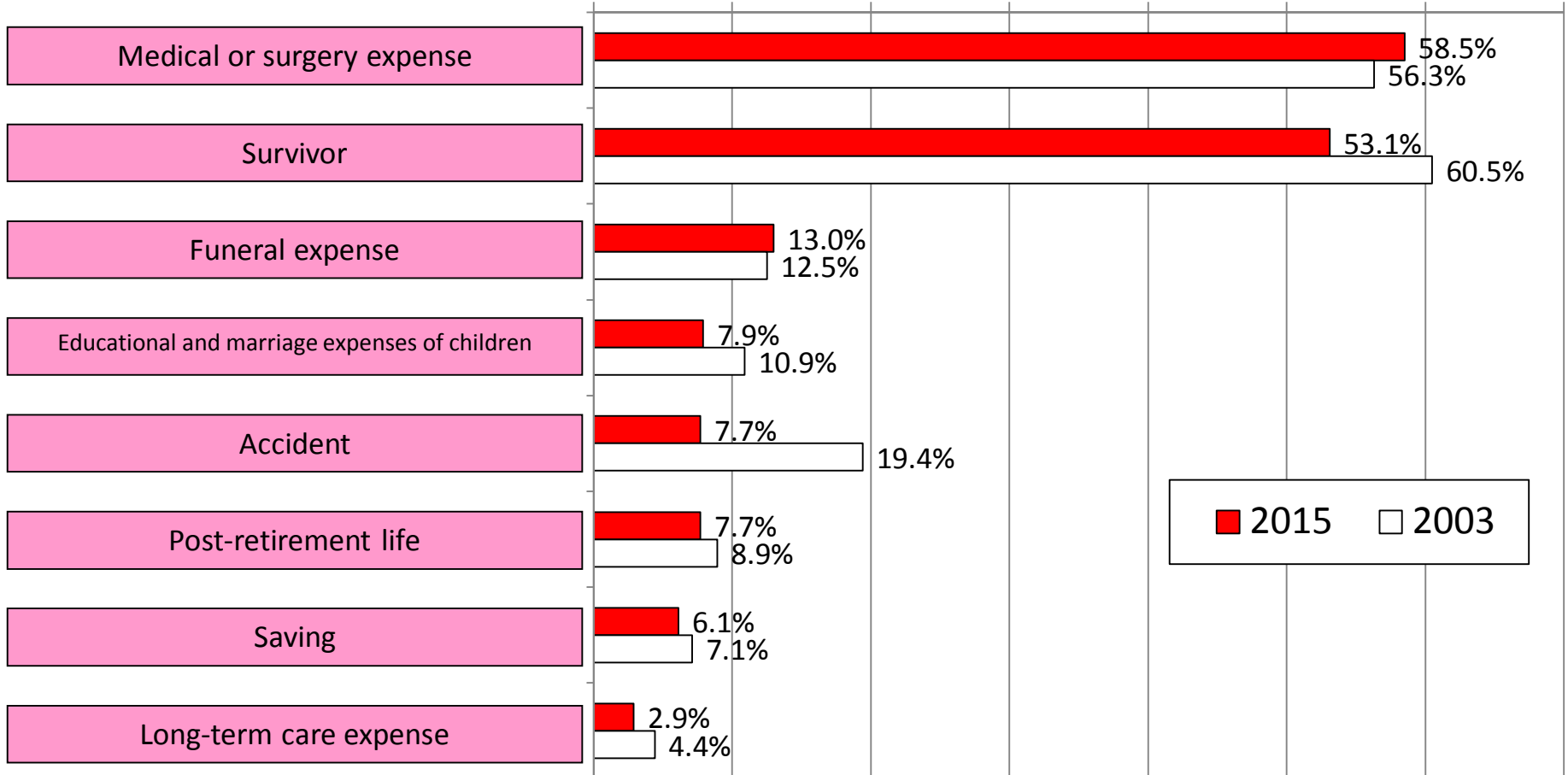




### III Overview of Life Insurance Business in Japan

#### (5) Purpose of Life Insurance Ownership

0.0% 10.0% 20.0% 30.0% 40.0% 50.0% 60.0% 70.0%



<Multiple choice question>

### III Overview of Life Insurance Business in Japan

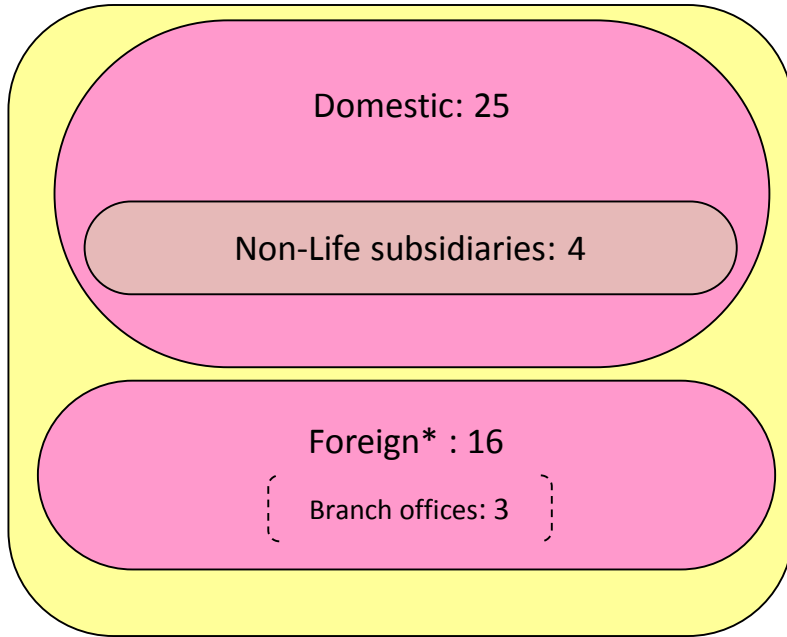
#### (6) Share of Distribution Channel

	2007	2010	2013	2016
Tied Sales Agents	56.7	51.7	49.7	47.1
House visit	38.8	33.0	31.4	28.3
Workplace	17.9	18.7	18.3	18.8
Direct Sale	5.7	5.2	5.8	5.6
Internet	1.0	1.0	1.5	2.0
TV, Newspaper, Magazine	4.7	4.2	4.3	3.6
Office of Insurer	11.2	16.9	15.8	15.6
Bank/Securities Firm	2.8	2.7	2.5	2.8
Bank	2.7	2.4	2.4	2.6
Securities Firm	0.1	0.1	0.1	0.2
Sales Agency	3.8	6.1	9.4	9.9
At the Counter	-	-	3.4	4.3
Sales Representative	-	-	6.1	5.6
Via Workplace or Labor Unions	6.3	7.4	6.6	7.8
Others	9.9	6.5	7.1	7.4

### III Overview of Life Insurance Business in Japan

#### (7) Life Insurance Companies in Japan

Total : 41 (as of October, 2016)

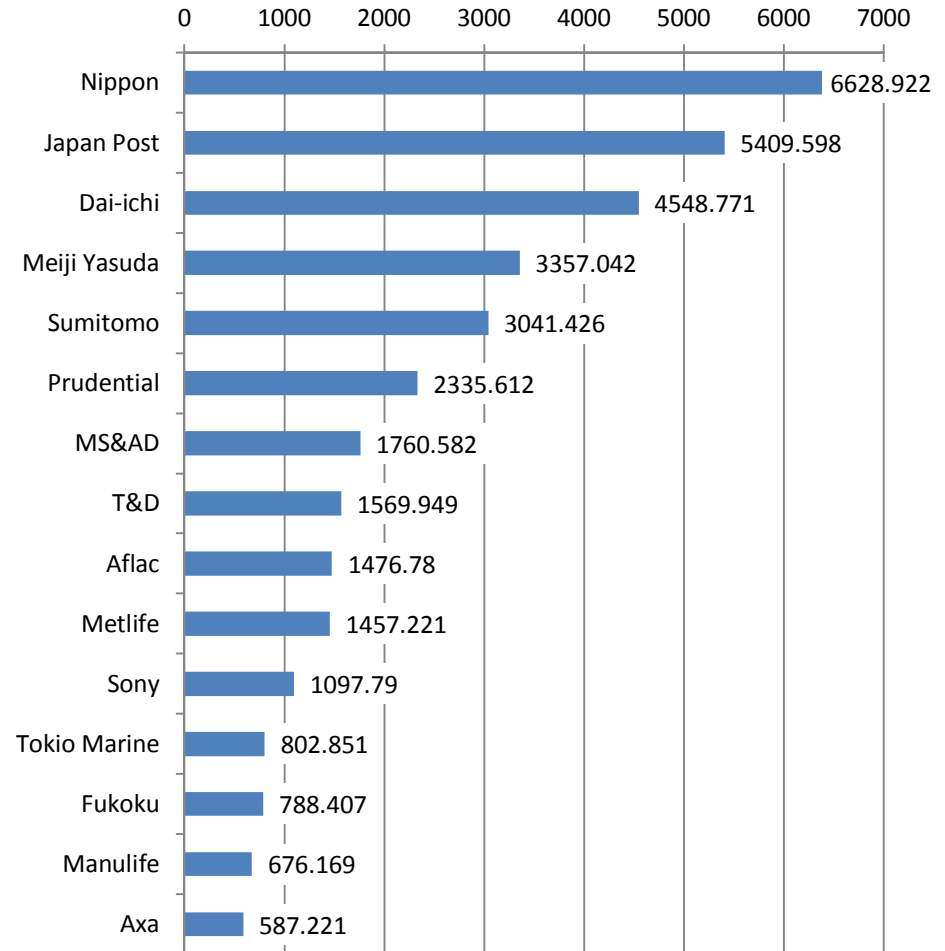


\*Foreign stake of 50% or more

(Note)

- Nippon: Nippon + Mitsui;
- Dai-ichi: Dai-ichi + Dai-ichi Frontier + Neo First;
- Sumitomo: Sumitomo + Medicare;
- Prudential: Gibraltar + Prudential + PGF;
- MS&AD: Mitsui Sumitomo Aioi + Primary;
- T&D: Taiyo + Daido + T&D;
- Sony: Sony + Aegon Sony;
- Fukoku: Fukoku + Fukokushinrai;
- AXA: AXA Life + AXA Direct

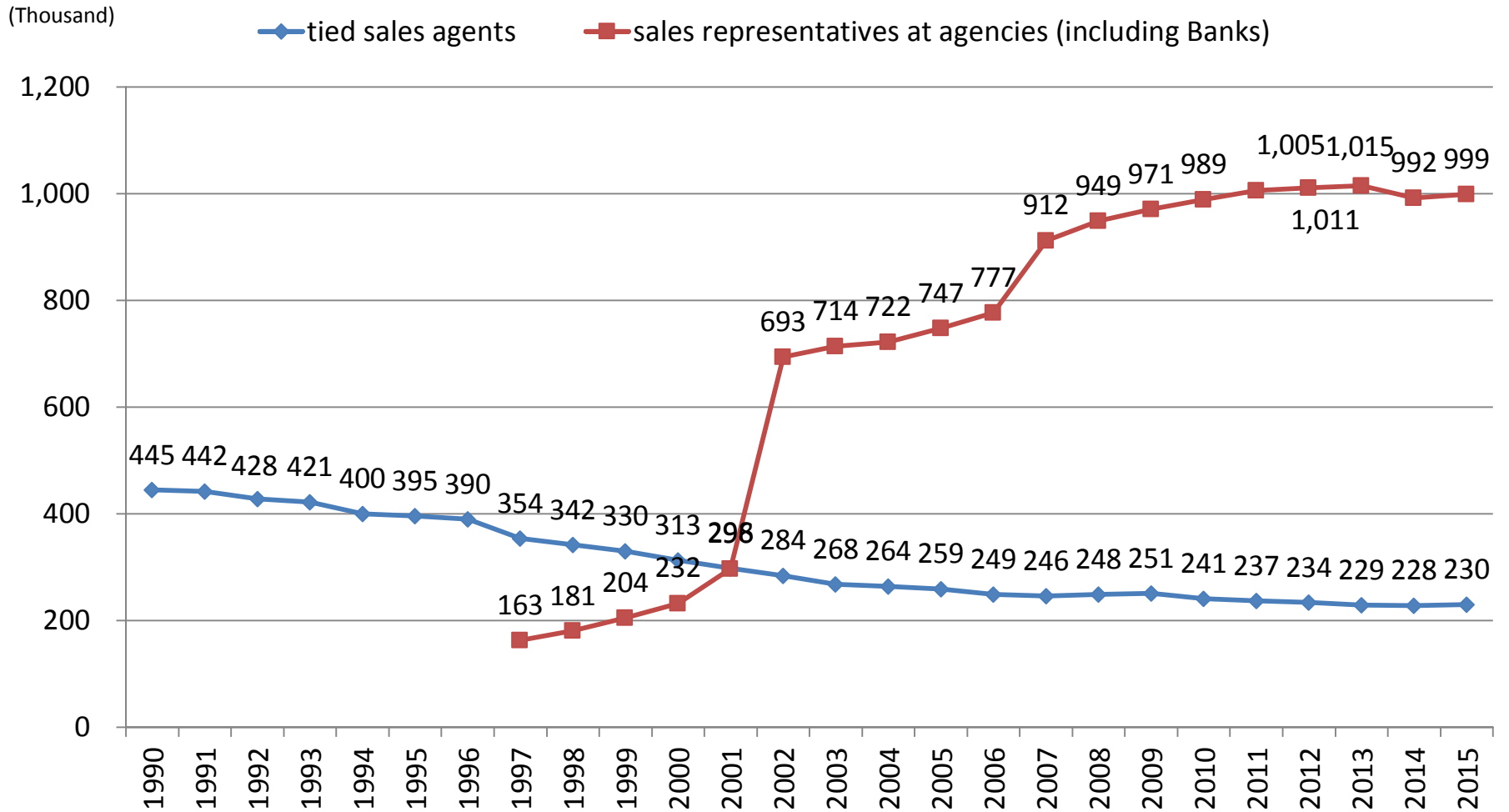
Premium Income of Japanese Life Insurers in FY2015



(yen billion)

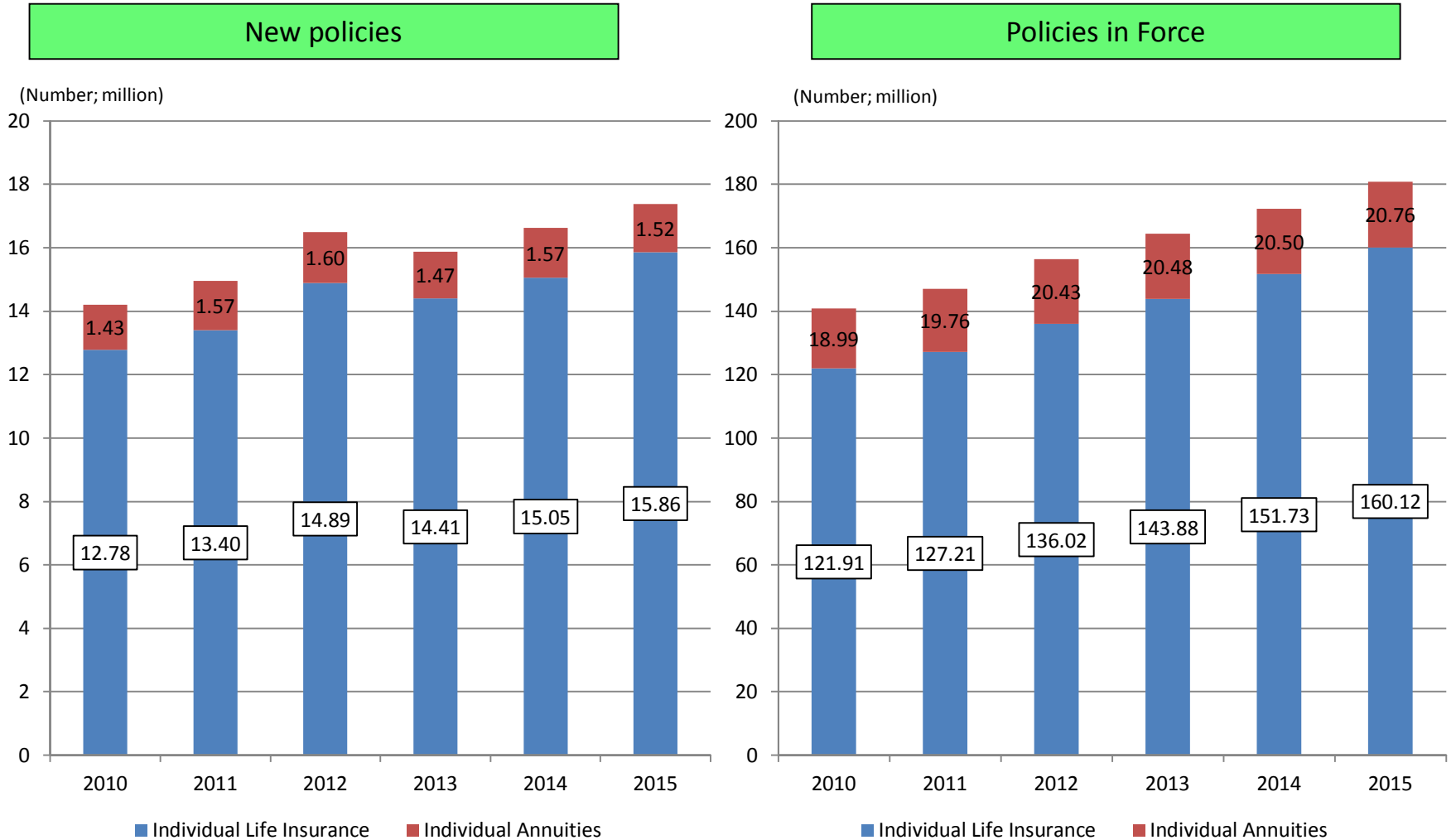
### III History of Life Insurance Industry in Japan

#### (8) Number of Life Insurance Sales-Person



### III Overview of Life Insurance Business in Japan

#### (9) Number of Individual Insurance Contracts

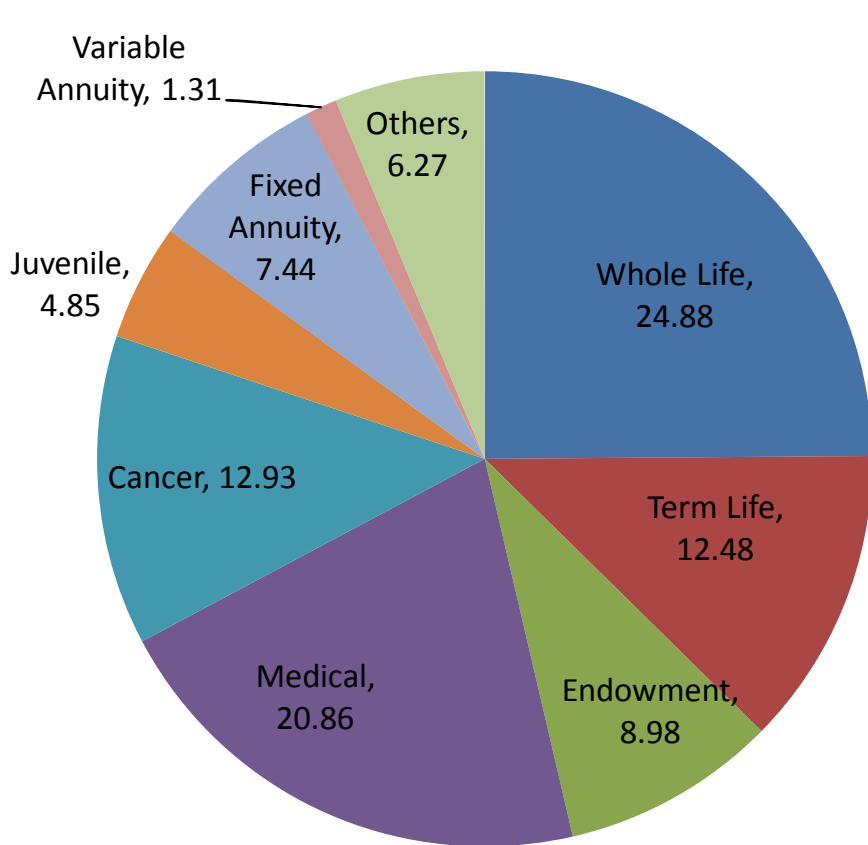


Source: The Life Insurance Association of Japan

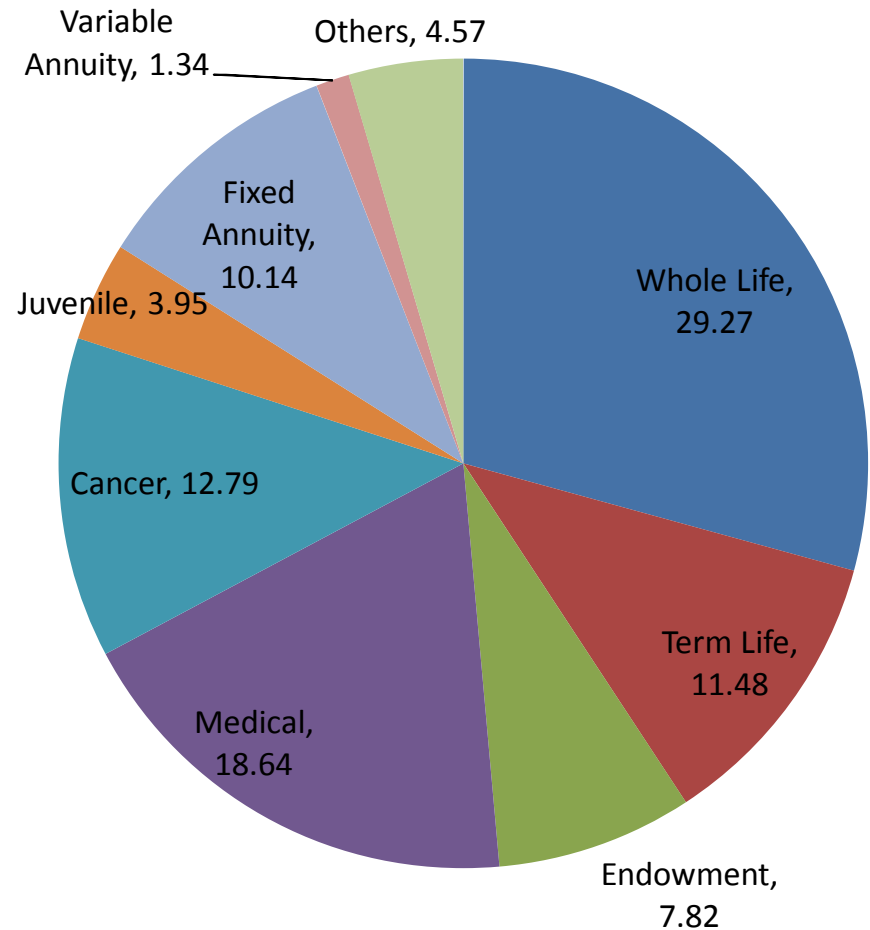
### III Overview of Life Insurance Business in Japan

#### (10) Individual Insurance Share by Type

**New Policies (FY2015)**



**Policies in Force (FY2015)**

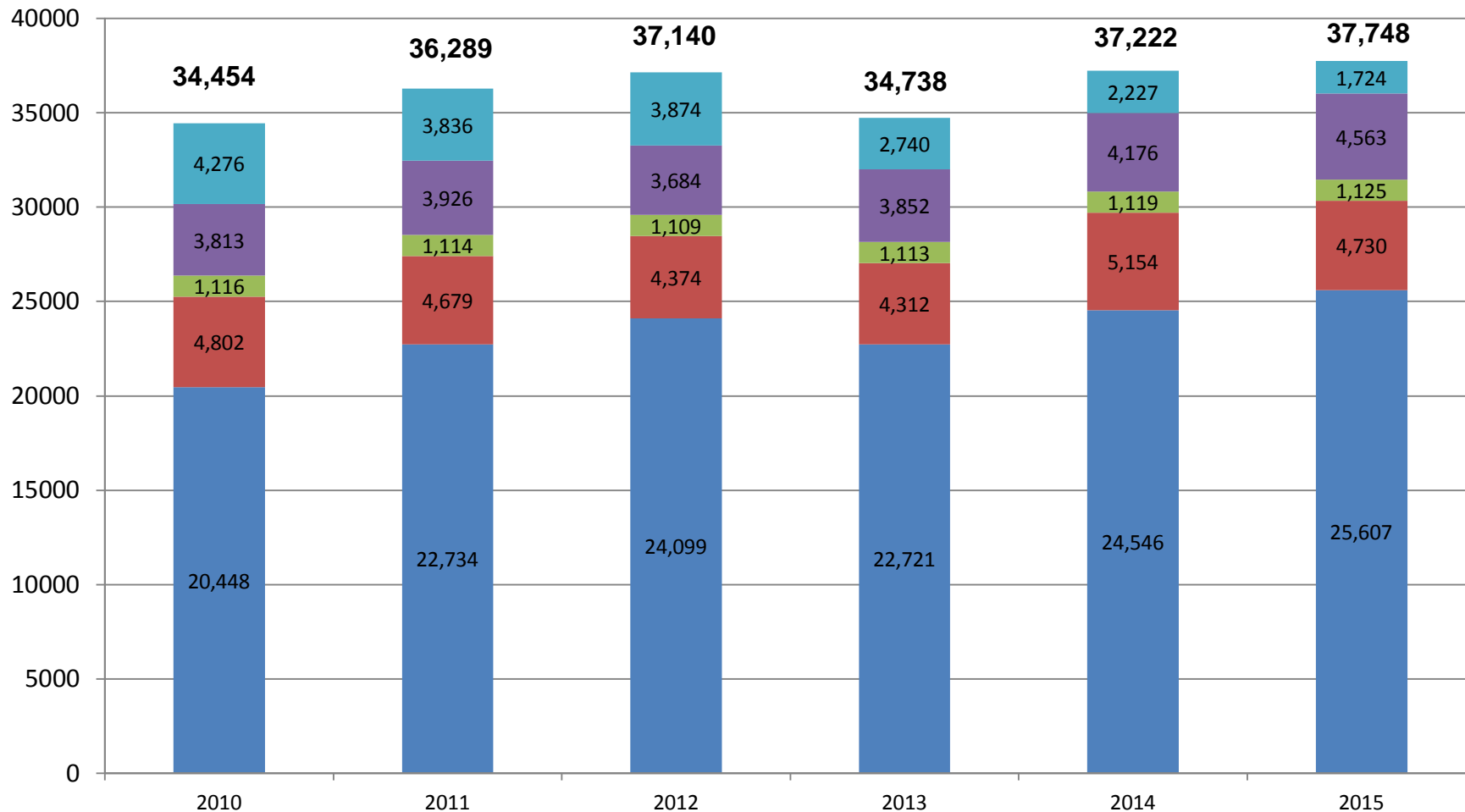


### III Overview of Life Insurance Business in Japan

#### (11) Premium Income

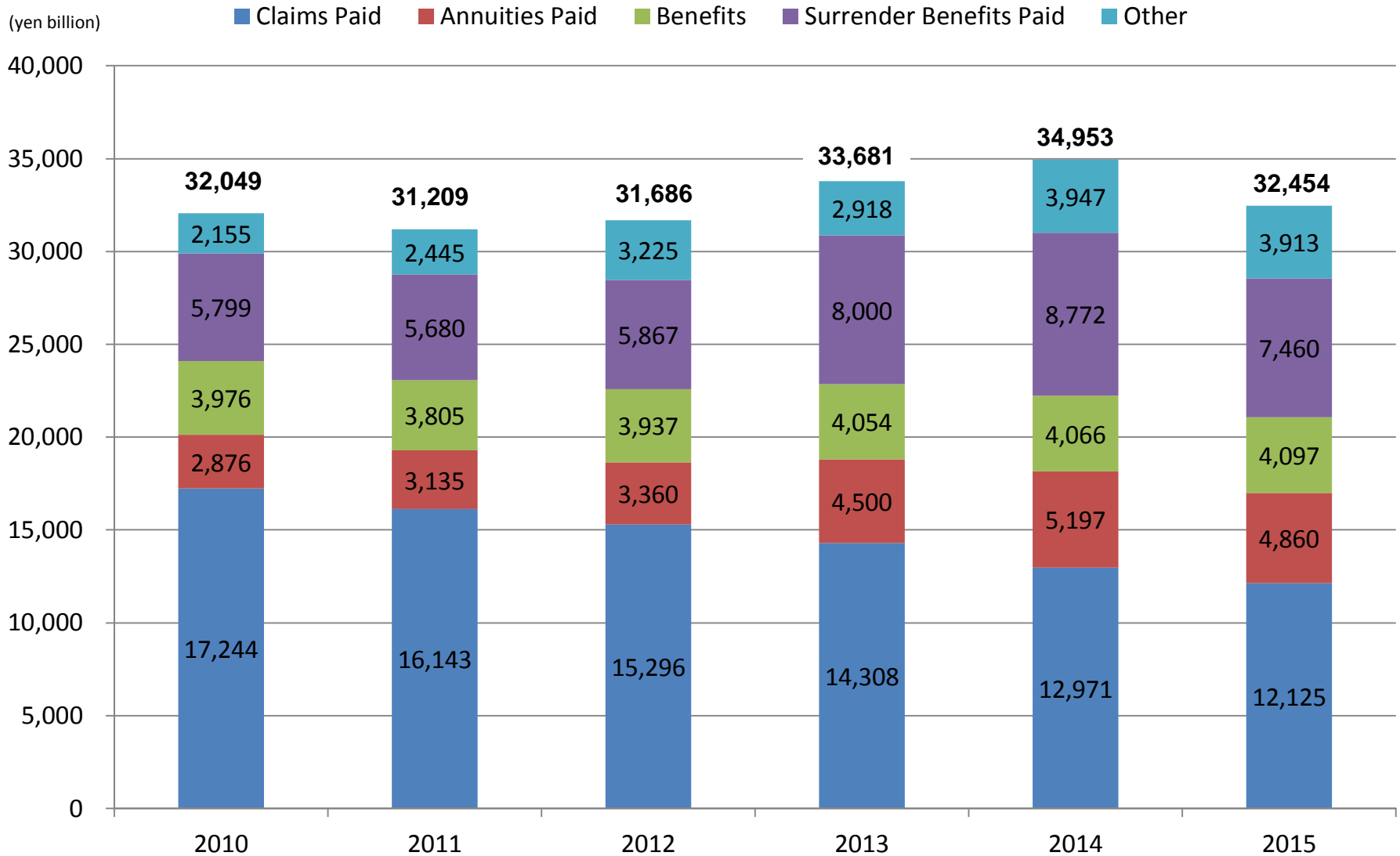
(yen billion)

■ Individual Life Insurance ■ Individual Annuities ■ Group Life Insurance ■ Group Annuities ■ Others



### III Overview of Life Insurance Business in Japan

#### (12) Insurance Payment



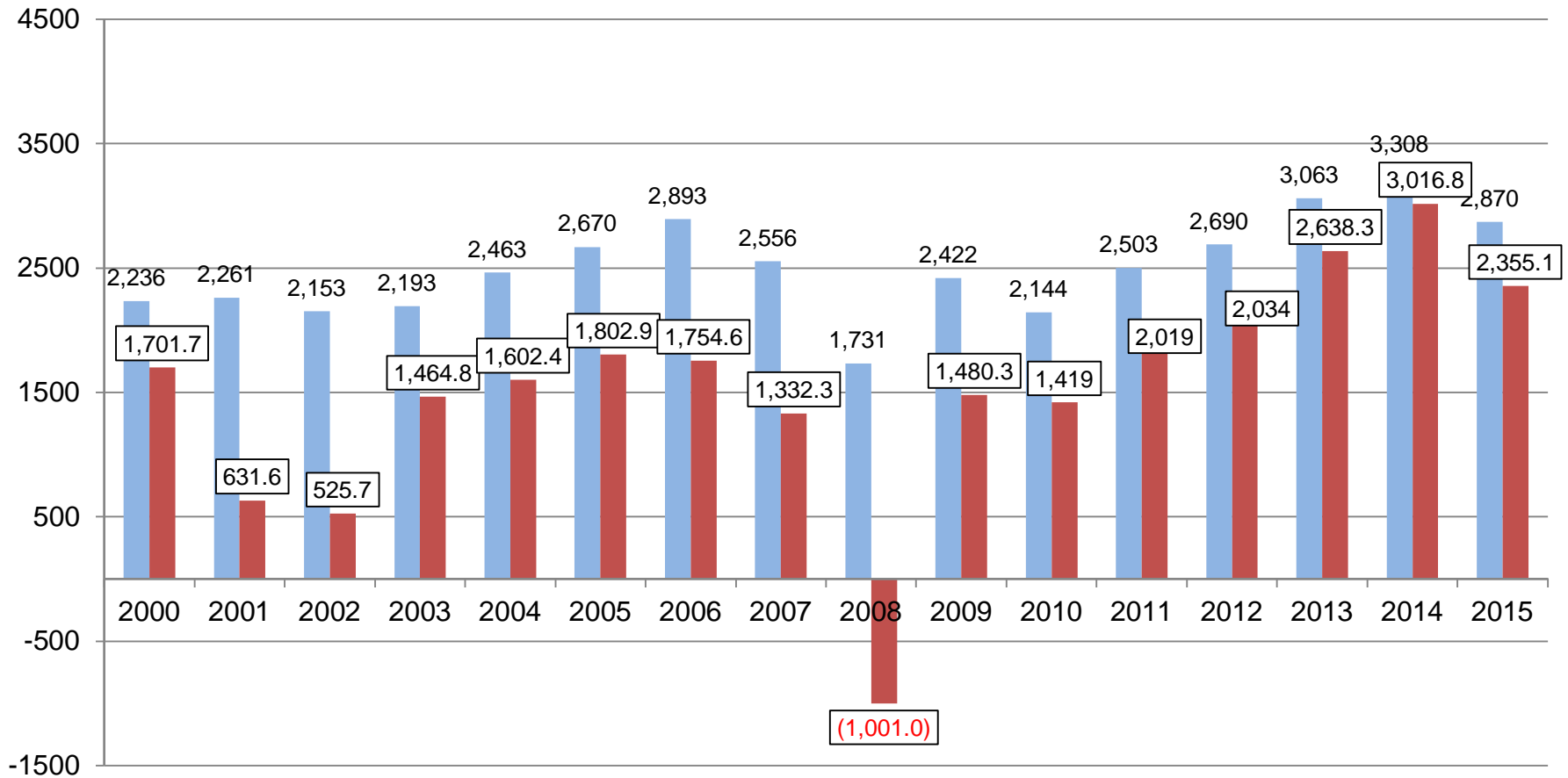


### III Overview of Life Insurance Business in Japan

#### (13) Profit

(yen billion)

Basic Profit Ordinary Profit



\*excluding Japan Post Insurance

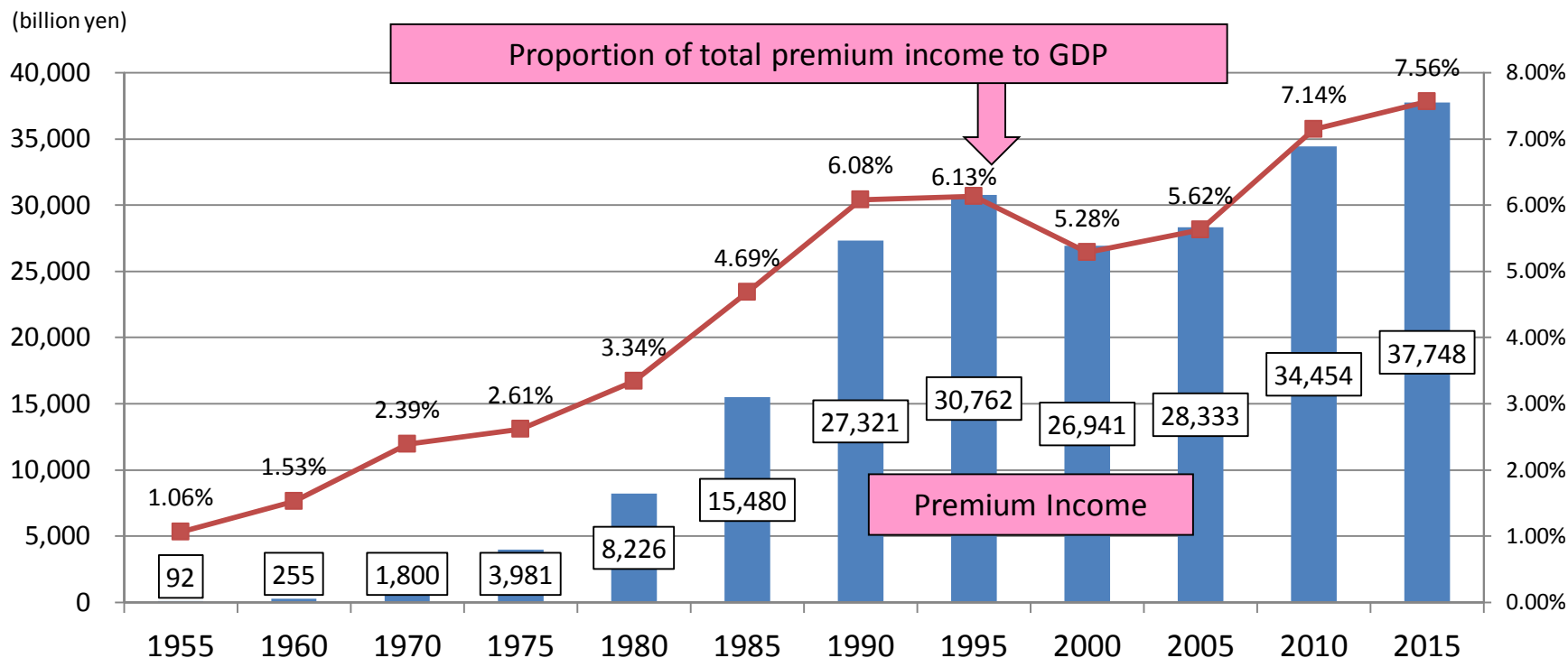
Basic profit represents the profitability of the life insurance business.

\*Basic Profit = Ordinary Profit - Capital Gain/Loss - Nonrecurring income/loss

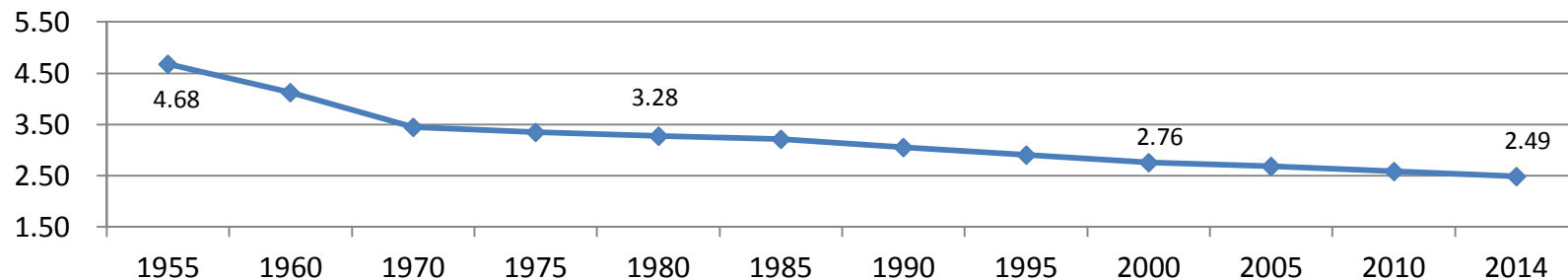
# **IV Brief History of Life Insurance Industry in Japan**

## IV Brief History of Life Insurance Industry in Japan

### Total Premium Income and GDP



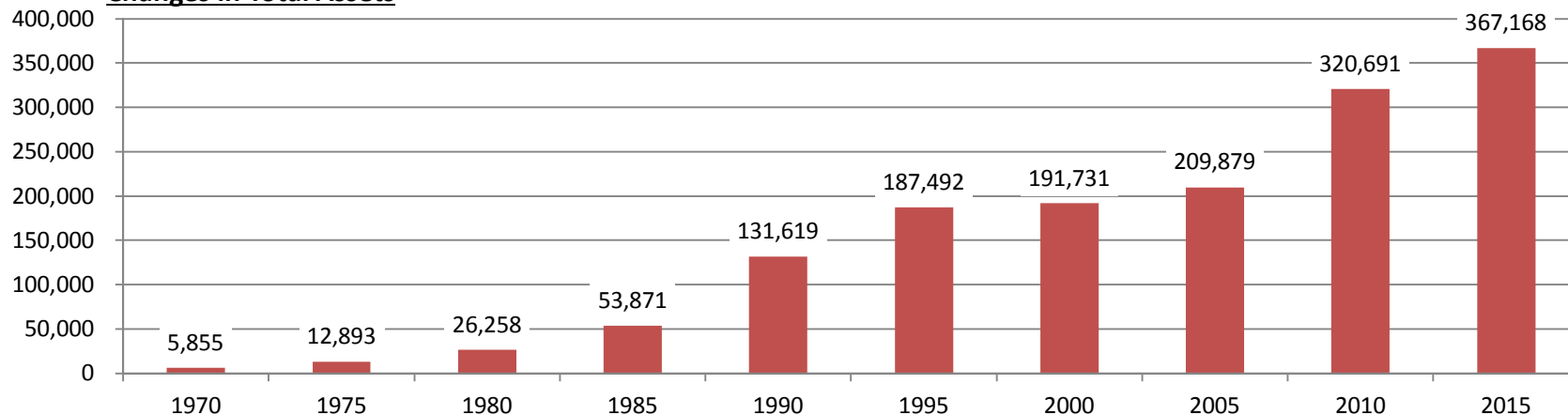
### Average Number of Members of Ordinary Households



# IV Brief History of Life Insurance Industry in Japan

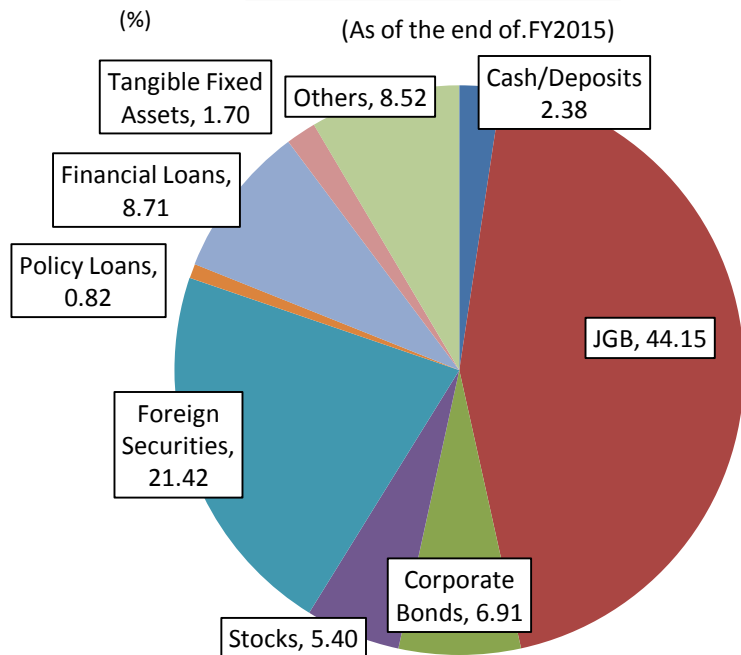
## Total Assets and Portfolio Yields

**Changes in Total Assets**



**Total Assets: 367 Trillion Yen**

(As of the end of FY2015)

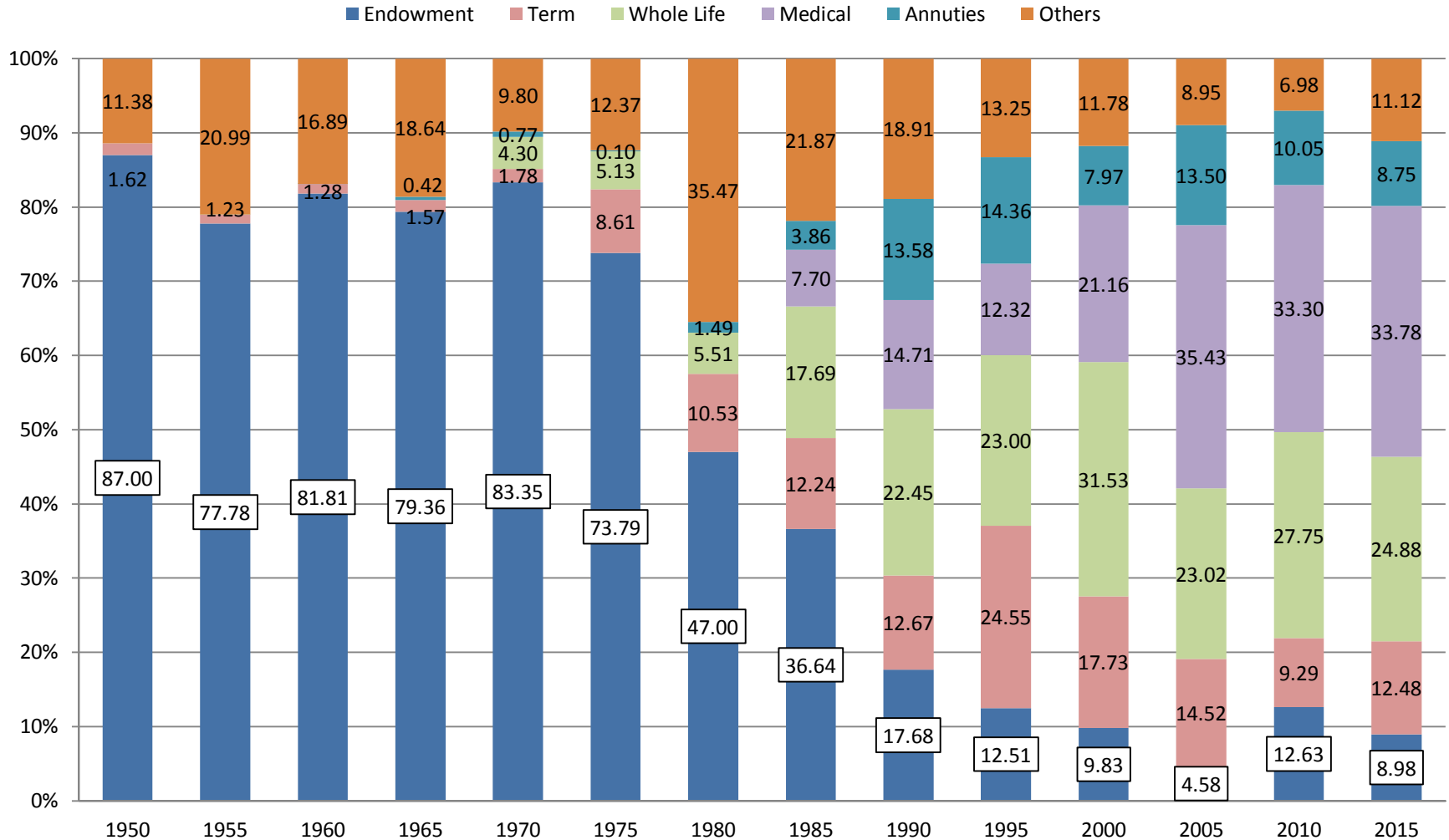


**Portfolio Yields by Type of Assets**

FY	Bonds	Domestic Stocks	Foreign Securities	Financial Loans	Real Estate	General Account Assets
2011	1.91	1.56	2.91	1.94	2.27	1.92
2012	2.00	0.61	5.25	2.18	2.35	2.36
2013	1.95	5.14	4.60	2.15	2.43	2.40
2014	1.88	5.31	5.50	2.28	2.50	2.58
2015	1.75	5.17	2.24	1.70	2.62	1.92

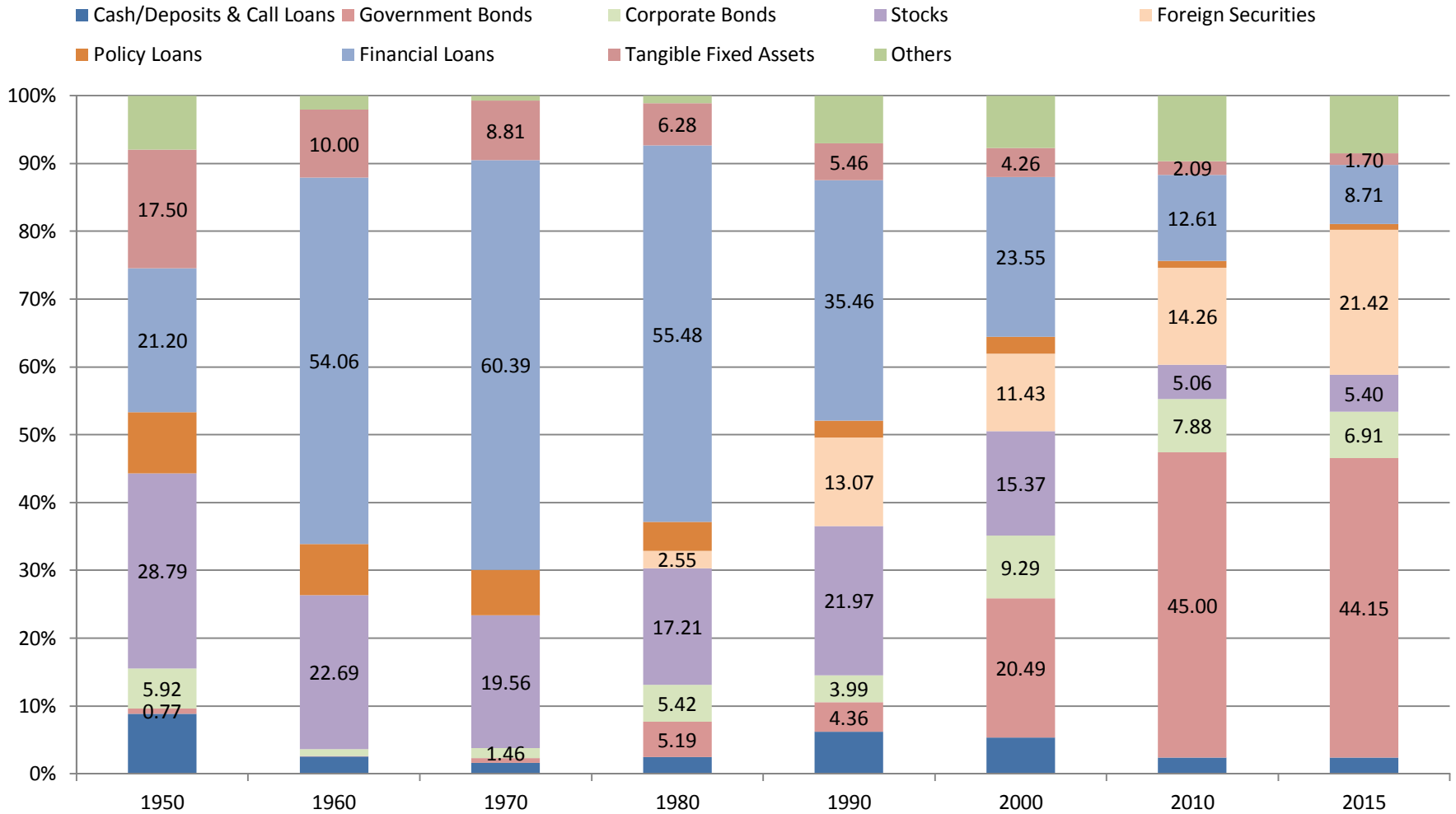
# IV Brief History of Life Insurance Industry in Japan

## Changes in Product Portfolio (the number of new policies)



# IV Brief History of Life Insurance Industry in Japan

## Changes in Asset Management Portfolio



# **V Addressing the issues**

# V Addressing the issues

## 1. Financial crisis in the 1990s

### ■ Changes in economic situation

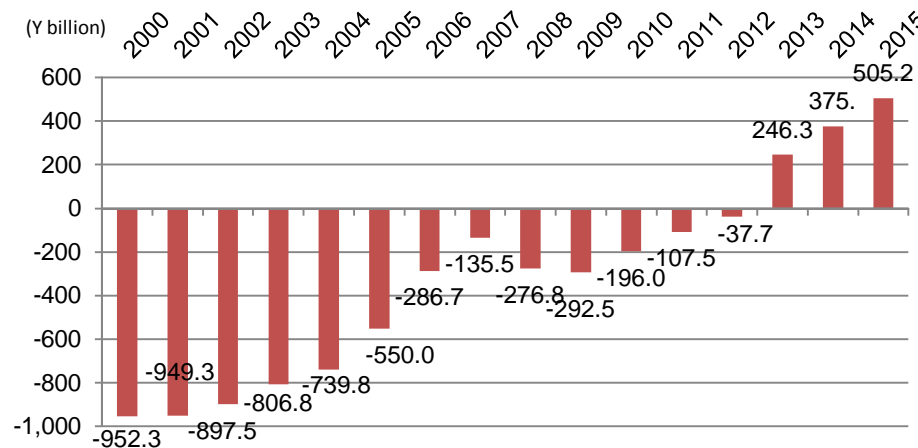
- The Japanese economy maintained favorable growth until 1989 mainly due to the expanding domestic consumption. However, stock prices and land prices plunged after peaking in 1989.
- Maintain low interest rate policy for a long time for monetary relaxation

### ■ Impacts on the life insurance industry

- The amount of both new business and business in force declined affected by the economic downturn
- Lower investment yields caused large negative spread
- Financial condition deteriorated due to falling stock prices
  - The ratio of stocks in insurers' portfolios was 22% in 1990



### Negative spread\*



(Note) Total of major 4 companies (Nippon, Dai-ichi, Meiji Yasuda, Sumitomo)  
 \*Loss due to portfolio yield rate falling below the expected interest rate

### Interest rate (10yr JGB)



Source: Bank of Japan, Financial Service Agency



## V Addressing the issues

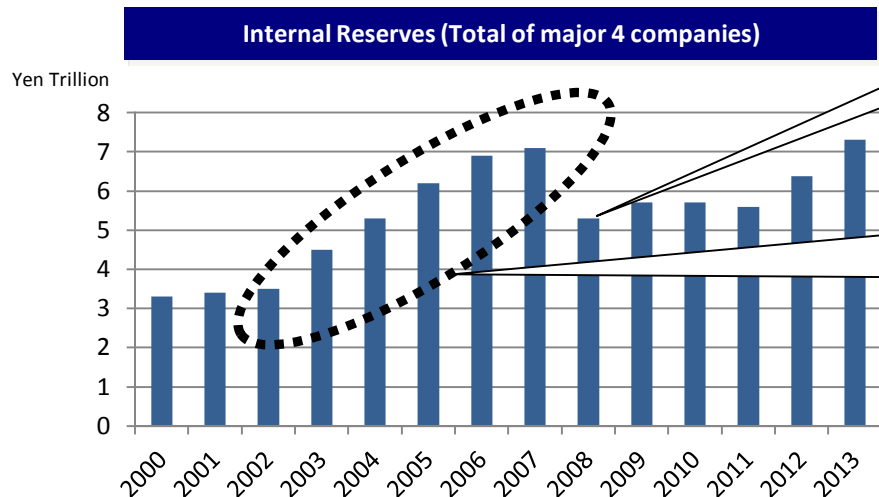
### Bankruptcy cases of life insurers

	Nissan Life	Toho Life	Daihyaku Life	Taisho Life	Chiyoda Life	Kyoei Life	Tokyo Life	Yamato Life
Procedure	Administrative	Administrative	Administrative	Administrative	Judicial	Judicial	Judicial	Judicial
Excess liabilities (a)-(b)	Approx. 302.9 (April 1997)	Approx. .650 (June 1999)	Approx. 317.7 (May 2000)	Approx. 36.5 (August 2000)	Approx. 595 (October 13, 2000)	Approx. 689.5 (October 23, 2000)	Approx. 73.1 (March 31, 2001)	Approx. 64.3 (October 17, 2008)
Asset (a) (billion yen)	1,822.7	2,190	1,300	154.5	2,233	3,725	690	194.9
Liability(b) (billion yen)	2,125.6	2,840	1,617.6	191	2,828	4,414.5	763.2	259.2
Relief Insurance Company	Aoba Life (Prudential Life)	GE Edison Life (Gibraltar Life)	Manulife Life	Azami Life (PGF Life)	AIG Star Life (Gibraltar Life)	Gibraltar Life	T&D Financial Life	Prudential Financial Japan Life (PGF Life)
Aid amount by LIPPCJ (billion yen)	200	366.3	145	26.7	0	0	0	27.8
Changes in Policy								
Reduction of policy reserve	No reduction	10%	10%	10%	10%	8%	No reduction	10% (additional reduction for high-interest policy)
Post-reduction expected interest rate	2.75%	1.5%	1.0%	1.0%	1.5%	1.75%	2.6%	1.0%
Date of Resolution	October 1, 1997 Transfer of contract	March 1, 2000 Transfer of contract	April 2, 2001 Transfer of contract	March 31, 2001 Transfer of contract	April 20, 2001 Conversion to a stock company (Restart business)	April 3, 2001 Restart business	October 19, 2001 Conversion to a stock company (Restart business)	June 1, 2009 Restart business

# V Addressing the issues

## Efforts of Industry

### a) Accumulating Internal Reserves



**Absorbed impacts of the Financial Crisis**

\* Internal Reserves: Total Capital + Capital Reserves + Price Fluctuation Reserves + Accumulated Fund for Price Fluctuation + Risk Reserves + Contingency Reserves

**Internal reserves was accumulated from ¥ 3 trillion to ¥ 7 trillion.**

**(Note) Revision in Distribution Regulation:**

In accordance with the partial amendments to Ordinance for Enforcement of Insurance Business Act in 2002, the bottom limit of the distribution rate of surplus to policy dividends was brought down from 80% to 20% in order to secure adequate internal reserves in 2002.

Source: disclosure of each company

### b) Stock Holding

#### Total assets and stock holding

¥ trillion

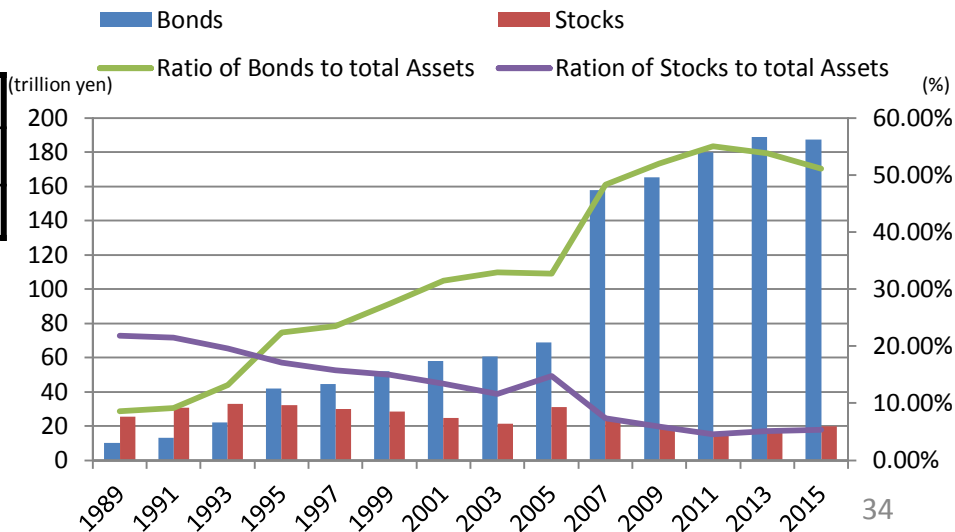
	1990	2001	2015
Total assets	131.6	184.4	367.1
Stocks	28.9(21.9%)	24.7 (13.4%)	19.8 (5.4%)

**Cutting down**

(Excluding JP Insurance)

Source: The Life Insurance Association of Japan

#### Trends in Amount and Ratio of Bonds and Stocks



# V Addressing the issues

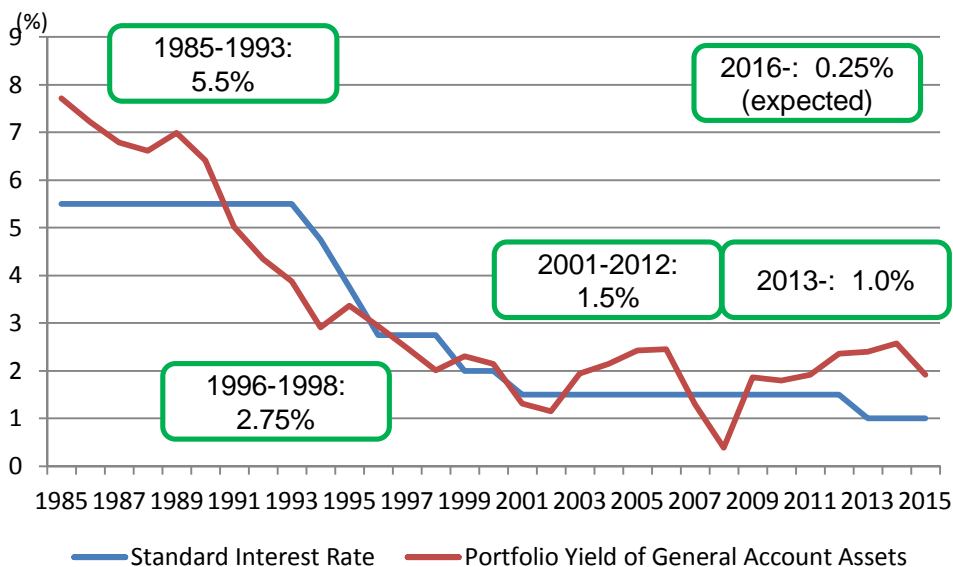
## c) Duration of Bonds

Breakdown of JGB by time of maturity

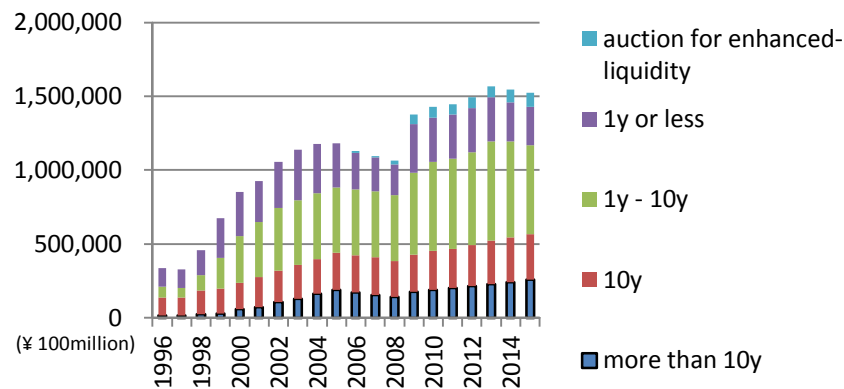
	2000	2015
Below 10yr to maturity	88.3%	28.9%
Over 10yr to maturity	11.7%	71.1%

Based upon disclosure of each company

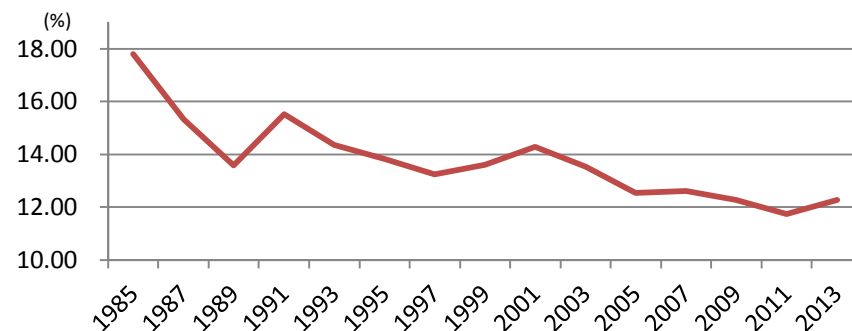
## d) Standard interest rate of new sales product



JGB Issuance by duration (Availability of super long-term bonds)



## e) Reduction of operating expense ratio to total premium income



Source: FSA, LIAI

## f) Accumulation of additional policy reserves

- In order to ensure further financial soundness and dissolve negative spread, some insurers started to accumulate additional policy reserves

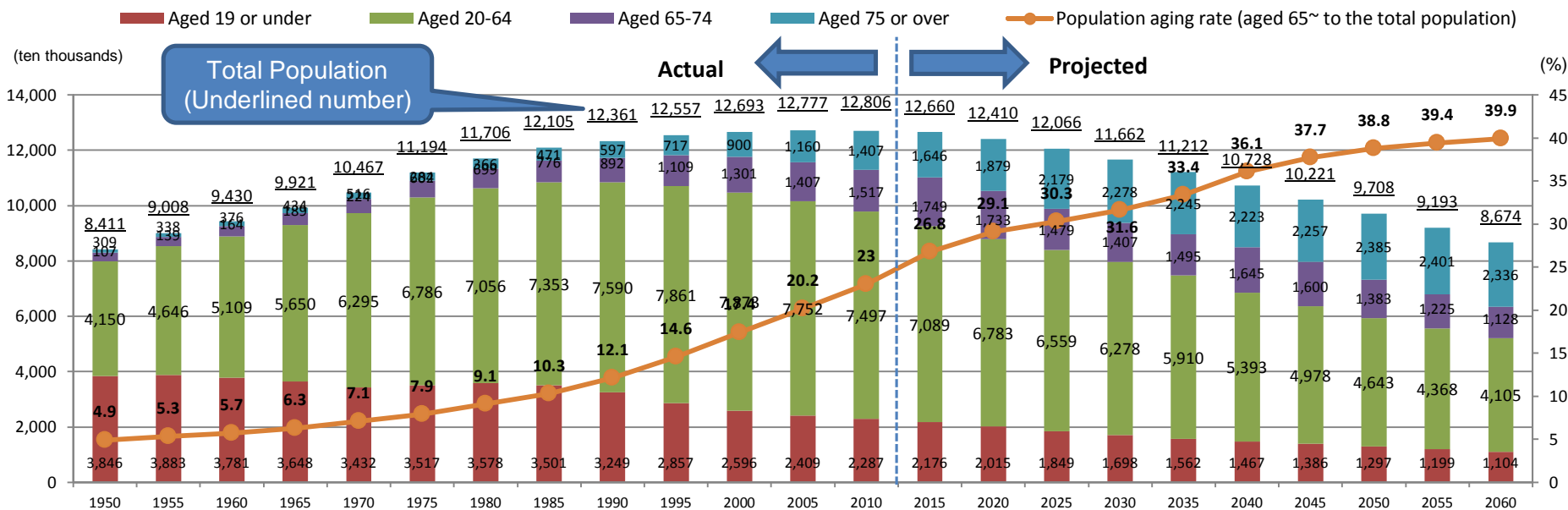
## g) Changes in sales products

- Shifted from saving type products (such as whole life insurance & endowment) to protection type products (such as medical insurance).
- Started sales of adjustable interest funding life insurance

# V Addressing the issues

## 2. Aging Population

### (1) Population Demographics

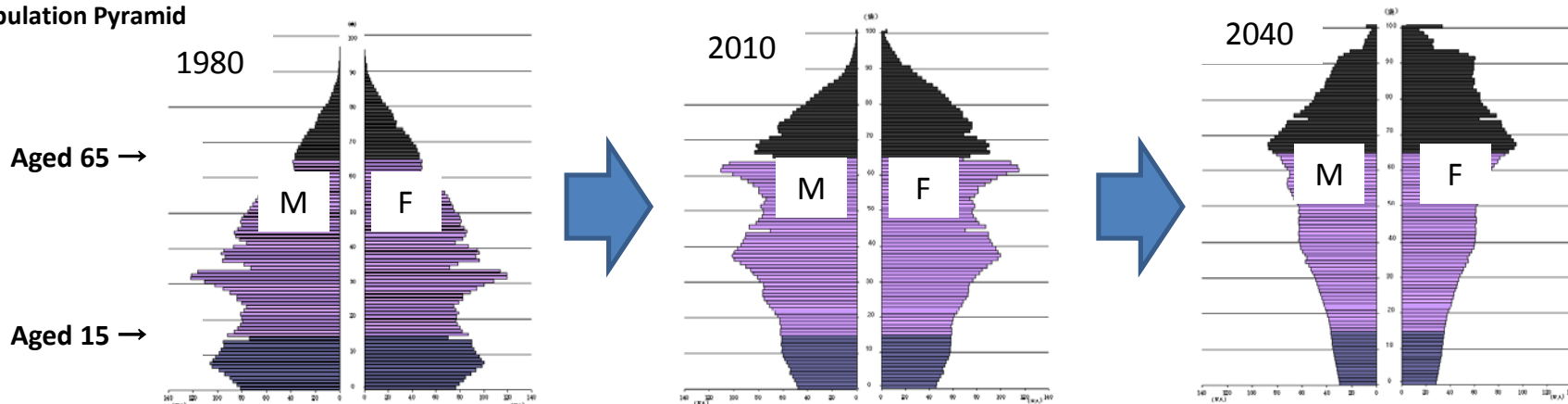


Source : For the figures until 2010, "Population Census", The Ministry of Internal Affairs and Communications

For the figures from 2015, The result of the medium variant projection under "Population Projection for Japan (as of January 2012)", National Institute of Population and Social Security Research

(Note) The total population from 1950 to 2010 includes the population of uncertain age.

### (2) Population Pyramid

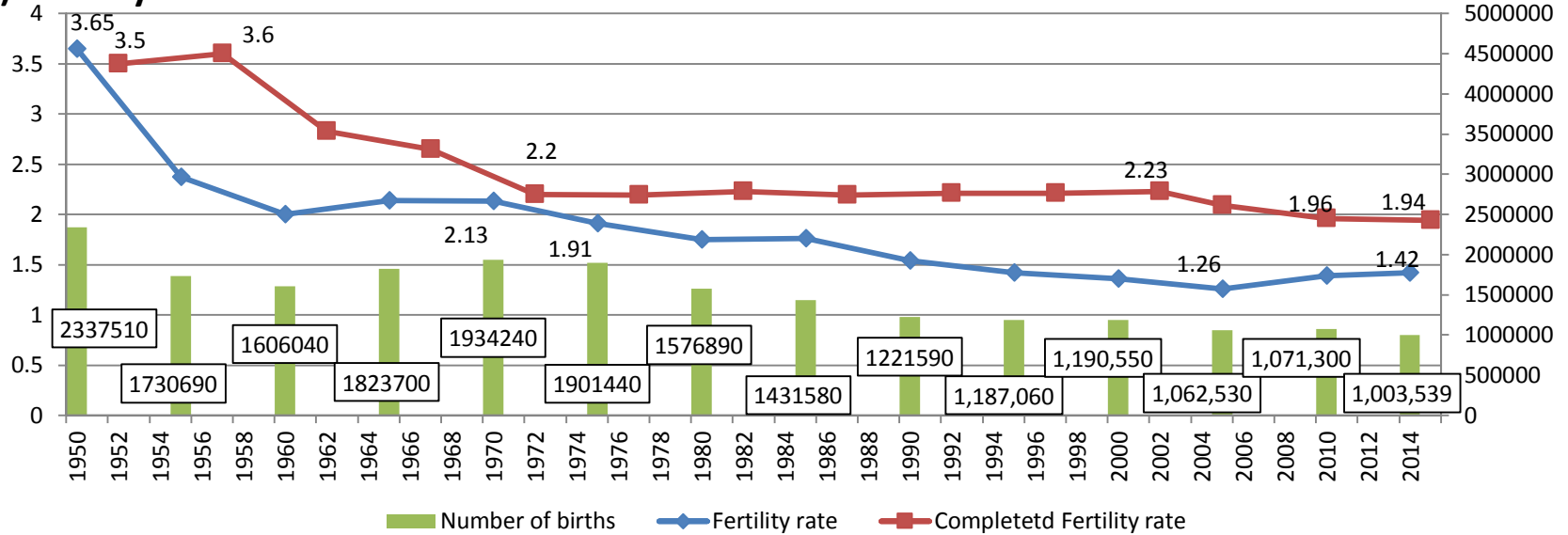


Source : For the figure of 1980, "Population Census", The Ministry of Internal Affairs and Communications

For the figure of 2010 and 2040, The result of the medium variant projection under "Population Projection for Japan (as of January 2012)", National Institute of Population and Social Security Research

# V Addressing the issues

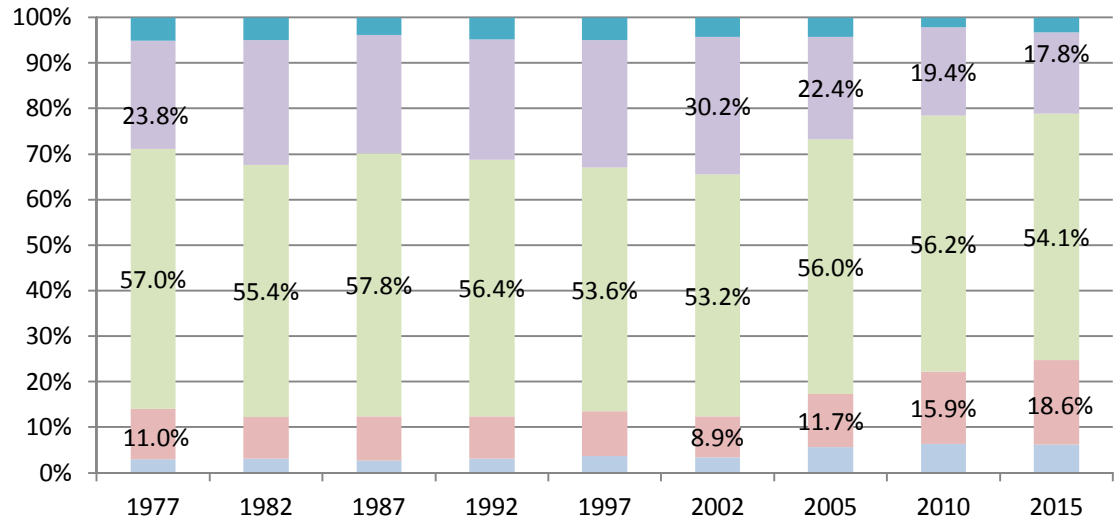
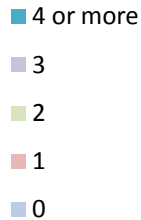
## (3) Fertility rate and Number of births



\*Completed Fertility rate: Average number of births for a couple married for 15 to 20 years, which is considered as ultimate number of births for a married couple

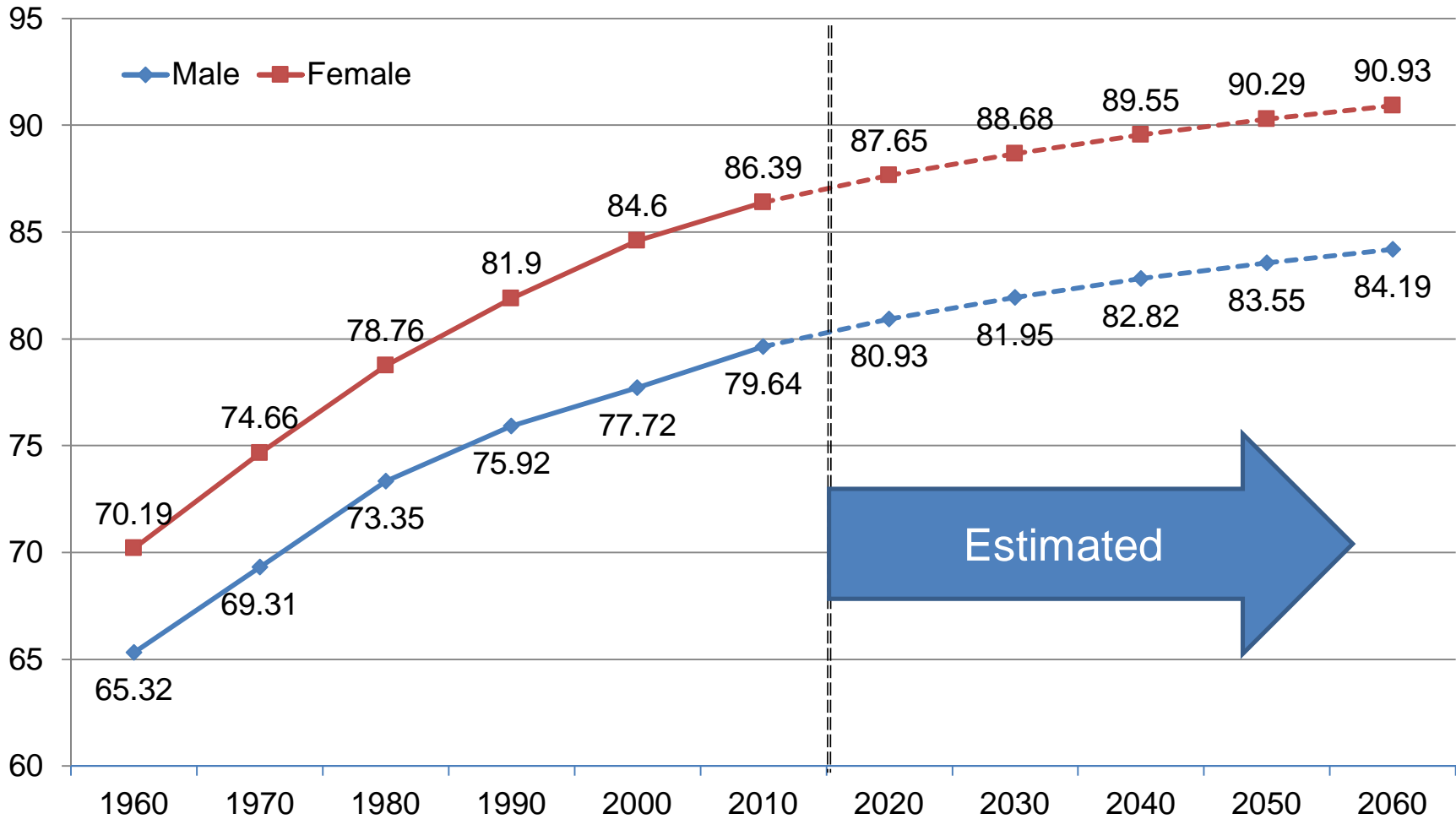
## (4) Number of children for married couple

(Duration of marriage: 15 to 20 years)



## V Addressing the issues

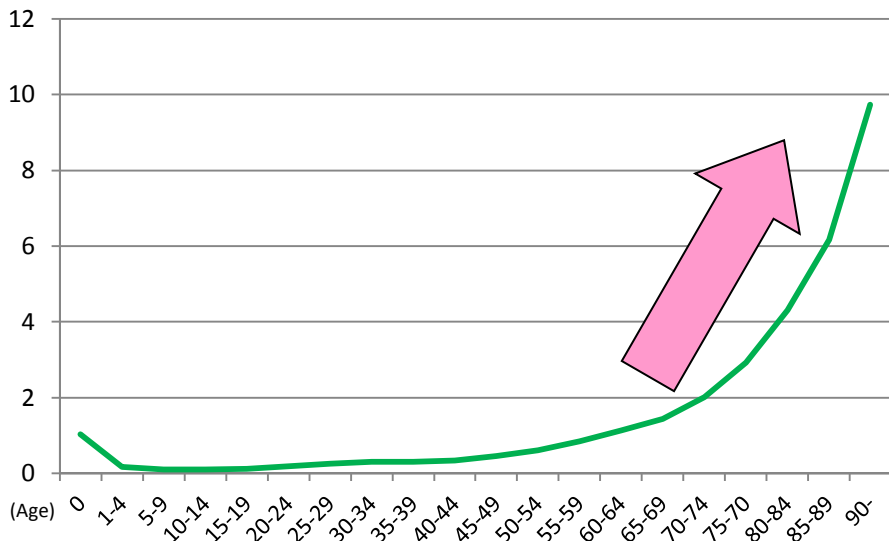
### (5) Average Life Expectancy



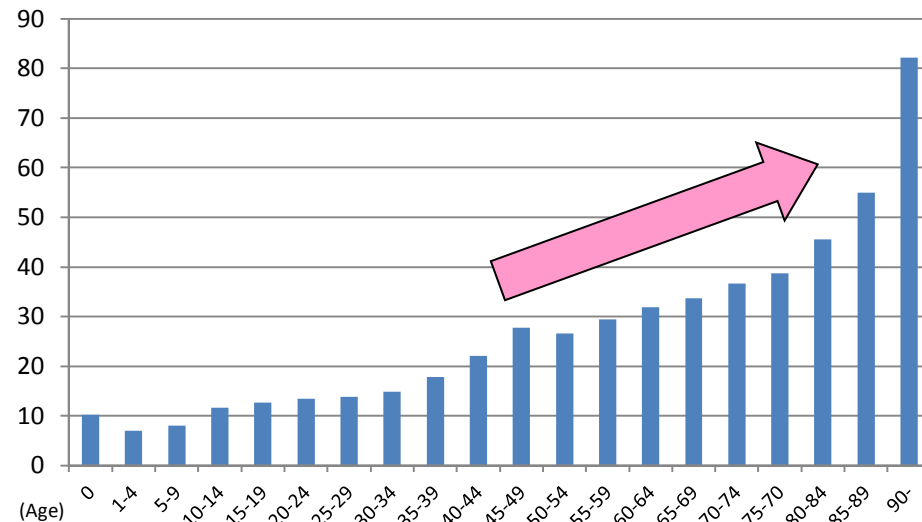
# V Addressing the issues

## (6) Medical Expenses

(%) (a) Hospitalization Rate by Age Group

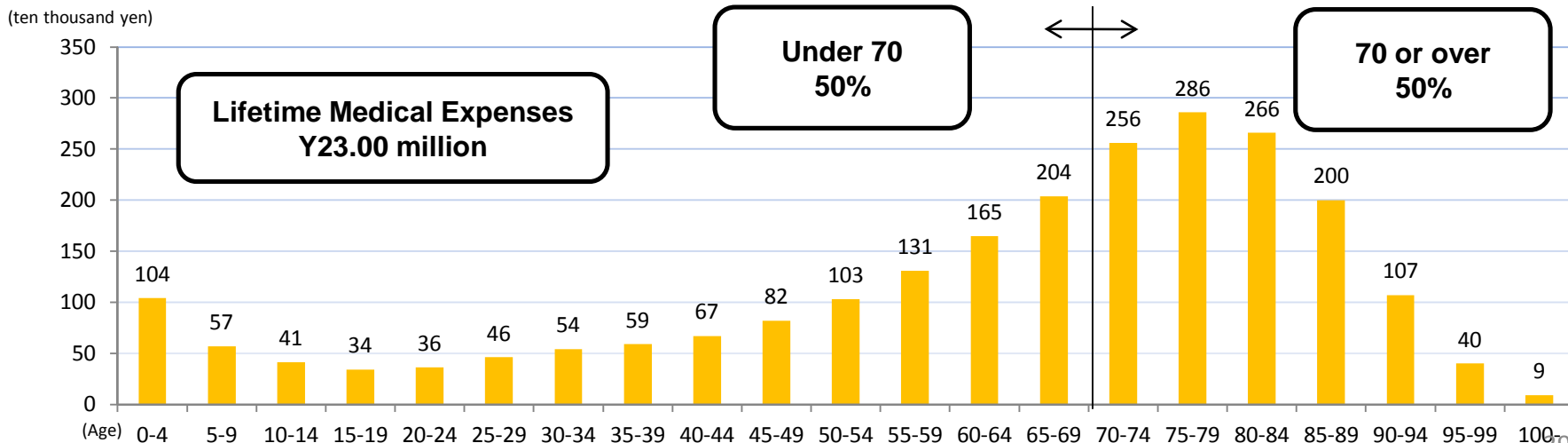


(Days) (b) Average Days of Hospitalization by Age Group



Source: "Patient Survey (2011)", Ministry of Health, Labour and Welfare

(c) Lifetime Medical Expenses (Estimates in Fiscal 2009)



Source: Ministry of Health, Labour and Welfare

# V Addressing the issues

## (7) Long-Term Care Expenses

### (a) Period of Unhealthy Condition = Average Life Expectancy at Birth – Healthy Life Expectancy

(Years)

Year	Male			Female		
	Average period of a life WITHOUT physical limitations	Average period of a life WITH physical limitations	Average life expectancy	Average period of a life WITHOUT physical limitations	Average period of a life WITH physical limitations	Average life expectancy
2010	70.4	9.2	79.6	73.6	12.8	86.4

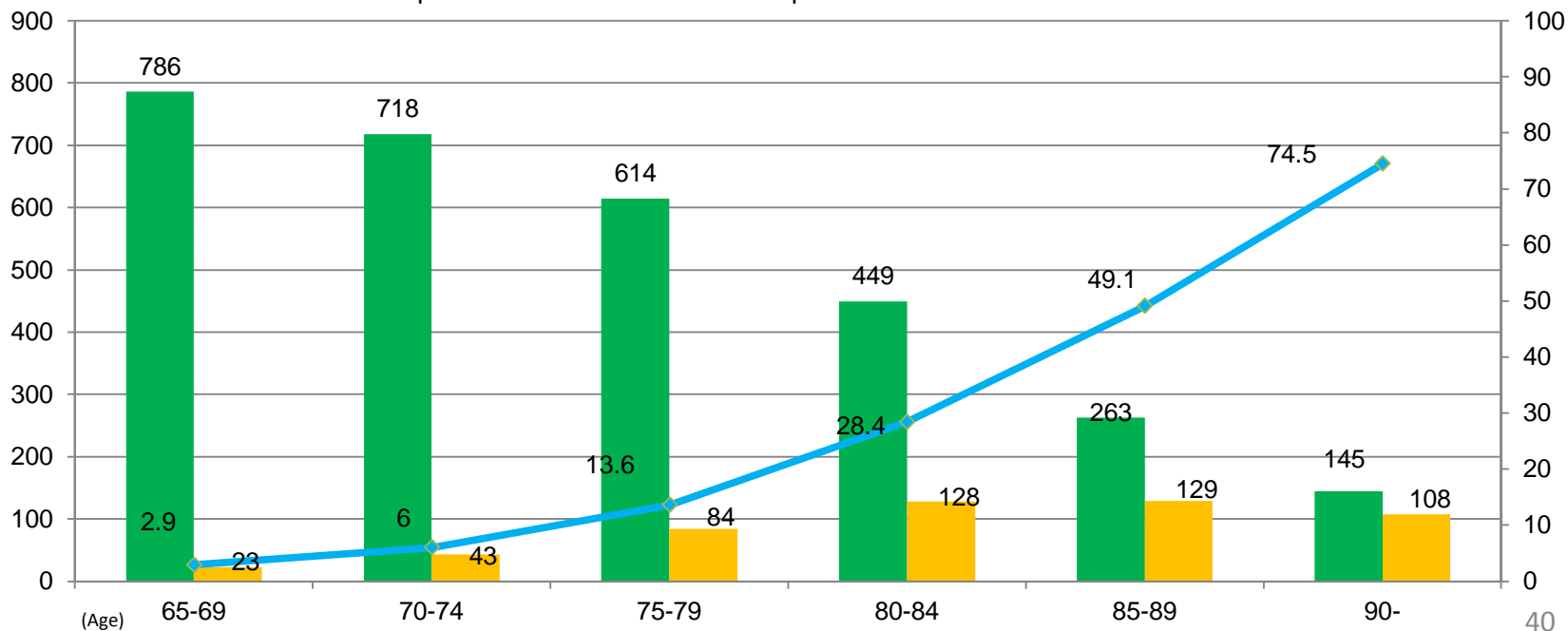
Source: Ministry of Health, Labour and Welfare

### (b) Certification Rate of Needed Long-Term Care in 2011 By Age Group

(ten thousand)

Population    Number of People Certified    Certification Rate

(%)



Source: "Survey of Long-Term Care Benefit Expenditures", Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications

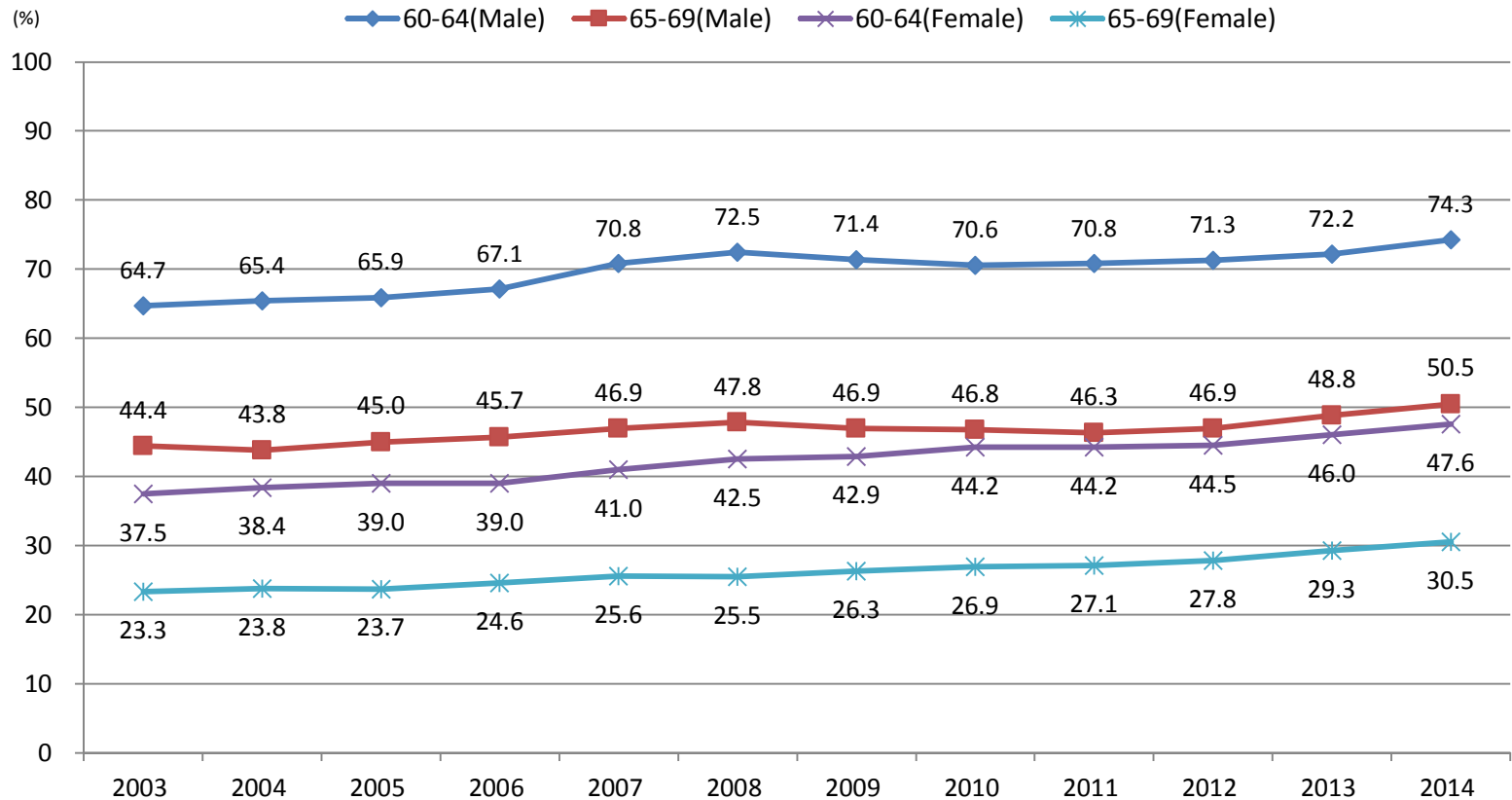


# V Addressing the issues

## (8) Employment and Asset Holdings of the Elderly

### (a) Labour Force Participation Rate of the Elderly

Proportion of elderly employees to population by age group



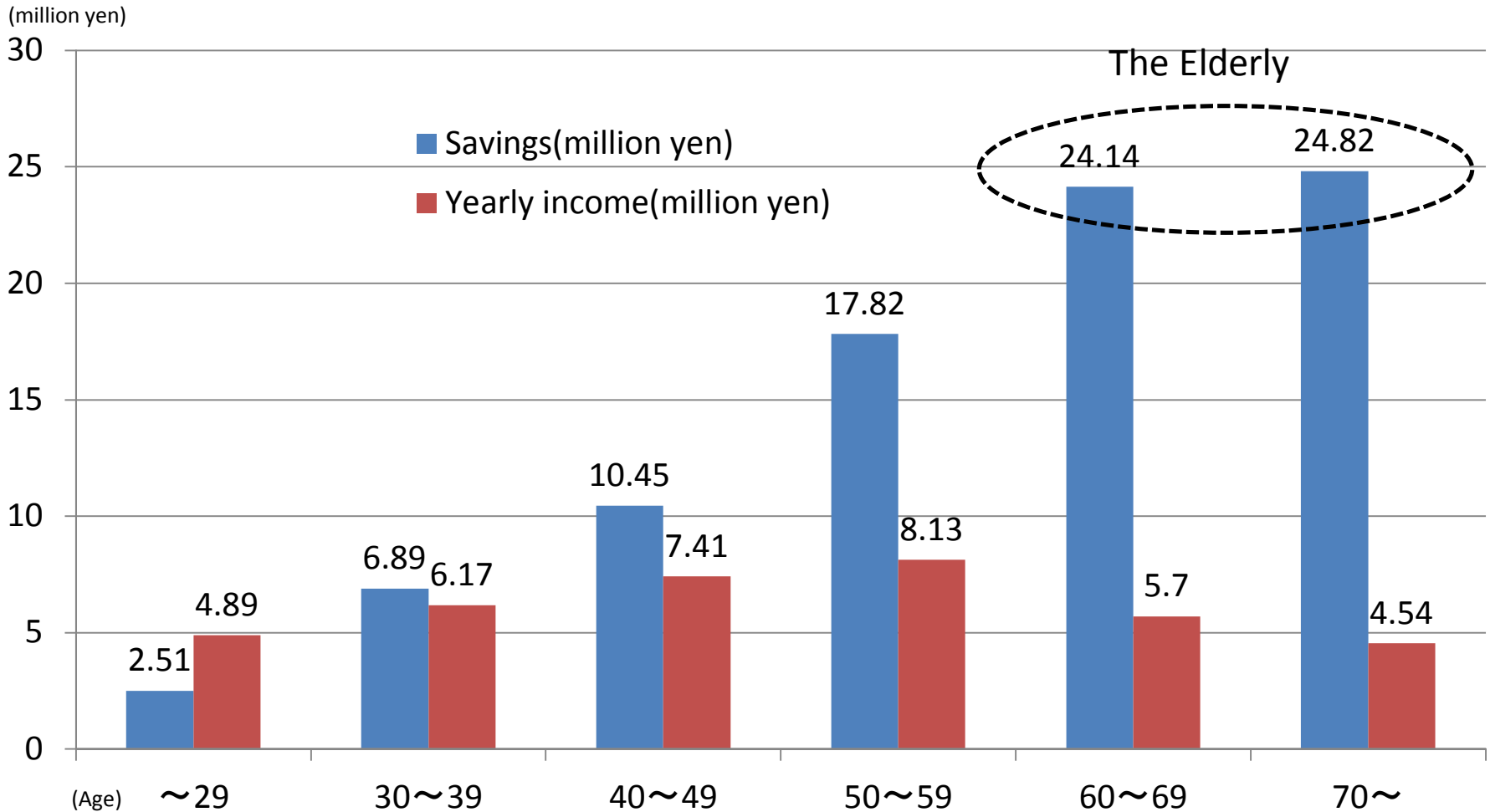
Source: "Labour Force Survey", Ministry of Internal Affairs and Communications

- Note that about 40% of unemployed elderly men are willing to work.

## V Addressing the issues

### (b) Assets of the Elderly

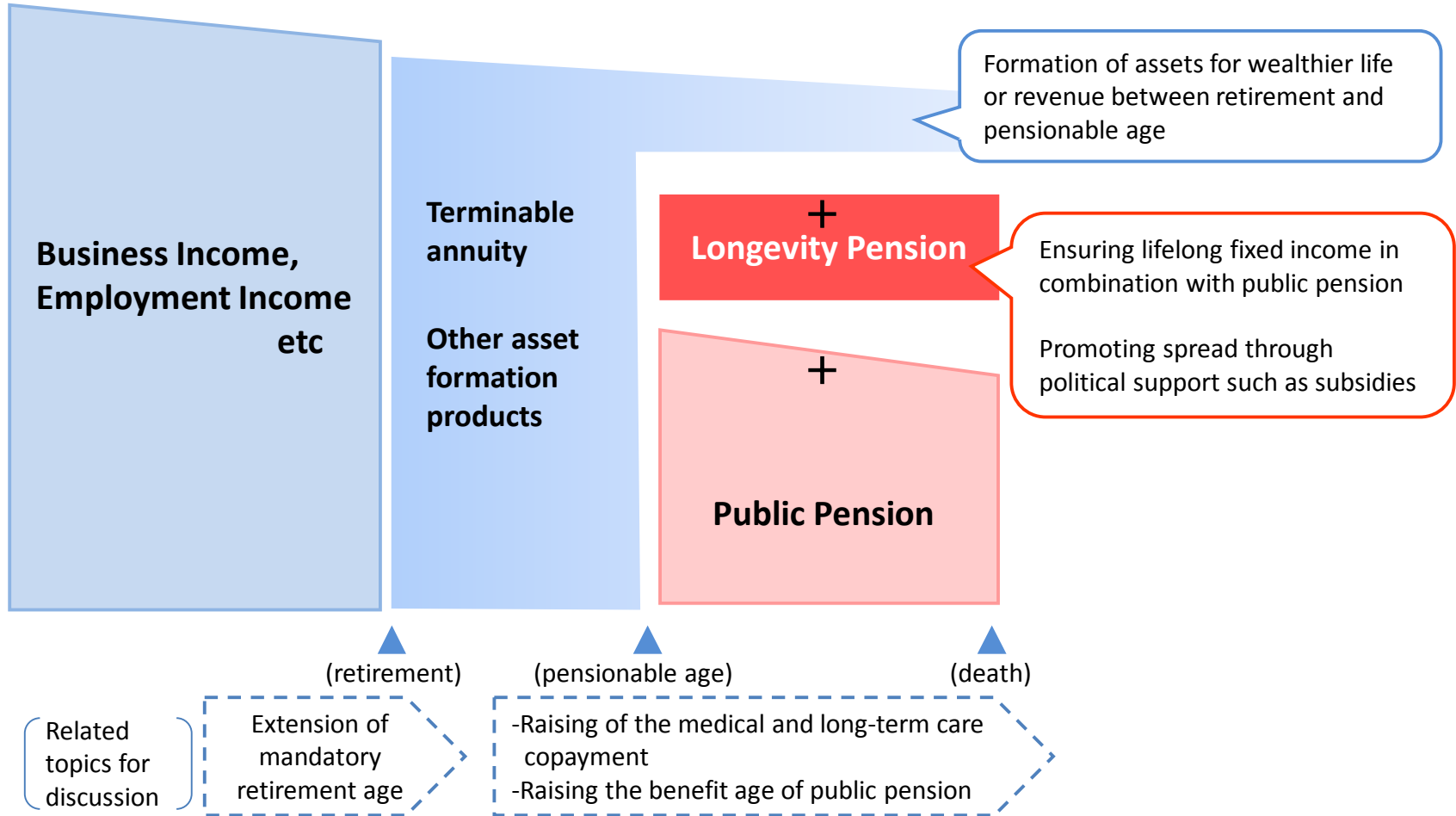
Amounts of Savings and Yearly income per Household by Age Group of Household Head



## V Addressing the issues

### (9) Proposal of establishment of *the Longevity Pension*

#### Relationship between the Longevity Pension and existing system



# **VI The Life Insurance Association of Japan**

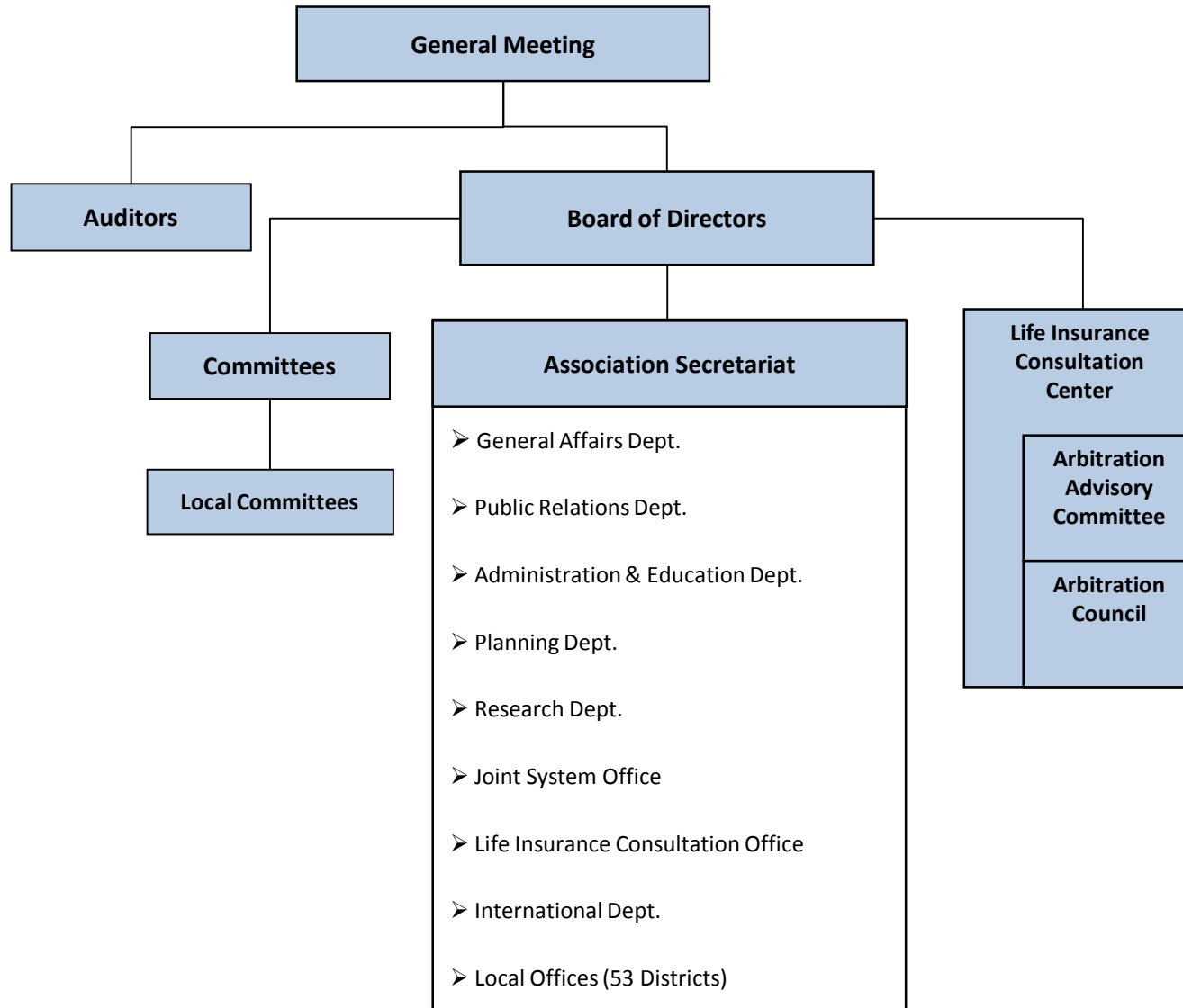
### <Overview of LIAJ>

Name	The Life Insurance Association of Japan (LIAJ)
Foundation	The LIAJ was incorporated on 7 December 1908
Member Company	41 Companies (as of October 2016) The LIAJ consists of all life insurance companies which are licensed under the Insurance Business Law. (Enrollment is not obligated by the law.)
Board Member	Representatives of life insurance companies and the association's full-time executives
Number of offices	53 offices The main office in Tokyo and 52 branch offices in all the prefectures.
Purpose	To promote the sound development of the life insurance industry in Japan, to maintain its liability, and thereby to contribute to improving quality of national life.
Main Activities	<ul style="list-style-type: none"> <li>▪ Representing the opinions of life insurance industry</li> <li>▪ Conducting research and taking statistics</li> <li>▪ Development of voluntary guidelines</li> <li>▪ Education</li> <li>▪ Public relations</li> <li>▪ Social contribution</li> <li>▪ Consultation and Alternative Dispute Resolution</li> <li>▪ Operating Life Insurance Network Center</li> </ul>

### <History>

Year	Item
1898	The Forum of Japanese Life Insurers was founded.
1905	The Forum of Japanese Life Insurers was reorganized into the Association of Japanese Life Insurers.
1908	The Association of Japanese Life Insurers was authorized as an incorporated association.
1942	The Life Insurance Control Association was founded. The Association of Japanese Life Insurers was renamed the Life Insurance Network, and most of its operations were transferred to the Life Insurance Control Association.
1945	The Life Insurance Council of Japan was founded to take over the operations of the Control Association after it was dissolved. The Life Insurance Network was renamed the Life Insurance Association of Japan (LIAJ). All the operations of the Life Insurance Network were transferred to the LIAJ.
2008	The LIAJ marked the 100th anniversary since its foundation.
2014	The LIAJ made a transition from an incorporated association to a general incorporated association.

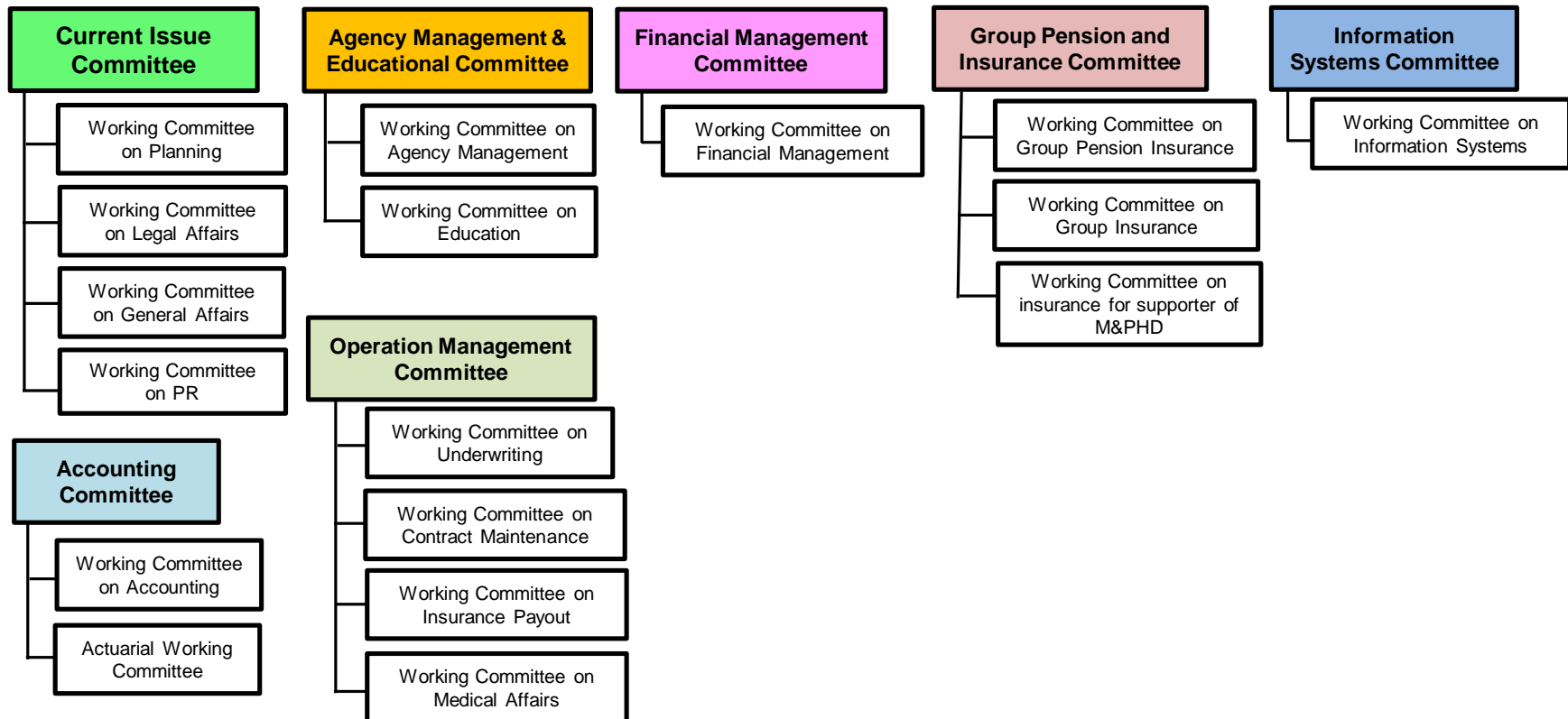
## ■ Organization Chart:



# VI The Life Insurance Association of Japan

## <Organization of Association>

- ◆ There are seven committees under the Board of Directors because the wide range of technical issues including solicitation and conclusion of insurance contract, maintenance and insurance payment, asset management and accounting are required to be discussed. Each committee is looking into its technical issues.
- ◆ The committees consist of representative from all member companies since the committees deal with the issues related to the entire industry.





## VI The Life Insurance Association of Japan

### <Life Insurance Consultation Center>

The LIAJ was designated by the FSA as a designated dispute resolution body based on the Insurance Business Act, and therefore handles complaints and resolves disputes related to life insurance business and foreign life insurance business.

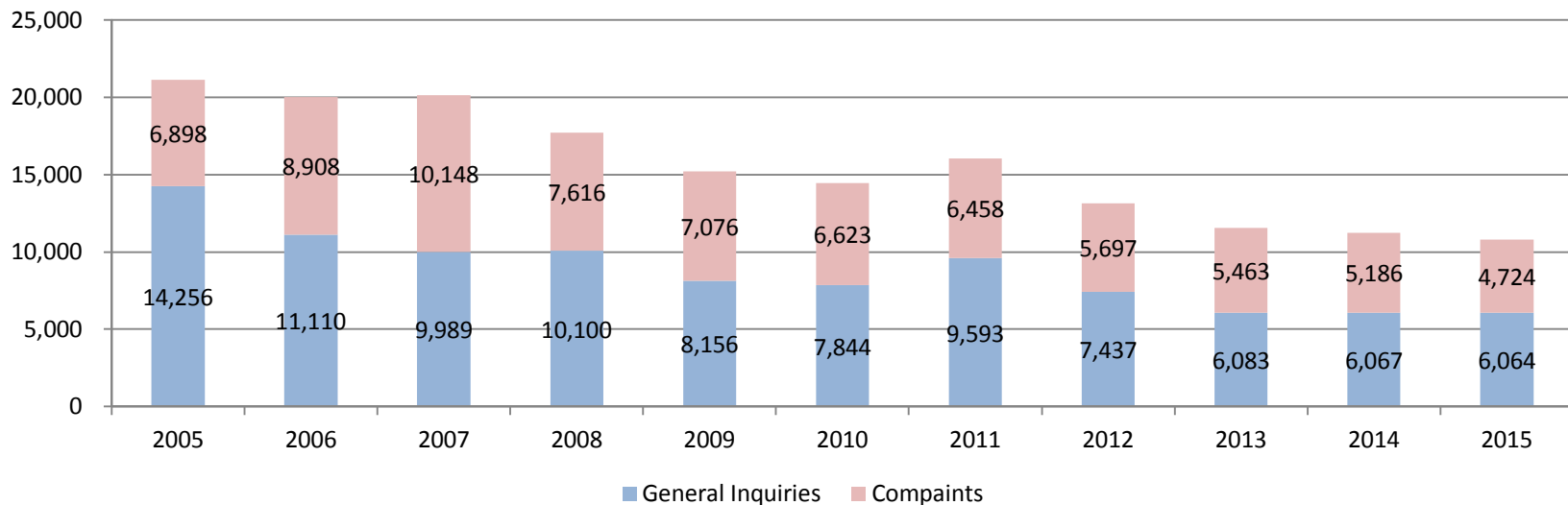
In order to conduct those activities, the Life Insurance Consultation Center was established within the LIAJ. The Center and its offices provide consultation and receive inquiries or complaints from policyholders or consumers.

\*Financial ADR system: Alternative conflict resolution procedures in financial sectors. The competent authority shall appoint the dispute resolution organization based on the law (came into force in October 2010)

### Appropriate Handling of Inquiries and Complaints

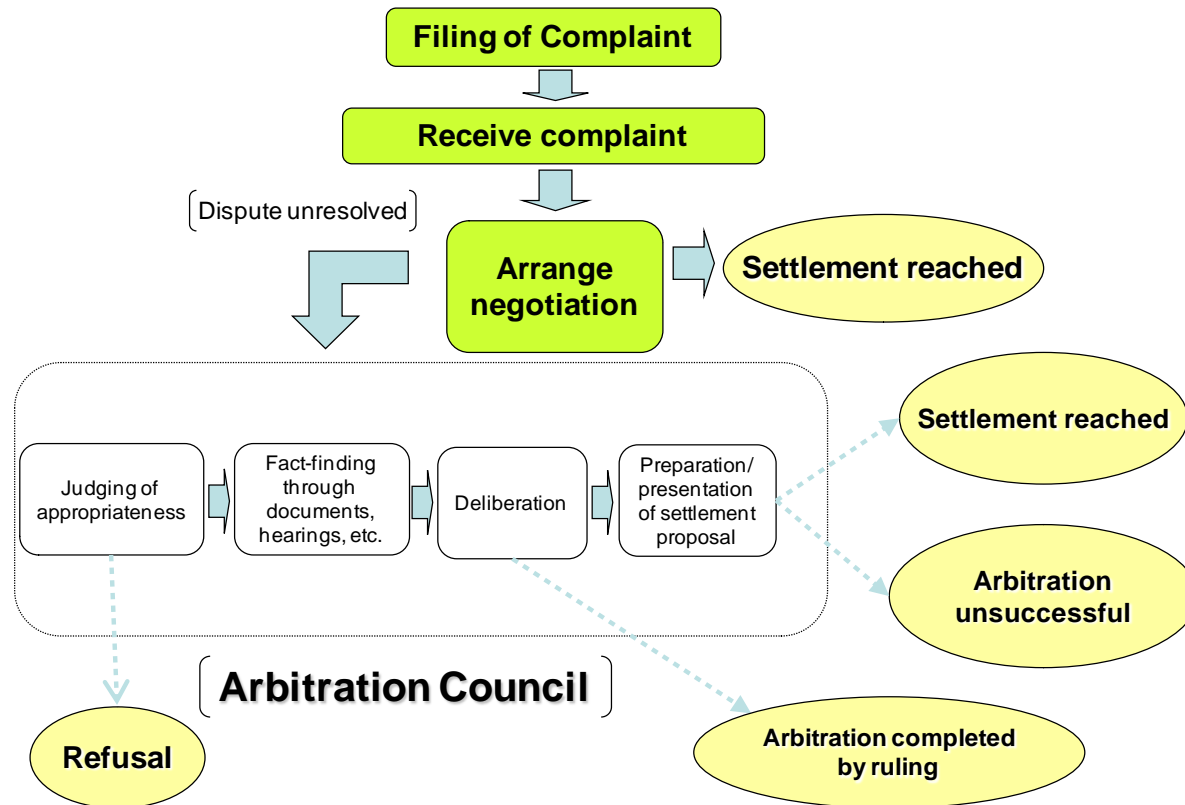
In the Life Insurance Consultation Center, expert consultants deal with inquiries and complaints from a neutral position. When the Center receives a request to resolve a complaint, it strives to reach an early settlement such as by making requests for a settlement and by mediating settlements with the life insurers involved.

<Number of inquiries and complaints> (FY)



## <Operation of Arbitration Council>

When a customer files a complaint with the Center, the Center arranges the negotiation between the life insurer involved and the customer to reach a settlement. In principle, if they cannot reach a settlement within one month, the Center convenes the Arbitration Council to resolve the dispute. The Arbitration Council consists of 15 members (6 lawyers, 6 consumer advisors and 3 staffs of the Life Insurance Consultation Center) and strives to achieve an appropriate resolution of the dispute.



## <Number of Filings for Procedures of the Arbitration Council>

FY	2009	2010	2011	2012	2013	2014	2015
Number	122	172	260	208	202	194	312