

IAV-OLIS Life Insurance Seminar

# Life Insurance Products in Japan

November 23, 2016

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- ◆ Introduction—Current Life Insurance Industry in Japan
- ◆ Life Insurance Products in Japan—Individual Insurance
- ◆ Life Insurance Products in Japan—Group Insurance

# Introduction—Current Life Insurance Industry in Japan

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- ◆ Japan's population—about 127 million (as of April 2016)
- ◆ Japan's GDP—about 500 trillion yen (2015)
- ◆ Japan's life insurance status—the world's second largest market after the US

- ◆ Premium income of 37,700 billion yen:

Individual insurance	25,600 billion yen
Individual annuities	4,700 billion yen
Group insurance	1,100 billion yen
Group annuities	4,600 billion yen

(FY2015)

# Introduction—Current Life Insurance Industry in Japan (continued)

- ◆ Individual insurance accounts for at least 60% of premium income
- ◆ Similar trend is seen in recent years

Breakdown of Premium Income

(billion yen)

Fiscal Year	Total Premium Income	Individual Insurance	Individual Annuities	Group Insurance	Group Annuities	Others
2010	34,454	20,447	4,802	1,115	3,812	4,275
2011	36,289	22,734	4,679	1,114	3,925	3,835
2012	37,140	24,099	4,374	1,109	3,683	3,874
2013	34,738	22,721	4,312	1,112	3,851	2,739
2014	37,222	24,546	5,154	1,119	4,175	2,226
Y/Y (%)	107.2	108.0	119.5	100.6	108.4	81.3

Source: The Life Insurance Association of Japan

# Introduction—Current Life Insurance Industry in Japan (continued)

- ◆ Tied agents have been on a declining trend but the decline bottomed out recently.

## Number of Member Companies and Agents/Agencies

Fiscal Year	Member Companies*	Number of Sales Force (in thousands)		
		Tied Agents	Agencies	Sales Reps at Agencies
2010	46 (5)	240	102	989
2011	43 (5)	236	99	1,005
2012	43 (5)	233	96	1,011
2013	43 (5)	228	91	1,015
2014	42 (5)	227	94	992

\*Numbers in parentheses are those of mutual companies. As of the end of the fiscal year.

## Reference: Member Companies with Foreign Participation\* (As of the end of December 2015)

Domestic Companies with Foreign Capital			Branch Offices of Foreign Companies
AEGON Sony Life	Crédit Agricole Life	NN Life	Aflac
AIG Fuji Life	Gibraltar Life	Prudential Life	Cardif Assurance Vie
Allianz Life	Manulife Life	PGF Life	Zurich Life
AXA Life	MassMutual Life		
AXA Direct Life	MetLife		

\*Foreign stake of 50% or more

# Life Insurance Products in Japan—Individual Insurance

## ◆ Recent Trend - Individual Insurance

- ◆ The number of policies in force has been on a declining trend but finally stabilized.

### New Policies and Policies in Force for Individual Insurance

(Number: million, Amount: billion yen, Y/Y: %)

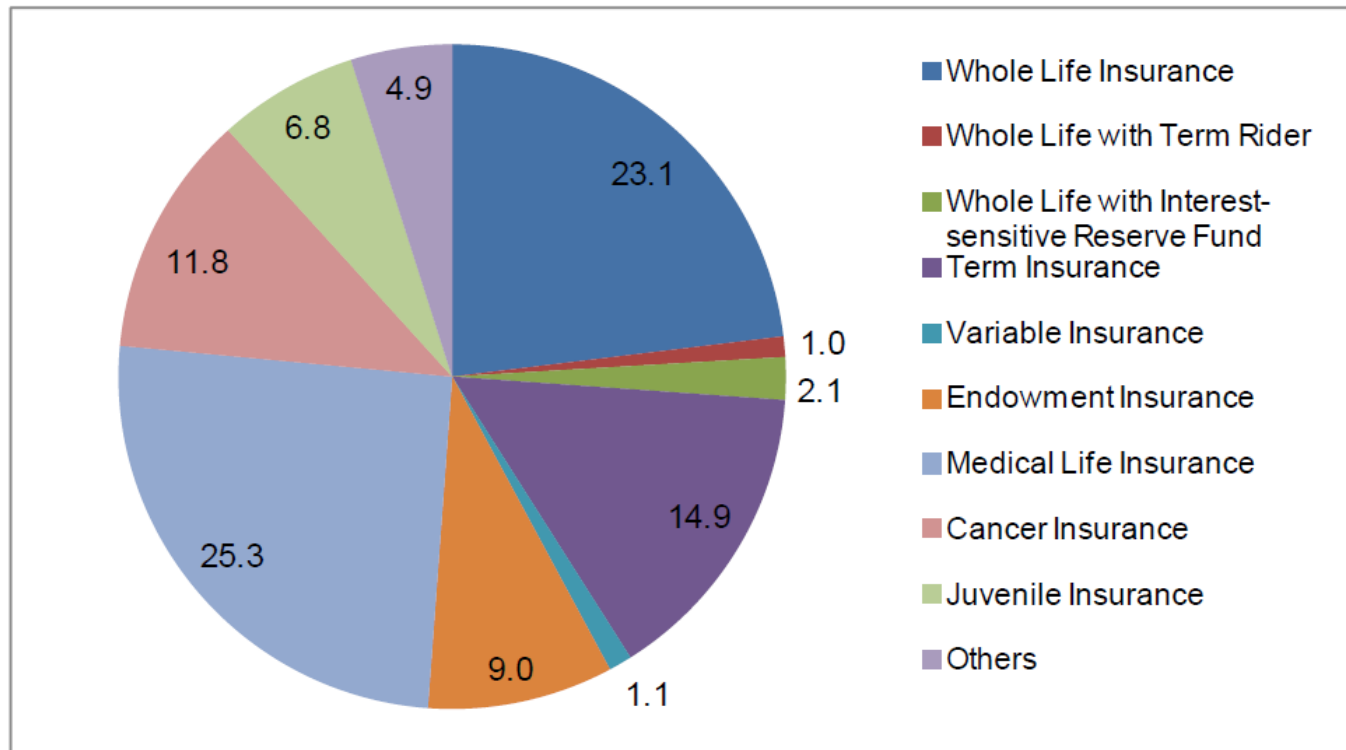
Fiscal Year	New Policies				Policies in Force			
	Number		Amount		Number		Amount	
		Y/Y		Y/Y		Y/Y		Y/Y
2010	15.86	102.2	62,992	106.2	121.91	104.2	879,596	97.4
2011	16.22	102.3	65,601	104.1	127.20	104.3	865,346	98.4
2012	19.67	121.3	71,345	108.8	136.01	106.9	861,651	99.6
2013	18.99	96.5	66,836	93.7	143.88	105.8	857,540	99.5
2014	19.39	102.1	67,431	100.9	151.73	105.5	857,432	100.0

\*The number includes converted contracts, and the amount reflects the net increase arising from the conversion.

# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend –New Business (Individual Insurance Policies)
  - ◆ Main products are whole life and medical life insurance.

Percentage Distribution of Individual Insurance by Type (Number of New Policies)



\*Excluding converted contracts

Source: The Life Insurance Association of Japan

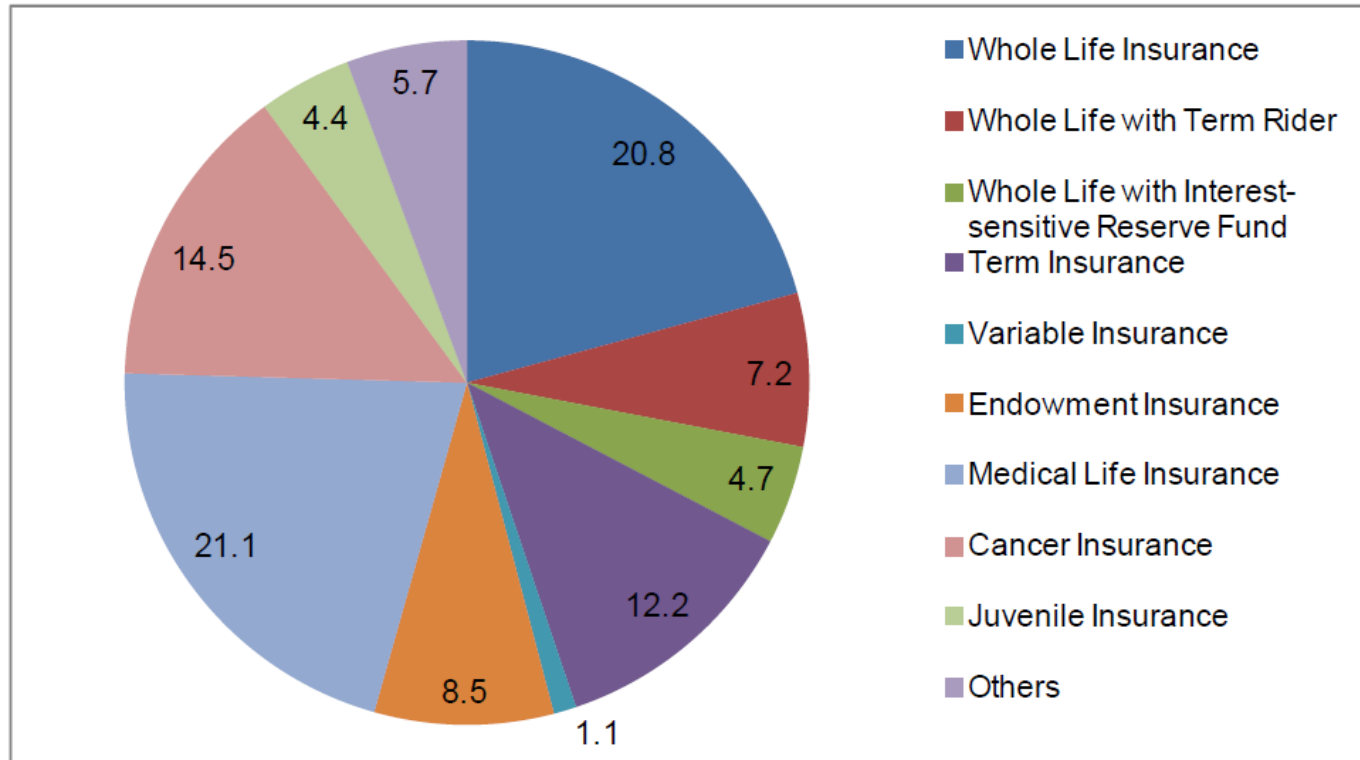
# Life Insurance Products in Japan—Individual Insurance

(continued)

## ◆ Recent Trend—Individual Insurance Policies in Force

- ◆ Whole life and medical life account for large percentages but whole life with a term rider, which used to be a major product, still takes up a large share.

Percentage Distribution of Individual Insurance by Type (Number of Policies in Force)



\*Excluding converted contracts

Source: The Life Insurance Association of Japan



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—Individual Annuities
  - ◆ The number of policies in force is almost flat.

## New Policies and Policies in Force for Individual Annuity Insurance

(Number: million, Amount: billion yen, Y/Y: %)

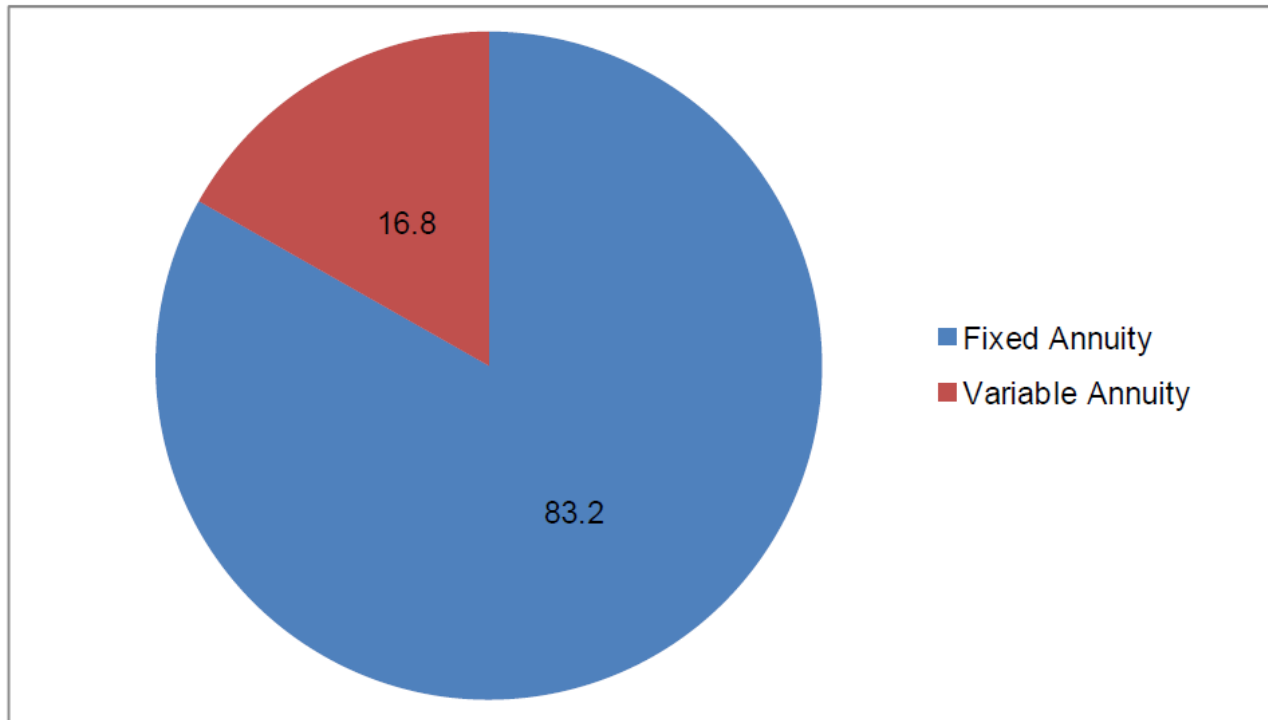
Fiscal Year	New Policies				Policies in Force			
	Number		Amount		Number		Amount	
		Y/Y		Y/Y		Y/Y		Y/Y
2010	1.44	88.5	6,894	83.8	18.98	103.5	95,710	101.6
2011	1.58	110.0	7,899	114.6	19.75	104.0	98,915	103.3
2012	1.65	103.9	8,563	108.4	20.42	103.4	103,518	104.7
2013	1.50	91.4	8,003	93.5	20,47	100.2	103,788	100.3
2014	1.59	106.0	8,632	107.9	20.50	100.1	104,131	100.3

\*The number includes converted contracts, and the amount reflects the net increase arising from the conversion.

# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—New Business (Individual Annuities)
  - ◆ Fixed annuity accounts for more than 80%.

Percentage Distribution of Individual Annuity Insurance by Type (Number of New Policies)

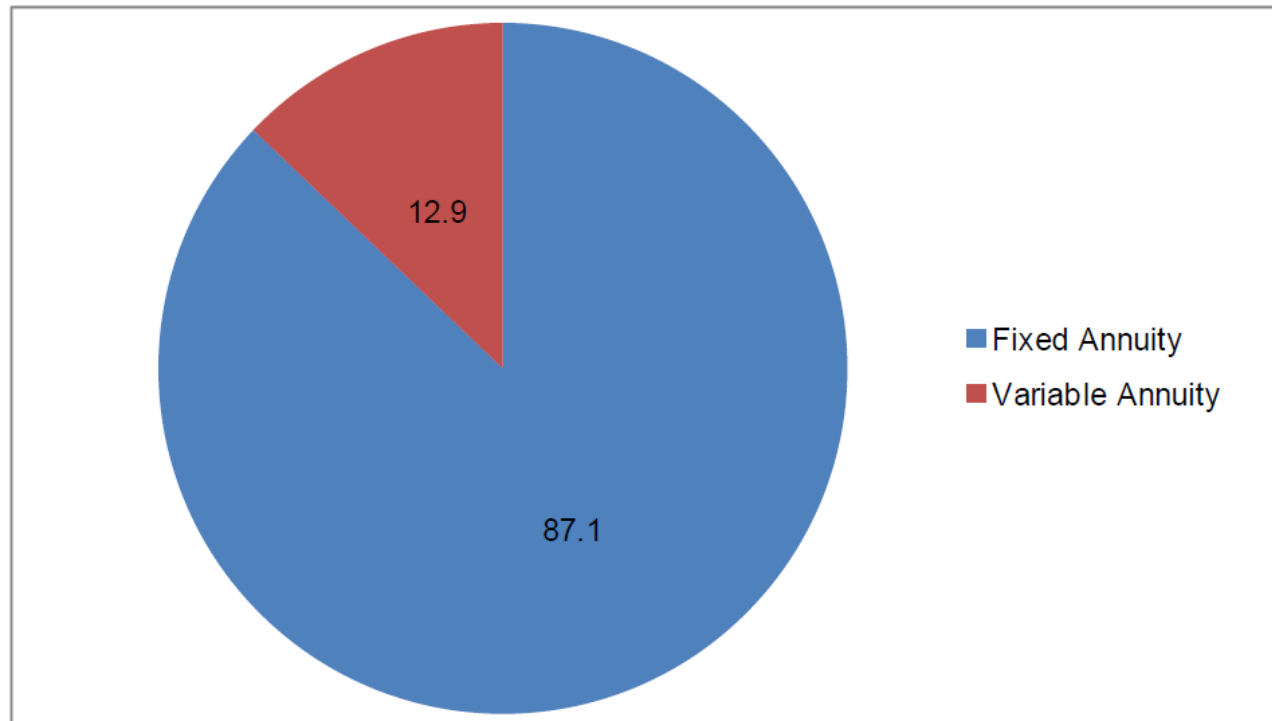


\*Excluding converted contracts

# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—Individual Annuities in Force
  - ◆ Fixed annuity also accounts for more than 80% of policies in force.

Percentage Distribution of Individual Annuity Insurance by Type (Number of Policies in Force)

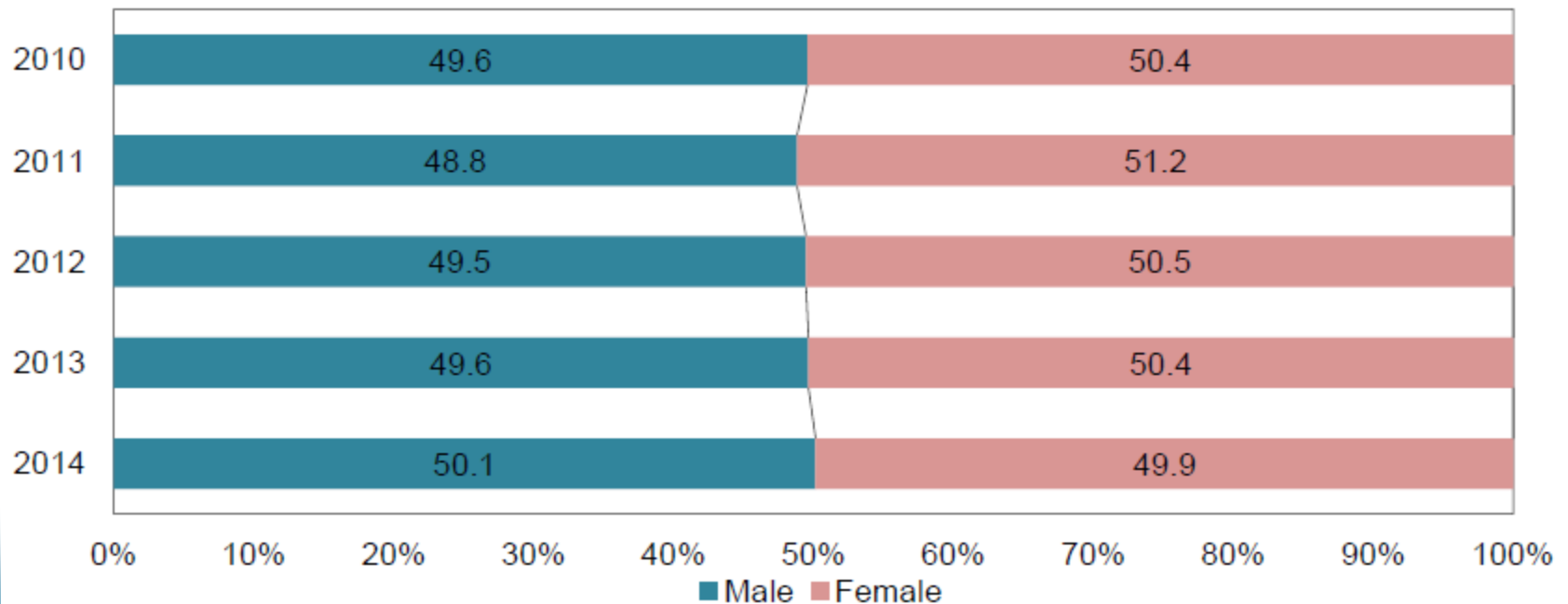


\*Excluding converted contracts

# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—New Business (Individual Insurance Policies)
  - ◆ The composition ratio is almost the same between male and female.

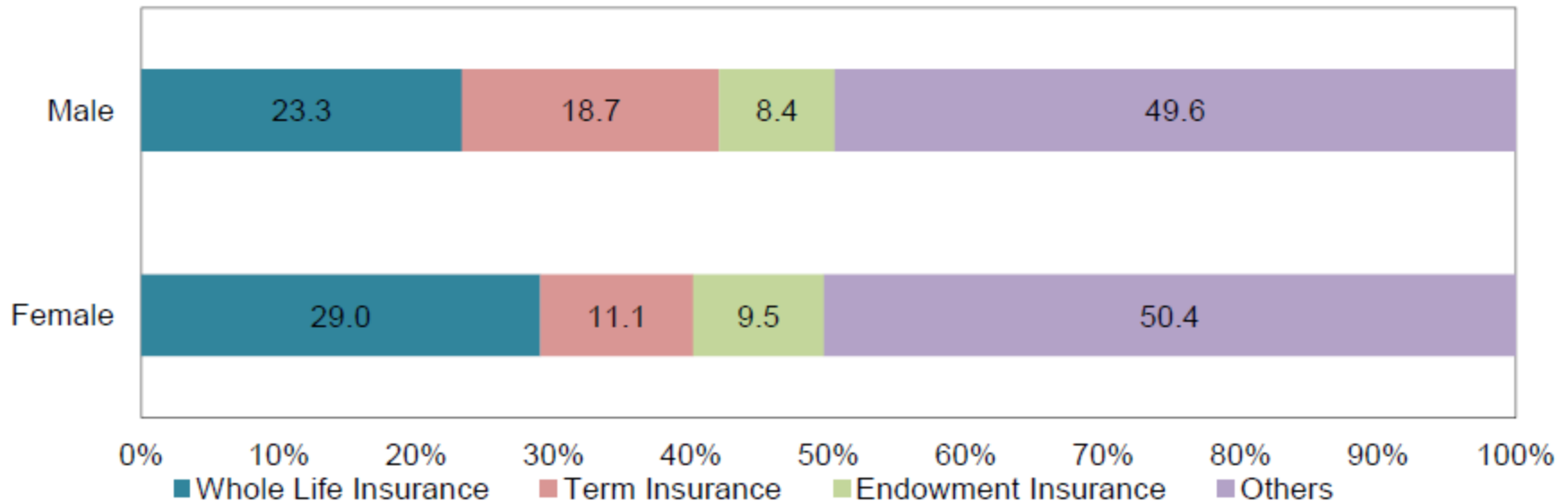
**Changes in Composition Ratio of Individual Insurance by Gender  
(Number of New Policies)**



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—New Business (Individual Insurance Policies)
  - ◆ The composition ratio of term insurance is greater for male and whole life insurance for female.

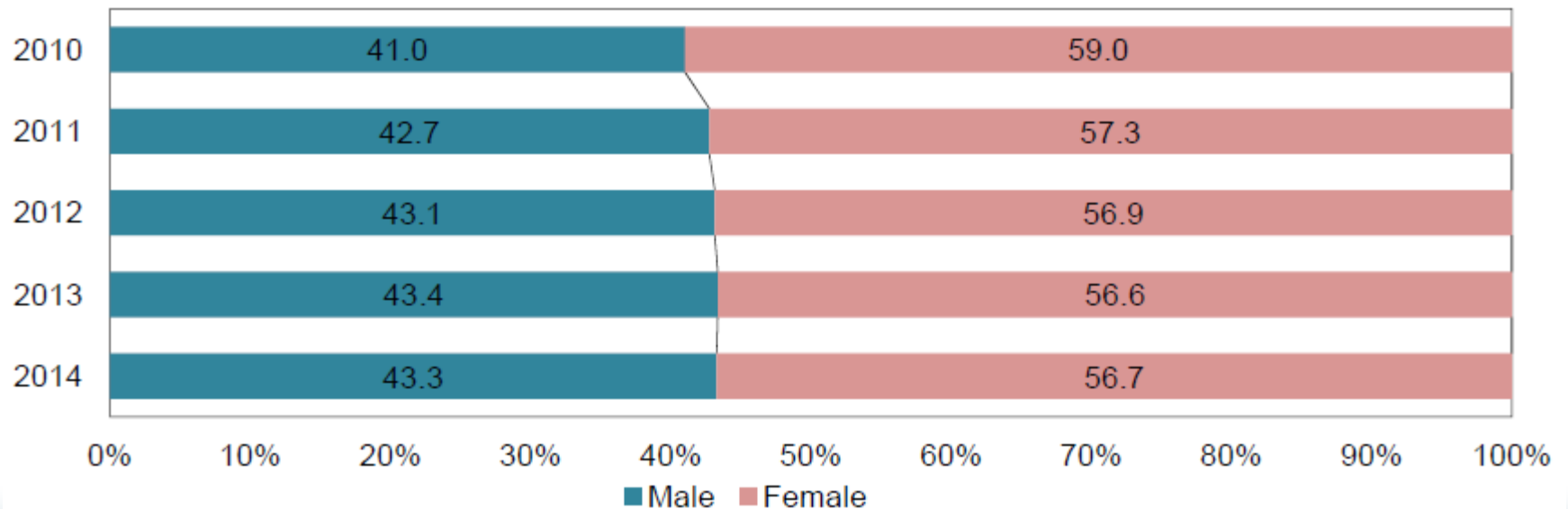
**Composition Ratio of Individual Insurance by Type in FY2014  
(Number of New Policies by Gender)**



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—New Business (Individual Annuities)
  - ◆ Female’s composition ratio to new policies is slightly greater.

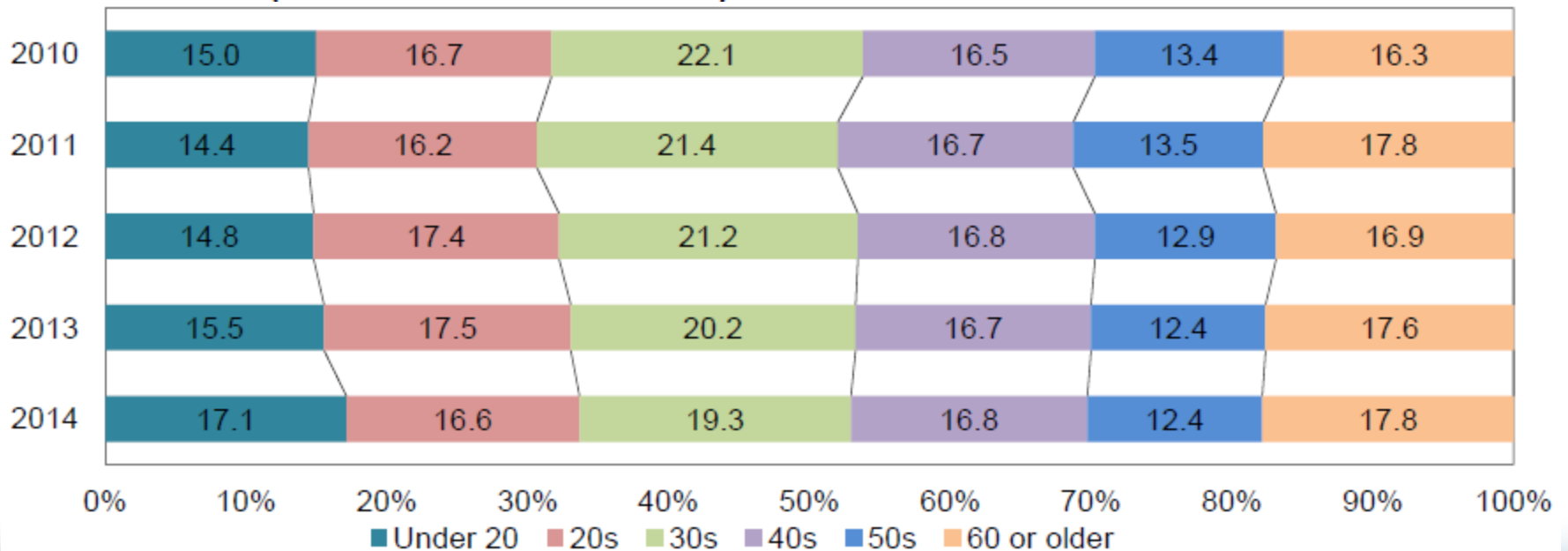
**Changes in Composition Ratio of Individual Annuity by Gender  
(Number of New Policies)**



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—New Business (Individual Insurance Policies)
  - ◆ New policies for young and old age brackets are increasing.

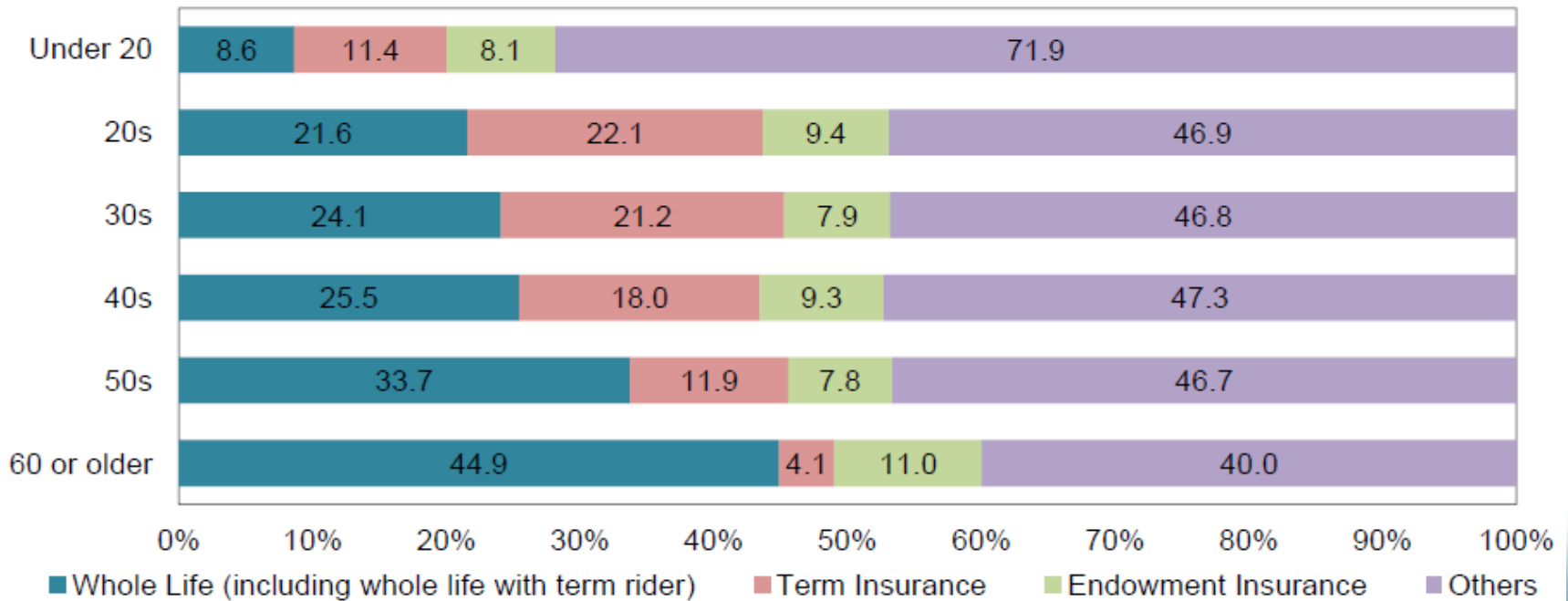
**Changes in Composition Ratio of Individual Insurance by Age (Number of New Policies)**



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—New Business (Individual Insurance Policies)
  - ◆ Whole life insurance (savings nature) rises as age increases.

**Composition Ratio of Individual Insurance by Type in FY2014  
(Number of New Policies by Age)**

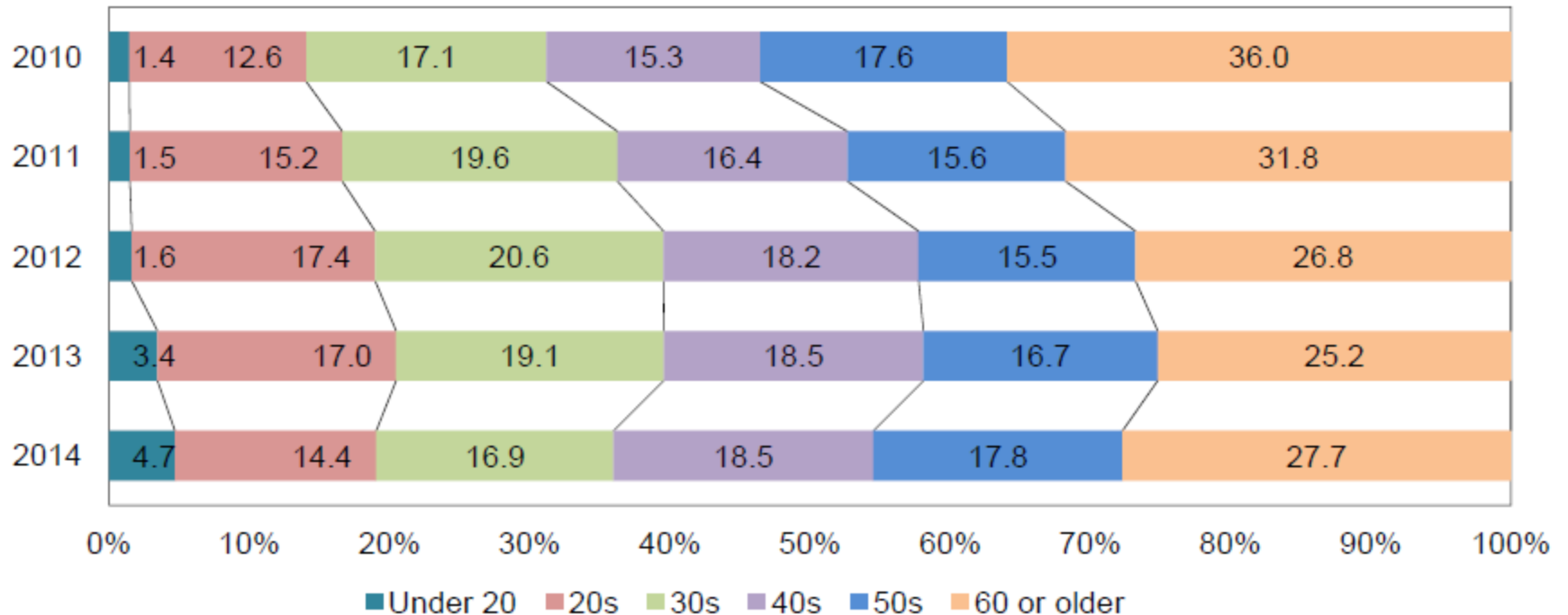




# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Recent Trend—New Business (Individual Annuities)
  - ◆ Older persons (aged 60 and over) account for a large share.

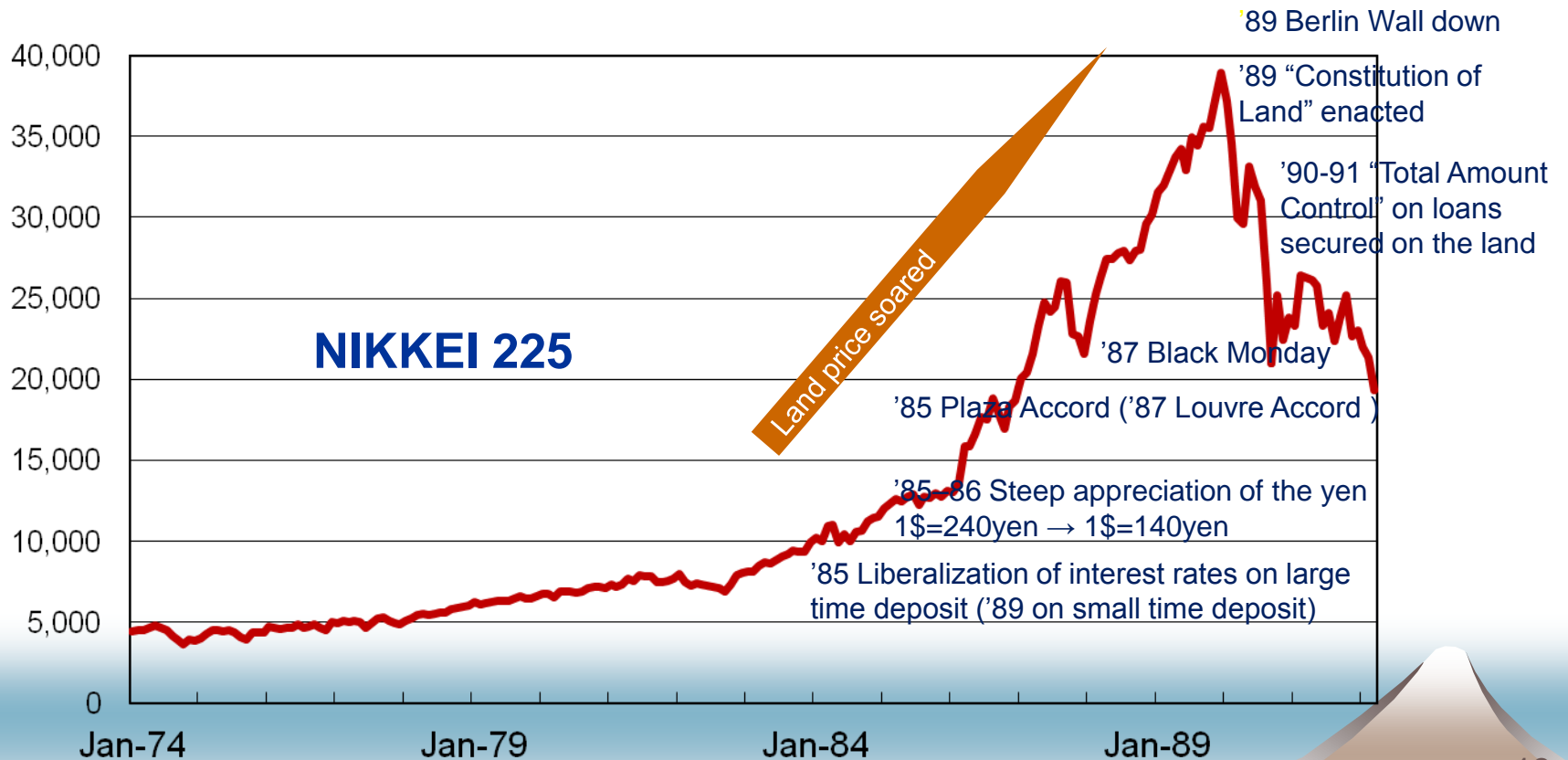
Changes in Composition Ratio of Individual Annuity by Age (Number of New Policies)



# Life Insurance Products in Japan—Individual Insurance

(continued)

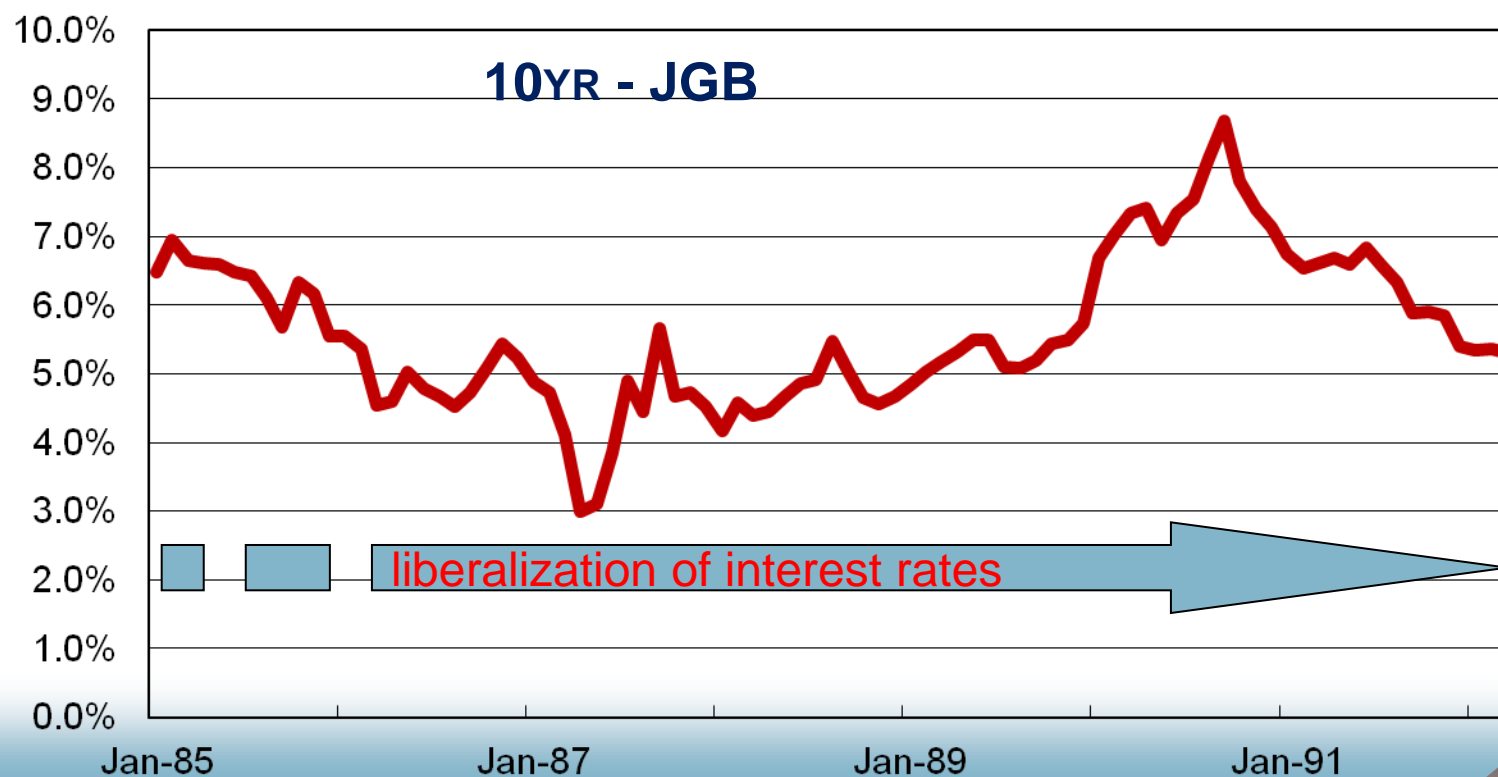
- ◆ Changes in Individual Insurance—Before 1990
  - ◆ Significant rises in stock prices



# Life Insurance Products in Japan—Individual Insurance

(continued)

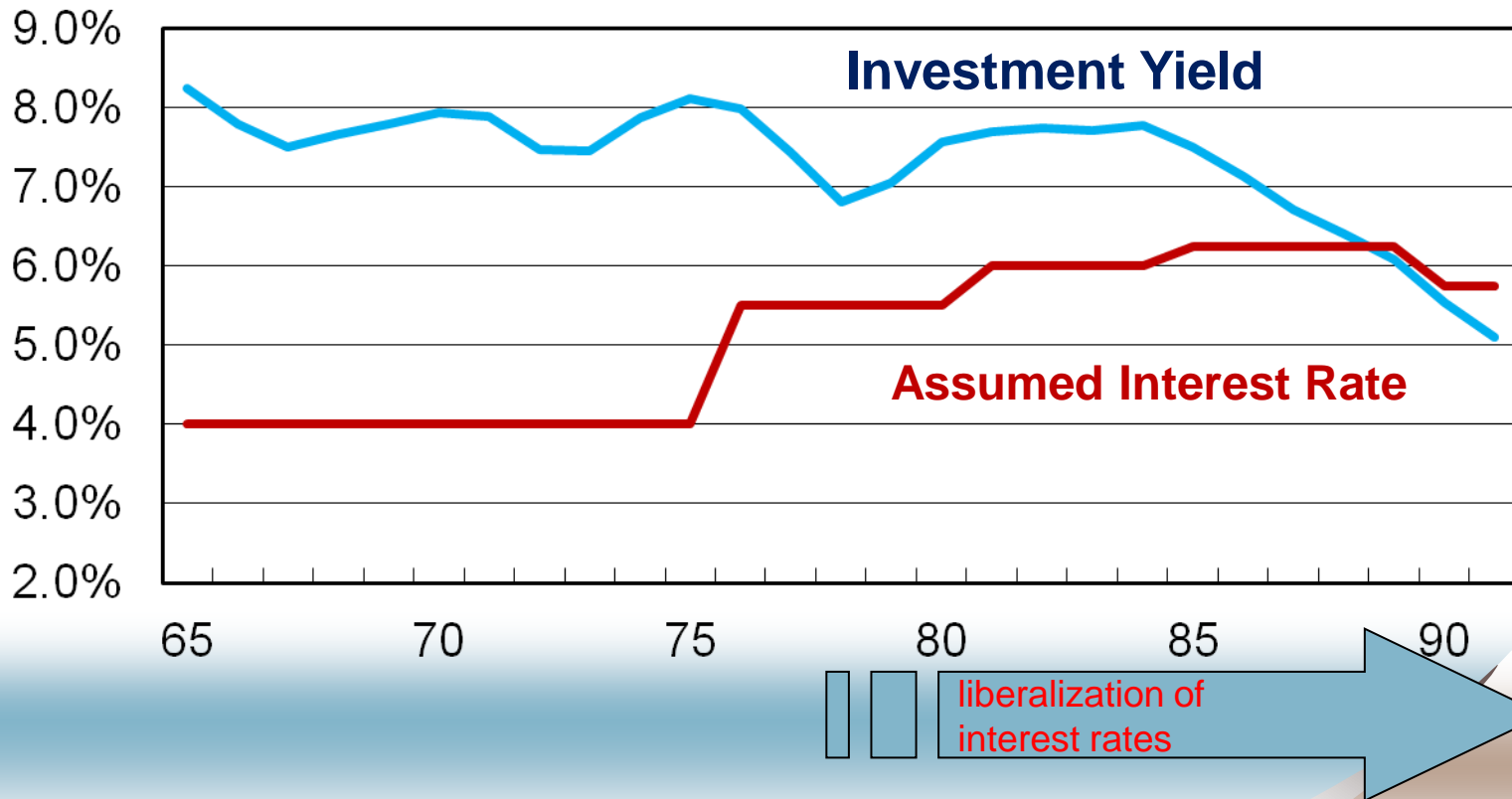
- ◆ Changes in Individual Insurance—Before 1990
  - ◆ 10-year JGBs trended at around 5%.



# Life Insurance Products in Japan—Individual Insurance

(continued)

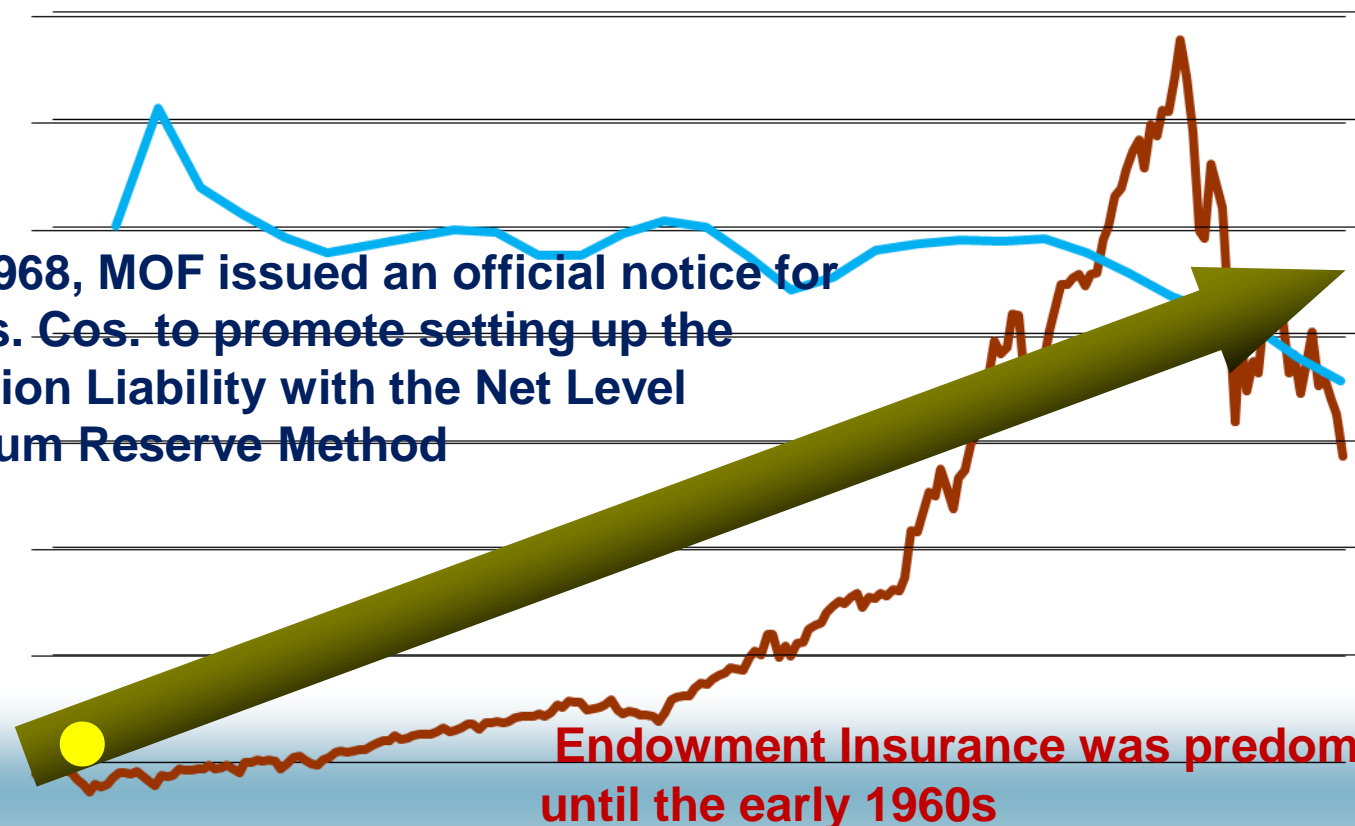
- ◆ Changes in Individual Insurance—Before 1990
  - ◆ While interest rates declined, assumed interest rates edged higher.



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Changes in Individual Insurance—Before 1990
  - ◆ Endowment insurance was the major product until early 1960s.

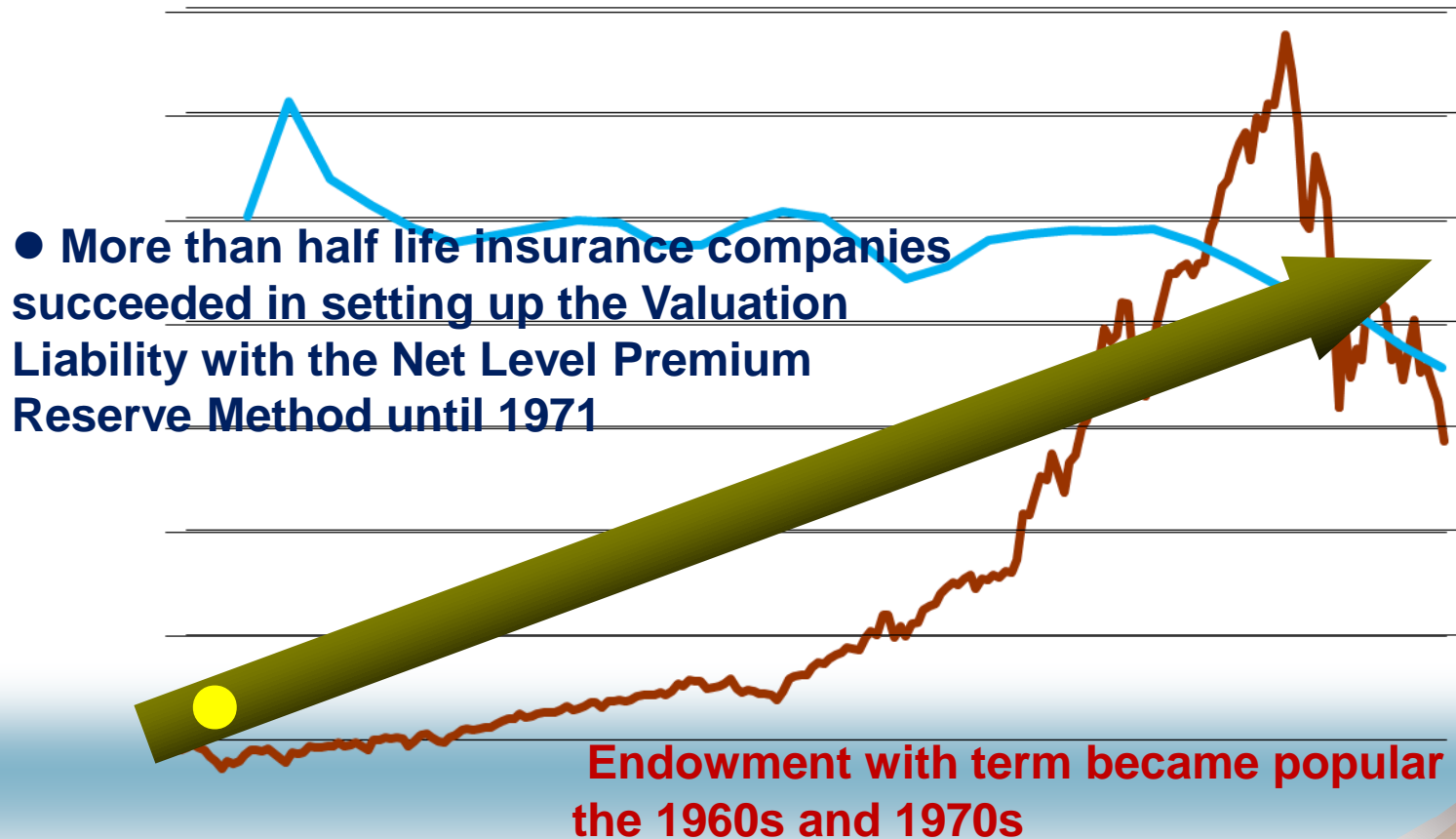
● In 1968, MOF issued an official notice for life ins. Cos. to promote setting up the Valuation Liability with the Net Level Premium Reserve Method



# Life Insurance Products in Japan—Individual Insurance

(continued)

- ◆ Changes in Individual Insurance—Before 1990
  - ◆ Endowment with term was the major product in 1960s and 1970s.



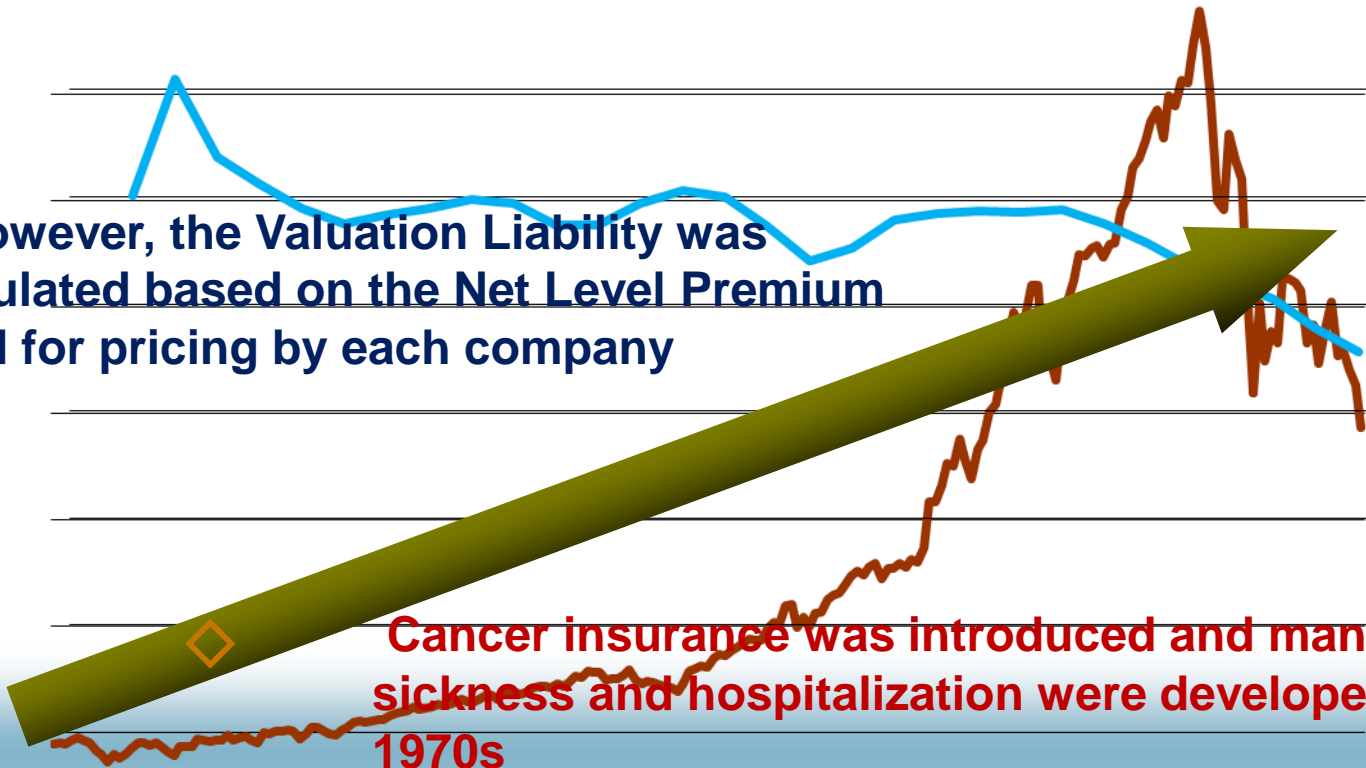
# Life Insurance Products in Japan—Individual Insurance

(continued)

## ◆ Changes in Individual Insurance—Before 1990

- ◆ In 1970s, cancer insurance was introduced and sickness and hospitalization benefits were sold as riders.

● However, the Valuation Liability was calculated based on the Net Level Premium used for pricing by each company



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Changes in Individual Insurance—Before 1990
  - ◆ In 1980s, whole life with term was sold with sickness and hospitalization riders.

**Main product shifted to whole life with term  
with various riders in the 1980s**





# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Changes in Individual Insurance—Before 1990
  - ◆ Shifted from endowment to endowment with term, then to whole life, as products with profits.

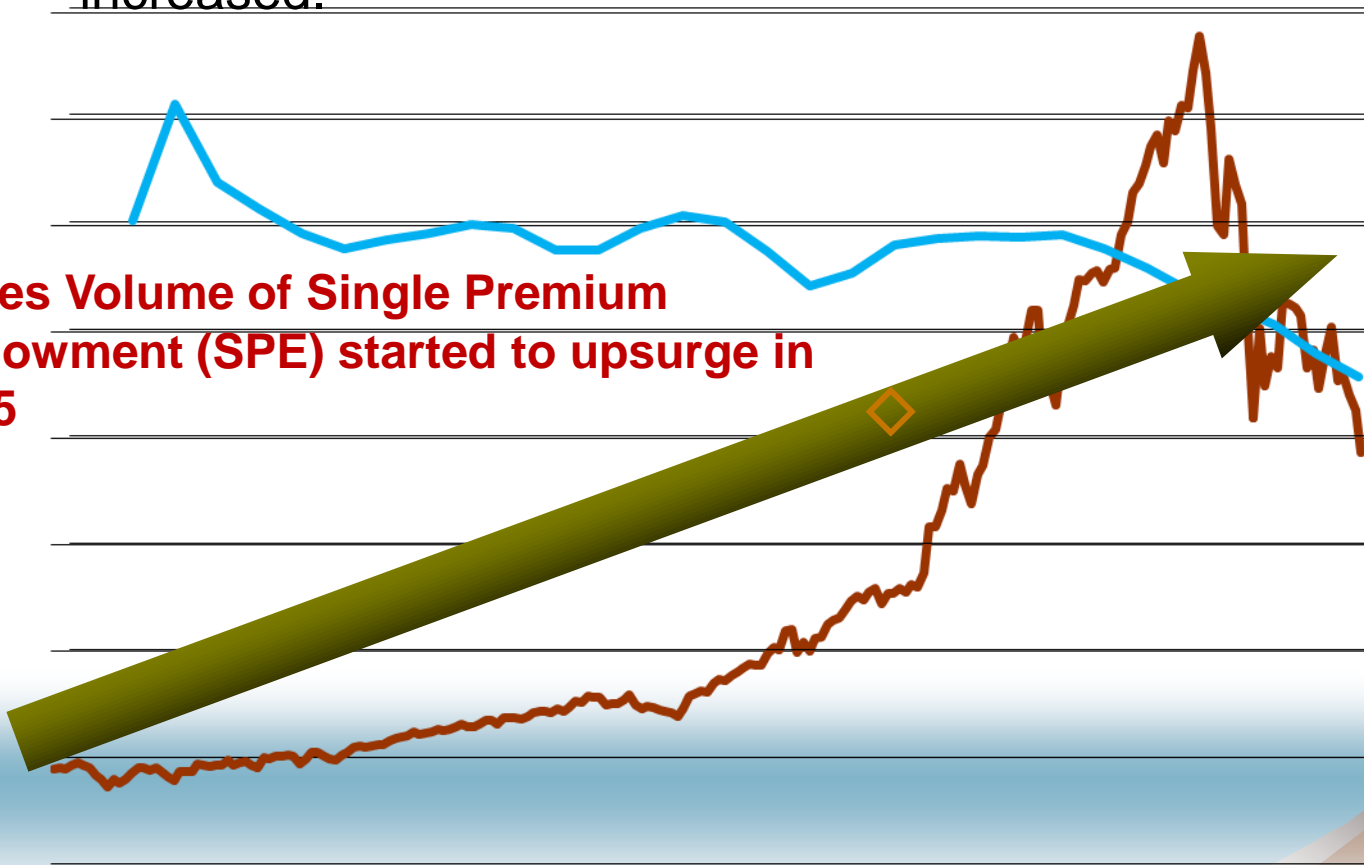


# Life Insurance Products in Japan—Individual Insurance

(continued)

- ◆ Changes in Individual Insurance—Before 1990
  - ◆ Since around 1985, sales of single premium endowment (SPE) increased.

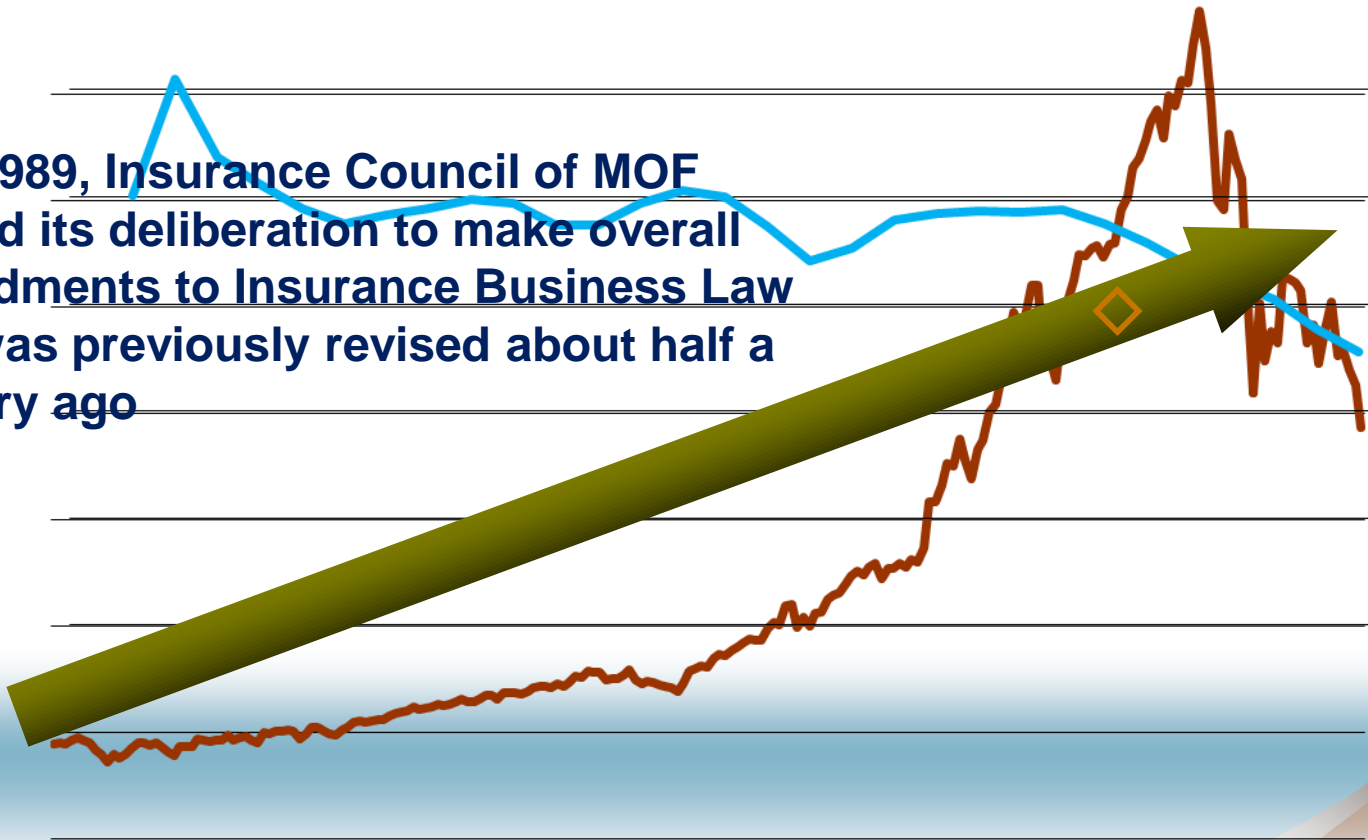
**Sales Volume of Single Premium Endowment (SPE) started to upsurge in 1985**



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Changes in Individual Insurance—Before 1990
  - ◆ In 1989, MOF (current FSA) started to work on the revision of the Insurance Business Act (revised in 1996).

● In 1989, Insurance Council of MOF started its deliberation to make overall amendments to Insurance Business Law that was previously revised about half a century ago



# Life Insurance Products in Japan—Individual Insurance (continued)

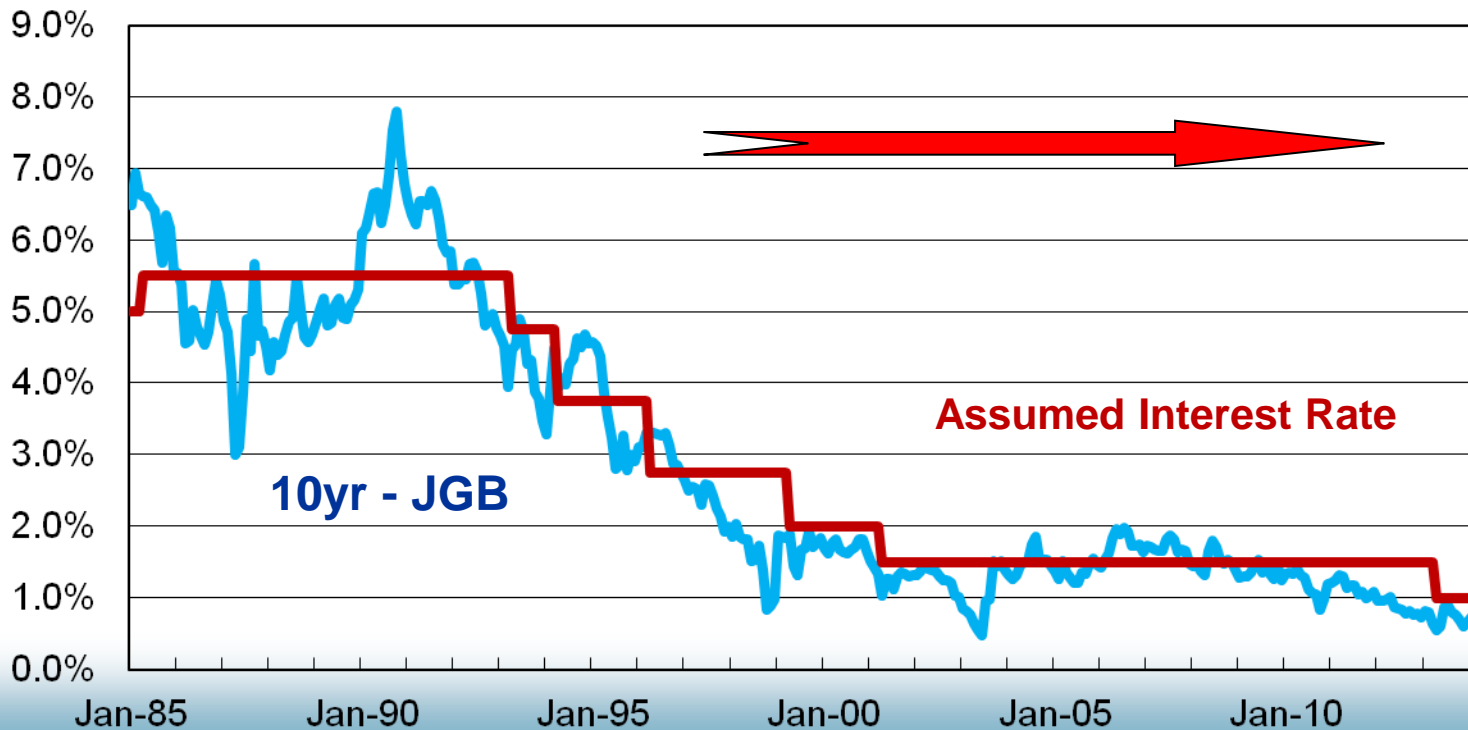
- ◆ Changes in Individual Insurance—1990 and onwards
  - ◆ Stock prices were sluggish after the bubble burst (1990).



# Life Insurance Products in Japan—Individual Insurance

(continued)

- ◆ Changes in Individual Insurance—1990 and onwards
  - ◆ Interest rates declined gradually with assumed interest rates also going down.



# Life Insurance Products in Japan—Individual Insurance (continued)

- ◆ Changes in Individual Insurance—1990 and onwards
  - ◆ Revision of the Insurance Business Act in 1996

- **New Insurance Business Law enforced in 1996**



# Life Insurance Products in Japan—Individual Insurance

(continued)

- ◆ Changes in Individual Insurance—1990 and onwards
  - ◆ Eight life insurance companies have failed since 1997 after the revision of the Insurance Business Act.

- **Eight Life Insurance Co. Failed**



# Life Insurance Products in Japan—Individual Insurance (continued)

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## ◆ Individual Insurance—Other Topics

- ◆ After World War II, insurance was sold mainly by widows
- ◆ Initially, sales agents were dedicated to only one company (there were only tied agents).
- ◆ Almost uniform insurance premiums (difference was whether with or without dividends) and uniform policyholder dividends applied until the Big Bang liberalization of the financial sector in Japan (1996 revision of the Insurance Business Act).
- ◆ Responding to low interest rates
- ◆ Toward products that appeal to customers



# Life Insurance Products in Japan—Group Insurance

- ◆ Recent Trend—New Business (Group Insurance Policies)
  - ◆ The number of policies in force are almost flat.

## New Policies and Policies in Force for Group Insurance

(Number: million, Amount: billion yen, Y/Y: %)

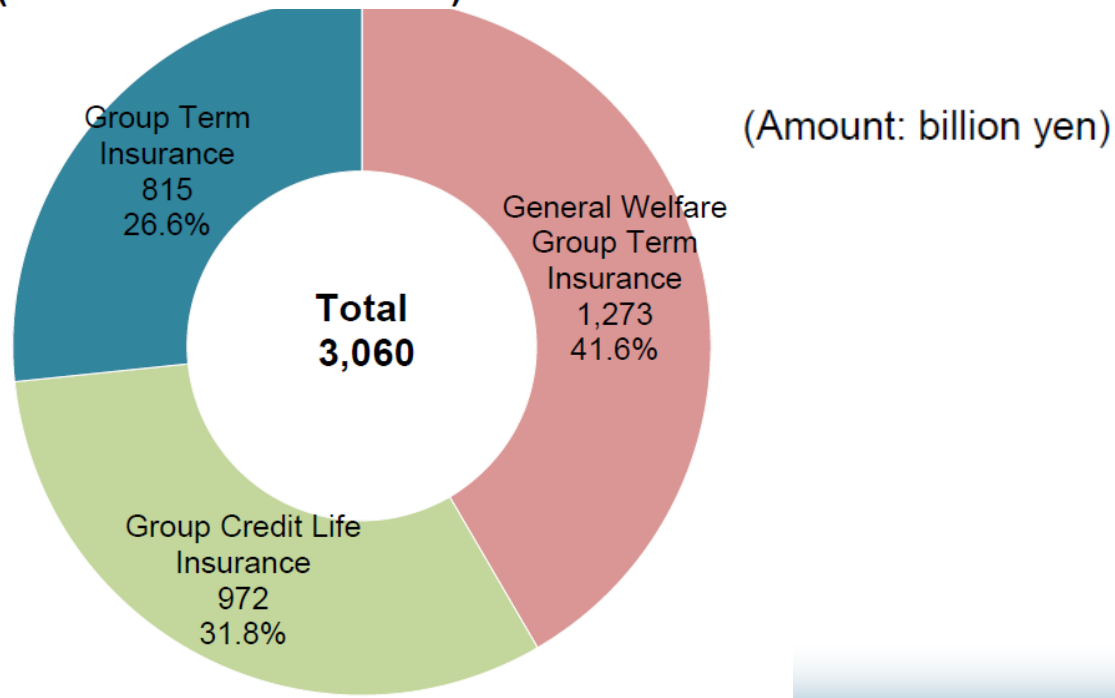
	New Policies				Policies in Force			
	Number of Insured		Amount		Number of Insured		Amount	
		Y/Y		Y/Y		Y/Y		Y/Y
2010	0.41	89.8	2,482	84.8	40.12	98.9	371,519	99.6
2011	0.33	79.6	3,021	121.7	39.55	98.6	370,330	99.7
2012	0.31	96.0	3,041	100.7	39.19	99.1	370,112	99.9
2013	0.70	221.4	4,479	147.3	39.34	100.4	371,288	100.3
2014	0.49	69.9	3,060	68.3	39.18	99.6	373,127	100.5

# Life Insurance Products in Japan—Group Insurance (continued)

## ◆ Recent Trend—New Business (Group Insurance Policies)

- ◆ General welfare group term insurance is the major product.

**Breakdown of Group Insurance in FY2014  
(Amount of New Policies)**

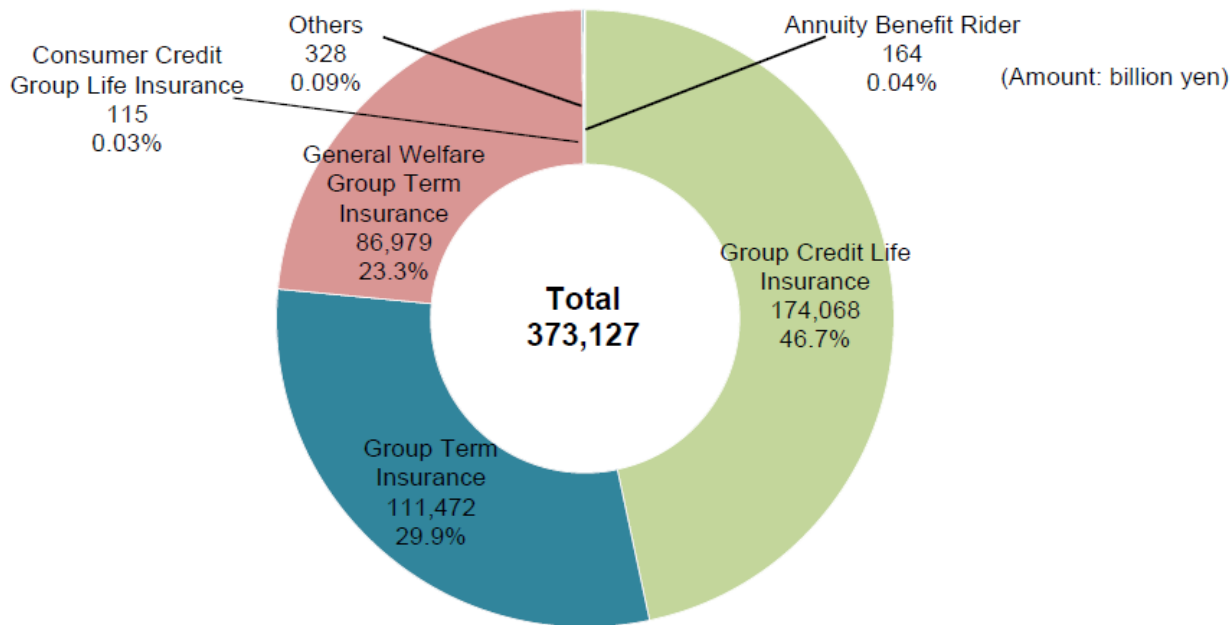


Source: The Life Insurance Association of Japan

# Life Insurance Products in Japan—Group Insurance (continued)

- ◆ Recent Trend—Group Insurance Policies in Force
  - ◆ Group credit life insurance accounts for a large share.

## Breakdown of Group Insurance in FY2014 (Amount of Policies in Force)



Source: The Life Insurance Association of Japan

# Life Insurance Products in Japan—Group Insurance (continued)

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- ◆ What is group insurance?
  - ◆ Contract between Group and Insurance Co.
  - ◆ The insured are members of the Group and well administrated by Group
  - ◆ Typically, yearly renewable insurance

# Life Insurance Products in Japan—Group Insurance (continued)

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## ◆ Group Insurance History

- ◆ 1934 : Introduced in Japan
- ◆ 1934-46 : Monopolized by Nippon Dantai Life
- ◆ 1947 : Most of other carriers authorized after the announcement of the Antitrust Act
- ◆ 1951-90s : Strictly regulated by the regulator
- ◆ 2000- : Partially deregulated
  - ◆ Non-participate type developed
  - ◆ Dividend rates determined by each company

# Life Insurance Products in Japan—Group Insurance (continued)

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- ◆ Group Insurance Products
  - ◆ Group Term Life Insurance
  - ◆ Group Welfare Term Life Insurance
  - ◆ Group Credit Life Insurance
  - ◆ Group Consumers' Credit Life Insurance
  - ◆ Group Endowment Insurance
  - ◆ Group Whole Life Insurance
  - ◆ Group Life Insurance for Dependents of Handicapped Persons
  - ◆ Other Type of Group Insurance
    - ◆ Group Medical Insurance
    - ◆ Group Disability Insurance

# Life Insurance Products in Japan—Group Insurance (continued)

## ◆ Group Insurance Products

Product	Purpose	Policy Holder	Insured	Beneficiary
Group Term Life Insurance	To cover the cost of living for the bereaved in case the employee dies.	A Company (Premium is usually paid by the employee sometimes with some matching from the company)	Employees (Usually voluntary employees who want the coverage)	Employees
Group Welfare Term Life Insurance	To cover the welfare cost like retirement allowance at the employee's death of the company	A Company (Premium is paid by the company)	Employees (Usually all of employees or those in the same criteria of ages/years/etc.)	The company
Group Credit Life Insurance	To cover the balance of housing loan in case the borrower dies.	A Credit bank, etc. (Premium is paid by the bank. However it is usually transferred to the borrower through the fee of the loan)	Borrowers (Usually all of borrowers)	Borrowers

# Life Insurance Products in Japan—Group Insurance (continued)

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- ◆ Characteristics of Group Insurance
  - ◆ Many individuals covered by 1 policy
  - ◆ Underwriting group rather than individual
  - ◆ Lower premium rate applied
  - ◆ Experience premium rate method
  - ◆ Dividend paid / Discount premium rate applied



# Life Insurance Products in Japan—Group Insurance (continued)

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## ◆ Group Insurance—Other Topics

- ◆ Sales by dedicated teams
- ◆ Relationships with holding companies
- ◆ Sales based on “share methods” (same insurance premiums, same policyholder dividends)

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