

Present and Future of Japanese Life Insurance Industry

Seven Key Words
That Define Where They Are and Where They Will Be
Contraction, Diversification, Simplicity, Service, IT, Senior Citizens, Asia

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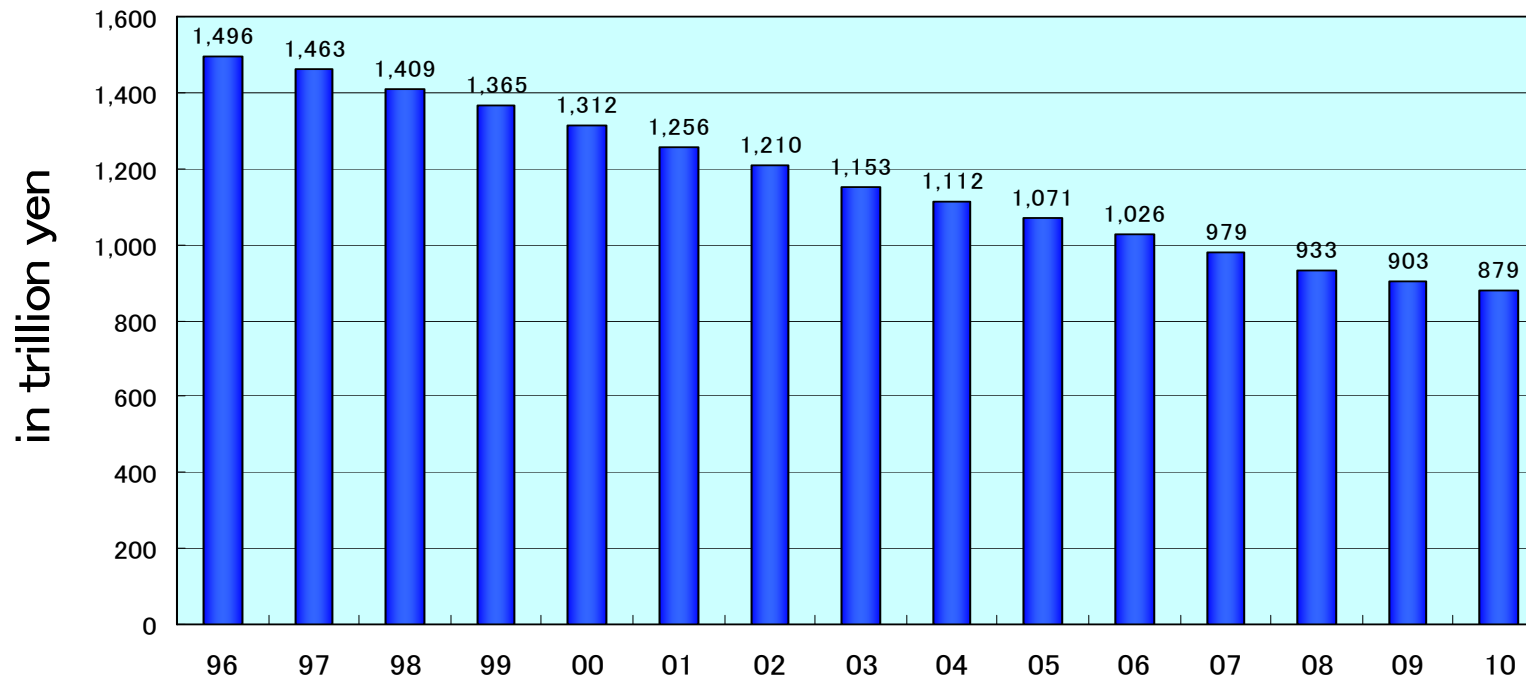
Profile

- Ken-ichi Suzuki
- Joined “Hoken Joho” (“Insurance Journal”), publisher of insurance industry specific publications, in 1985 currently working as became the Managing Editor.
- After collapse of life insurance companies, deregulation and market liberalization, and benefit nonpayment, actively covers those problems and ensuing management innovation, emergence of Internet life insurance companies, new channel trends, etc.
- Has a wide range of networks across insurance industry and hosts the Insurance Marketing Research Study Group, which is popular as being the forum to provide most up-to-date industry trends.
- Well-known speaker at seminars hosted by Oriental Life Insurance Culture Development Center (OLIS) in Asian countries and Japan.

Long-term Decreasing Trend of Insurance Products for Individuals

- In Force: 879 Trillion Yen in 2010
- Record High: 1,496 Trillion Yen in 1996
- Shrunk by 40%

Total Amount of Policies in Force (Individual)



Factors Leading to Contraction of Death Benefit Market

- Decrease in Productive-Age (15-64) Population
- Development of Non-marriage and Late Marriage
- Lower Birth Rate

Channel Trend I

- Demand for Need-Based Product Selection
- Drastic Changes in How Consumers See Life Insurance Products and Their Behaviors
- Promotion of Channel Diversification

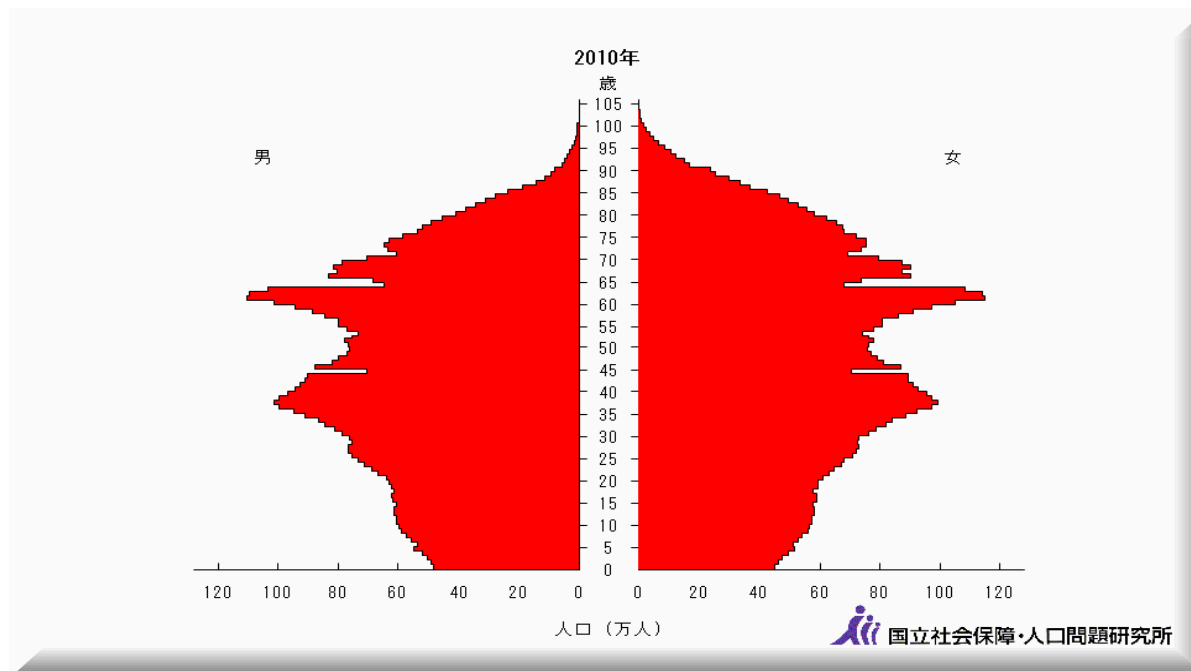
Channel Trend III

- Gradual increase in non-face-to-face channels since 2000
- Internet, mail order, bancassurance, on-site shop
- Being developed as the channels for medical insurance and annuities



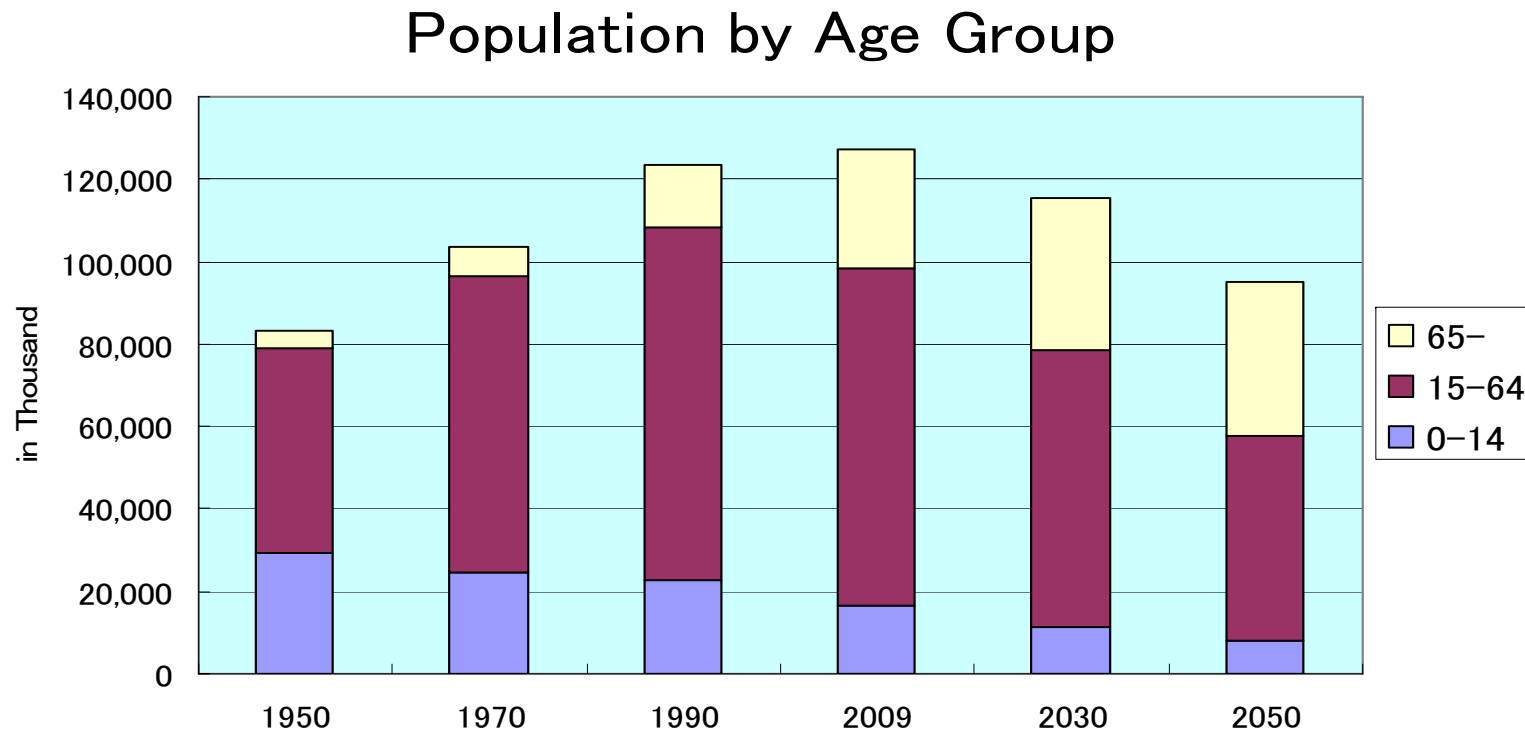
Evolution of Market Structure I

- Contraction of Death Benefit Market
- Expansion of Living Benefit Market



Evolution of Market Structure II

- Insured Shift to “Baby Boomer Juniors”
- Secures a certain size of death benefit market



Evolution of Market Structure III

- Expansion of Senior Market
- Baby boomers aging to late sixties
- Raised awareness to annuities, medical and nursing care

Evolution of Market Structure IV

Activation of Existing Policyholders Market

- Strengthening contacts with existing policyholders
- Improved CS (Customer Satisfaction)
- Improved Persistency Rate (93.5% in 13th month)

Evolution of Market Structure V

Expansion of Female Market

- Increased participation to society by female population
- Diversification of life styles among female population
(Single, non-marriage, single mothers)

Evolution of Market Structure VI

Contraction of Youth Market

- Poverty, a serious challenge among youth
- Hard to find full-time jobs

Nonpayment of Insurance Benefits I

- February 2005: Meiji-Yasuda Life Insurance
- Judged as “Void due to fraud”
- Number of nonpayment policies: 162

Nonpayment of Insurance Benefits II

- December 2007
- Benefits payable by 37 insurers in 5 years
- Total: 1.32 million policies with 96.2 billion yen

Nonpayment of Insurance Benefits

Reasons I

- Denied claim payments with abusive applications of “breach of duty to disclose” and “void due to fraud”
- Nonpayment due to administrative errors and omissions in benefit payment processing

Nonpayment of Insurance Benefits

Reasons II

- Quota-based sales activities leading to inappropriate solicitation practice including instructions of non-disclosure
- Inadequate system for claim payments
- Payout ratio of the 3rd sector (that falls under both life insurance and nonlife insurance, such as hospitalization and disablement due to diseases or accidents) is ten times that of mortality

Management Corrective Measures

FSA issued corrective measures and imposed each insurer to submit correction plans and update on the progress

1. Improvement and Strengthening of managerial supervision
2. Improvement and Strengthening of Internal Audit
3. Improvement and Strengthening of payment operation
4. Review and simplification of product lineup

Customer Service Renovation Project

1. Integrate six riders in one
2. Contract confirmation campaign
3. Payment underwriting system
4. Medical certificate digitization



Initiation of New Integration Strategy

- Customer Service Renovation Project Wrap-Up
- Full-Fledged Start in 2012
 1. Creation of new service system and organization
 2. Development of easy-to-understand products
 3. Streamlining of infrastructure supporting product and administration services

Building New Administration Service System

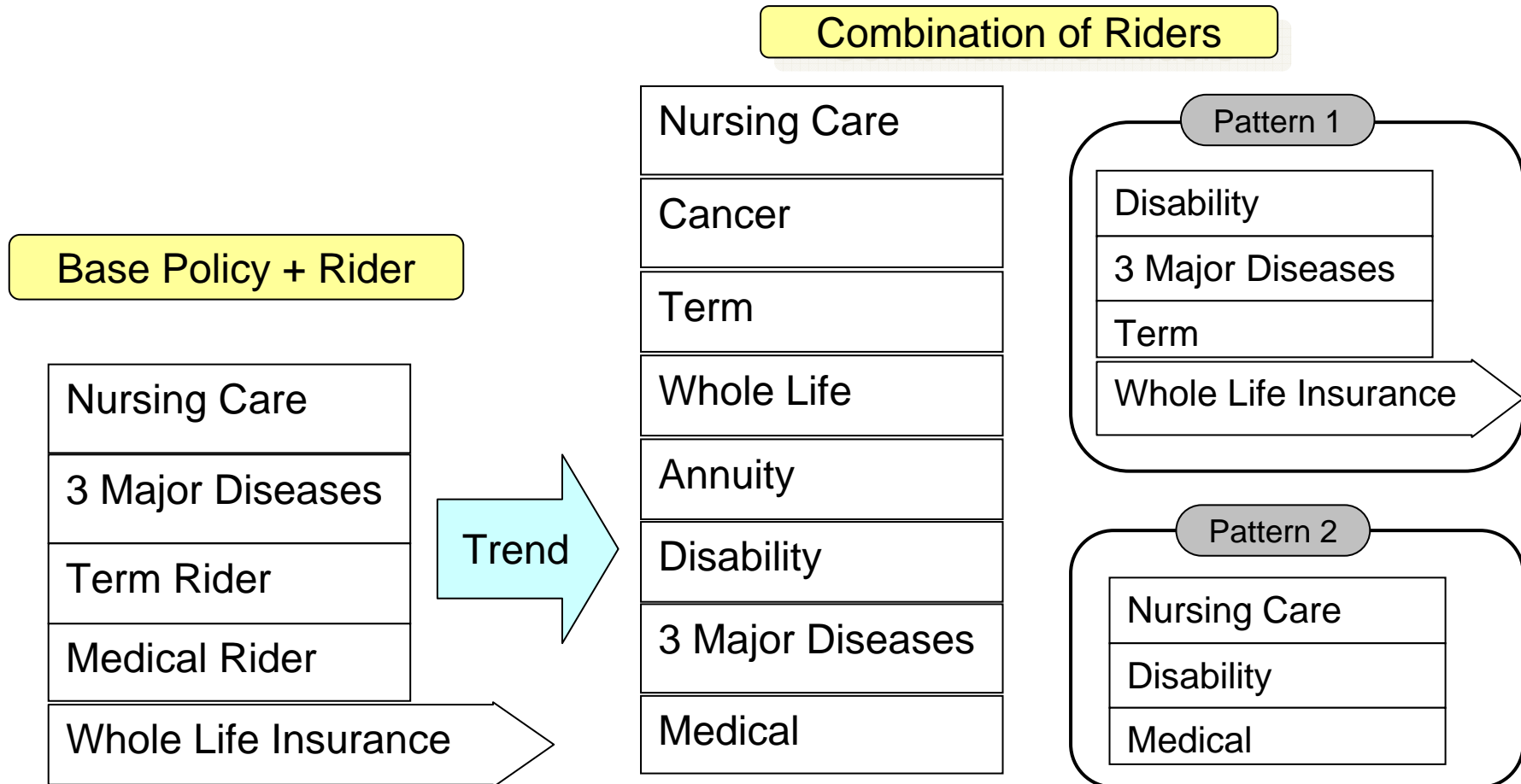
- “Zutto Motto” (Long-term and additional) Service
- Promotion of paper-less administration (Annual reduction target of 760 tons)



Development of Easy-to-Understand Products

- Simplification and more flexible combination of coverage
 - Base policy with various riders
- ⇓
- Policyholder has more freedom to choose the combination of coverage

Development of Easy-to-Understand Products



Streamlining of infrastructure supporting product and administration services

- Sophistication of consulting sales using new-generation mobile devices
- Streamlined and simplified administration flow from contract proposal to conclusion of contract

Product Trend

1. Customer segmentation and model plan
2. Advancement of cancer treatment
3. Cancer insurance with coverage for care
4. Three Brand Mind

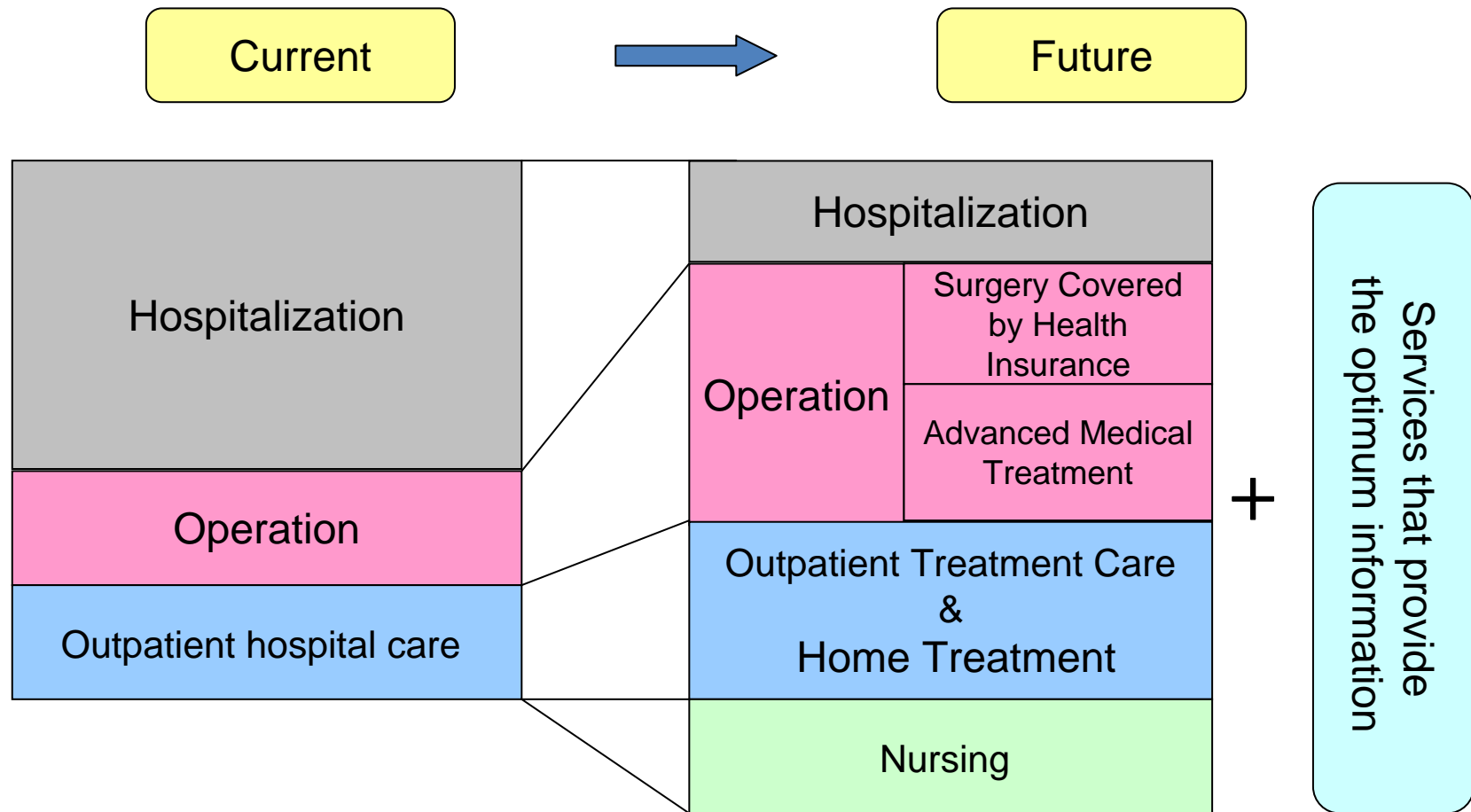
Customer segmentation and model plan

- Youth and singles: Security for themselves
- Core customers: Protection for the family
- Senior citizens: Preparation for retirement
- Female customers: Security for themselves

Advancement of cancer treatment

- From hospitalization to outpatient treatment
- From operation-driven treatment to the combination of *operation, radiation therapy* and *chemotherapy*
- Palliative care from the early stage of the treatment. More demand for terminal care.

Consumer's Image to Medical Insurance



Cancer insurance with coverage for care

- Spreading out of consumers image and knowledge of medical care
- Support optimal treatment
- Provide medical assistant service

Sales Agent Channel I

- Many are housewives.
- Initial monthly salary: 150,000 yen with employment relationship and social insurance coverage attached
- Emphasis on initial activity-oriented education
- Certified financial planners (3rd degree)

Sales Agent Channel II

- Provide added values only possible by face-to-face service
- Long-term consulting at any time
- Regulatory requirement to provide services to existing policyholders

Sales Agent Channel III

Limited contact opportunity with prospects

- Limited access to clients' workplaces
- Auto-lock system for apartments
- Increase of double-income households

Bancassurance I

1st Round (October 2002 – 2005)

- Rapid expansion of annuity market
(1 million additional new business per year)
- Buoyed by variable annuities and foreign-currency-denominated fixed annuity

2nd Round (December 2005 - 2007)

- Sales of single-premium endowment insurance, single-premium whole life insurance allowed for banks to sell
- Head hunting skilled sales staff in first sector (death benefit) from insurance company

Bancassurance II

3rd Round (2008 -)

- Collapse of financial market. A spate of withdrawal from VA market
- Fixed annuity by domestic insurers, including Nippon Life, sold well

4th Round (2010 -)

- Size of bancassurance market: 4–4.5 trillion yen
- Product shift to single-premium whole life after Lehman's fall

Bancassurance III

- Reorganization of sales organization: Conflict between life insurance companies and banks
- Restrictions on the use of non-public financial information and reinforcement of prevention of misconception between deposit and insurance
- Allowing sales of single-payment whole life and endowment insurance to employees of the borrowers from banks

Bancassurance IV

- Sales share against all channels: 7.0% in number of policies, 8.6% in contract amount (in 2010)
- Number of policies: 1.18 million
Amount: 6 trillion yen (in 2010)
- Whole life is #1, both in number of policies and in amount. #2 is fixed annuity.

Internet Life Insurance Company

LIFENET Insurance I

Established in May 2008

Key factors supporting sustainable speed in growth

- Marketing: Nurturing LIFENET brand capable of obtaining customers' empathy
- Operation: Providing quality life insurance services (easy-to-understand, reasonable, convenient)
- Organization management: Creation of flexible organization capable of continuously improving and challenging

LIFENET Insurance II

- Sales Results: New Business as of June 2011
 - # of applications: 6,208 (YOY +37%)
 - # of new policies underwritten: 4,734 (YOY +44%)
- Continuously outsold 4,000 policies for 9 consecutive months starting in October 2010
- Policy cancellation due to non-compliance of disclosure obligation was 6% of all the payment claims.

LIFENET Insurance III

Policies in force as of end of June 2011

- # of policies: 76,296
- Annualized premium: 3,108 million yen

LIFENET Insurance IV

Policyholder Profile

- High IT literacy males in their 30s living in urban areas
- Monthly premium: 6,000 yen
- Average death benefit of term insurance policies, which accounted for 60% of total sales: 18 million yen
- Newly insured: 46% Replacement of existing policies: 36%
- Triggering events: marriage and the birth of a child

Insurance Services Using Mobile Phones I

- My Smart Insurance: au & KDDI—Accident Insurance
- DOCOMO Onetime Insurance: Tokio Marine & Nichido Fire and NTT DOMOCO—Accident Insurance with one-day automobile insurance
- Softbank Kantan Insurance: Sompo Japan and Softbank Mobile—Accident Insurance

Insurance Services Using Mobile Phones II

Background of entry by mobile phone providers to casualty insurance business

- Unmet needs
- Easy ID confirmation
- Using mobile phone account for premium payment

On-site Insurance Shop I

Life Plaza Holdings

- 1st branch opened in 2003
- #1 branch network with 218 branches
- Multi-carrier agency with 40 insurance companies (life and P&C) providing products
- Door-to-door sales to consumer driven sales

On-site Insurance Shop II

- Three Brand Sales: “Hoken no Madoguchi” 129, “Minna no Hoken Plaza” 60, “Hoken no Senmonten” 29
- Space: 50-100 square meters with 3-4 employees. (“Hoken no Madoguchi”)
- Annual customer visits: 70,000
- More than half of the visits with appointment through internet
- Increasing opening shops at big shopping malls

On-site Insurance Shops



On-site Insurance Shop III

- Profit generating formula: “Number of customer visits x closing ratio x annualized commission per policy”
- Calculation based on experience:
 - Monthly number of consultation: 12-15 per employee
 - Closing ratio: 50%
 - AC (Annualized Commission) per policy: 100,000 yen

On-site Insurance Shop IV

Three Ps in Marketing

- Promotion (Advertisement)
- People (Human resources)
- Process (Consulting process)

Differentiating points which the customers can clearly acknowledge

Multi-Channel Strategy

Build multi-channel sales systems around sales agent channel

- Life Plaza:
 - Existing policyholders who come to branch offices
- Agency Channel:
 - Small and Medium-sized Enterprise owners
- Financial Institution Channel:
 - Senior clients who has inheritance needs

Life Plaza

- General counter to receive customers in the area
- 97 branches all over the country. Annual customer visits 200,000.
- Consultation on contract procedures, medical care, nursing care, taxation, asset management and so on
- In-branch team and visiting team
- Visiting team in charge of 3 million existing policyholders

Agency Channel

- 10,000 branches mainly certified tax accountant
- Challenge: Improving productivity and cultivating key agencies

Financial Institution Channel

- Develop inheritance (estate planning) market
- Swift action in response to financial market movements by providing three types of products
- Challenge: Product training and processing support need to be constantly improved

Providing Support to Sales Agents through Internet

- Monthly average of 700 requests for materials through home page or mobile sites
- Confirms whether clients need sales agents' explanations
- When requested, sales agents make appointments and visit the customers
- Closing ratio: 8 per 100 material requests

Securing Mid-Term and Long-Term Growth Potential

- Development of senior market
- Developing Asian markets (Insurance business)

Development of Senior Market

- Make nursing care product “the fourth major product”
- Development of new services using group companies
- Enter into nursing home business

〈Asahi Shimbun 2009/09/29〉
 Thailand, Aging Society with a Falling Birth Rate
 Social Security △
 Power of Local Community ○
 Volunteer as a last resort
 Learn more about “Pension system for the whole nation” from Japan



Development of Asian Markets I

Nippon Life

- China= Established a subsidiary called Long Life
- Thailand=Investment in Bangkok Life (shareholding 25%)
- India=Investment in Reliance Life (58 billion yen)

Development of Asian Markets II

Dai-ichi Life

- Vietnam = Subsidiary called Dai-ichi Vietnam
- India = Joint Venture called Star Union Dai-ichi Life with Bank of India
- Thailand = Business and capital alliance with Ocean Life
- Taiwan = Business and capital alliance with Shin Kong Financial Holdings

Development of Asian Markets III

Basic stance on setting up oversea operations

- Build a relationship with a strong and reliable partner company and share with them know-how, jointly build a business relationship, exchange human resources, and make investments. Take those steps steadily.

Development of Asian Markets IV

- Target Market: Rising affluent population in Asia
- The challenge is how to combine best practices in Japan with local needs to propose optimal insurance coverage.

Let's Make Your Future Strong

- New brand strategy——Create new corporate brand
- Deploy customer loyalty marketing
- Create new values with life insurance as a tool for better life

**Developing new
distribution channels is
challenging
but worthwhile!**

Thank you for listening