

How Do Japanese Life Insurance Companies Respond to the Aging Japan?

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1. Recent Performance of Japanese Life Insurance Companies

New Business and Business in Force for Individual Insurance
(Number: in ten thousands; Y/Y: %, Amount: Y billion)

	New Business				Business in Force			
	Number		Amount		Number		Amount	
		Y/Y		Y/Y		Y/Y		Y/Y
2006	1,107	90.7	67,991	84.2	10,978	99.8	1,026,336	95.9
2007	1,131	102.2	60,284	88.7	11,001	100.2	981,064	95.6
2008	1,388	122.7	59,417	98.6	11,299	102.7	939,842	95.8
2009	1,551	111.7	59,299	99.8	11,705	103.6	902,947	96.1
2010	1,586	102.2	62,992	106.2	12,191	104.2	879,596	97.4

The number of contracts of new business has increased since 2007, while the amount of business in force tends to decrease.

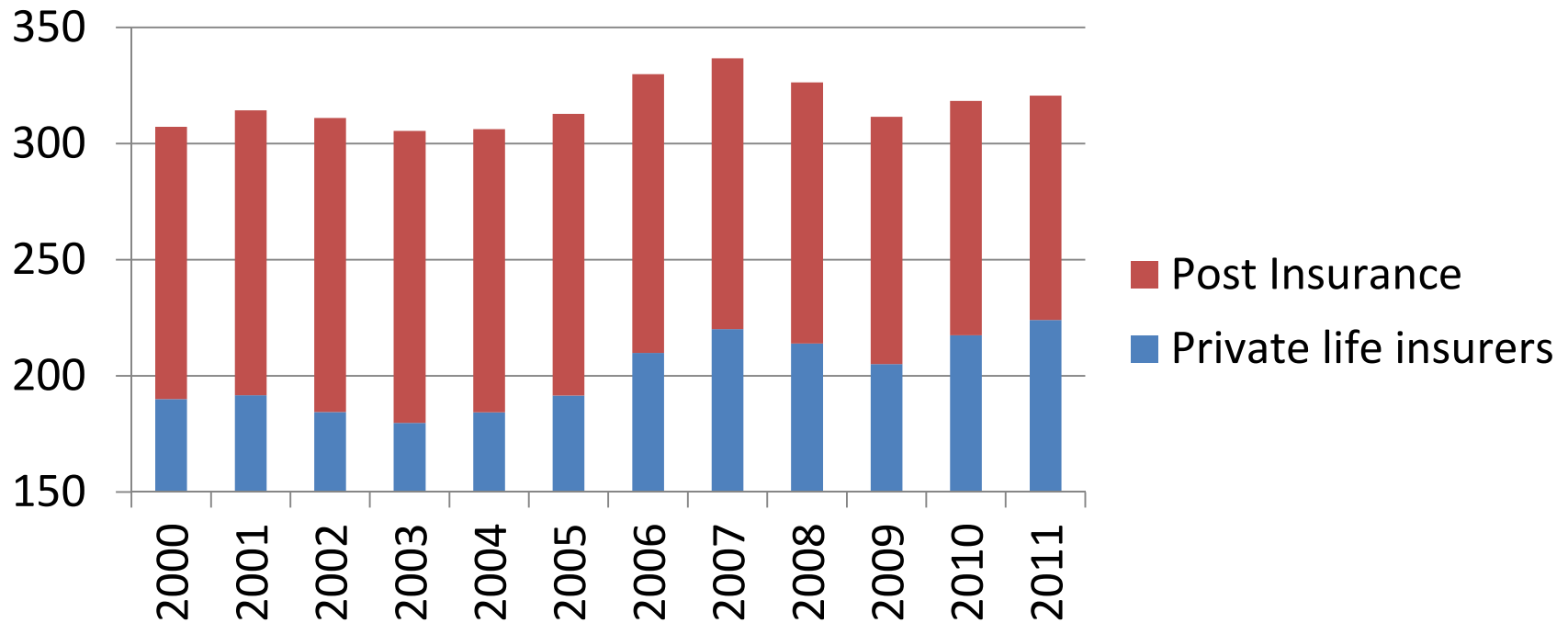
The number of business in force by type

	Number (10 thousand)			Amount (100 million yen)		
	2006	2010	2010/2006	2006	2010	2010/2006
cancer	1,785	1,929	1.08	23,568	30,051	1.28
medical	1,739	2,383	1.37	60,843	50,216	0.83
endowment	829	992	1.20	285,205	331,760	1.16
term	1,267	1,241	0.98	1,672,786	1,775,788	1.06
whole life	1,473	2,064	1.40	918,492	1,094,365	1.19

- People increase medical protection while holding down death protection.
 - The number of medical insurance increases significantly, while the amount decreases.
 - Term insurance sales stagnate.
- Whole life insurance has increase remarkably due to aggressive sales by banks.

Total Assets of Life Insurers

(Trillion yen)

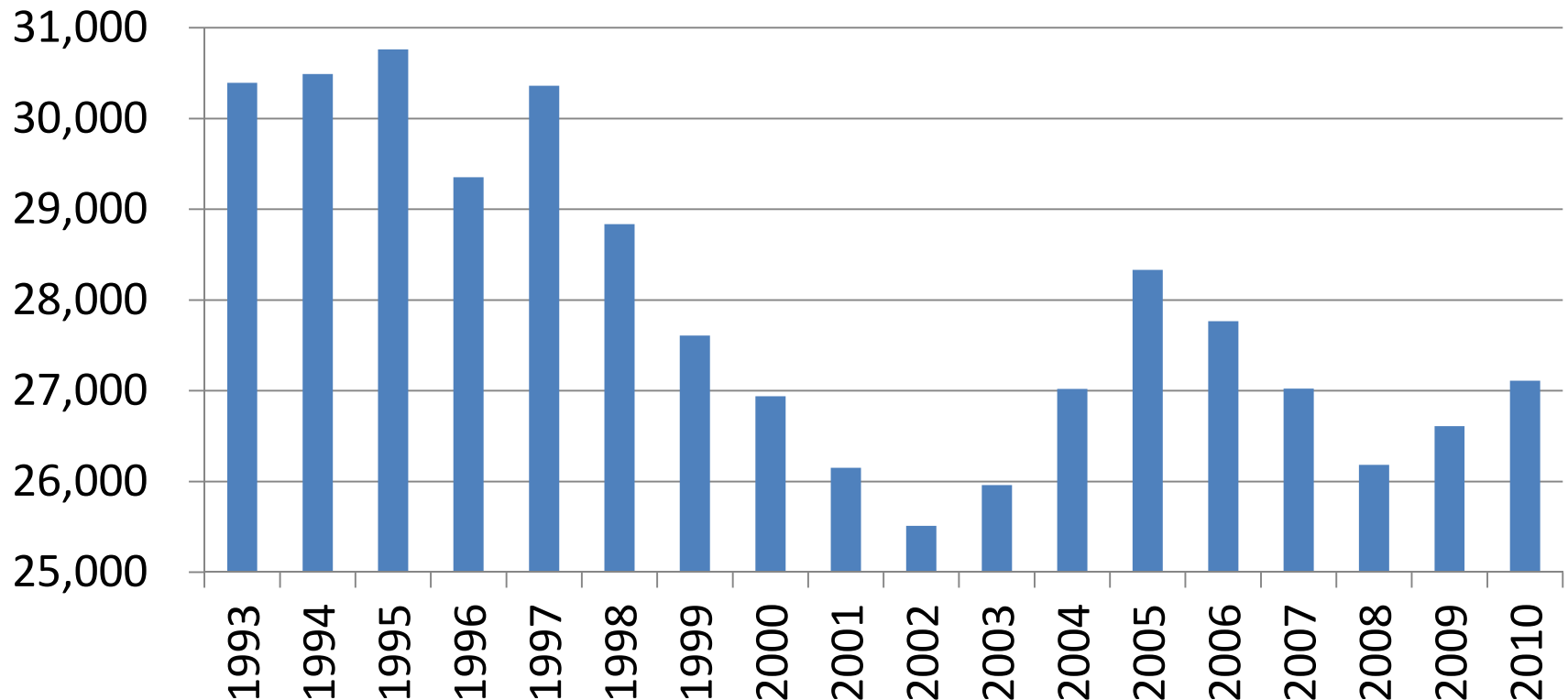


- The asset of private insurers amounts to 224 trillion yen in March 2011.
- It fluctuates partially due to stock market.
- Postal privatization causes a significant decrease of Post Insurance's asset size by 30 trillion yen.

Total premium income

(billion yen)

(excluding Postal Insurance)



- Total premium income had been on a slight decrease since peaking in fiscal 1995, but it has remained around Y27 trillion since fiscal 2004.

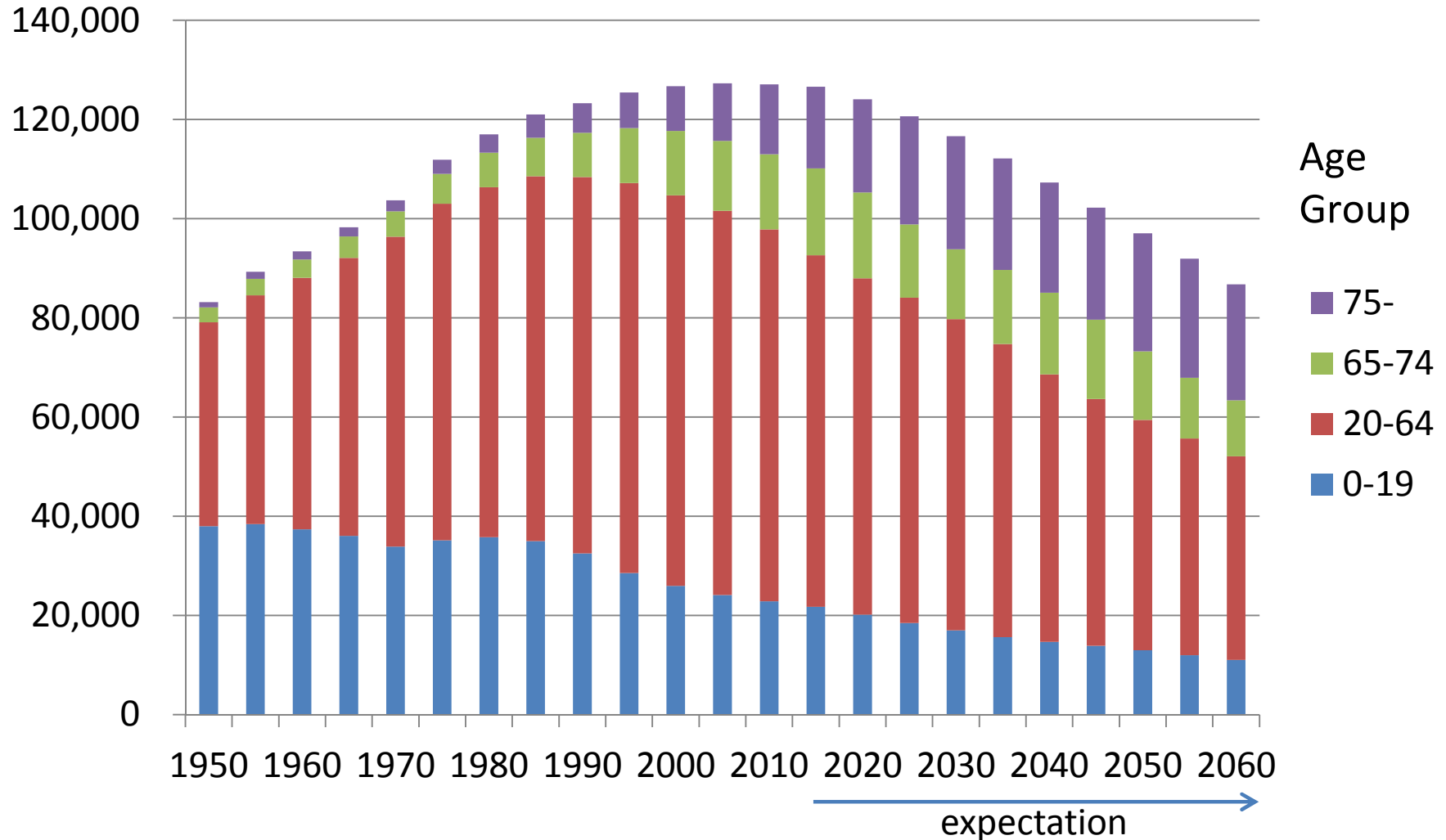
2. Demographic Changes and Insurance

(1) Factors that may Affect Household's Demand for Life Insurance

- household actual and expected income
- household wealth
- macro economic condition (e.g., inflation, interest rates)
- demography (e.g., number of births, marriages, dependency ratio, life expectancy)
- life insurer efforts (e.g., industry advertising expenditure, size of the sales force)
- Other (religion, law, education, urbanization, etc.)

(2) Japanese Demographic Changes

(thousand)



(source) National Institute of Population and Social Security Research

Remarkable Changes in Japanese Population

(i) Decrease of total population

128 million in 2010 → 97 million in 2050

(ii) Decrease of productive-age (between 20 and 64) population.

75 million in 2010 → 46 million in 2050

*the ratio of productive-age population will be less than 50% (47.8%) in 2050.

(iii) Increase of elderly population (65 and older)

29 million in 2010 → 38 million in 2050

(3) Increase in Life Expectancy

Life expectancy at birth for both sexes combined

	2010-2015	2050-2055
Japan	83.66	87.90
Republic of Korea	80.71	85.06
Germany	80.62	85.40
United Kingdom	80.36	84.86
United States of America	78.77	83.56
Thailand	74.39	80.08
China	73.76	79.75
India	65.95	74.42

- Japan's life expectancy is the longest among the world.(2010-15)
male = 80.10; female = 87.12
- And it is expected to increase in coming years. (2050-55)
male = 84.46; female = 91.38
- In 2035, 65 year old person will live for 20.9 years (male) and 26.2 years (female).

There is a risk to live longer than expected (Longevity Risk) !



Needs for whole life insurance

(4) Decrease of Size of Household

- Increasing rate of unmarried people
ratio of people unmarried at 50 years old
male = 20.14% (2010) ← 1.26%(1960)
female = 10.6% (2010) ← 1.88% (1960)
- Fewer children
→ Increase of single or two -person households
= 59.6% of total household (2010) ← 34.1%(1970)
- Increase of double income family



Decline in Needs for Death Security
Growth in Needs for Nursing Care

(5) Public Pension

- Japanese public pension faces financial difficulties.
- Japanese are worried about the future of the public pension.
- Pension benefits will be cut and a rise in pension eligibility age is expected.
 - * 85.8% of respondents say that they are worried about life after retirement. And this ratio is increasing. (Japan Institute of Life Insurance, Consumer Survey 2012)
- People have to individually prepare for life after retirement.



Potentials for Demand for Private Pension Insurance to Grow

(6) Summary: Expected Changes in Demand for Life Insurance

- **Decrease** of demand for death insurance
 - Few population, few kids, double-income family, increase of elderly person ratio.
- **Increase** of demand for medical and nursing care insurance
 - Long life expectancy, expensive medical service.
- **Increase** of demand for private pensions and asset management
 - Long life expectancy, unsustainable public pension, rich elderly persons.

3. How to Combat Against Demographic Changes

Basic strategies are;

In supply side

(1) Cost Reduction

In sale side

(2) New Sales Strategy

(3) New Products

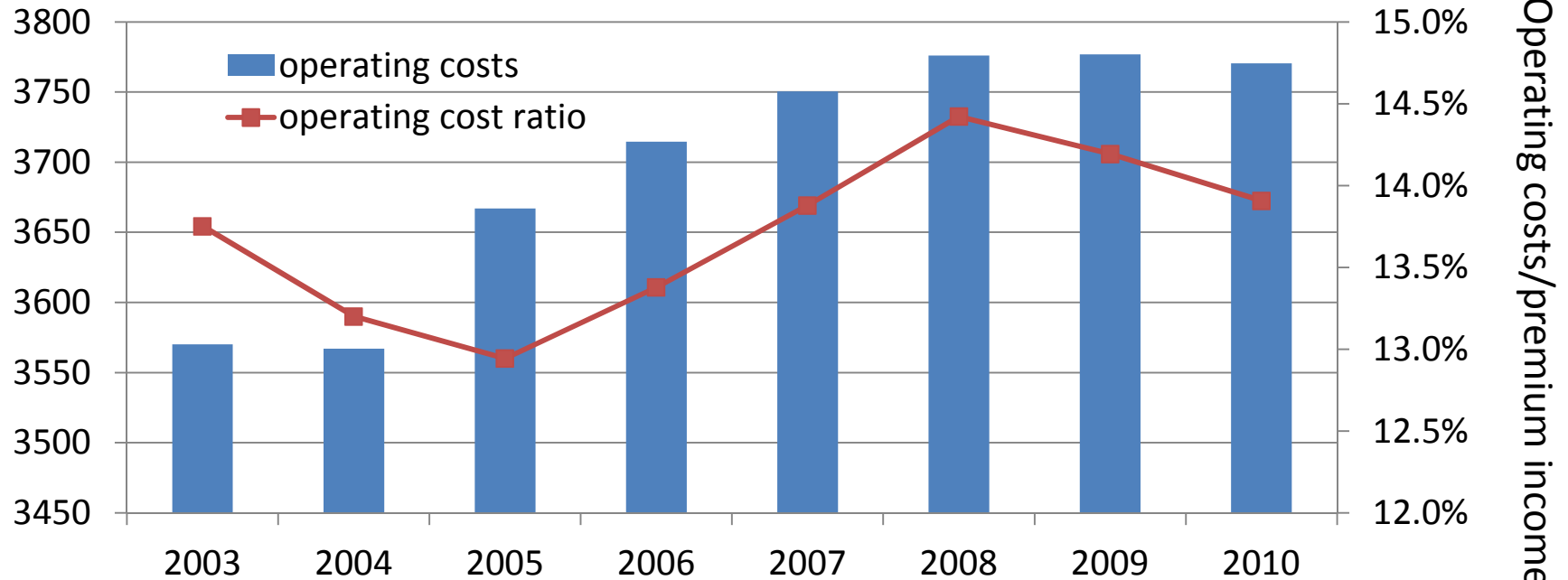
(4) Foreign Markets

(5) Increasing Solvency and Credibility

(1) Cost Reduction

Billion yen

Operating Costs (excluding Post Insurance)



Operating costs are not decreased so far.

- ✓ Providing high quality service.
- ✓ Burdens of dual sales networks (traditional + new).

(2) New Sales Strategy

Direct Sales (e.g., internet sales)

- ✓ Cost sensitive customers
- ✓ Young customers tend to dislike traditional pushy salesperson.
- Issue: How to restructure traditional sales network (i.e., huge sales staffs), which is the source of strength of major insurers.
 - ✓ New and small insurers are more active than major insurers in terms of direct sales.

Bank Branch Sales

What insurance products banks can sell has been expanded since 2001. Since December 2007, banks are allowed to sell all insurance products.

Banks actively enter life insurance markets to obtain sales fees.

Initially, major insurance companies were generally reluctant to use this new sales channel.

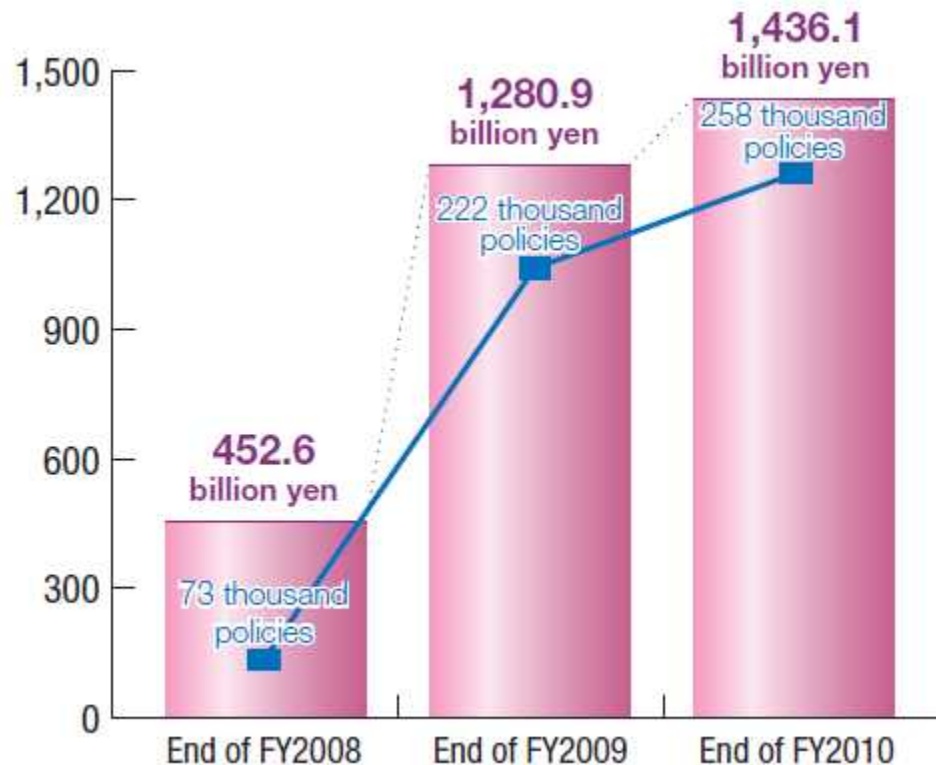
However, as banks have strong relationship with individual customers, insurers has recognized that banks are attractive sales force.

Nippon Life's Bank Branch Sales [Premium Revenues]



Dai-ichi Life Insurance

Sum insured and number of insurance policies in force



- We position the individual savings product business and overseas life insurance business as growth businesses.
- The Dai-ichi Frontier Life Insurance Co., Ltd. commenced operations in October 2007.
- The subsidiary provides products tailored to customer needs for banks, securities firms, and other financial institutions and is enjoying steady sales growth.

(3) Growing Markets

There are several products that the aging society needs more. (so called “The Third Market” products) .

- Medical Insurance
- Nursing Care Insurance
- Pension
- Asset Management

Furthermore, insurers are tailoring their products to meet customers’ demand.

e.g., Relaxation of conditions to pay living needs benefits.

Offering new products for persons who had serious illness before.

Nippon Life's Best Doctor Service

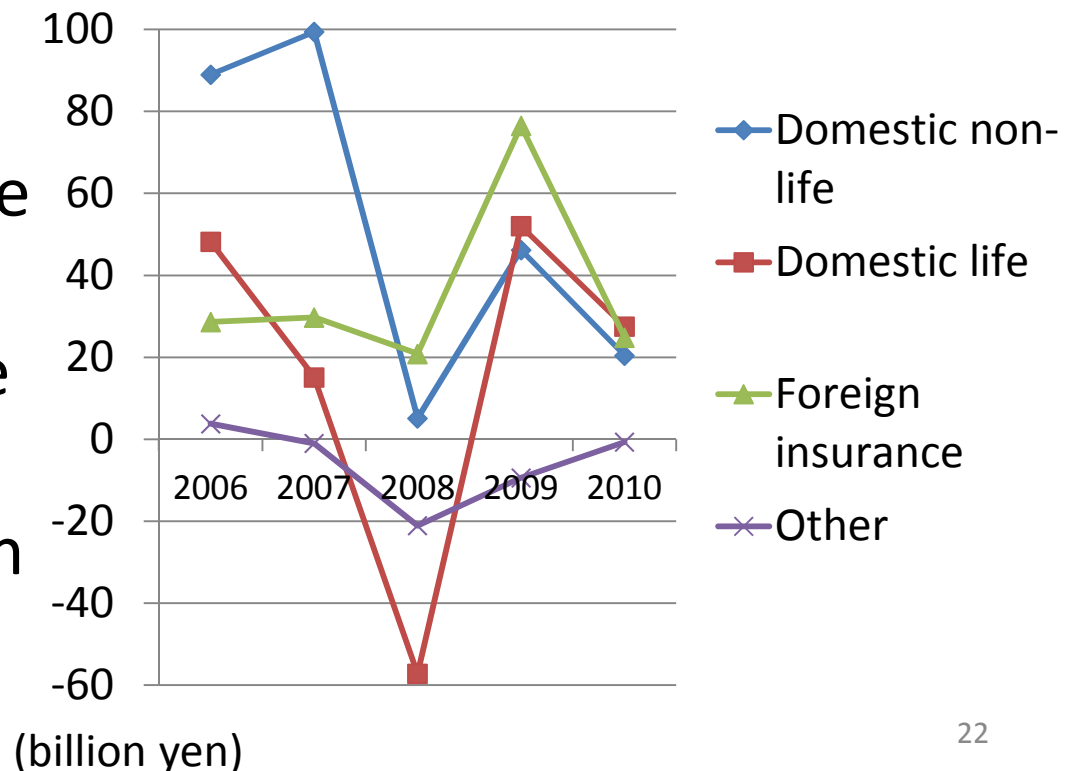
Beyond paying benefits, offering additional services increases customers' satisfaction.

- ✓ The Best Doctors Service is a specialist physician referral service offered to Mirai Support and other policyholders.
- ✓ This service provides a free referral to those diagnosed with a serious illness, such as cancer, to a specialist who can provide treatment or a second opinion.
- ✓ This service was launched in April 2010 in response to feedback received from numerous customers requesting Nippon Life to provide a physician referral service through Nissay Konwakai (customer meeting) and other forums. (“Annual Report 2010”)

(4) Entering Foreign Markets

- Non-life insurance companies are more active to enter foreign markets than life insurance companies.
- ✓ It is because Japanese non-life insurance market started to shrink earlier than life insurance market.
- ✓ Now, major Japanese non-insurers have large stakes in foreign markets.

Tokyo Marine's Adjusted Earnings



(i) Policy Support

- Financial Services Agency released “The Action Plan for the New Growth Strategy” in Dec. 2010.
 - ✓ Aim to remove barriers to activities by Japan’s financial institutions in Asian countries.
- Financial Services Agency submitted the bills to revise the Insurance Business Act, and the bills were passed in March 2012.
 - ✓ The bills relax the regulation to restrict Japanese insurers to have non-insurance subsidiaries, when insurers merge foreign insurers.
 - ✓ For example, under some limitations, now Japanese insurers can purchase foreign insurers that have subsidiaries running non-insurance businesses (e.g., hotel operation) which are prohibited for insurers in Japan.

(ii) Nippon Life

Overseas insurance operations and non-life insurance are also areas where we make **strategic investments**. By making these investments, we are aiming to increase our opportunities for earning profits. (“Annual Report 2010”)

The Northwestern Mutual Life Insurance Company (US)

- March 2010: about ¥23 billion of surplus notes

The Prudential Financial Group (US)

- September 2009: ¥46 billion 10-year exchangeable surplus notes
- June 2009: 2.56 million shares of common stock

Reliance Life Insurance Company Limited (India)

- March 2011: 26% equity at a cost of about ¥58 billion

(iii) Dai-ichi Life

Vietnam

- In January 2007, Dai-ichi acquired Bao Minh CMG, which commenced operations as Dai-ichi Life Insurance Company of Vietnam, Limited.
- The company's market share expanded from 5.0% in FY2007 to 7.2% in FY2010.

Australia

- In May 2011, TOWER Australia Group Limited, an affiliate of Dai-ichi, became a wholly owned subsidiary of Dai-ichi through a friendly takeover.



India

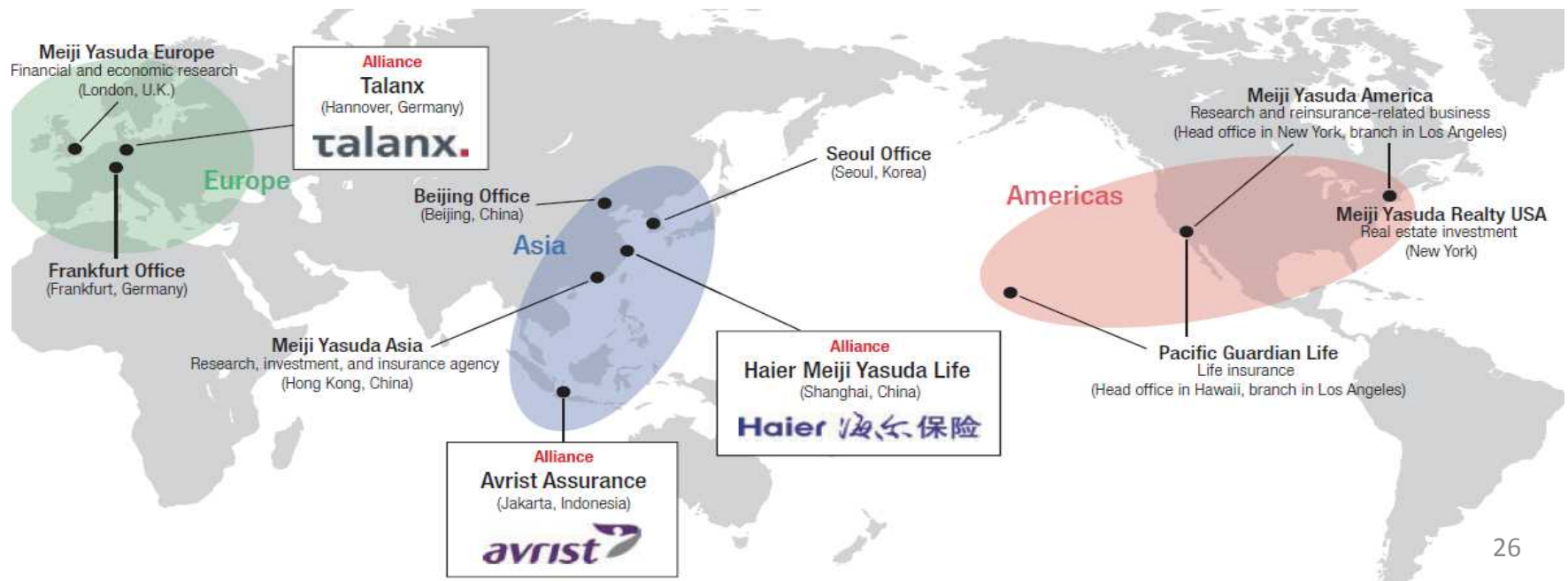
- Star Union Dai-ichi Life Insurance Company Limited, a joint life insurance company established together with the Bank of India and Union Bank of India, commenced operations in February 2009.

Thailand

- In July 2008, Dai-ichi agreed to take an equity stake in Ocean Life Insurance Co., Ltd. and form a strategic business alliance. Ocean Life Insurance subsequently became Dai-ichi's affiliate in the same year.

(iv) Meiji-Yasuda Life

- Meiji Yasuda Life endeavors to strengthen its overseas life insurance business from the perspective of diversifying our business portfolio and ensuring medium- to long-term growth.
- To this end, during fiscal 2010, Meiji Yasuda Life concluded capital and business alliances with three overseas insurance companies.
- We are planning to continue developing our overseas life insurance business further, particularly in emerging markets in Asia, Central and Eastern Europe. (“Annual Report 2010”)



(v) Sumitomo Life

As a driver for our sustainable growth, we continue to focus on overseas operations, especially high-growth life insurance markets in Asia. (“Annual Report 2010”)

China

In November 2005, we established PICC Life Insurance Company in partnership with PICC Holding Company, which owns PICC Property & Casualty Co., Ltd., the largest non-life insurance company in China.

Sumitomo Life presently owns 10% of PICC Life as a strategic partner.

PICC Life had a 7.8% share of the domestic life insurance market, placing the Company in the sixth position among China’s 60 life insurance companies.

Vietnam

We signed a memorandum of understanding in October 2009 with Vietnam Bank for Agriculture and Rural Development (Agribank), Vietnam’s largest state-owned commercial bank, to collaborate on the launch of a life insurance business.

USA

We established a wholly owned U.S. subsidiary, Sumitomo Life Insurance Agency America, Inc. (SLIA) in 1986. SLIA has been accommodating the needs of Japanese companies with U.S. operations for 25 years.

(5) Building Strong Capital Base

- Experiencing several insurers' failures, Japanese people are sensitive about solvency of insurers.
- Solvency margin regulation tends to tighten.
- To enter foreign markets through the M&As, huge funds are necessary.



It is necessary to build sufficient capital base in order to compete both in domestic and international markets.

In this regard, Japanese life insurers used to be superior, but after the stagnated stock and land prices in Japan, they are not so strong.

4. Challenges of Japanese Life Insurers

(1) Advance in Financial Risk Management is of Urgent Need.

- Major life insurance products except variable insurance incur insurance firms market risks, as insurers promise minimum returns (i.e., assumed interest rates).
- Particularly, whole life insurance become popular at bank branch sales because it promises higher return than term deposits.
- However, large changes of market interests may bring large losses to insurance companies.
- Apparently, further drop of investment earnings causes losses. Since the late 1990's, many insurers actually suffered from negative margin between assumed rates and investment earning yields (Gyakuzaya).
- However, hikes in interest rates will also cause huge losses on their portfolio, because life insurers hold huge fixed yield Japanese bond.
- They also suffer liquidity risks , as they have to liquidate their portfolio due to increase of midterm cancelation.

(2) How do They Cope with Mid-term Market Shrinkage?

Although the Japanese population is aging, the decrease of population is modest and we see an increase of elderly population for the moment.

- ✓ However, the mid- and long-term shrinkage of domestic insurance market seems inevitable.
- ✓ Battle for survivors is expected to become severer.
- ✓ Cut-throat competition may destabilize insurance markets and destroy customers' trust.
- ✓ There is a uncertainty about the privatization of Japan Post Insurance, a subsidiary of Japan Post and the largest life insurer. (A new law was passed in April 2012.)



Innovative Business Ideas are crucial.
Further M&A among them may be expected.

(3) Can Japanese Insurers can Be Competitive at Overseas Markets?

- Asian market is regarded as a growth market.
- Recent strong yen helps Japanese firms to purchase foreign firms.
- × European and US insurers are also aiming to expand in Asia; Size, Soundness, Skills, Culture, Politics, and so on.
- × There are local strong competitors in Asia.
 - China: China Life Insurance (Mkt value \$76.5B)
 - HK: AIA Group (\$44.1)
 - Korea: Samsung Life Insurance (\$17.1B)
 - Japan: Dai-ichi Life (\$14.2)
 - Taiwan: Cathay Financial (\$11.9B)

(Forbes “The World Biggest Companies 2012)

