Insurance Industry 2.0

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「保険業界2.0」の英語版出版に寄せて

まずは、英語版を発刊していただいたアジア生命保険振興センターの皆様に厚く御礼を申し上げます。

本書は、日本の保険業界全体について、過去からの経緯、現在の置かれている状況、今後の見通しの3つの視点から述べています。従来の保険に関する本は、損保の1保険リスクに関してや、生保の法人チャネルにおける販売方法に関してなど、断面的な情報しか記載されていませんでした。そのため、日本の保険業界の全体像を学ぶ方法が無く、他業界の人から網羅的な情報を求める声が数多くあったため、2021年12月に日本語版を出版することになりました。私自身、過去にいくつかの新聞や雑誌等で保険に関する記事の寄稿や、連載記事を書かせていただく機会がありましたが、「保険は専門性が高く、用語も難しいため、なかなか全体像がつかめない」という声を多くいただいていました。また、自身の勤める会社に、他業界から来た社員を迎える度に、保険業界の全体像を教える書籍が存在しないために苦労していました。私自身は損害保険業界と生命保険業界で長く勤め、アクチュアリーですが当局対応、営業、商品開発、決算業務などの幅広い業務を経験するとともに、経営者として保険会社を支えてきたため、日本の保険業界の全体像をつかむことができ、これが本書籍の執筆に大いに役立ちました。実際に、本書籍を新入社員の教育用の教材として使用してくださっている保険会社もあると聞きました。

何故、保険業界の過去を知ることが重要であるかというと、保険はその国の経済動向や社会環境を色濃く反映するものだと考えているからです。その時々で起きてきた社会的な出来事が、今の日本の保険業界を作り上げています。したがいまして、過去を知ることは、現在の保険業界を理解する上で非常に重要な礎となります。ほんの四半世紀前までは、生保、損保共に全社同じような保険商品を、ほぼ同じ保険料で販売していました。そのため、ある程度の売り上げを実現できれば、高い収益性が確保できる業界であったと言えます。したがって、保険会社のトップは営業出身者が大半を占めていました。しかし、ほんのわずかの期間に、日本の保険業界は自由化の荒波に揉まれて大きく変わりました。各社が毎年意欲的な保険商品を数多く発売し、時には支払率の悪化に苦しむ姿を数多く見てきています。つまり、保険会社の経営にあたって販売量のみならず収益性も欠かすことのできない指標になったと言えます。そのことから、近年では外資系

のみならず伝統的な日本社においても、アクチュアリーが保険会社のトップに就任する機会が増えました。

そして、近年は生保、損保共に大きな課題を抱えこむことになりました。社会環境の変化として、テクノロジーの発達とコロナウイルスの感染拡大は周知のとおりですが、これらが日本の保険業界の変革を大きく後押ししています。生保は、コロナによる保険金支払いが急増するとともに、従来対面販売が中心であった募集方法の変革を迫られています。また、損保は、収益の柱であった自動車保険が、自動運転技術の発達とともに存在意義が薄れていくとともに、地球温暖化の影響を受けて火災保険の支払率が大幅に悪化するなど、経営危機に直面しています。中小の保険会社にとっては、ゲームチェンジの絶好の機会を迎えたとも言えますが、経営の舵取りに失敗すると経営破綻に繋がりかねません。

また、今後の日本の保険業界がどうなるかも述べています。ご存じの通り、日本は世界でも類を見ないスピードで少子高齢化が進むとともに、近年は経済が停滞しています。このため、お客様が必要とする保険商品の種類やマーケット規模も大きく変わっていくことになります。また、投資、システム、オペレーション、商品付帯サービスやオフィス環境に至るまで、自身が予測していることをすべて述べています。保険は社会生活に不可欠の機能であると信じており、保険業界が健全な発達をして欲しいと考えているからこそ、自身の知見を隠すことなく書くことにしました。

「保険は国によって異なるので、日本で起きたことやこれから起きることは自分の国の保険には関係ない」と考える人もいるかもしれません。確かに、販売されている人気の保険商品は、国や地域によって全く異なります。しかし、その保険商品が持つ特徴やリスクについては国によって異なるものではありません。例えば、現在は経済成長をしており、出生率が高い国においても、将来的に経済成長が止まり少子化になった際は、日本と同じ課題に直面するはずです。したがって、日本の保険業界の状況を知ることは、学べる点が数多くあると思います。

本書を読むことで、日本の保険業界の状況を理解いただくとともに、保険という商品が持つ社会的な意味についてもご理解いただけますと幸いです。

2023年8月
野口俊哉

On preparing an English-language version of Insurance Industry 2.0

First of all, I would like to express my deepest gratitude to Oriental Life Insurance Cultural Development Center for publishing the English version.

This book discusses the insurance industry of Japan as a whole from three perspectives: its past history, current situation, and future outlook. Most books published so far only describe one dimensional information, such as one particular insurance risk of non-life insurance or sales methods for a corporate channel of life insurance. For this reason, there was no way to learn the whole picture of Japan's insurance industry, and there were growing calls for comprehensive information among people in the different industries. In response to those calls, the original version of this book was published in December 2021. I myself had some opportunities to contribute articles or serialized articles on insurance to some newspapers and magazines in the past, and not a few people commented that the insurance is a highly specialized subject and has a lot of technical jargons so that it is very hard to get its full scope. At the same time, every time the company I worked for hired new employees from the different industry, I had quite a hard time to train them without the proper textbooks about the insurance industry as a whole. I myself have worked in the both non-life and life insurance industries for a long time as an actuary; however, I was also in charge of the variety of tasks including dealing with the supervisory authorities, sales, product development, and account settlements as well as supporting an insurance company as management. These experiences helped me capture the whole picture of the life insurance industry of Japan and become very handy to write this book. In fact, I've heard that some companies use this book as an educational material for their newly hired employees.

So, why is it important to learn the history of the life insurance industry? The answer is that I believe the insurance reflects the economic trend and social environment of the given country the most. A series of social events happened time to time has formed today's Japanese insurance industry. Therefore, studying the past becomes the fundamental foundation to understand the current insurance industry. It was just a quarter century ago that the both non-life and life insurance companies sold almost the same products at almost the same premium amounts. Because of this, the insurance industry was said to be an industry where a company was able to secure high profitability by keeping up with a certain level of sales. This is also the reason for the fact that the majority of company heads of insurance companies used to be with a sales background. However, Japan's insurance industry has undergone a significant change by getting caught by a huge wave of liberalization in a short period of time. I have witnessed many times that every year each life insurance company launches many aspiring insurance products and at times, companies suffer from the rate of claim payment going downhill. In other words, it can be said that not only sales volume but also profitability has become the absolutely necessary indicator for the management of insurance companies. Therefore, there have been increasing opportunities opened up for actuaries to become company presidents at not only foreign affiliated insurance companies but also traditional Japanese insurance companies in recent years.

And now, both life and non-life insurance companies are faced with a major challenge. As many of you may know that the advancement of technologies and the global pandemic of COVID-19 are among the factors of the changes in social environment, they are also the driving force behind the transformation of Japan's life insurance industry. While the number of insurance claims hikes due to COVID-19, life insurance companies are being forced to change their sales method, which has long been dominated with face-to-face sales. On the other hand, non-life insurance companies are facing ddifficulties as the automobile insurance, once a primary source of revenues, is losing its presence due to the development of autonomous driving technology and the fire insurance is suffering from its soaring payment rate due to the impact of the global warming. For those small and medium sized companies, it can be said that they get the best opportunities to become a game changer; however, if they take a wrong step, they could end up with a bankruptcy.

I also discuss the future outlook of Japan's insurance industry. As you all know, Japan's aging population and falling birth rate are progressing at the rate the world has never seen before, whereas its economy is stagnant. As a result, the insurance products customers need and the size of the market would undergo a significant change going forward. In addition, I touch on everything I can predict, including the investment, system, operation, product service and even the office environment. Since I believe that insurance is the function essential to the social system and that I hope for the sound development in the insurance industry, I decided to share everything I know with my readers, without hiding anything.

Some may think that insurance varies from country to country, region to region, so that what has happened or would happen to Japan has nothing to do with your country's insurance industry. That is absolutely true that the popularity of insurance products differs among countries or regions. That being said, the characteristics and the risks of the particular insurance product are unique to the product itself and they don't differ by countries. Even a country currently experiencing economic growth and maintaining a high birthrate would face the same challenges as Japan once its economic growth becomes stagnant and its birthrate takes a downward turn in the future. Therefore, I think there is a lot to learn from the situation of Japan's insurance industry today.

I am glad if you'd understand the social implication of life insurance as well as the situation of the insurance industry in Japan by reading this book.

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Toshiya Noguchi

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1 Introduction

The spread of COVID-19 shows no sign of ending and the virus that first emerged in FY2019 has dramatically changed the way of life for people all around the world. In Japan, infected persons first appeared at the beginning of 2020 and a state of emergency was finally declared in April 2020. A second and third wave subsequently arrived, accompanied each time by the issuance of a declaration of a state of emergency, such that the situation remained unsettled for an extended period of time. While vaccines, which are believed to be a fundamental solution, are now available to many people, the appearance of one variant after another means that people will continue to be subject to measures implemented to prevent infections.

At the time of SARS (Severe Acute Respiratory Syndrome) in 2002 and 2003, the threat of the disease was brought to people's attention by the media but, if we are being honest, most Japanese people treated the situation like a fire on the other side of the river. It is probable that COVID-19 was the first time that most of us have ever experienced a pandemic up close and in person. More than a few people were likely focused on how they should behave in order to ensure that they could avoid becoming infected and felt compelled to change the way they lived. Many industries were likewise forced to fundamentally rethink their operations.

The same can be said of the insurance industry. When it came to life insurance in particular, the primary way of soliciting clients used to involve the following: an insurance solicitor would meet with the client and patiently explain the policy to him or her before having the policy purchased by the client. You could visit any café anywhere and you would likely see, almost as a matter of course, a scene playing out in which a life insurance solicitor would be describing insurance products for a client. With the spread of the pandemic, however, social distancing requirements made it very difficult to talk to clients face-to-face. Consequently, the sales of life insurance companies that mainly engaged in sales through face-to-face meetings by solicitors dropped like a rock across the board. Sales at life insurance companies declined by more than half in some cases. Most life insurance companies now are furiously working to set up a system to allow them to effectively sell life insurance products through online channels rather than face-to-face meetings.

On the other hand, so-called direct insurance companies that sell insurance only through mail order and online channels without the involvement of face-to-face solicitors succeeded in substantially increasing sales in the midst of COVID-19. Ever since they first emerged in around 1996 when deregulation allowed direct sales of non-life insurance products, direct non-life insurance companies have been steadily increasing sales, primarily through the online selling of automobile insurance policies. These days, commercials for direct non-life insurance companies have become a veritable daily staple of the television landscape, a fact that suggests that this business model is successful. Inspired by the success of direct non-life insurance companies, Internet-based life insurance companies were established around a decade later in 2008 and garnered a lot of attention for a while from both within and outside the life insurance industry. However, these companies suffered from sluggish sales growth within a few years of their founding and their situation was otherwise hardly as smooth as it was for direct non-life insurance companies. Moreover, the number of life insurance companies entering the market for selling life insurance online increased as these companies, many of which had primarily engaged in face-to-face sales, set about building systems to allow people to apply for policies online, but the size of the market did not grow in line with expectations, which meant that a large number of life insurance companies continued to compete with one another for limited pieces of the pie. Nevertheless, COVID-19 made it possible for online life insurance companies to successfully increase sales to a significant extent. Some of the main reasons for this are as follows: clients do not need to meet with solicitors and can instead apply for an insurance policy whenever they want; clients who work from home have the flexibility to fully consider their options in connection with life insurance, which is something they will end up spending a lot of money on; and more clients are insecure about their own lives in terms of both today and the future. In any case, direct life insurance companies who had been at a standstill were given a second chance to revitalize their business and succeeded in doing so.

At the same time, the insurance business is one in which it is difficult to expand sales at an explosive pace unless a company manages to develop a truly best-selling product. Yet, several ambitious insurance companies who sought to be game changers by taking advantage of COVID-19 emerged on the scene. This is because, by launching insurance products that were designed to enhance coverage in the event that COVID-19 was contracted or in the event that damage was sustained as a result of a COVID-19 infection, it became possible to accommodate the psychological concerns of clients who were clearly afraid of becoming infected and thereby expect considerable sales to be generated. This is quite similar to the phenomenon whereby the percentage of the population that has taken out earthquake insurance rises in the wake of a large earthquake. Naturally, such insurance products run the risk of giving rise to a high number of insurance claims being made at the same time. Since the risk diversification function that is inherently a part of insurance does not work in such a case, an outbreak of COVID-19 infections in Japan could cause the payment rate to deteriorate suddenly and a large amount of losses to be amassed. For this reason, these insurance products are of the high-risk, high-return type for insurance companies. Thus, the decision to sell this kind of insurance product requires careful judgment for which the situation in which the company finds itself and the effectiveness of sales should be taken into account.

It is also a fact that the entire insurance industry was strongly requested by society to provide support in connection with COVID-19. While helping clients when they are in trouble should be the mission of insurance companies, the insurance industry came under heavy fire as people seemed to feel that, faced with an unprecedented crisis on their hands, insurance companies refused to extend a hand of any sort despite having whipped up anxiety in their clients and received great sums of premium proceeds as a result. There have been many cases in which a certain insurance company provides some sort of special treatment to its clients, whereupon many other insurance companies follow suit to do the same, in part for competitive reasons. To illustrate, many life and non-life insurance companies acted to provide financial support to as many of their clients as possible, such as by paying a hospitalization benefit even for home treatments or by waiving the interest on policyholder loans despite the fact that hospitalization is technically a requirement for accepting medical insurance claims under normal conditions.

While COVID-19 will surely come to an eventual end, new forms of awareness and norms of behavior cultivated among people, such as social distancing, will not likely revert or disappear just like that. Under these circumstances, the insurance industry too is facing the need to revamp its business model in line with changes in the social environment. That said, however, I do not feel that insurance companies are about to move in a completely different direction due to the spread of COVID-19. I believe that the spread of COVID-19 has caused the industry to increase the pace at which we are moving in the direction in which we should be moving, such that we are now making rapid progress. Despite the fact that the way people make purchases and communicate with one another has gradually shifted from the use of people and paper to online channels over the last two decades, the belief that the insurance industry alone might continue to adhere to outdated conventional business practices is unnatural. For example, securities firms primarily engaged in face-to-face sales and managed to revitalize the securities industry through vigorous sales activities. These days, however, Internet-based sales have come to account for a high percentage of sales to such an extent that some experts assert that only some Internet brokerage firms will survive in the future. While insurance and securities are not the same business, it is inconceivable that the insurance industry would be unaffected by the winds of change.

The environment in which the insurance industry operates is becoming increasingly harsh, as can be seen in the intensification of competition over the development of products, the low interest rate environment, and an increase in natural disasters.

In other words, the insurance industry today is undergoing a period of transformation. The contents of and way of doing business are expected to change significantly and insurance companies that cannot transform could end up being eliminated. This goes to the meaning of this book's title – *Insurance Industry 2.0* – and is the message I seek to convey through the production of this work.

I would now like to explain the direction in which the insurance industry will henceforth move and the way in which its business model will change.

I also wish to make it clear that the contents of this book are wholly my own personal views and do not purport to represent the opinions of the firm to which I belong.

2 Joining an insurance company with the aim of becoming an actuary

Back when I was taking entrance exams for university, I wanted to become a doctor and tried to get into a faculty of medicine, but failed the exam and abandoned my dream. I got into the faculty of science and engineering but my interest in pursuing a professional career had not come to an end and I spent my student life in a state of agony. It was then that I came by sheer chance to know of the existence of actuaries. The fact that I could take the exam for this position while working as a professional in a way that allowed me to harness my knowledge of mathematics was appealing and I narrowed my future career path to insurance companies for which many actuaries were working as members of their staff.

After graduating from university, I dreamt of becoming a non-life insurance actuary and joined Mitsui Marine & Fire Insurance Co., Ltd. In my mind, I believed that I had been hired as an actuarial candidate, but I was told after I completed my training that my first assignment was at the Yamanashi branch of the company. Even though I had loudly declared that I would be taking all of the subjects comprising the first actuarial examination (which numbered six at the time) when I was still a fourth-year university student, I failed all of them in dismal fashion. In retrospect, this was a natural outcome in some sense. In short, I was not expected to work as an actuarial candidate at all. While I went on to primarily provide sales support in the beginning, I was almost immediately transferred to the sales division, where a scandal had just occurred, and was tasked with taking charge of an agency. Since my predecessor had caused problems and a resulting drop in sales figures, I was blessed to be put in a position where sales figures would naturally rise (recover) if I single-mindedly continued to bow my head to others and apologize. Three years later, after I had then passed several of the subjects comprising the first actuarial examination, performed well in a sales role, and succeeded in setting up numerous new agencies, I was transferred to a section at head office that was in charge of developing, promoting, and underwriting third-sector products.

In the past, the Automobile Insurance Rating Board and Non-Life Insurance Rating Board calculated operating premium rates for automobile insurance, fire insurance, and personal accident insurance, which non-life insurance companies were obligated to use. There also existed managing companies for each line of insurance, such that it was determined that automobile insurance would be within the purview of Tokio Marine & Fire Insurance, fire insurance would be within the purview of Yasuda Fire & Marine, and personal accident insurance would be within the purview of Mitsui Marine & Fire Insurance. Even today, a number of major insurance companies belonging to the Life Insurance Association of Japan and General Insurance Association of Japan take turns on a rotating basis every year to serve as head companies of these associations. In contrast, managing companies were not changed every year. The section to which I belonged is in charge of dealing with the entire non-life insurance industry as a contact point for managing companies. Since the Insurance Business Act was also being revised and bilateral insurance discussions between Japan and the United States were also being held at the time, I recall how every day was fast-paced and extremely busy. To illustrate, there were many opportunities for me to interact with the Ministry of Finance in connection with the bilateral insurance discussions between Japan and the United States. I worked until late every day and did not take a single day off – not even weekends – for an entire year.

One late Sunday evening, I was traveling home by car when I was hit by another car in front of Yasukuni Shrine in what would turn out to be an unfortunate incident. Several persons who appeared to be members of an organized criminal organization proceeded to get out of the other vehicle and for some reason threaten me even though I was the one who had been hit. The head of the center in charge of the non-life insurance company that was providing coverage for the other vehicle was afraid of the other driver and ran away. That I had to consequently spend a long time getting my claim settled is now a fond memory.

While I was engaging in activities as a representative of the non-life insurance industry and carrying out a wide range of work, such as by developing, promoting, and undertaking proprietary products, progress with respect to the liberalization of insurance was suddenly made. I remember that the first liberalized product that was directly connected to what I was doing at the time was a natural disaster insurance rider attached to an income indemnity policy, which was an option that would later be made available by other non-life insurance providers. At the time, I hated reading the newspaper every morning. When I read an article indicating that another company had come out with a new product, I knew that we would have to immediately develop a rival product as part of a process that would cause me to be busy every single day. I was a part of that section for four years. When I did the calculations later, I realized that I must have obtained regulatory approval exactly fifty times over that period, which worked out to a crazy high pace of at least one approval per month on average.

I was also surprised to read in the newspaper that we were going to merge with Sumitomo Marine & Fire, which had been a rival of ours for many years at that time. This was because frequent talks concerning a three-way merger involving Nippon Fire & Marine Insurance and Koa Fire & Marine Insurance had been underway until the day before. Industry-shaking news reports were being released daily back then and I felt as if I were being swept up in a fast-moving current.

I was subsequently transferred, along with some of my work, to a section that performed actuarial functions. At the same time that I was helping develop a product commemorating the merger of Mitsui Marine & Fire Insurance and Sumitomo Marine & Fire Insurance, I was using a statistical system to analyze more than several million pieces of data a day. It was my first time doing a job that involved staring at a large volume of data without speaking to anyone day after day, but I found that it was a good opportunity for me to learn about the importance of data analysis.

When Mitsui Marine & Fire Insurance and Sumitomo Marine & Fire Insurance merged to give rise to the Mitsui Sumitomo Insurance Company, I was transferred to the Corporate Sales Division. Known previously as Sumitomo Marine & Fire Insurance's Head Office Sales Department 1 Section 1, this was a sales division that catered primarily to corporate clients that had been on friendly terms with Sumitomo Marine & Fire Insurance. Since some clients had previously been a fan of Sumitomo Marine & Fire Insurance and declared that they disliked Mitsui Marine & Fire Insurance, I sometime found myself avoiding references to the company I used to work for prior to the merger. Over the preceding seven years, it was the second time that I was assigned to the sales division. While it was not easy sailing since I needed to acquire new knowledge for a corporate clientele, I acknowledge that I was given experience that I now see was rather useful.

While I was in charge of corporate sales, I passed the second actuarial exam and was then able to secure a temporary assignment to a joint venture with the Citibank Group, which had been a desire of mine. When the Citibank Group sold its insurance business to the MetLife Group half a year later, the company name was changed to Mitsui Sumitomo MetLife Insurance. I was then placed in charge of the development of variable annuities and foreign currency-denominated annuities, reinsurance, actuarial settlements, and the issuance of reports to the United States. It was the first time for me to work in the life insurance industry as well as the first time for me to use Access and other computer programs. I had no knowledge of financial engineering, no experience writing emails in English, and otherwise had a very difficult time navigating my way through an environment full of firsts during the first several months there. Nevertheless, I was thereafter able to enjoy what I was doing. In particular, most of my colleagues at previous workplaces had been proper employees of the Mitsui Sumitomo Insurance Company and had cultivated in themselves a strong sense of loyalty to the company but, at this company, everyone other than employees who had been temporarily assigned from the Mitsui Sumitomo Insurance Company were those who had switched careers at some point, which presented me with a fantastic opportunity to become exposed to completely new ways of thinking and culture. Despite being temporarily assigned from Mitsui Sumitomo Insurance Company, however, there were times when I felt like a double-agent of sorts, perhaps in part due to the fact that I was submitting reports to US-based MetLife Insurance.

I then became interested in a story that indicated that the SBI Group was launching Japan's first online-only insurance company and took on the challenge of seeking a change of jobs for the first time in my life. When I went in for an interview, however, I found out that the new company was a joint venture between the SBI Group and the AXA Group and was hired by the AXA Group for assignment to its product development division. Before I joined the company, I heard that negotiations with the authorities had mostly wrapped up by that time. Nevertheless, I ended up having to work day and night and on weekends as well for the first time in a while in part to engage in these negotiations across seventy interactions with the authorities over a three-month period from the day after I joined the company. While I began by working in the product development division, there were many opportunities for me to support other divisions as well since these divisions were populated with employees who had accrued little experience in the insurance industry.

This was very helpful in absorbing new knowledge. Several years after we began operations, we became a wholly-owned subsidiary of the AXA Group and changed our company name, at which time I also came to be placed in charge of sales management, public relations, and marketing and was blessed with plenty of opportunities to learn about a great many topics. In the life insurance industry up until that point in time, solicitors consisting of salespeople and insurance agencies had been tasked with carrying out their own marketing activities, such that there was no need for the insurance companies themselves to engage in marketing activities. When online-only life insurance companies began operating, however, they were required to implement completely new initiatives to attract potential clients to their own websites through their own marketing activities in part because online insurance agencies had not yet grown sufficiently to perform those functions. Thus, these companies were compelled to actively recruit experts in web marketing from the likes of e-commerce companies and Internet-based non-life insurance companies and thereby elevate their own marketing skills.

After working for an online-only life insurance company for around five years, I got myself hired by Zurich Life in 2012. When I initially heard about this company, I mistakenly believed that it was a non-life insurance company famous for providing automobile coverage. I am embarrassed to admit that this was the first time I had heard of Zurich Life despite having worked for a life insurance company. I intended to turn down the offer at first, but I was intrigued by the thought of helping rebuild from the ground up a life insurance company that had been suffering from poor performance and thus decided to change jobs for the second time in my life. I have been placed in charge of product development, marketing, public relations, branding, CSR, and more, but I believe that these are not functions that differ completely for a life insurance company but are indeed functions that are very closely related. By way of illustration, this is because the development of a product entails a process through which you first identify the societal context and significance of the product, define the concept of the product and craft an external message, and then determine the specific coverage to be provided by the product. In this sense, it can be said that a completely different product development process is used compared to major life insurance companies that have completely different sections in charge of product development, marketing, public relations, and other functions. This point is a competitive advantage uniquely possessed by small life insurance companies, where people like me who are eager to take on challenges in different areas might find themselves more at home.

3 Turning points in the insurance industry

The insurance business in Japan has a long history. Credited with introducing an insurance system for the first time to Japan is Yukichi Fukuzawa. Over 140 years has passed since the first marine insurance company was established in 1879. Over the course of the long history of the Japanese insurance industry, events that overturned conventional norms to set up a new normal and chart a different course for the insurance industry have occurred numerous times to date. I have worked in the insurance industry for no more than three decades. It may be an insignificant length of time in the history of the insurance industry as a whole, but various events have taken place in that time.

I will discuss the events that became turning points in the insurance industry in recent years and that are believed to have had a huge impact on the insurance industry today, with a focus on events that have occurred while I have actually been working in the insurance industry. It goes without saying that someone else likewise working in the insurance industry may have perceived these events in a completely different way depending on the insurance company for which he or she worked and his or her position, among other factors.

(1) Domain adjustments in 1965

The insurance industry steadily expanded its market and fulfilled its societal mission in line with Japan's economic revival and rapid growth in the postwar years. Insurance policies were classified by the Commercial Code as follows: "Non-life insurance policies are contracts that set forth compensation for losses subject to the occurrence of an accident and life insurance policies are contracts that set forth the payment of a fixed amount subject to the status of the life or death of a person". Thus, the question as to whether accident insurance, sickness insurance, and income-indemnity insurance should be categorized as life insurance or non-life insurance is one that has been debated for a very long time by the likes of people in the insurance industry and scholars. In 1965, the Ministry of Finance, which served as the supervisory authority at the time, clearly proposed domain adjustments in key areas as follows.

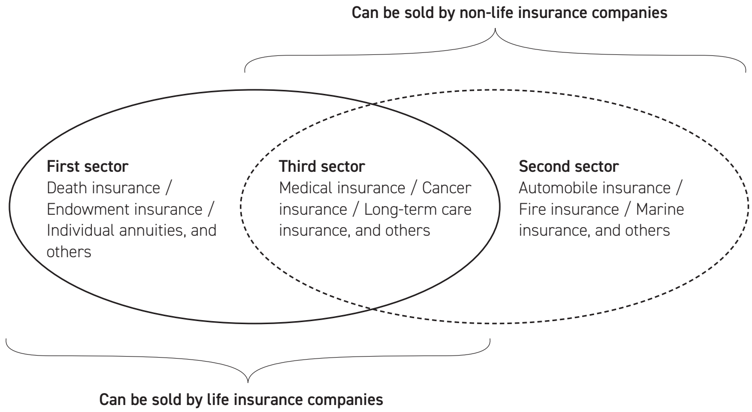
- Life insurance companies are not permitted to sell accident insurance on a stand-alone basis and shall sell it in combination with other products.

- In principle, life insurance companies shall sell sickness insurance; products already being sold by non-life insurance companies shall be permitted.

Domain adjustments applicable to life insurance and non-life insurance were made several times thereafter. The life insurance industry and non-life insurance industry had been undergoing segmentalization over a long period of time, such that life insurance companies sell medical insurance offering a fixed amount of coverage (for example, 10,000 yen per day of hospitalization) and non-life insurance companies sell medical expense insurance designed to compensate for out-of-pocket costs incurred by the insured person at a medical institution (for example, the portion of costs not covered by public health insurance plans and differential charges for hospital rooms). Deregulation and liberalization, which began with amendments to the Insurance Business Act that were enacted in 1996, completely lifted the ban on the selling of so-called third-sector products, such as medical insurance, long-term care insurance, and accident insurance by both life insurance companies and non-life insurance companies.

Products that can be sold by life insurance companies and non-life insurance companies were clarified as outlined in Figure 1.

Figure 1 Classifications of insurance as set forth in Article 3 of the Insurance Business Act



Source: Produced by the author

Even in today's insurance industry, it feels as if there is a large barrier between life insurance and non-life insurance. There is little in the way of an exchange of human resources between the two and discussions tend to proceed on the basis of distinctions made between the life insurance industry and non-life insurance industry whenever a large earthquake occurs or there is a pandemic outbreak as was the case with COVID-19. It often seems as if the two are at each others' throats. From the perspective of clients, insurance is insurance; most clients do not make the effort to clearly distinguish between life insurance and non-life insurance. In addition, some countries overseas allow the same insurance company to sell both life insurance and non-life insurance at the same time. Nevertheless, the historical background in this country is such that the barrier between life insurance and non-life insurance is likely to remain firmly in place in Japan. In light of this perspective, the domain adjustments affecting third-sector products in 1965 were a symbolic event.

(2) Emergence of consulting sales

The life insurance industry has grown significantly since the end of the

Second World War thanks to the support of a sales channel consisting of salespersons who work exclusively for a single insurance company and who are known colloquially as “life insurance ladies”. In the past, the main products sold were endowment insurance policies and whole-life insurance policies with a term rider. A whole-life insurance policy with a term rider provides, for example, a high amount of security equal to fifty million yen to cover household expenses and the costs of the children’s education until the insured reaches sixty years of age, which is the age of retirement, and thereafter whole-life insurance coverage of three million yen to offset the eventual funeral expenses of the insured. This kind of policy is primarily sold in a packaged form that includes a number of optional coverage items, such as an additional death rider. This is reasonable in one sense but, in many cases, the product is not precisely designed in a way that reflects the client’s annual income, family structure, and lifestyle as well as other factors.

Against this backdrop, new life insurance companies entering the Japanese life insurance industry in around 1980 adopted a sales style by which detailed consulting actions were performed in accordance with the client’s circumstances in such a way that these actions were designed to encourage the client to take out a life insurance policy. A salesperson practicing this sales style was known by some as *life planners*, though this name differed from company to company. Life planners primarily consisted of persons who changed jobs after working in a different industry. Success was achieved by conducting life planning simulations for individual clients to sell life insurance policies. This style had a huge impact on Japan’s life insurance industry. However, the way in which this style involves salespersons that sell insurance exclusively tied to one specific life insurance company is the same as the way insurance used to be sold by “life insurance ladies”.

Generally speaking, there are three main patterns of cases in which clients take out life insurance policies:

(1) The client takes out a new insurance product that he or she had never purchased before;
(2) The client reviews an existing insurance policy;
(3) The client obtains additional coverage within an existing insurance policy.

The sales technique by which proposals related to (2) above ("the client reviews an existing insurance policy") are made is believed to have been established at this time. These days, the percentage of the population that has life insurance coverage is very high. The sales technique by which an existing insurance policy is reviewed based on reasonable proposals made in line with the client's situation has become a common practice and is one of the more effective sales techniques in use in sales settings.

Back when I was myself working in sales, I was asked many times by clients to help them revise their life insurance policies. There were a great many clients who were quite anxious about their existing insurance policies. If you can build a personal relationship with a client to such an extent that they are actually willing to show you the certificate for their existing insurance policy, then the switching of their life insurance policy can be said to be as good as done.

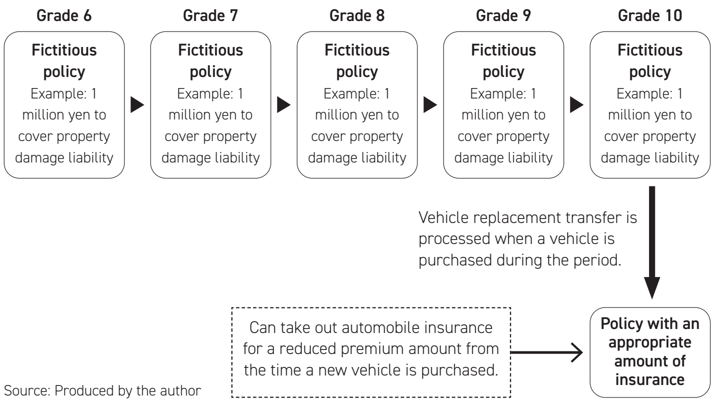
Today, insurance shops and other sales agencies are required to provide consulting services by ascertaining the needs of a client in detail. The basic template for this approach is believed to have emerged at this time.

(3) The issue of fictitious automobile insurance policies

Anyone who has ever purchased a car and taken out a voluntary insurance policy will likely be aware that in the auto insurance industry, a client who owns or uses up to nine automobiles is subject to the non-fleet grading system. In principle, you are assigned a grade of six in your first year of ownership or usage. With each passing year in which you are not involved in any accidents, your grade goes up by one and your insurance premium discount rate increases accordingly. Your grade can ultimately go up to a grade of twenty. Conversely, your grade will go down the year following the occurrence of an accident that you caused. The amount by which your grade will go down will vary depending on the accident, but your premiums will rise. This system is based on the rational notion that those with a lower rate of accidents should pay a lower premium and those with a higher rate of accidents should pay a higher premium.

If automobile insurance with additional coverage for vehicular damage is purchased at the time a new car is bought, first-year premiums will generally be very high. If you consider the fact that the purchase of a new car entails a large outlay, the burden of paying automobile insurance premiums is heavy for clients. The option of foregoing automobile insurance is not realistic if you try to imagine what might happen if you were to drive your car and cause an injury-causing accident without having taken out automobile insurance. From the year following the year in which you take out insurance, your grade will rise as long as you continue to avoid accidents and the insurable value to which coverage for vehicular damage applies (insurance amount) declines. Thus, your insurance premiums should decrease with each passing year. Fictitious automobile insurance policies were an exploit improperly used to reduce the financial burden of taking out a new automobile insurance policy. In the past, there was no need for a solicitor to verify the existence of an actual car or check the vehicle inspection certificate at the time an automobile insurance policy was purchased. Thus, if you were to input vehicular information that sounded right in an application form and took out insurance with the lowest level of coverage in terms of amount (such as 1 million yen to cover property damage liability), the annual premium amount for the automobile insurance policy would be exceedingly low at several hundred yen. Since no actual automobile exists, it goes without saying that no accident will ever occur. If you wait several years for your automobile insurance grade to increase before purchasing an actual automobile and then process a vehicle replacement transfer through your automobile insurance policy, your automobile insurance premiums at the time you purchase a new vehicle will be very low since a high discount rate will apply from the outset. This technique was in widespread use in the non-life insurance industry. I myself have been urged to take out automobile insurance by way of this technique in the past. Some people had even taken out multiple fictitious policies. Figure 2 outlines this technique in visual form.

Figure 2 Fictitious automobile insurance policy scheme



Source: Produced by the author

However, trainees from a certain non-life insurance company distributed a pamphlet offering fictitious policies to the homes of the senior members of a supervisory authority in 1994, which caused this matter to be revealed and become highly controversial in the non-life insurance industry. Thereafter, non-life insurance companies implemented substantial remedial measures, such as by having actual vehicles checked through a look at vehicle inspection certificates for all automobile insurance policies. At the time, I was in charge of many sales agencies as a sales employee at a non-life insurance company. It was a highly stressful time since more than 150 automobile insurance policies that were suspected of being fictitious policies were found at the agencies under my charge. I remember visiting the homes of clients together with sales agency people every day until late in the evening and humbly asking these clients to allow us to verify the existence of an actual vehicle.

We had to cancel automobile insurance policies that were determined to be fictitious and ask clients to pay additional premium amounts to rectify the situation in what was a painstaking process.

In the non-life insurance industry, this issue induced a thorough review of all policies in force, both automobile insurance policies and otherwise. Many non-life insurance policies were checked and corrected. For example, structural classifications in fire insurance policies were checked. In other words, the issue of fictitious automobile insurance policies was not simply a single event but an event that significantly promoted the fostering of a compliance mindset in the non-life insurance industry. The functions of compliance departments at non-life insurance companies were thereafter strengthened and an internal system for detecting issues and correcting or clearing out policies on a self-help basis was established.

Before this issue arose, there was a project to construct a building for the university I was in charge of and competitive quotes for fire insurance were issued in connection with this project. As it was certain that the insurance policy would be expensive, I eagerly sought to verify the structural classification and submitted a quotation accordingly, but we ended up losing out to another non-life insurance company in terms of premiums. When I later carefully looked into this result, I found out that the winning non-life insurance company had proposed a lower premium than us due to a structural classification that was improper. While I felt hopelessly frustrated at the time, I am quite sure that the insurance policy for that building too has since been corrected.

In today's insurance industry, compliance with the law is a fundamental principle when engaging in conduct. Every insurance company is focused on cultivating a compliance mindset, which is something that I believe can be traced back in part to what happened when the issue of fictitious policies for automobiles came to the fore.

(4) Insurance deregulation and liberalization

Until the 1980s, almost all life insurance products and non-life insurance products offered the same coverage (compensation) and charged the same premiums irrespective of the insurance company that sold them.

Moreover, in the life insurance industry, only effectively small to medium-sized domestic life insurance companies and foreign-affiliated life insurance companies were allowed to sell medical insurance, cancer insurance, and other examples of third-sector insurance products, such that major life insurance companies could only sell such coverage in the form of riders attached to death insurance policies. For this reason, certain foreign-affiliated life insurance companies came to corner the market for stand-alone medical insurance and cancer insurance policies.

Incidentally, in the non-life insurance industry, insurance policy clauses and operating premium rates were formulated by the Automobile Insurance Rating Board for automobile insurance and by the Non-Life Insurance Rating Board for fire insurance and accident insurance (hereinafter referred to as “rating boards”) and non-life insurance companies were obligated to use these insurance policy clauses and operating premium rates as formulated accordingly. In other words, it was a world that was very far removed from competition in terms of product development. As there was no relative merit in terms of what was offered by products, most insurance policies for which policyholders consisted of corporations were underwritten by insurance companies based on relationship factors, such as whether the policyholder and the underwriting company belonged to the same corporate group, owned shares in one another, or exchanged personnel with one another from time to time. Of course, these relationship factors remain important to this day as factors to be considered by a company when deciding on an underwriting company.

From around 1990, however, calls for deregulation and liberalization grew stronger, and many meetings of experts were held. Consequently, the

Insurance Business Act was completely overhauled in April 1996, thereby triggering the deregulation and liberalization of insurance over the next five years. The five-year period from 1996 to 2001 was a period of historically unprecedented change in the insurance industry and those working in the insurance industry experienced a range of emotions at the waves of news stories that were being reported seemingly on a daily basis. I was working in the non-life insurance industry at the time and was actively representing the industry as a member of a managing underwriter of third-sector products. We were engaged in a bruising competition with rival companies for the development of products amid a wave of deregulation that had recently been kickstarted. Since we were also participating in merger talks with other non-life insurance companies and carrying out related work, I was continuously compelled to work without sleep or food during this period. Even now, I am overwhelmed by a flood of emotions whenever I look back on the turbulent flow of events that occurred at the time.

I would like to explain the developments that occurred over this five-year period by exploring three different aspects associated with it: amendments made to the Insurance Business Act, insurance talks between Japan and the United States, and the Japanese version of the Financial Big Bang.

[Amendments made to the Insurance Business Act]

First, the Insurance Business Act was comprehensively amended in April 1996, a process that resulted in a raft of new provisions as shown in Figure 3. These new provisions have affected the insurance industry today in many different ways.

In the wake of these amendments made to the Insurance Business Act, many life and non-life insurance companies set up subsidiary insurance companies in unison. Life insurance companies set up non-life insurance subsidiaries and non-life insurance companies set up life insurance subsidiaries in anticipation of future liberalization. However, whereas many of the life insurance subsidiaries set up by non-life insurance companies remain in existence, most of the non-life insurance subsidiaries set up by life insurance companies are no longer around. There are many possible theories to account for this, but the ones that I believe are valid are as follows.

Figure 3 Main matters set forth in amendments made to the Insurance Business Act in 1996

(1) Lifting of the ban on mutual participation in the fields of life insurance and non-life insurance by providers through the use of subsidiary companies
(2) Introduction of a system of notification applicable to insurance products and premium rates
(3) Review of the Non-Life Insurance Rating Board
(4) Establishment of an insurance broker system
(5) Introduction of the concept of a solvency margin ratio
(6) Establishment of a policyholder protection fund system
(7) Development of disclosure rule

Source: Produced by the author

- Compared to life insurance, which generally corresponds to a longer insurance term and higher unit premium cost, non-life insurance corresponds to a term of insurance of one year and generally lower profitability per policy and can be described as a business that generates thinner margins than life insurance does. Thus, it was hard to see any advantages to operating non-insurance subsidiaries for parent companies consisting of life insurance companies.

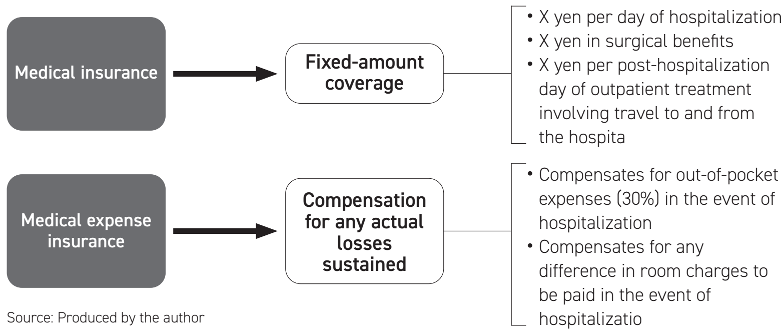
- Vast numbers of insurance products are sold by non-life insurance companies and there is thus a need to build a dedicated system for the payment of insurance money for these insurance products. When it comes to automobile insurance and fire insurance in particular, you cannot just deal with such insurance products on a centralized basis out of a head office somewhere like you might see with a life insurance company. Accordingly, substantial time and costs were required to build a system for the payment of insurance money, such as in terms of the need to hire specialists.

Until deregulation and liberalization occurred, most insurance products were the same in terms of their contents from one company to the next. Products were structured in such a way that you could expect to secure a certain amount of profit as long as insurance products could be sold. For this reason, the balance of power in life and non-life insurance companies is usually at a peak in the sales department. As competition for the development of products became more intense following deregulation and liberalization, however, companies came to use their own policy conditions and premiums. This caused profitability to undergo a relative decline. Since it became necessary to analyze the profit structure given that the profit margin in some cases even dipped into negative territory depending on the target group for sales, the qualities required of the managers of insurance companies came to be completely different.

Incidentally, back when I was in charge of developing third-sector products at a non-life insurance company in the 1990s, I was concerned that sales of medical expense insurance that we had made available to clients were not increasing. At the same time, sales of medical insurance offering a fixed amount of coverage as made available by foreign-affiliated life insurance companies in the life insurance industry were steadily increasing. It was then that I wondered whether the reason for the inability of non-life insurance companies to sell medical expense insurance was the fact that such insurance compensated for any actual losses that were sustained. In other words, I felt that perhaps the ease with which clients could imagine that medical insurance offering a fixed amount of coverage – for example, 10,000 yen per day of hospitalization – would entitle them – under this example – to a payout of 100,000 yen for ten days of hospitalization ended up having a major impact on the volume of sales of this type of product. On the other hand, an acquaintance of mine who was working for a life insurance company indicated that he was envious of non-life insurance companies that could sell medical expense insurance designed to compensate for any actual losses that were sustained. I am pretty sure that both sides simply perceived the grass to be greener on the other side of the fence.

Figure 4 outlines the differences between medical insurance and medical expense insurance as sold by life and non-life insurance companies prior to these amendments made to the Insurance Business Act.

Figure 4 Differences between medical insurance and medical expense insurance



Source: Produced by the author

What I noticed when I later came to work for a life insurance company is that the selling of automobile insurance and fire insurance differs completely from the selling of medical insurance. While many people take out non-life insurance policies out of necessity in the same way that they pay taxes when they purchase a car or a home, marketing activities for non-life insurance products that are closely linked to the individual market are hardly undertaken. When it comes to life insurance, on the other hand, sales representatives and other types of solicitors form close relationships with individual clients by engaging in detailed sales activities that are routinely rooted in the local community. Moreover, since medical insurance itself is closer in nature to death insurance than to automobile insurance or fire insurance, it is possible to underscore the needs that are associated with the risks of injury and illness when a solicitor sells death insurance. Thus, it is likely that someone who normally sells death insurance will find it easier to sell medical insurance.

[Insurance talks between Japan and the United States]

In December 1996, at a time when amendments made to the Insurance Business Act were still reverberating throughout the industry, insurance talks between Japan and the United States resulted in a done deal. The contents of the agreement that was reached were incorporated into the Financial System Reform Act and led to further amendments made to the Act on Non-Life Insurance Rating Organizations and the Insurance Business Act. This led to decisions that were made to expand the range of insurance products subject to the notification system, get rid of the obligation to use premium rates set forth by rating boards for such products as automobile insurance and fire insurance, abolish calculations of additional premium rates, and allow for mutual participation in the market for third sector insurance products by life and non-life insurance companies themselves.

It was determined that rating boards would continue to calculate reference loss cost rates for automobile insurance, fire insurance, accident insurance, and long-term care expense insurance and that member non-life insurance companies could refer to these rates to impose their own loading premium rates and calculate operating premium rates. For mandatory vehicle liability insurance and earthquake insurance, it was determined that standard premium rates (operating premium rates) would continue to be calculated given that they are of an exceedingly high public nature.

Consequently, risk-segmented automobile insurance was approved by the authorities in 1997, thereby marking the start of full-scale competition in terms of product development in the non-life insurance industry.

However, it came to be that measures for drastic easing with respect to the lifting of the ban on the selling of third-sector products, which had been cornered almost entirely by foreign-affiliated insurance companies, would be implemented. As a result, the ban on the selling of third-sector products was lifted in January 2001 for major life insurance companies and life insurance companies that operated as subsidiaries of non-life insurance companies. Major non-life insurance companies had to wait until July of the same year to directly enter the market themselves.

I was working for a Japanese non-life insurance company then and regret that I felt that this transitional measure was something akin to an unequal treaty. I had a chance years later to talk to a friend who had supported the American side at an American-affiliated non-life insurance company and he told me that he too had felt ambivalent about the whole thing.

Insurance that pays out benefits when your situation changes or you are hospitalized due to an illness or injury – examples of which consist of medical insurance and cancer insurance – has long been known as third-sector insurance. I remember that it was from around that time though that insurance that is related to the life or death of a person and that is specific to the life insurance business came to be called first-sector insurance and insurance that is related to compensation for accidental damage or loss and that is specific to the non-life insurance business came to be called second-sector insurance.

The non-life insurance company for which I worked back then was a third-sector managing underwriter but I was working in a relatively relaxed atmosphere. This is because all non-life insurance companies engaged in sales activities using the same policy conditions and premiums drafted by the ratings boards, such that all of these companies were more or less on the same footing. Despite having been protected by being able to operate as part of an escorted convoy in this way, we felt as if we had been suddenly flung out into the middle of the vast ocean due to deregulation and liberalization. The main sales channel for non-life insurance companies had been the independent agencies that handled products underwritten by multiple insurance companies. From that time on, however, each insurance company worked to develop and release new products seemingly on a daily basis, which then forced us to spend our days dealing with all of these new products. Since understanding of product development matters within the company was insufficient at times, however, there were many times when I was forced to figure things out on my own. Thus, I was compelled to endlessly respond to all sorts of inquiries from branch sales offices across the country during the day and engage in product development work on weekends. It was hardly unusual for me to work over 200 hours of overtime each month back then. These numbers would be simply unthinkable now, but they are certainly a reminder of the fierceness with which product development was undertaken with zeal in the non-life insurance industry at the time.

In the corporate sector, competition among non-life insurance companies intensified overnight when a shift to a notification system, including with respect to policy clauses, occurred in 1999. To illustrate, in the 2000s, I lost a fire insurance contract with a large company to a rival company that proposed fire insurance with unbelievably low premium rates that were about a tenth of the rates we had set. Ungrounded premium discounts, however, were subsequently no longer permitted in the non-life insurance industry and many non-life insurance policies underwent a correction of contents.

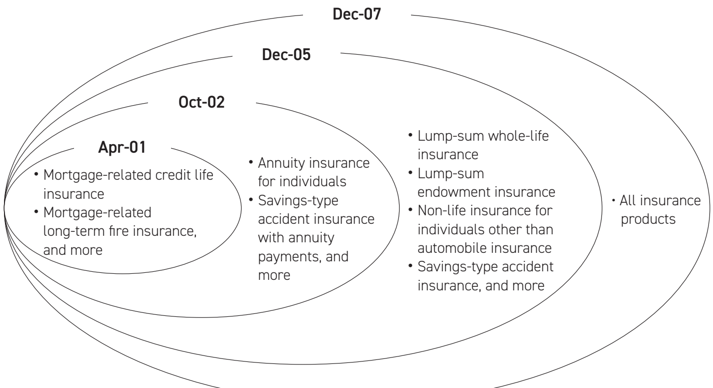
When it came to life insurance companies on the other hand, no competition in terms of product development emerged at once in part since the primary sales channel in use by major life insurance companies was the salespersons who were exclusively tied to a single company. Nevertheless, new life insurance subsidiaries set up by non-life insurance companies began to release attractive insurance products. Until that time, three kinds of basic rates were used to calculate insurance premiums: the expected mortality rate (expected risk incidence rate), the expected interest rate, and the expected business expense rate. However, life insurance products with lower premium levels were developed by introducing an expected surrender rate that helped to keep the surrender value at the time of cancellation in check. These days, most third-sector products like medical insurance and cancer insurance provide no surrender value and charge low premiums. We can trace their beginnings to that time in the history of our industry.

[Japanese version of the Financial Big Bang]

The Japanese-version of the Financial Big Bang constituted a large-scale package of reforms affecting the financial system as proposed by the then Cabinet of 1996. It was rolled out between FY1996 and FY2001 with the aim of making Japan's financial market an international financial market on par with those of New York and London. Players belonging to the three pillars of the financial industry – banking, securities, and insurance – were allowed to enter each other's markets. The ban on financial holding companies was also lifted through amendments made to the Antimonopoly Act.

In 2001, the selling of insurance products on an over-the-counter basis at banks also came to be allowed. However, it was decided that the scope of insurance products eligible for selling on an over-the-counter basis would be gradually expanded in stages over time in part due to strong opposition by the insurance industry, which argued that banks are highly influential in society and that the potential for adverse effects caused to clients was high. In addition, while securities firms were allowed to sell all insurance products beginning in December 1998, banks had to wait until December 2007 as shown in Figure 5.

Figure 5 Insurance products for which the ban on selling by banks was lifted



Source: Produced by the author

Even after the ban on selling insurance products was fully lifted, various measures to prevent adverse effects as introduced by banks to sell insurance have needed to be addressed on an ongoing basis. In response, several life insurance companies specializing in over-the-counter sales at banks were established in the 2000s. The first major products to be introduced by these companies were variable annuities, the best-selling ones of which were those for which the principal was guaranteed. Many life insurance companies specializing in over-the-counter sales at banks developed insurance products for different banks and sold them under different brand labels. At the time, I was also involved in developing products for a life insurance company specializing in over-the-counter sales at banks. I became acutely aware of the influence of banks when I observed that the average single-premium amount per policy was very high at over several million yen and that major banks earned several hundred billion yen in premium income each year.

It is hardly an exaggeration to assert that these examples of insurance deregulation and liberalization were the biggest events to ever occur in Japan's insurance industry. The insurance industry was transformed into a completely different animal after the Big Bang. It is believed that deregulation and liberalization laid the groundwork for today's insurance industry.

(5) Collapse of insurance companies

Between 1997 and 2008 in the years after Japan's bubble economy burst, eight life insurance companies and two non-life insurance companies – as shown in Figure 6 – went bankrupt and caused a huge public outcry.

When a life insurance company went bankrupt in 1997, no relief insurance company emerged for quite some time. This revealed problems with the Policyholders Protection Fund that had been established when the Insurance Business Act was amended in 1996. In response, the Life Insurance Policyholders Protection Corporation and Non-Life Policyholders Protection Corporation were newly set up in 1998 and insurance companies licensed to operate in Japan came to be obligated to join these corporations. In addition, the policyholders protection corporation itself will now formulate rules for taking over policies if an insurance company were to go bankrupt and no relief insurance company steps forward to fill the void.

Figure 6 Insurance companies that collapsed between 1997 and 2008

FY	Company names that collapsed
1997	April: Nissan Mutual Life Insurance Company
1999	June: Toho Mutual Life Insurance Company
2000	May: Dai-ichi Mutual Fire & Marine Insurance Company, Daihyaku Mutual Life Insurance Company August: Taisho Life Insurance Company October: Chiyoda Mutual Life Insurance Company, Kyoei Life Insurance Company
2001	March: Tokyo Mutual Life Insurance Company November: Taisei Fire & Marine Insurance Company
2008	October: Daiwa Life Insurance Company

Source: Produced by the author

Incidentally, while there are several reasons why many insurance companies went bankrupt back then, we can say that the biggest reason is that many companies came to suffer from negative spreads since, despite the fact that many insurance products with high expected rates of interest had been sold, a state of low interest rates persisted in the wake of the bursting of the bubble economy. Indeed, the media were having a field day at the time with an article that claimed that most life insurance companies would not survive if the Nikkei Average dipped below 8000 yen. This problem remains a thorn in the side of many life insurance companies today, such that life insurance companies that are underwriting many policies for which high expected rates of interest were set in the past are still mired in the misery that negative spreads engender.

The primary reason for the existence of insurance companies is to take on the many uncertain risks potentially besetting clients, equalize them, and converge them into a fixed amount known as premiums. It is worth noting, however, that I have never heard of an insurance company that went under because it sustained large mortality or peril losses caused by a mispricing of the incidence of certain risks covered by its insurance products. Instead, insurance companies mostly fail when investment risks materialize.

All of this served as a lesson that insurance companies and especially life insurance companies took to heart as they changed their approach to setting expected interest rates for their insurance products to a far more carefully considered one. The insurance industry today is experiencing a trend towards thinner profit margins thanks to intensified competition in terms of product development. Companies will continue to be required to set expected interest rates in a conservative manner in line with the introduction of capital controls in 2025, which will be examined in greater detail in a later chapter.

(6) Consolidation of non-life insurance companies

With the arrival of the 2000s, many non-life insurance companies went through a process of consolidation and reorganization over and over again in order to accommodate the restructuring of financial groups and the deregulation and liberalization that they would face in the future. Consequently, non-life insurance companies have decreased considerably in number and, with the exception of non-life insurance companies specializing in online automobile insurance and other niche fields, have been consolidated into three mega-non-life insurance companies. This is in sharp contrast to the life insurance industry where the number of insurance companies continues to rise.

Possible reasons to explain why non-life insurance companies have repeatedly undergone a process of consolidation and reorganization but life insurance companies have rarely done so are set forth below:

- Non-life insurance is a narrower-margin, higher turnover business than life insurance is; consolidation and reorganization is vital for competition as it is highly effective in lowering business costs;

- Claims departments at non-life insurance companies employ high numbers of employees and have a high degree of specialization, such that non-life insurance companies are more likely to benefit from consolidation and reorganization;

- Many major life insurance companies are mutual companies rather than joint stock companies, such that mergers are difficult given their corporate structure;

- The insurance term under a non-life insurance policy is, in principle, one year; in contrast, the insurance term under many life insurance policies is a longer period of time, such that the integration of systems for policies in force is difficult.

The life insurance business and non-life insurance business, by their nature, differ in terms of the risks they hold and the terms of the policies they underwrite, which makes it impossible to simply compare different financial figures. However, when you consider that non-life insurance companies have undergone a process of consolidation and reorganization over and over again in order to response a deregulation and liberalization, it is conceivable that life insurance companies that are presently engaged in fierce competition in the area of product development are highly likely eventually to also undergo consolidation and reorganization themselves.

(7) The issue of the non-payment of insurance claims

A client trusts his or her insurance company and pays premiums accordingly to prepare for contingencies that may arise in the future. At the same time, the insurance company shall, in response to a claim made by a client that has previously taken out an insurance policy, pay out insurance money after investigating the claim and determining that there are no bars to payment. While this is what happens in general, the non-payment of insurance claims is an issue that occurred between 2005 and 2007. During this period, many cases of the non-payment of insurance claims that should have been accepted arose in an event that affected the very core of the insurance industry.

The issue of the non-payment of insurance claims became a societal issue rather than just a topic of relevance within the insurance industry, as a result of which trust in the insurance industry eroded significantly. In addition, many insurance companies were issued business improvement orders and business suspension orders. The authorities subsequently continued to follow up on these cases until 2009.

This issue actually corresponds to a variety of patterns and is generally referred to collectively as the issue of the non-payment of insurance claims. This issue is broadly categorized into different patterns as follows.

(1) The insurance company does not pay insurance money on the grounds of invalidity due to fraud even though the client was not responsible for the fraud, as might be the case if the client was advised by the solicitor to refrain from writing correct information regarding the client's health condition during the disclosure step carried out when purchasing insurance.

(2) The insurance company does not pay insurance money on the grounds of nondisclosure even though the insured event in question is not causally related to any notification matter that the client failed to disclose.

(3) The insurance company does not realize that insurance money is to be paid under not just the main policy but also an attached rider or fails to pay insurance money and late-payment interest amounts due to a simple clerical error.

(4) Insurance money is not paid due to a failure to make a claim, which in turn was due to the inadequacy with which information was provided to the client.

(5) The insurance company fails to apply discounts that are available for a fire insurance or other such policy with the effect that this means that the client has been paying inflated premium amounts.

The patterns listed above consist of malicious and non-malicious scenarios. However, this affair became such a social issue that it caused people to examine even cases that were not seen as corresponding directly to the issue of the non-payment of claims, such as those that came under pattern (5). Regardless, it can be said that this issue made everyone aware that focus needs to be directed at the position of clients as the vulnerable party in the context of asymmetry in the amount of information between clients and insurance companies. If we are being honest, insurance companies had been operating in accordance the industry's own internal logic until then, such that there seemed to be a sense that the non-payment of insurance money was unavoidable in the event that a claim was not made by a client. This issue was brought to light and served as the trigger to getting the insurance industry to think about everything from the point of view of the client.

While there were many factors that could explain why this issue arose, one big one was the liberalization of insurance that led to the launching of a huge variety of insurance products. At the end of the 1990s when insurance began to be liberalized, I was working every day on developing third-sector products. I still remember with clarity what I was told by someone from the claims department when I was developing a certain product: *I get why we have to launch the same products as those that rival companies have already launched in order to stay competitive, but it'd be nice if you guys could also consider what it means for us to actually pay out insurance money*.

I will admit that we were so focused on developing ground-breaking new products and following the lead of other companies when it came to products that we rarely considered whether we could process claims and pay insurance money smoothly in the event that clients actually encountered problematic situations. I was ashamed that it took me so long to realize that, when it comes to insurance products, clients see getting paid insurance money as the main event. At the time, other companies were in a similar situation and I feared that this would ultimately develop into a serious problem at some point in the insurance industry. This fear would come true several years later.

The emergence of the issue of the non-payment of claims caused all life insurance companies and non-life insurance companies to undertake extensive work to check their policies in force. Since then, they have also been required to encourage their clients to make claims and regularly carry out checks for the occurrence of insured events.

Since there was extensive media coverage of the issue of the non-payment of claims, the general public's perception of the insurance industry, which was never particularly positive to begin with, was negatively affected and remains unfavorable to this day. There are still many prominent figures and celebrities who make the news for their critical stance on insurance companies and products. At the same time, you almost never come across an article published in praise of insurance. A reporter with whom I am acquainted let me know that such articles are not well received by readers. When this issue first arose, I still remember how I was watching a morning news program in a half-awake state and seeing a famous newscaster railing against the industry with utter indignation: *Insurance companies occupy large buildings in front of train stations. I have always found that to be strange! It's not surprising to me to find out that insurance companies have been engaged in conduct that is wrong*.

I believe that these sorts of negative rumors concerning insurance companies have been cultivating mistrust in insurance companies with the result that the growth of insurance shops, which have become a huge market, was supported. These days, many insurance companies are well aware of the need to ensure that the issue of the non-payment of claims never rears its ugly head again and have been working hard to eradicate it from their midst.

As an aside, there have been novels and television dramas in which an insurance company is depicted as actively looking for reasons not to pay money since they would rather avoid paying clients as much as possible. In my view, however, such depictions are rather simplistic. Having worked for many years for insurance companies, I can tell you that these companies truly do want to help clients by paying them as much as possible if they can do so. However, actions forcing insurance companies to pay insurance money even in cases where an insured event is one in which insurance money originally would not have been payable are unacceptable as they are actions that distort the fairness of insurance and threaten the very continued existence of the insurance system.

(8) The bankruptcy of Lehman Brothers and the dissipation of the variable annuity business

As mentioned earlier, the ban on the selling of insurance products on an over-the-counter basis at banks was lifted in the early 2000s and many savings-type insurance products came to be sold on an over-the-counter basis at banks and by securities firms. Insurance products that first played a central role soon after this ban was lifted were variable annuities for which premiums were paid in a lump sum. These products were actively marketed for the purpose of subjecting the retirement savings of those who were approaching retirement age and the investment funds of the wealthy to risk diversification. With interest rates in the post-bubble era remaining low, the appeal of yen-denominated individual annuities being poor, and the stock market growing steadily, the market for variable annuities rapidly expanded. The annual premium income of a single life insurance company sometimes exceeded one trillion yen. Thus, the number of life insurance companies that were players in this market gradually increased.

The first-year commission for a variable annuity received if a single policy was sold was five percent or higher at the time. In other words, if you sold a single ten-million-yen policy, you could be assured of receiving a commission of at least 500,000 yen. For this reason, banks that were suffering from declining interest income were actively marketing variable annuities. On the other hand, income for a life insurance company was derived from insurance-related costs collected in small amounts daily from the balance of the amount charged to a client's special account. Since the burden of solicitation commission and new policy costs was very high at the time a policy was taken out, sales required substantial capital outlays. Therefore, many life insurance companies took measures to reduce these burdens at the time a policy was taken out by concluding special reinsurance contracts. However, if the special account that manages the assets of clients were to continue growing, the business model should be a win-win one in which all three parties – the client, the bank as the soliciting agency, and the life insurance company – come out ahead. Yet, the bankruptcy of Lehman Brothers caused the stock market to fall sharply, which in turn caused the boom in sales of variable annuities to come to a shrieking halt.

Among variable annuities, what was especially popular was the guaranteed annuity fund type of variable annuity. However, a life insurance company that did not obtain reinsurance needed to build up capital for future annuity payments while a life insurance company that did obtain reinsurance was faced with a reversal situation in which reinsurance premiums would soar well above insurance-related costs and force the company to make difficult business decisions in terms of whether or not it should continue selling variable individual annuities. This is because, while an insurance company can take on a wide range of risks associated with a large number of accidental injuries and accidents spread across the entire country to diversify risks, risks are almost always aligned in the same direction when it comes to variable annuities and thus cannot be diversified and because the bankruptcy of Lehman Brothers caused all such risks to materialize overnight.

After the bankruptcy of Lehman Brothers, foreign currency-denominated annuities came to be a typical savings-type insurance product sold by life insurance companies and actively marketed on an over-the-counter basis through banks as an alternative to variable annuities.

While foreign currency-denominated annuities have been actively marketed in recent years, the complexity of these products, the high numbers of complaints received in regard to these products, and the more recent decline in interest rates in the United States and Australia have prompted many life insurance companies to market variable annuities with level premium payments more actively in recent times. Savings-type products sold by life insurance companies will likely continue to evolve in accordance with the external environment.

(9) Enforcement of the Insurance Act

There are many statutes and guidelines that insurance companies must comply with, the primary example of which has traditionally consisted of the Insurance Business Act. At the same time, some provisions concerning the protection of policyholders was originally set forth not in the Insurance Business Act but in the Commercial Code. In April 2010, however, a new law known as the Insurance Act came into force and those provisions mentioned as being set forth in the Commercial Code were transferred to the Insurance Act. Moreover, insurance companies were required to substantially overhaul basic documents, including their business method statements, policy conditions, and premium calculation method statements, as well as numerous internal practical operations in line with the contents of the Insurance Act.

The main rules that came to be set forth in the Insurance Act are as follows:

(1) One-sided mandatory provisions invalidating certain provisions of policy conditions that are more disadvantageous to policyholders than legal provisions were introduced.

(2) While policyholders used to be obligated to make voluntary declarations, the disclosure process was changed to one involving an obligation to only respond to questions posed by the insurance company.

(3) The period for the provision of insurance benefits was clarified, such

that an insurance company shall be obligated to pay interest for a delay in paying benefits if a reasonable period for conducting an investigation necessary for making a proper payment of claims has elapsed.

(4) A new right to interject was established to allow the insurance beneficiary to offer to continue the insurance policy under certain conditions in response to a cancelation made by a non-policyholder with the right to cancel the policy, such as a pledgee, execution creditor, or trustee in bankruptcy.

(5) New provisions to allow the insurance company to cancel a policy in the event that the policyholder intentionally causes an insured event for the purpose of fraudulently obtaining insurance money or a serious reason otherwise applies were set forth.

(6) The established principle of the inseparability of premiums under the Commercial Code was abolished and a provision to refund, if there is a period corresponding to which paid premiums are unexpired, an equivalent amount of premiums in the event that a policy is extinguished in whole or in part due to a cancelation or death or in the event that premiums are waived was newly set forth.

When the Insurance Act came into force, all insurance companies spent considerable time carefully considering whether they could accommodate the practical implications of the statute. It was thus found that they were required to implement more advanced internal management systems and stricter operations than before. In its enforcement, the statute represented an exceedingly burdensome one for insurance companies.

The sequence of events from the emergence of the issue of the nonpayment of claims to the enforcement of the Insurance Act steered the entire insurance industry fully along a path of commitment towards the protection of policyholders in a state of affairs that has remained in play to this day.

(10) The rise of new channels

Major sales channels in the non-life insurance industry have traditional consisted of institutional agencies, which operate as in-house agencies within corporate groups, and professional agencies specializing in insurance.

At the same time, a major sales channel in the life insurance industry was salespersons who work exclusively for a single insurance company, who are known colloquially as “life insurance ladies”. Those who lost their husbands in the Second World War became leading members of the sales force in the industry and helped to expand the market for life insurance in line with the rapid growth of Japan in the postwar years. At its height, the life insurance industry as a whole employed around 400,000 salespersons. It is believed that there were still 240,000 salespersons as of the end of March 2021. Nobody can doubt that these salespersons helped lay the foundation for the Japanese life insurance industry of today. In the past, salespersons would be present at many ceremonies held by companies to welcome new recruits. These salespersons would encourage people to take out life insurance in what amounted to a ritual of sorts for new company employees. Life insurance companies often relied on the personal connections and sales skills of these salespersons to sell insurance policies. Unlike what happens in other industries, life insurance companies found that there was little need to develop their own marketing expertise.

In 2005, however, the Personal Information Protection Act came into force to make the management of information by companies and employees stricter. This made it more difficult than ever for salespersons to freely barge into a company’s workplace or cafeteria and compelled changes to be made to the traditional approach to insurance solicitation.

It was then that insurance shops and other independent agencies that emerged at the turn of the century began to rapidly expand sales. While insurance brokers who play a central role in the selling of insurance in the United States and Europe came to be established in Japan thanks to amendments made to the Insurance Business Act in 1996, their existence unfortunately is largely unknown to the public. It is in this environment that insurance shops and other independent agencies have been steadily expanding the size of the market with each passing year.

Independent agencies conclude sales agency outsourcing agreements with insurance companies and accept a solicitation commission as consideration whenever a policy is signed. In this way, they occupy a different position from insurance brokers who are unaffiliated with any given insurance company and who broker insurance policies independently of insurance companies. However, independent agencies are highly regarded by clients for their basic neutrality and their approach to solicitation, whereby insurance products that best meet the needs of each client are proposed from among multiple insurance options. They have come to wield substantial influence in the life insurance industry today. For this reason, major life insurance companies are also establishing life insurance subsidiaries exclusively for insurance shops and otherwise pouring resources into this area.

While many might wonder why a life insurance company would go out of their way to set up a life insurance subsidiary exclusively for independent agencies rather than sell insurance products on its own, the reason lies in the fact that life insurance products differ significantly between those that are sold by salespersons and those that are sold by independent agencies.

A salesperson belongs to a single company and can take his or her time proposing an insurance product that meets the needs of a client without making comparisons with products offered by other companies. For this reason, the contents of coverage might be very generous but premium levels would generally be quite high. On the other hand, an independent agency would submit a proposal to a client by selecting promising products from among insurance products made available by multiple insurance companies, which means that they would be required to propose a policy with relatively simple coverage options at a competitive premium level. Competition in terms of premium level has been especially intense in recent years and companies have been lowering premiums at the expense of profitability to some extent in an attempt to secure market share. In other words, since the contents of insurance products sold through both channels are completely different, there is a need to establish separate life insurance subsidiaries.

Incidentally, it should be noted that businesses operated with the use of the Internet have become essential in this era. In the non-life insurance industry, non-life insurance companies that primarily sell automobile insurance exclusively through direct sales began cropping up at the tail end of the 1990s. Policies were initially sold via postal mail or the telephone but the focus in this area gradually shifted to sales via the Internet, such that the share attributed to direct sales-based automobile insurance has increased to over seven percent of the entire market for automobile insurance.

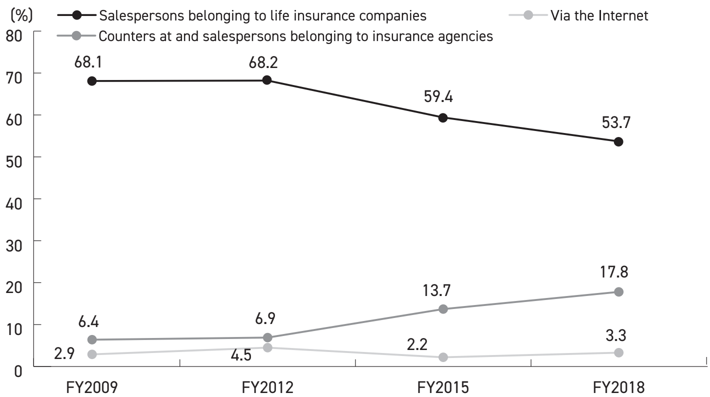
On the other hand, the life insurance industry was lagging the non-life insurance industry by around a decade. In 2008, two insurance companies that sold life insurance exclusively online were established for the first time ever. At the time, I too was transferred to a preparatory company for the establishment of an online-only life insurance company in 2007. From the day after I joined the company, I visited the authorities dozens of times over the following three months to negotiate for approval. In the evening, I attended my own farewell and welcome party before returning to the office and working until the middle of the night to prepare documents for approval negotiations scheduled to be held the next day. As this went on for days at a time, the feeling of elation I felt when we were finally granted approval to set up Japan’s first online-exclusive life insurance company in March 2008 was enormous. At the time the new company was established, we imagined that the Internet would end up accounting for an exceedingly large share of the life insurance market in ten years’ time and really expected to see a very high level of media interest in this new trend. Unfortunately, however, sales performance has not been very good. Three major reasons can be put forth to explain what happened.

The first reason is that life insurance is a passive commodity in that clients do not actively seek to take out life insurance but rather come to consider taking it out when their own lifestyle changes or when someone around them falls ill or dies. Japanese people currently have a very low level of literacy when it comes to financial products in general, including insurance. Unlike the case with automobile or fire insurance, which are types of insurance that you can more easily conceive of as being useful in case of an accident such that you would be more willing to consider taking out such insurance, clients who can choose the best life insurance products for themselves are unfortunately quite rare.

The second reason is that marketing skills are possibly lacking in life insurance companies. As mentioned earlier, if salespersons, agencies, or other solicitors sell life insurance, the marketing activities undertaken to find potential clients are performed by the salespersons or agencies themselves in a majority of the cases, which means that life insurance companies have not been accumulating their own marketing know-how. If a life insurance company wishes to sell directly to clients via the Internet without using salespersons or agencies, however, it needs to engage in its own marketing activities to attract potential clients and convince them to sign policy contracts.

Finally, I believe that the third reason has to do with the contents of the insurance products that are provided. If life insurance is sold online, the contents of coverage should be simple and easy to understand in order to be understood by clients, and the level of premiums should be set to a low amount. However, since clients are not met face-to-face, you need to take into account the fact that you could end up developing a product that is more exposed to the moral risk that the client might improperly make a claim or request benefits. Thus, it becomes difficult to offer coverage that is more attractive to the client, such as coverage that would entitle the beneficiary to receive a large sum of money in a lump sum.

Figure 7 Enrolment channels for most recently enrolled policies (private insurance)



Source: *National Actual Condition Survey on Life Insurance* (Japan Institute of Life Insurance)

Figure 7 outlines the sales channels through which clients actually take out life insurance. While the rate at which life insurance is being purchased through insurance shops and other insurance agencies is steadily rising, the rate at which life insurance is being purchased online remains unchanged.

In the modern life insurance industry, exceedingly tough competition for sales is playing out through insurance shops and other agencies as well as the Internet. For this reason, life insurance companies are fighting desperately to prevail in the competition for sales by setting very low premium rates at the expense of profits to some extent. This competition for pricing in the life insurance industry was no doubt triggered by the rise of new channels and these channels are expected to continue growing in size in the future.

(11) Financial planners and insurance rankings

If I remember correctly, financial planners (hereinafter referred to as FP) – while they are not directly linked to insurance companies – have been well-known as an occupation to the general public since the turn of the century. Their profile gradually grew thanks to their ability to dole out advice on a wide range of financial topics in part due to the generally low level of financial literacy among Japanese people. These days, FPs can be routinely seen on television and in magazines as a matter of course and certified financial planning technicians have become a national qualification, such that there are likely very few people who are unaware of the existence of FPs. Some FPs engage in insurance soliciting activities as solicitors while others do not. Sometimes, an insurance company or agency will have their salespersons or solicitors become certified and referred to formally as FPs. Since there are also some who do not engage in insurance soliciting activities but make a living solely through writing, seminars, and lectures, you can say that there is no strict definition of the scope of duties carried out by FPs.

Incidentally, since the issue of the nonpayment of claims arose in the insurance industry, as mentioned earlier, between 2005 and 2007, the distrust of insurance companies on the part of clients has become deeply rooted. Against this backdrop, FPs came to occupy an important position in the insurance industry. In other words, this development was rooted in the psychology of clients, who cannot trust anything that insurance companies say but who are inclined to believe something a FP, as a third-party expert, might say. Thus, many insurance companies increased opportunities for interacting with FPs and began to proactively engage in activities to encourage FPs to write articles favorable to them and their products as much as possible. When I was working for an online-only life insurance company, we would hold many workshops for FPs and otherwise actively disseminated information to FPs to ensure that our existence would be known by members of the general public. These days, a rather substantial number of life insurance companies value interactions with FPs highly and accordingly hold workshops and social gatherings on a regular basis. When I was working for an online-only life insurance company, I got to know many FPs and still hang out with quite a few of them on friendly terms. I daresay that I have more friends who are FPs than friends who work for insurance companies. When people working for rival insurance companies find out this fact about me, they sometimes come right out and ask me how I am able to become friends with FPs? Of course, I take it as a matter of course that, since FPs serve as neutral advisors to clients, articles that are critical about products that my company offers are occasionally written by FPs with whom I am on good terms. In that sense, interactions with FPs are a lot like interactions with the media.

Incidentally, *Insurance Ranking* is a feature that was started by a certain magazine and that is now quite influential in insurance circles. Since it is a popular feature that is bought and read by not just members of the general public but also insurance company employees and insurance solicitors, many print and digital media outlets these days put together insurance features and incorporate *Insurance Ranking* into these features. The *Insurance Ranking* does not always correspond neatly to actual sales of insurance products but, since it is regarded as a ranking akin to an objective report card on insurance products as compiled by third-party experts, those who are in charge of product development at insurance companies have come to be highly interested in the results and findings. I too am always alternating between optimism and fear when it comes to the *Insurance Ranking* results. Since FPs are very often the ones who vote for the *Insurance Ranking* feature, insurance companies have come to be even more invested in building close relationships with FPs. When the *Insurance Ranking* feature is about to be released by the well-known magazine in question, there are certainly more than a few public relations people with insurance companies out there who make a strong push to become buddies of sort with FPs.

These days, the term *fiduciary duty* has become a widely used term in the industry.

In the insurance industry, this term refers to the responsibilities that are to be fulfilled by insurance companies and solicitors towards their clients. Simply put, someone selling insurance products needs to propose an insurance product that is optimal for each client and excessive levels of entertainment or conferred awards by an insurance company towards insurance solicitors that warp this principle are prohibited. In addition, insurance companies are no longer allowed to hold sales campaigns and their sales practices are now subject to stricter constraints. On the other hand, leading FPs are wined and dined to a substantial extent in response to the focus that is being placed on the strong external influence that they wield but this is really no different from the actions taken towards insurance solicitors. Consequently, there is a fear that the neutrality of FPs may become distorted.

In any case, we are now in an era in which neutrality and objectivity in insurance solicitation activities are required to a greater extent than ever before, such that the role to be played by FPs in the insurance industry will likely remain important.

(12) Formulating new rules for insurance solicitation

As the insurance industry continues to undergo deregulation, insurance products have undergone liberalization and forms of selling have become diversified. In the life insurance industry in particular, the market share held by insurance shops and other agencies has risen and their influence on the insurance industry as a whole has grown stronger, thereby necessitating the formulation of new insurance solicitation rules. In the context of incorporating these rules, amendments to the Insurance Business Act came into force in May 2016. These amendments resulted in the introduction of solicitation regulations requiring proactive client relations in addition to regulations that had previously been prohibited when undertaking insurance solicitation activities. Insurance solicitation was also more clearly defined and the parts of the process from the discovery of prospective clients to the signing of policies that do not correspond to insurance solicitation were newly defined as “solicitation-related actions”. While “solicitation-related actions” might be a term that is difficult to understand, it refers to such actions as the provision of information on prospective clients to an insurance company or solicitor without executing an insurance recommendation or explanation, and actions that do not amount to anything more than reproducing information from an insurance company or solicitor on a comparison website designed to provide information on insurance products.

The themes at the heart of these amendments to the Insurance Business Act consisted of (1) the introduction of an obligation to ascertain intent and (2) the introduction of an obligation to provide information.

(1) With respect to the obligation to ascertain intent, insurance companies are now required to propose insurance products that are in line with the risks faced by and needs of the client after having ascertained the foregoing.

(2) With respect to the obligation to provide information, insurance companies are now required, when soliciting insurance, to provide information to allow the client to determine whether he or she wishes to enrol in insurance. Specifically, an insurance company should provide explanations regarding the contents of coverage provided by an insurance product and information on ancillary services tied to the product (policyholder services) that are tightly linked to the insurance product, such as roadside services attached to an automobile insurance policy. An independent agency dealing with insurance products offered by multiple insurance companies is also required to provide information outlining insurance products for comparative purposes in line with the needs of clients and give reasons for recommending certain products to the client.

For a large independent agency, the formulation of these new rules came to be a substantial burden in practice. However, it can be said that developing a framework in accordance with these new rules enabled independent agencies to become an even more neutral sales channel.

As sales channels become increasingly diversified in the insurance industry, all sales channels will be required to be more client-oriented in their actions.

4 The current environment in which the insurance industry operates

Although the insurance industry has evolved through the twists and turns of various events that have occurred in the past, I would like to explore the current environment in which the insurance industry operates.

(1) The spread of COVID-19

In Japan, COVID-19 has been spreading since the beginning of 2020. Most citizens were required to stay at home and change the way they worked. These days, most meetings take place online and more companies utilize Zoom or Microsoft Teams for this purpose. Since many employees no longer need to report to the office due to an increase in work that is carried out at home, high-rent deluxe downtown offices have become veritable money pits to such an extent that some companies are trying to sell their headquarters or move to more rural settings.

Dramatic changes in the lifestyles of many people also had a significant impact on the solicitation of insurance. In particular, the life insurance industry appeared to have been more affected than the non-life insurance industry. Previously, life insurance was sold by taking the time to get to know what the client needs and explaining the contents of coverage through face-to-face interactions. Since social distancing became established as a concept and it became more difficult to meet clients, life insurance companies – which primarily solicit insurance on a face-to-face basis – suffered from a significant drop in sales of new policies. Forced to change their approach to solicitation, many life insurance companies thus developed means of meeting clients in online spaces. In addition, many life insurance companies introduced a solicitation process based not on seal and signatures affixed to paper applications but on online applications for concluding contracts. Moreover, companies are transitioning from paper to online for insurance booklets (policy conditions), which must be distributed in advance during the solicitation process. Since insurance is a licensed business, however, many actions that can be taken by insurance companies are limited by the basic licensing documents that are equivalent to the constitution for insurance companies. Nevertheless, many life insurance companies continue to make improvements in order to build a more advanced online solicitation framework for themselves.

There are also life insurance companies that are attracting clients with the use of web marketing techniques and attempting to take this opportunity to develop a solicitation process for completing applications online without the need for insurance solicitors. Some life insurance companies are reviving mail-order sales through newspaper ads – a practice that had been in decline in recent years – and managing to increase sales accordingly. An Internet-only life insurance company was launched in 2008 and thereafter seemed to presage the arrival of an age in which life insurance would be purchased via the Internet. This trend, however, has appeared to stall in recent years. Some have suggested that this was due to the occurrence of the Great East-Japan Earthquake, which helped to remind everyone of the advantages of face-to-face sales. I do not believe this to be true though. Nobody enthusiastically seeks to purchase insurance on his or her precious day off in the same way that he or she might purchase a book or CD through Amazon. If you are a typical client, purchasing insurance is a truly tedious task that you do not normally want to think too much about. Instead, you think about purchasing insurance out of a sense of obligation when necessity comes knocking on your door. It might be an inappropriate comparison, but it is somewhat viscerally similar to the notion of filing your taxes. The spread of COVID-19 forced many people to work from home, which helped to free up time that had previously been spent commuting or preparing to go out. As more and more clients are feeling anxious about their future lives, I believe that this free time represents a good opportunity for these clients to review their insurance, which may have been an issue that had been lingering in the back of their minds. Luckily, many magazines these days feature insurance stories and rankings, such that there are a lot more ways for clients to gather information on insurance. Furthermore, there are plenty of insurance comparison websites that make it easy to go online and compare insurance products offered by multiple companies. As a result, the number of clients purchasing life insurance via the Internet and other mail-order sales channels exploded during the spread of COVID-19.

Incidentally, allow me to switch gears and note that insurance companies have long made societal contributions through special actions, such as by offering grace periods for the payment of premiums, in the event that a large earthquake or typhoon or other natural disaster occurs and gives rise to a large number of victims. With COVID-19 in particular, society as a whole suffered tremendous damage. In response, the insurance industry implemented special actions at the highest level imaginable. While these actions differed in their details from insurance company to insurance company, the following special actions were primarily undertaken:

- In most cases, asymptomatic patients and patients with minor illnesses are not admitted to hospital but are instead instructed to recover at home. Thus, medical insurance and other types of products that provide coverage for hospitalization for an illness (compensation) came to extend coverage to stays in a facility and home treatment at the instruction of a doctor despite the fact that hospitalization was originally a condition for the payment of insurance money (benefits) with these products.

- For products that provide (compensatory) coverage in the event that a specific infectious disease is contracted, such as a catastrophe rider or specific infectious disease risk compensation rider, COVID-19 was added to the scope of coverage for the payment of insurance money (benefits).

- While insurance policies are sometimes underwritten for clients with preexisting conditions by attaching special conditions, such as reduced payments of insurance money or non-payment for certain parts of the body, insurance companies decided to pay insurance money (benefits) without applying these special conditions in cases where a client contracted COVID-19.

- With many savings-type products, there is a system that allows for loans to be made to policyholders, who can borrow money up to a certain percentage of the surrender value without having to cancel the policy. As a special action, insurance companies waived the interest that would normally be charged for a policyholder loan.

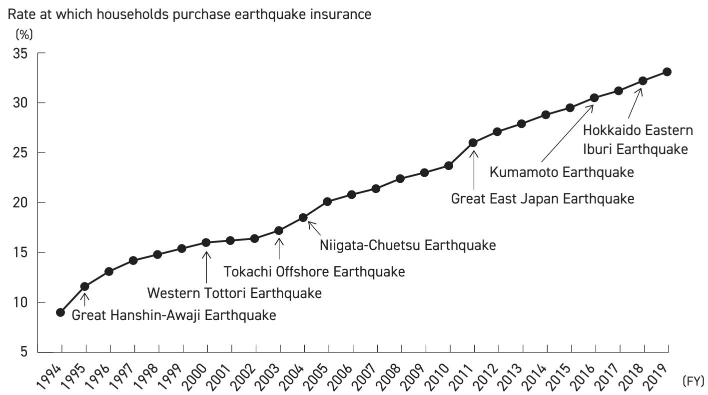
- In the event that an employee or customer of a client company contracts COVID-19 and the company's office or establishment has been contaminated or might have been contaminated, the client company would incur costs to provide leaves of absence and disinfect the workplace or facility. Insurance companies decided to provide compensation in these cases.

- For renewable insurance policies, insurance companies extended a grace period of a certain duration for renewal procedures and the payment of premiums.

There are also insurance companies that, upon perceiving the societal threat of the spread of COVID-19 instead as a business opportunity, succeeded in selling a large volume of new policies by marketing insurance products that provide general coverage (compensation) in the event that the insured party contracts or sustains damage from COVID-19. Such insurance products, however, are products that anyone with any experience developing products at an insurance company would likely devise at some point in his or her career. This is because, given the fact that COVID-19 is the central focus of the news no matter where in the world you go, you are not required to evoke a sense of need in clients, which is what is required when it comes to insurance products designed to indemnify. The more a risk materializes, the more you should realize that there is no better time to sell an insurance product that addresses that risk. For instance, let us say that the news reports that a famous person dies of cancer. That is when cancer insurance sales suddenly spike. The number of persons purchasing earthquake insurance increases whenever a major earthquake strikes.

Figure 8 below is a graph showing the annual changes in the rate at which households have been purchasing earthquake insurance plotted against major earthquakes that have occurred in recent years. Following the Niigata Earthquake of 1964, Kakuei Tanaka, a native of Niigata Prefecture and a

Figure 8 Annual changes in the rate at which households purchase earthquake insurance



Source: Produced by the author based on materials released by the General Insurance Rating Organization of Japan highly influential person in government at the time, spearheaded efforts that led to the birth of earthquake insurance in 1966. The percentage of the population that had taken out earthquake insurance stayed low for a long time before it started to gradually rise due to the occurrence of several large earthquakes subsequent to the Hanshin-Awaji Earthquake of 1995.

The Great Hanshin-Awaji Earthquake occurred when I was working in sales for a non-life insurance company. It may seem inappropriate, but I went about proposing earthquake insurance to clients in the wake of this disaster and found clients to be surprisingly receptive. It may be correct to point out that actions taken to point out to clients the existence of such risks "induces anxiety in clients and helps foster a sense of dislike towards insurance companies".

In returning to the topic at hand, the question as to why insurance companies did not all set out to develop insurance products with a focus on risks related to COVID-19 naturally arises. The answer lies in the existence of cumulative risks. Generally speaking, insurance companies distribute risks by underwriting similar risks for a large number of clients and converting them into a fixed amount in premiums. For example, if a fire covered by fire insurance were to occur, the insurance company would have to pay a large sum of insurance money. By underwriting a large number of fire insurance policies for a broad swath of clients across the country, the law of large numbers would come into play. Since the rate at which fires occur converges to a certain value, the insurance company can predict the expected value of insurance money to be paid out each year to a certain extent. For risks that could potentially materialize at the same time, such as in the case of the bankruptcy of Lehman Brothers or the breakout of a pandemic, however, the law of large numbers would not come into play. In other words, if a situation involving the continued spread of COVID-19 were to arise, an insurance company would need to pay huge sums of insurance money that could severely undercut its profits. Thus, in selling such an insurance product, an insurance company would of course need to constantly monitor changes in the number of persons infected with COVID-19 as well as ideally formulate and implement an exit strategy for suspending sales if the number of infected persons were to suddenly increase upon comprehensively taking into account the amount of capital the company has available to cover the risk in question and the state of reinsurance coverage that the company has taken out for itself. Indeed, there were insurance companies that actually reviewed sales of new COVID-19 insurance policies in response to an increase in the number of infected persons. I believe that the development of insurance products that are designed to proactively deal with the spread of COVID-19 based on the view that such a situation represents a game-changing opportunity, where such development is undertaken in a way that is predicated on a thorough commitment to risk management of this kind, is ultimately meaningful to society.

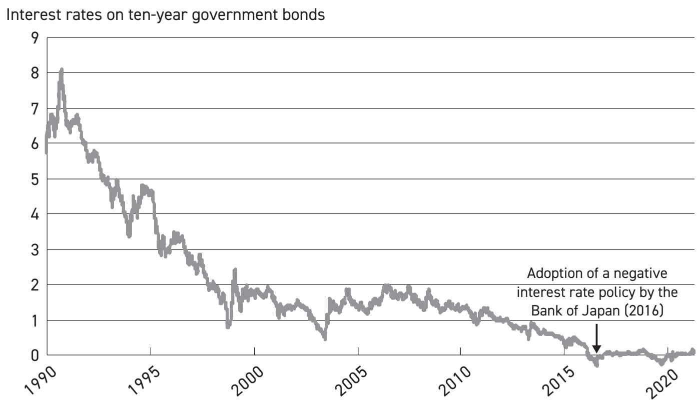
(2) Low interest rate environment

In Japan, a state of low interest rates has been pervasive since the collapse of the bubble economy. Interest rates dropped even further with the adoption of the negative interest rate policy on January 29, 2016.

An individual annuity insurance plan offered by a certain life insurance company that I purchased on the recommendation of a friend at the time I began working fresh out of university corresponded to an expected interest rate of 4.75%, which is a level high enough to be unimaginable today. As interest rates declined, I was encouraged to switch to a new policy by the underwriting insurance company, but I held my ground and refused. I have carefully kept this policy as a treasured insurance policy for my own retirement.

Figure 9 shows how interest rates on ten-year government bonds since 1990 have been steadily falling.

Figure 9 Interest rates on ten-year government bonds



Source: Government Bond Interest Rate Information (Ministry of Finance)

Apart from banks and securities firms, there may be some who are wondering why insurance companies are affected by low interest rates. Is it because insurance companies also sell savings-type products? It is true that the interest rate on savings is set for savings-type products like individual annuity insurance and savings-type accident insurance by referencing interest rates on government bonds. In addition, savings-type insurance premiums comprising the underlying asset for the annuities and matured endowments that are to be paid to the client in the future are directly affected by low interest rates since they account for a large percentage of total premiums. However, insurance companies are affected by low interest rates when it comes to not just savings-type products but also pure indemnifying products. This is because the insurance company needs to invest premiums received from clients to prepare to pay insurance money and benefits in the future, such that, if the actual yield from investments falls short of the expected interest rate on a given insurance product, the insurance company will need to assume the difference itself. Article 97 of the Insurance Business Act stipulates that the essential business of an insurance company is as follows. “Investing assets” is positioned alongside “underwriting insurance”, which is an indication of just how important these operations are for an insurance company.

Article 97 (Scope of business)

(1) An insurance company may, in accordance with the class of licenses provided under Article 3, paragraph (2), underwrite insurance.

(2) An insurance company must invest assets such as money received as insurance premiums by any of the means specified by Cabinet Office Order, such as acquisition of securities.

While the expected interest rate for an insurance product needs to be set at a conservative level for pricing purposes, an increase in premiums naturally results from a lower expected interest rate, such that the appeal of the product in terms of competition with other companies is diminished. In this sense, lower interest rates are more likely to affect life insurance companies, which tend to sell insurance products that correspond for the most part to longer insurance terms, more than they do non-life insurance companies, which tend to sell many insurance products with a one-year term of insurance for which expected interest rates have almost no impact on premiums. The Nikkei Stock Average fell mightily in the wake of the collapse of the bubble economy. There is no doubt that many people still remember seeing news stories that claimed that most life insurance companies would almost certainly face a financial crisis if the Nikkei Stock Average fell below 8,000 yen. Many life insurance companies did in fact go under in the wake of the collapse of the bubble economy, with some being acquired by foreign companies and others being forced to merge with rivals. High-yield savings-type products that promised to yield maturity proceeds of 1.2 million yen in ten years' time in return for 1.0 million yen in premiums disappeared. If the contents of coverage are attractive, however, a certain volume of sales can be expected. For example, I still have the savings-type accident insurance policy

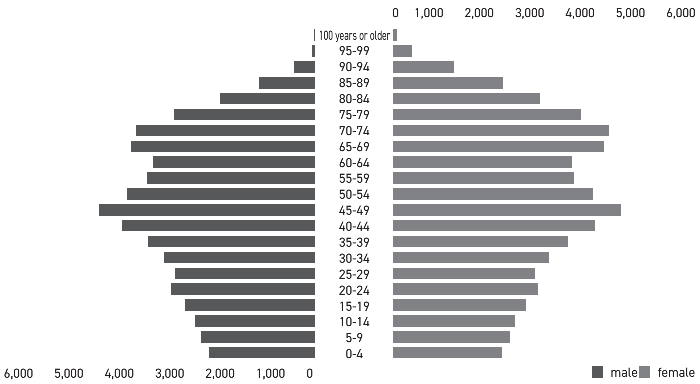
I purchased when I was working for a non-life insurance company. While the one-time insurance premium amounted to 500 thousand yen and the maturity return after five years is significantly less than 500 thousand yen, I still renew this policy every five years as it is set to mature since the compensation that would be forthcoming in case of death, a hospital admission, or hospital visits stemming from an injury or indemnification of liability for any damage caused to a third party is highly appealing. For a savings-type product that is not appealing in terms of coverage (compensation), decreasing the expected interest rate is directly linked to a diminishment of product appeal and a substantial drop in sales volume. For this reason, insurance companies might continue to sell savings-type products by setting the expected interest rate at a slightly unreasonable level. This is because once an insurance company withdraws from the market, it will lose the trust of clients as well as banks and other agencies, such that it could result in its non-acceptance by the market even if interest rates were to rise again in the future to make it possible to once again sell attractive savings-type products. Accordingly, an insurance company will be tested on their management prowess in terms of how it can formulate investment plans and on what kinds of savings-type products it will sell to ensure that it is not rejected by the market when it operates in this sort of low-interest rate environment.

(3) An aging society with a declining birthrate

In Japan, the economy has been sputtering along for an extended period of time since the collapse of the bubble economy at the beginning of the 1990s. This period has been referred to as, among other terms, the “lost twenty years”. We could no longer count on GDP growth happening and was overtaken about a decade ago by China, with whom the gap in the size of the economy has only widened since then.

We become keenly aware of the fact that the yen has declined in value whenever we travel overseas. It is against this backdrop that the birthrate has decreased precipitously and the population of Japan has been shrinking. It is said that Japan is becoming an aging society with an ultra-low birthrate the likes of which has never before been seen in the world.

Figure 10 Total population of Japan (unit: thousands of people)



Source: *2019 Population Projections* (Statistics Bureau, Ministry of Internal Affairs and Communications)

Figure 10 breaks down the population by age bracket in Japan and reveals a very distorted shape for a single country's population pyramid.

According to population projections current as of September 15, 2021, as released by the Ministry of Internal Affairs and Communications, elderly persons aged sixty-five years or older account for 29.1% of the total population, which makes Japan the top-ranked country in the world in terms of this figure and places the country far ahead of second-place Italy (23.6%).

At the same time, advances in medical technology now allow people to lead long lives. The average life expectancy of Japanese people in 2019 was 81.41 years for men and 87.45 years for women; both of these figures were all-time record highs. Average life expectancy is expected to continue to rise thanks to advancements in medical technology, such that the arrival of the era of 100-year lives appears to be imminent.

In recent years, the term "2025 Problem" has become a much-discussed part of the common discourse. The 2025 Problem refers to the concerns over rapid increases in medical, long-term care, and other social security costs that will have to be assumed when everyone born between 1947 and 1949 in the first baby boom generation to emerge after the end of the Second World War – in other words, the so-called *baby boomers* – becomes latter-stage elderly persons (seventy-five years of age or older). In 2025, it is expected that the population of latter-stage elderly persons will balloon to approximately 22 million persons, which means that one in four citizens will be seventy-five years of age or older. The pension system likewise faces the same problem, such that the population is expected to shoulder a huge financial burden as the lower birthrate and aging of the population make it impossible for those who are younger, who are relatively few in number, to support the many members of the older generation.

There are workforce issues to contend with as well. Employing foreign workers is not enough and many companies are raising the retirement age for their employees. Currently, the retirement age is set to sixty-five years at many companies. Amendments made to the Act Concerning the Stabilization of the Employment of Older Persons, which came into force in April 2021, require that companies ensure employment up to the age of seventy years. While this is a rule calling upon companies to make a best effort in this regard, it is said that it will eventually be rendered mandatory. For elderly persons themselves, pension amounts to be received in the future will hardly be sufficient, as pointed out by the existence of the “issue of 20 million yen for old age”. Thus, unless you have enough money saved up, you will need to continue working to earn money for your retirement.

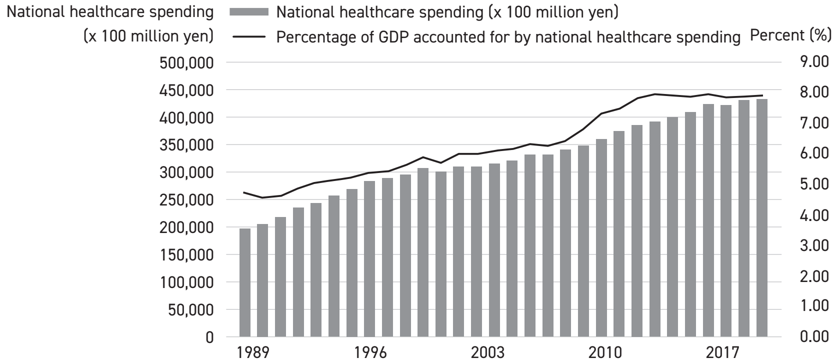
In response to such changes in the social environment, many insurance companies are reviewing their sales and product strategies.

(4) Rising national healthcare costs

As the number of elderly persons increases, national healthcare spending in Japan has been rising with each passing year and reached an eye-watering 43,394.9 billion yen in fiscal year 2018, accounting for 7.91% of GDP.

Figure 11 outlines the amount of national healthcare spending in Japan and the percentage of GDP accounted for by national healthcare spending and reveals that both are rising over time.

Figure 11 National healthcare spending and the percentage of GDP accounted for by national healthcare spending



Source: *Overview of National Healthcare Spending in Fiscal Year 2018* (Ministry of Health, Labour and Welfare)

If we were to extrapolate healthcare spending as reported by the Ministry of Health, Labour and Welfare in 2018 to determine its future outlook, we can expect to see it at around 80 trillion yen in 2040, when the population of elderly persons will peak; at that time, healthcare spending will account for approximately ten percent of GDP. Since this assumes that GDP will grow by around forty percent, however, national healthcare spending could end up actually accounting for fourteen percent of GDP or more if GDP fails to increase.

The average length of hospitalization in Japan in terms of number of days is decreasing year by year to the point where it is now less than thirty days. The average length of hospitalization in the West, however, is around five to ten days according to OECD data, which means that the length of hospitalization in Japan is far and away the longest among industrialized countries. When I bring this up with people living overseas, they are almost always surprised. Thus, I expect to see government policymakers try to further shorten hospital stays, which accounts for a significant portion of medical costs, in order to lower national healthcare spending.

Incidentally, Japan's public medical insurance system in principle does not permit combined treatments that involve a mix of both treatment that is covered and treatment that is not covered as insured treatment procedures. This is because there is a risk that special treatment procedures that are scientifically unproven may be endorsed if a treatment procedure that has not been verified for safety and efficacy is carried out together with an insured treatment procedure.

There are, however, exceptions in such terms as evaluation treatment procedures, patient-proposed treatment procedures, and selective treatment procedures. Among these, evaluation treatment procedures and patient-proposed treatment procedures will be assessed through future clinical testing to determine whether or not they will be eligible for insurance coverage some time down the line. On the other hand, selective treatment procedures are not expected to be eligible for insurance coverage in the future and include differential room charges and the initial consultation fees that are incurred at large hospitals.

The term *advanced medical care*, which is often discussed in the insurance industry, replaced the term *highly advanced medical treatment* through amendments made to the Health Insurance Act in 2006 and constitutes a type of evaluative treatment. While the list of medical technologies that are covered under the category of advanced medical care is tweaked monthly, it is to be noted that these technologies numbered eighty-five as of September 1, 2021. When advanced medical care is provided, the total cost of the medical technology to be covered is assumed by the patient on an out-of-pocket basis. The cost per administration of advanced medical care varies widely and ranges between tens of thousands of yen to millions of yen.

Private-sector insurance companies have been primarily selling advanced medical care riders as riders attached to medical insurance or cancer insurance policies in order to help clients pay for advanced medical care. With premiums of around 100 yen a month, these riders are very popular among clients, as seen in the fact that over ninety percent of medical insurance policies are sold with these riders attached. These riders were originally developed mainly for the purpose of covering heavy particle therapy and proton beam therapy, which can cost around three million yen per patient. In recent years, however, lens reconstruction based on the use of multifocal intraocular lens, which is an advanced medical treatment procedure related to the treatment of cataracts, has been causing many problems. This medical technology is not the sort of technology that needs to be applied as quickly as possible. Since the patient can control the timing of treatment to some degree, there were a number of cases in which it is believed that the patient probably purchased multiple advanced medical care riders right before undergoing treatment on the assumption that he or she would indeed be undergoing treatment in due time. As a result, the payment rate for advanced medical care riders offered by each company worsened significantly. At the end of March 2020, however, this treatment procedure was removed from the scope of advanced medical care and placed in the category of selective treatment procedures, thereby putting an end to an issue that had been vexing insurance companies. Nevertheless, the news that some fertility treatment procedures will now be included in the category of advanced medical treatment procedures has companies trembling with fear. The same problem will continue to occur since advanced medical care riders will pay out benefits even if advanced medical treatment procedures are not covered at the time of enrolment as long as the time of treatment comes within the term of the policy and the treatment in question is covered as an advanced medical treatment procedure.

At a time when national healthcare spending is turning the screws on the Japanese economy, the expectations placed on advanced medical care riders sold by private-sector insurance companies have increased even further. There are even clinics that check with patients to ascertain the type of coverage he or she has obtained through a private insurance policy before different types of treatment are performed. We expect to see many new medical technologies continue to be brought within the scope of advanced medical treatment procedures in the future. Medical insurance sold by insurance companies will likely be required to play an even greater complementary role alongside the public medical insurance system.

(5) Technological developments and FinTech

Technology has evolved in remarkable ways in recent years and the wave of technological developments has even reached the shores of the financial industry. A portmanteau of *finance* and *technology*, the term *FinTech* is probably familiar to many people. It is used mostly to refer to a financial service that is provided with the use of technology. Blockchain technology used for cryptographic assets (virtual currency) is another example of FinTech. Many financial institutions are conducting research on FinTech and have formed partnerships with IT ventures related to FinTech. Many companies have even dispatched employees to Silicon Valley, the home of FinTech.

This wave of technological developments has also reached the shores of the insurance industry, which is lagging behind other industries in terms of the adoption of IT. In the case of the insurance industry, the term *InsurTech*, a portmanteau of *insurance* and *technology*, is sometimes used. The adoption of artificial intelligence (AI) and robotic process automation (RPA) in order to streamline operations and improve productivity is easy to envisage. At financial institutions, IT is actually being increasingly adopted for the primary purposes of streamlining operations and reducing the need for human resources. The news that megabanks announced that they plan to reduce their internal workforce by approximately forty percent had a significant societal impact at the time.

At the same time, the use of technology for other uses is also being studied in the insurance industry.

One entails the incorporation of technology into insurance products. For example, in the case of automobile insurance, driving history can be recorded to help quantify driving skills, the results of which can then be reflected in insurance premiums. In addition, the use of wearable terminals and other forms of technology can allow for the monitoring of a life insurance client's health condition in real time. A system can then be developed to enable premiums to be modified accordingly during the term of the policy or the payment of a refund at regular intervals. Many examples of risk-segmented insurance products have been available on the market for a while now. With these products, premiums vary at the time of enrolment according to the risks corresponding to the client, such as in terms of the client's blood pressure reading or smoking status. The use of new technologies, however, allow for greater precision to be applied to the segmentation of risk and during the term of the policy. In the case of life insurance, this is generally referred to as health promotion-type insurance and will be explored below.

In addition, technology can also be used for services that are attached to the insurance product and that can be used by the policyholder for free when the insurance product is purchased (called policyholder services). Many such product services in the past involved the use of a telephone and primarily consisted of such services as support for the policyholder when problems are encountered during an overseas trip and support in terms of seeking a second opinion at a different hospital in connection with an illness. At a time when technology has evolved as much as it has, however, insurance companies can deliver emergency relief supplies by drone or help a policyholder monitor his or her own health condition with an app provided for free by the insurance company.

However, we are currently still at the stage of upfront investments being made by insurance companies and where a process of trial and error is being carried out. Many success stories will eventually emerge and companies will proceed to converge in the same direction.

The insurance industry used to be an industry that was rather stuck in its own ways, but it has in more recent years steered itself sharply in the direction of IT adoption, such that companies are competing to engage in research on and make investments in new technologies.

(6) Legislation governing the intermediation of financial services

In Japan, amendments made to the Insurance Business Act in 1996 led to the creation of an insurance brokerage system. Insurance brokers do not belong to a specific insurance company and mediate in proposing optimal insurance products to meet the needs of clients and in helping get insurance contracts concluded from a neutral standpoint.

As set forth in Article 297 of the Insurance Business Act (Information to be disclosed by insurance brokers), “An insurance broker, upon request of a customer, must disclose the amount of commission, reward, or any other consideration that they receive [from the insurance company] for acting as an intermediary…” In Europe and the United States, insurance brokers are widely known and play an important role in the market. In Japan, however, insurance brokers are not so widely known and few people know anything about them. On the other hand, insurance shops and other independent agencies play a similar role to that of insurance brokers from the point of view of clients in Japan. Independent agencies make proposals from among insurance products made available by a large number of insurance companies in accordance with what the client needs. Independent agencies, however, are in relationships characterized by the conclusion of agency agreements with different insurance companies and are not obligated to disclose the solicitation commission obtained for successfully concluding a contract with a client.

In this environment, the Act for Partial Revision of the Act Concerning the Sale of Financial Instruments to Improve the Convenience and Protection of Users of Financial Services and Other Related Matters passed the Diet in June 2020 based on a report released in December 2019 by the Working Group on Payment and Settlement Legislation and Financial Services Brokerage Legislation, which operated under the purview of the Financial

System Council. This act came into force in November 2021. In this piece of legislation, “Act Concerning the Sale of Financial Instruments” was changed to “Act Concerning the Provision of Financial Services” and “financial services brokerage business” was created as a new type of business. For the financial services brokerage business, there is no need to conclude commissioning agreements with individual financial institutions and financial services can be brokered in all fields of banking, securities, and insurance with a single registration. Insurance products that can be brokered are limited to those “that are not complex in terms of specifications and that do not require a high level of product explanations”.

It has been posited that IT companies and start-up FinTech companies will enter the market as financial service brokers since legislation governing the intermediation of financial services lowered barriers to entry and made it possible to provide many financial instruments to clients on a one-stop basis. This is because, if you were to create a proper online platform or structure, then you would be able to automatically propose multiple financial products in accordance with the client’s wishes and thereby operate as a way for these companies to showcase their own technologies and gain a competitive advantage. Of course, financial instruments in the form of insurance are not something that clients actively wish to purchase. Insurance is typically explored in a passive manner at moments when a life event occurs, when someone in your sphere of existence dies, or when the need to save money for your household budget arises. In such a context, it is conceivable that many clients would be interested if an IT company offering a household budgeting app were to suggest that they could review a client’s current insurance policies as part of a household savings plan and even provide a client with the means to easily purchase insurance with his or her smartphone. When the law came into effect in November 2021, limits were imposed on the amount of insurance that could be sold. New entrants will probably be limited for the time being since many products that are mainstays in the insurance industry today – including automobile insurance and whole-life insurance products – are exempt from the application of the law. This is because, if the restrictions seem to be too strict, it might not be possible to make sufficient proposals to clients and it would be more expedient to handle insurance as a conventional soliciting agency rather than as a financial service broker. Naturally, there is no doubt that financial service brokers have the potential to someday constitute an important sales channel for clients and insurance companies.

(7) SDGs and ESG investments

Sustainable development goals (SDGs) are sustainable development goals that were adopted by the United Nations in September 2015 and that should be attained by the global community with an eye towards 2030. They comprise seventeen goals and 169 targets related to various global issues, including the promotion of health and welfare, technological innovation, and efforts to deal with climate change. While SDGs are not compulsory, companies are required to be proactively engaged and are being encouraged by national governments. It is also said that companies can create business opportunities by proactively working on SDGs. This is because the level of market needs for products and services tied to solutions to societal issues in terms of the environment, health, and energy is high and companies can increase profits by helping to solve these societal issues through business operations. It also goes without saying that a company's corporate image can be burnished by proactively working on SDGs. According to the Sustainable Development Report of 2021, which was released in June 2021, Japan went from being ranked seventeenth a year before to being ranked eighteenth in terms of sustainable development among all countries in the world; this placed Japan lower than Croatia and Poland. Gender inequality and carbon dioxide emissions are among the areas that remain a problem for Japan and are issues that the government is working on to properly address.

At the same time, ESG stands for *environment*, *social*, and *governance. ESG investments* are focused investments in companies that are conscientious with respect to the environment, social issues, and corporate governance. A company that is rated highly in terms of ESG is said to have excellent corporate attributes in such terms as the social significance of their business and the sustainability of their growth.

SDGs and ESG investments correspond to the same mindset in the sense that solving social issues imparts business opportunities to companies and investment opportunities to investors. In this context, there are many roles to be played by insurance companies, whose business is of a highly public nature. For example, many employees of an insurance company work in urban offices where they consume huge amounts of electricity and tend to use large amounts of paper for operations that have long been associated with a paper-based business. For this reason, insurance companies can endeavor to reduce carbon dioxide emissions by using online options for application forms and policy booklets as a way to not only reduce costs but also to promote SDGs.

Since insurance companies are highly influential on outside parties as institutional investors, they are required to assess investment targets from an ESG perspective. Of course, there will still be issues in the fact that time is needed to investigate investment targets and in the fact that there are a limited number of suitable investment targets, but insurance companies nevertheless have a social responsibility to take the lead in this area.

Since the insurance business in particular is a business based on the trust and confidence of clients, insurance companies are being asked to continue taking the initiative in promoting SDGs and ESG investments.

(8) Expectations for health promotion-type insurance

A new area of insurance products known as *health promotion-type insurance* has emerged as a topic being raised not only within the insurance industry but also by purveyors of news stories for the general public. Of course, simply acquiring such an insurance product will not automatically grant a client better health. So what exactly is *health promotion-type insurance*? The website of the Japan Institute of Life Insurance describes it as follows.

> Q. What is health promotion-type insurance?
>
> A. It is insurance that provides discounted premium rates and other benefits for clients who engage in initiatives for the promotion of their own health.

In other words, it is a type of life insurance with certain features, such as mechanisms for increasing or decreasing premiums and offering refunds in a way that is linked to the client's health condition and efforts with respect to the promotion of health during the term of insurance. This type of insurance began to be marketed in around 2016. Few conventional life insurance products that are typically sold by insurance companies are associated with insurance premiums that change during the term of insurance. While insurance products that provide a lump-sum payment to a client if no insured event occurs within a certain period of time do exist, these are not directly tied to the client's health condition and efforts with respect to the promotion of health. Indeed, this is a new genre in which insurance products have been rendered commercially feasible thanks to technological developments.

As mentioned earlier, national healthcare spending is putting pressure on Japan's fiscal situation. If the birthrate further declines and the population ages even more rapidly, there is the possibility that the country's finances would have a blowout due to the increase in national healthcare spending. It goes without saying that, even if longevity were to continue increasing, the negative impact on national healthcare spending could be mitigated if people could maintain their health as they grow older. The purpose of the Health Promotion Act, which came into force in 2003, is to "set forth basic matters in connection with the comprehensive promotion of improvements to the health of the people and have measures designed to improve the health of the people implemented". This purpose is perfectly consistent with the significance of health promotion-type insurance.

Indeed, the reduction of benefit payments resulting from the promotion of health by clients is favorable for a life insurance company's bottom line even if we were to assume that premium discounts and refund payments are provided. There are also many other benefits that health promotion-type insurance brings to life insurance companies. The main ones are as outlined below:

(1) A new type of product for which there is not yet much competition

Not many examples of health promotion-type insurance products are currently being sold since it is a new genre of insurance product. For this reason, intense competition with other companies in recent years of the sort that you can see with medical insurance has not yet occurred. It would be reasonable to describe this state of affairs as being akin to an example of the blue ocean strategy. Unfortunately, no health promotion-type insurance product that is popular with clients has yet emerged, but it would be possible for a company to carve out a competitive advantage in terms of sales by developing an attractive health promotion-type insurance product and bringing it to the market.

(2) Can expect to see benefits in terms of public relations

For insurance companies, advanced initiatives that have not yet been attempted by rival companies can have a substantial impact and be received well by the media, such that they are seen as being potentially highly effective in the context of activities for public relations. While brand image is an important element in the insurance industry, a forward-thinking image associated with health promotion-type insurance can help define a corporate brand for an insurance company.

(3) Can seek to retain exceptional clients

Insurance products are not always going to yield a profit when sold. Most of them correspond to both highly profitable client segments and not very profitable client segments. In particular, in an environment in which competition for product development is heating up, the profitability of products inevitably tends to decline. Companies then scratch their heads and figure out how they can focus on selling to highly profitable client segments.

In the case of health promotion-type insurance, sales are targeted towards the segment of the market made up of health-conscious clients. Since such clients are typically low-risk and highly profitable, this type of insurance is an insurance product that is perfect for retaining preferred clients.

(4) More points of contact with clients

At a time when awareness of the importance of managing personal information properly is high, there are not a lot of opportunities for life insurance sales representatives and other solicitors to regularly interact with clients. Unlike in the past, it has become difficult for sales representatives and other solicitors to visit clients' workplaces. Of course, clients can be met if an actual insured event were to occur, but it would not be easy to try selling additional insurance to a client in such a situation.

In the case of health promotion-type insurance, however, the fact that premiums change and refunds are paid according to a client's health status and efforts in promoting health means that favorable opportunities to regularly meet with clients can be made by sales representatives and other solicitors.

(5) Can obtain health data

When it comes to pricing life insurance, limited statistical data, such as the Ministry of Health, Labour and Welfare's demographic survey and patient survey, used to be used to calculate incidence rates and other data points. If only the same statistical data can be used by each company, however, it becomes difficult for insurance companies to differentiate themselves by trying to create unique insurance products. In particular, at a time when data is becoming increasingly important, each company is striving hard to obtain data that can be used to develop products. In this context, selling health promotion-type insurance will make it feasible to obtain health-related data on clients and thereby help in the development of new insurance products in the future.

(6) IT know-how is accumulated

The selling of health promotion-type insurance will increase opportunities to use technologies with which life insurance companies are unfamiliar and lead to the accumulation by these companies of proprietary IT know-how. As insurance companies seek to interact with FinTech venture companies, they sometimes realize that they can divert technologies for uses that had not been initially envisaged. Even if the use of such new technologies results in a failure, there are plenty of lessons to be learned from each failure.

Of course, health promotion-type insurance is not only advantageous but disadvantageous as well. Typical examples of these points are outlined below.

(1) There is no established sales market

When health promotion-type insurance is sold by an insurance shop or other independent agency, it is not included in an existing product category, like medical insurance or term insurance, which means that it may not show up in a list of products proposed to clients for comparison and recommendation purposes. In such a case, it is not possible to expect this type of insurance to be sold given that it is never put forth as an option that can be purchased in the first place. While it goes without saying that this does not apply when this type of insurance is sold by a sales representative belonging exclusively to a single company, the market for health promotion-type insurance itself has not yet taken hold, such that it should be noted that the coverage that this type of insurance offers may be difficult for clients to properly grasp.

(2) High explanatory burden assumed at the time of solicitation

If you are proposing a conventional life insurance product, you need to provide an explanation as to the contents of the coverage in question, the amount per month to be charged as premiums, and other pertinent details. On the other hand, if you are proposing a health promotion-type insurance product, you need to provide an explanation as to the contents of the coverage in question as you would with a conventional life insurance product as well as additional explanations, such as with respect to cases in which premiums might increase or decrease and cases in which a refund will be given. In this way, a substantial amount of time will need to be spent to ensure that the client understands what he or she is purchasing. You should be careful since the provision of inadequate explanations at the time of solicitation could potentially lead to the submission of a complaint.

(3) High cost of developing systems and operations

Generally speaking, the development of a life insurance product incurs substantial costs. While these costs can vary greatly depending on the system used by the insurance company, most cases involving a typical new insurance product will incur several hundred million yen to several billion yen in costs. Human resources will also be needed for the development of systems and new operations. A long time is also needed to conduct a test (known as the User Acceptance Test or UAT) to ensure that a system is operating correctly. Any insufficiency in this area could give rise to defects after launch.

On the other hand, health promotion-type insurance requires complex functions, such as with respect to the changing of premium amounts during the term of insurance and the payment of refunds, which means that the costs of developing systems and operations would be expected to far surpass normal product development costs. There is also a need to incorporate sensitive information, such as health-related information concerning the client, into the company's own policy-management system. Since sales representatives and solicitors belonging to an insurance company will also need to prepare data and explanatory materials for the purpose of engaging in a discussion with the client concerning the contents of coverage and premium rates for the future, much higher costs are incurred than are incurred with conventional insurance products.

(4) Poor reliability of data

In the case of health promotion-type insurance, some products correspond to premiums that vary according to the health condition of the insured. Initiatives related to health condition and the promotion of health, which are used as indicators for this purpose, need to show a close link to the premiums that are paid for the risks in question. However, only limited data exists when health promotion-type insurance is being developed. For this reason, the amount of a client's risk needs to be calculated by supplementing existing data with data on health promotion initiatives and more. Yet, whether the applicable premiums are appropriate or not cannot be assessed until a certain amount of time has elapsed after launch to allow the company to accumulate a large volume of actual data. Any material discrepancy arising between expected data and actual data could have a large impact on future profitability.

(5) High cost of maintaining policies

In the case of ordinary life insurance, a high amount of new policy costs are incurred in the first year of a policy but policy maintenance costs beginning in the year following will be at a lower level. In the case of health promotion-type insurance, however, many actions – such as changing the premium amount and informing the client – will need to be performed during the term of insurance, which means that policy-maintenance costs will inevitably be higher.

Moreover, since the term of insurance is long, the system for a given product will need to be continuously managed after its launch until all in-force policies have lapsed. Thus, if it comes to pass that sales of a given health promotion-type insurance product are stopped and that a completely new type of health promotion-type insurance product is launched, the number of in-force old health promotion-type insurance policies will shrink, thereby making the burden of managing policies still in force exceedingly high for the insurance company.

The above is an outline of all the advantages and disadvantages of health promotion-type insurance from the standpoint of an insurance company. Let us now explore the significance of health promotion-type insurance from the standpoint of a client.

(1) Insurance is being personalized

This is now an age in which products and services – in both the insurance industry and other sectors – are required to be personalized. The realization of an Internet-based society has enabled clients to easily research products and services that interest them and companies will need to propose products and services based on the interests, preferences, and behavioral history of clients. When it comes to insurance, health-conscious clients tend to be averse to being charged the same level of premiums as clients who are not health-conscious. Thus, they can accept that premiums will change and refunds can be received according to their health condition and by engaging in initiatives for the promotion of health.

In consideration of the mental state of clients, however, it can also be said that enrolling in an insurance policy and engaging in efforts to promote health are opposing actions. In other words, when a health checkup reveals that your health condition has worsened, you will typically choose to do one of the following: (A) engage in the promotion of health to restore your health condition or (B) take out insurance. Very few clients choose to do both at the same time. In other words, insurance works as it should if it enables the client to receive insurance money when he or she becomes sick, such that engaging in efforts to promote health is thought to render the act of enrolling in insurance superfluous.

(2) Economically rational

In order to leave a stable life after retirement, many people would like to maintain their health and work for a long time. Thus, health promotion-type insurance can be described as economically rational in that you can kill two birds with one stone: engaging in efforts to promote health will reduce the burden of medical expenses as a reward for continuing to maintain good health and give rise to advantages in the form of reduced premiums and refunds issued.

On the other hand, products whose premiums vary according to health condition also have a negative aspect to them in that the household's cash flow is not stable. One of the original functions of insurance is to "equalize future risks and replace them with a fixed amount known as premiums". If an insured person's health condition were to worsen, the need for insurance would truly increase. In such a case, however, the resulting increase in premiums would affect the insured's household situation like a double whammy.

With some insurance products, it might be possible to add a premium payment-waiver rider. If the insured person's health condition were to worsen, the payment of subsequent premiums would be waived under this rider in a way that makes sense. With health promotion-type insurance, however, a worsening state of health would have an impact going in the other direction.

(3) Comes with health management features

If you are someone who works for a company, you need to undergo a health checkup or complete medical checkup once a year. In some cases, however, this may not be sufficient for the purposes of managing your health, such that you might need to check on your own health condition frequently in order to maintain your health. Depending on the health promotion-type insurance product you purchase, your insurance company will help you to manage your own health to a certain extent and provide you with a program that is designed to encourage you to engage in health-promotion initiatives.

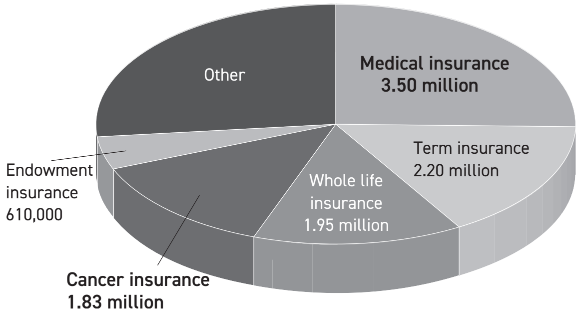
However, care must be taken on this point since some clients would not be comfortable having their health condition monitored by an insurance company or being given advice on health from a sales representative or solicitor as part of a regular regimen of in-person visits.

I have written about my findings with respect to health promotion-type insurance. It might seem as if I am opposed to the idea of health promotion-type insurance but that is not the case. While there may be a sense of unease concerning existing life insurance products, I feel that health promotion-type insurance holds substantial potential in terms of being able to provide clients with added value through the use of new technology. Of course, in today's life insurance industry, the sense that the development of health promotion-type insurance requires upfront investments is undeniable but I believe that health promotion-type insurance products that many customers are interested in and that will ultimately sell well will emerge and that companies will shift their primary focus to this type of insurance in the future.

(9) Increasing competition for sales of medical and cancer insurance

In the independent agency market in which many life insurance companies are desperately fighting, the competition for sales of indemnifying products is intensifying. In this area, competition for product development is fiercest when it comes to medical insurance. The biggest reason for this has to do with the size of the market. According to Figure 12, the most popular type of individual life insurance today in terms of the number of new policies purchased is medical insurance. Medical insurance accounted for 3.5 million out of 13.71 million new policies purchased in fiscal year 2019 (not including converted policies) or 25.5% of this figure. In other words, one out of every four new policies consisted of medical insurance.

Figure 12 Number of new individual insurance policies in fiscal year 2019



Note: Does not include converted policies.

Source: Produced by the author based on materials released by the Life Insurance Association of Japan

In addition, the fourth highest number of new insurance policies was for cancer insurance (1.83 million). This is an indication that competition for the development of products for cancer insurance has recently become as fierce as it is for medical insurance. This competition for medical insurance and cancer insurance spans a wide range of areas, such that companies compete to gain as much of a competitive advantage over other companies as possible with respect to scope of coverage, premium levels, policy underwriting standards, and solicitation commission levels. Since subsequent insurance products need to have higher specifications than insurance products that were previously released, this competition will intensify over time. In particular, the popularity of lump-sum payment-type coverage rose against the backdrop of societal conditions characterized by shorter hospital stays and the spread of COVID-19.

In considering matters from the perspective of someone who engages in product development, I sometimes wonder with a sense of uncertainty as to whether or not such insurance products can generate profits as envisaged. I am reminded of the competition for product development with respect to automobile insurance that began in the late 1990s. However, with the needs of clients and solicitors being high and many life insurance companies now entering the market, it is likely that we will see a lot of actors playing chicken with the survival of their operations on the line for the foreseeable future.

(10) Headwinds for foreign currency-denominated annuity insurance

In Japan, a low-interest environment has persisted for many years since the collapse of the bubble economy, such that yen-denominated individual annuities and endowment insurance plans have completely lost their appeal. In the wake of the bankruptcy of Lehman Brothers as well, sales of variable annuities that dominated the landscape for a while as a typical savings product sold on an over-the-counter basis by banks to that point in time also declined. In this environment, foreign currency-denominated annuities – denominated in such currencies as USD or AUD – with attractively high interest rates have been catching on in recent years. They can be described as typical savings-type products in the life insurance industry today. However, the complexity of products and the inadequate explanations given at the time of solicitation gave rise to a substantial number of complaints from clients. Negative newspaper articles on foreign currency-denominated annuities also contributed to the recent perception of these products as being synonymous with bad insurance products. The main complaints that are often made about foreign currency-denominated insurance products are as follows:

- I purchased this product on the recommendation of my banker but I was not aware that it was a foreign currency-denominated insurance policy.

- I was told that the principal was guaranteed but I was not told that there was a foreign exchange risk.

- I was not aware that there was a deductible applicable on surrender.

- I was not given any explanation on time-lag margins.

- I was under the impression that the savings rate written in the prospectus was the actual investment yield.

Generally speaking, insurance products are the central part of a commercial operation in which an insurance company brings together uncertain risks from many clients and charges a fixed amount known as premiums in return. On the other hand, foreign currency-denominated insurance is a special type of insurance product that has clients assume an exchange rate risk and a number of other risks in order to obtain high yields. Thus, in order to have a client sufficiently understand the contents of a product, it is vital that a careful explanation be provided to him or her at the time of solicitation. This is even more applicable if elderly clients are the main targets of a product. While it is necessary for an elderly client to simultaneously understand explanations concerning all financial instruments in the event that the monetary assets he or she owns are to be allocated among investment trusts, fixed-term deposits, foreign currency-denominated insurance, and more for the purpose of diversifying risks, this is difficult to realize in practice. In addition, even if a client were to correctly understand explanations and sign a letter of intent at the time of solicitation, it is not realistic to suggest that he or she will continue to correctly remember the details of a complex product over an extended period of time after enrolment. Such circumstances could be the main reason for the complaints mentioned earlier. Of course, companies need to endeavor to make their foreign currency-denominated insurance products as simple as possible to avoid misleading clients. Amid a sluggish interest-rate environment in Japan, expectations of high interest yields – albeit on a foreign-currency basis – are what is attractive about foreign currency-denominated insurance products. If an appropriate solicitation management system can be put in place, I believe that a foreign currency-denominated insurance product is hardly a bad savings-type option and should continue to be sold in the future.

Incidentally, it was decided that all new foreign currency-denominated insurance policies would be added for coverage under the standard underwriting reserves beginning in April 2022 in order to overcome the numerous complaints that arise in connection with foreign currency-denominated insurance. Insurance companies are required to build up a conservative level of underwriting reserves based on prescribed standards. Foreign currency-denominated insurance that is denominated in U.S. dollars and Australian dollars are covered. While the impact on foreign currency-denominated insurance with level premium payments seems to be limited, a certain impact on foreign currency-denominated insurance with premiums paid in a lump sum is conceivable. Consequently, there are cases in which a life insurance company may need to revise products, increase capital, or arrange for reinsurance.

(11) Changes in rules governing corporation taxation

There are several ways you can categorize life insurance products. One way is to divide them between (1) individual insurance and (2) corporate insurance.

Individual insurance (1) is insurance for individual clients that is designed to provide protection in the event that something happens to the client or to build up assets for the client.

Corporate insurance (2) is simply insurance that is designed to promote the welfare of managers and employees where the policyholder is a corporation rather than an individual. What I wish to discuss here is an insurance product – known as corporate-owned life insurance (COLI) – that is designed to have a tax-saving effect with a focus on the fact that a corporation can treat premiums in whole or in part as deductible so long as the policy is canceled prior to the end of the term of insurance. By posting paid premiums as deductible expenses, the profits of a company can be reduced to lessen the tax to be levied. By taking such measures as canceling the given insurance policy and appropriating the surrender value in the year in which an expenditure, such as retirement payments for officers, is incurred, a company can reduce the actual amount of corporate tax liability over the long term. While increasing-term insurance has long been known as a tax-saving product, other types of insurance, including term insurance and cancer insurance, have been used in sales settings as tax-saving insurance options. Tax-saving insurance is still insurance, which means that an explanation of the coverage provided should be given at the time of solicitation. However, there have been problems when explanations focusing on only the tax-saving effect have been given. Sales of tax-saving products have long been promoted primarily by foreign-affiliated and small to medium-sized life insurance companies, but this had never developed into a significant issue. Whenever an issue was discovered, the National Tax Agency responded by issuing individual notices and revising the tax rules and sought to make adjustments. Whenever the tax rules were revised, however, life insurance companies developed new tax-saving products in a vicious cycle that went on for decades. These insurance products have been especially attractive to corporations with positive earnings against the backdrop of persistently low interest rates.

In 2017, however, a major life insurance company that had never previously been proactively involved in tax-saving products began selling term insurance that could be used to maximize the tax-saving benefits, which prompted many other life insurance companies to follow suit and launch similar term insurance policies, thereby leading to a boom in the life insurance industry. It goes without saying that none of this would have been an issue as long as an explanation was provided with a focus on protection. In actual sales settings, however, explanations that focused only on the tax-saving effects were often given. As a result, the National Tax Agency carried out major changes to the way term insurance for corporations is subject to tax treatment. Since an announcement regarding these changes was made on February 14, it was sarcastically referred to as the *Valentine Day Shock* or *Black Valentine*. Many life insurance companies and sales agencies came to be affected. Among these entities, some life insurance companies and sales agencies specializing in the sale of tax-saving products were compelled to change their business model.

Even after the tax rules were changed by the National Tax Agency, some life insurance companies and sales agencies proactively sold insurance products designed to provide a tax-saving effect. One was known as a name-change plan whereby a corporation becomes the policyholder and enrols in a low surrender value-type increasing-term insurance plan with a low surrender value at the beginning of the term of insurance; if the name of the policyholder is changed from that of the corporation to that of an individual after the passage of a certain amount of time, the asset can be transferred with very little capital transfer tax charged. Another involves long-term care insurance for which the requirement for the payment of benefits is a relatively minor need for long-term care; if the beneficiary is a relative of the insured person rather than the insured person and the benefit amount is set to a high amount, benefits can be paid to the relative in question on a tax-free basis. With respect to these two points, the National Tax Agency issued a notice for the revision of rules known as the White Day Shock in March 2021; these revised rules came into effect in June of that year. The main point of these revised rules was to apply the previously mentioned changes to the way term insurance for corporations is subject to tax treatment retroactively to the time of these changes. While some industry officials argued that this represented an infringement of their vested rights, the National Tax Agency asked the life insurance industry in 2019 to "henceforth stop selling insurance to corporate clients through the promotion of taxation effects". In light of this request, this was a response that was clearly predictable. While it appears that there are life insurance companies that are undeterred and are endeavoring to develop new tax-saving effects, I believe that it is highly likely that the National Tax Agency in such cases will take similar action. Accordingly, sales of corporate insurance based on the use of tax-saving effects will certainly dwindle even if they never completely go away.

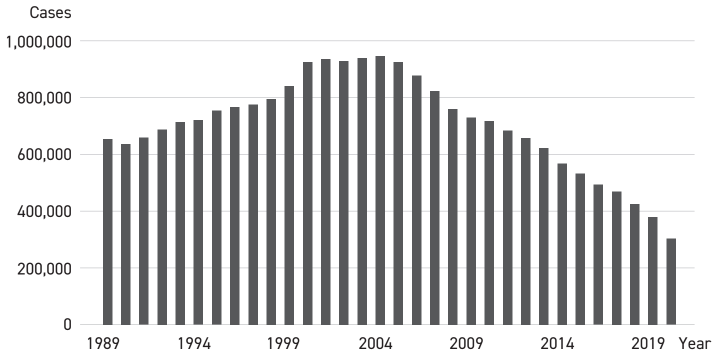
(12) The evolution of driver assistance and automated driving technologies

As has been excitedly covered by plenty of newspaper articles in recent times, driver assistance and automated driving technologies in automobiles continue to evolve. Many driver assistance technologies, including collision damage-mitigation braking and lane-keeping assist features, have already been commercialized. The national government has also engaged in efforts to spread automatic braking and other safety technologies as part of measures to prevent accidents caused by elderly drivers, such that many passenger vehicles are now equipped with automatic braking features. In addition, automatic driving technologies range in level from level 1 to level 5. In addition to automobile manufacturers, IT companies have also entered the fray to cause competition for development and struggles for leadership to intensify around the world. I am sure that many people saw the news story in which Japanese manufacturers announced that they will “launch the first automobiles equipped with level 3 automated driving technologies in the world in 2021”. I believe that the day is not far off when fully automated driving will be realized not just on highways where such technology can be easily introduced but also on general roadways.

Incidentally, net premiums written for automobile-related insurance (voluntary automobile insurance and automobile liability insurance) have conventionally accounted for approximately sixty percent of total premiums written in the non-life insurance industry but it is clear that the impact of the evolution of driver assistance and automated driving technologies will be strong. This is because the development of these technologies will reduce the incidence of traffic accidents. Of course, it will take quite a bit of time for all automobiles in Japan to become fully automated and for all roads in the country to accommodate this new reality. Until that time, traffic accidents will continue to occur but should definitely decrease gradually.

Figure 13 shows the number of traffic accidents that have occurred in Japan. After peaking in 2004, traffic accidents have been declining and were reduced in number to approximately forty-five percent of the peak level for this statistic by 2020.

Figure 13 Number of traffic accidents occurring in Japan



Source: Statistics on Road Traffic (National Police Agency)

Automobile insurance policies underwritten by non-life insurance companies have benefited greatly from this positive development. Favorable loss ratios in recent years have allowed companies to generate high earnings and this state of affairs is expected to persist for the next little while. Since the term of insurance for an automobile insurance policy is, in principle, one year, the reference loss cost rate for automobile insurance as calculated by the General Insurance Rating Organization of Japan decreases with each passing year in line with the actual loss rate, which means that high levels of profitability can only be enjoyed until such time that a premium revision is carried out.

(13) Increase in natural disasters

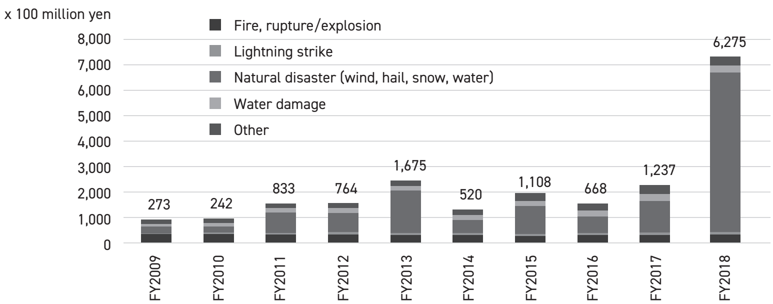
Fire insurance is an insurance product that is indispensable for all clients – both individuals and corporate – and has long been positioned in the non-life insurance industry as a mainstay product after automobile-related insurance. Modern fire insurance is not purely an insurance product that compensates only for the risk of fire. Rather, it provides a broad spectrum of coverage, including thunderbolt strikes, earthquakes, and such examples of natural disasters as typhoons and snow as well as water leaks, theft, and damage. In particular, two types of fire insurance providing coverage for the homes of individual clients –fire insurance with a narrow scope of coverage and homeowner's comprehensive insurance with a wider scope of coverage – used to be sold by all non-life insurance companies.

However, in a time of insurance liberalization, non-life insurance companies came to develop and sell their own proprietary fire insurance plans. While homeowner's comprehensive insurance constitutes the basic insurance product in this area, each company has contributed its own unique ideas for coverage to bring forth fire insurance policies that generally cover a wide range of risks.

In recent years, however, the number of incidents involving fire has been declining overall in part due to the proliferation of homes with fire-resistant structures. On the other hand, the risk of natural disasters has increased substantially.

Figure 14 shows insurance payouts for fire insurance by type of incident affecting residential properties and reveals that insurance payouts for natural disasters (wind, hail, snow, and water) have increased substantially in recent years.

Figure 14 Fire insurance / Claims paid by type of incident affecting residential properties



Note: Written basis aggregate values in fiscal year 2018 only (method of aggregating figures posted in the given fiscal year)

Source: Aggregate figures calculated according to the method of aggregating posted figures as outlined in the "Overview of Fire Insurance and Earthquake Insurance" (as issued by the General Insurance Rating Organization of Japan)

We are hearing more and more news about residents being forced to evacuate due to not just earthquakes but also typhoons, heavy snowfalls, and other natural disasters in recent years. It is said that these events are due to the effects of global warming. While losses due to natural disasters were relatively low in fiscal year 2020, we expect to continue seeing a significant volume of natural disasters for the foreseeable future. Non-life insurance companies have been paying out huge sums in claims for losses caused by these natural disasters, as a result of which the balance of receipts and disbursements for fire insurance has deteriorated significantly. In addition, while non-life insurance companies have been building up catastrophic loss reserves in anticipation of the occurrence of massive losses in the future, the balance of these reserves is declining due to the high frequency of natural disasters to give rise to a serious management issue.

(14) Threat of cyber risks

Since the turn of the century, the frequency with which the Internet is used in business and the personal lives of people has increased significantly to become an inseparable part of the fabric of social life. Moreover, the recent spread of COVID-19 has led to the promotion of the use of the Internet at many companies, such that meetings are now being conducted online, internal decisions previously made on a paper basis are now being made through apps, and goods are now being purchased via e-commerce sites. Amid these dramatic changes in the environment, cybercrimes became increasingly sophisticated and many individuals and companies came to be victimized. Cybercrimes come in an array of different types, including email fraud, the theft of financial data, and malware and ransomware attacks. Fraudulent emails in the past used to be easily recognizable at a glance. These days, however, cyberattacks – such as those involving the production of fake websites that are virtually indistinguishable from a real e-commerce site – have become so sophisticated that you cannot completely prevent them even if you understand what they are on an intellectual level.

In order to prevent cyber risks, companies need to build proprietary systems to defend themselves. Japan is lagging behind other countries in terms of the implementation of cybersecurity measures and there is also a shortage of cybersecurity professionals in this country. According to the 2017 Actual Condition Survey on Corporate CISOs and CSIRTs as released by the Information-technology Promotion Agency, companies that have a special section (person) in charge of a system for dealing with information security measures accounted for no more than 45.2% of all companies in Japan and there was no section dealing with such matters in over 15% of all cases. It is believed that information security measures will continue to constitute a serious management issue.

In response to the expansion of damage caused by such cyber risks, non-life insurance companies proactively sell insurance to compensate for damage caused by cyber risks. These products offer a wide range of features, including compensation for liability for damage in the event of a leakage of customer information, compensation for the costs of dealing with different types of incidents, and compensation for a loss of profits and sales of these products are expected to continue growing in the future. While the market for cybersecurity insurance in Japan is still small, it has become a major market in the United States and is thus expected to also grow in Japan. It goes without saying that this kind of insurance would be insufficient if it only provided insurance functions in terms of compensation for the different costs that are incurred in the wake of an incident. Since consulting services for building a sufficient security system also need to be given to corporate clients, this is a type of insurance product that truly tests the comprehensive capabilities of non-life insurance companies.

(15) International capital controls

In Japan, the concept of a solvency margin ratio was introduced when the Insurance Business Act was amended in 1996. This is an indicator of the soundness of an insurance company and works by measuring the “extent to which an insurance company has enough capacity to pay for risks that exceed normal expectations". Generally speaking, the accounting for an insurance company is complicated, such that it is difficult to ascertain the soundness of the company just by looking at its financial statements. The solvency margin ratio, however, is converted into a simple figure like 400% or 600% that can be easily understood as an indicator even by clients.

Incidentally, a healthy portion of liabilities for an insurance company consists of the underwriting reserves that are set aside in anticipation of paying claims and other amounts in the future. The method by which these reserves are calculated uses the so-called "lock-in method", such that figures are not reassessed at fair value each time accounts are settled or each year. Therefore, underwriting reserves for an insurance policy with a long term of insurance for which a previous high expected rate of interest has been set will be undervalued in the current low interest rate environment. For example, let us say that the expected interest rate for an underwriting reserve corresponding to an insurance policy sold in the 1990s was 5%. Since calculations for the settlement of accounts today would still be based on an expected interest rate of 5%, the amount of the underwriting reserve would be far less than the amount that would be calculated at the lower expected interest rate that is currently in effect. Of course, this should not be that big of a deal if an insurance company purchases public bonds whose duration matches that of the insurance policy in question at the time the insurance contract is concluded. The term of insurance under a life insurance policy, however, is typically long enough that there are few public bonds in circulation that can be matched with such insurance policies as a whole-life insurance policy. Some of you may have read a recent article that described how life insurance companies jumped at the chance to purchase fifty-year bonds issued by a major corporation. The common approach is therefore to buy public bonds circulating in the market and switching to other public bonds at some point in time. Nevertheless, as concerns the fact that interest rates have been declining over a long period of time, it has become exceedingly difficult to maintain high yields in line with insurance policies that correspond to the high expected interest rates of the past. Thus, the interest rate risk to life insurance companies selling insurance policies with ultra-long terms of insurance has long been recognized as an important issue.

It is under these circumstances that financial authorities the world over have continued to study the introduction of new capital regulations. In response to the adoption of international capital standards for insurance to take effect beginning in 2025 at an annual meeting of the International Association of Insurance Supervisors (IAIS) held in November 2019, the Financial Services Agency in Japan decided to follow suit. Under the new standards that were introduced accordingly, the solvency margin ratio is to be calculated on an economic value basis. In other words, both assets and liabilities are to be assessed at market value in calculating the solvency margin ratio. With respect to insurance liabilities in particular, mortality rates and yields are to be calculated through the use of current values. Thus, it is expected that life insurance companies that hold huge volumes of insurance policies corresponding to high expected interest rates that were sold in the past will become mired in a difficult situation. Of course, these companies are not required at this moment to revise all accounts in their financial statements to market value; the change is expected to only affect the calculation of solvency margin ratios. While companies often used to set relatively high expected interest rates for indemnifying products from a competitive standpoint, this situation will compel them to set more conservative expected interest rates going forward.

5 Impact of COVID-19

The growing spread of COVID-19, which began to run rampant in 2020, continues to cause serious damage to Japan and shows no sign of coming to an end yet. In this section, I would like to explore the impact that COVID-19 has had on the social environment as well as the impact on the insurance industry.

(1) Further decline in the birthrate

Japan has always been a unique society in terms of its very low birthrate and aging population. While its population has been shrinking in recent years due to its low birthrate, the spread of COVID-19 infections caused the birthrate to decline even further. According to the Vital Statistics (Ministry of Health, Labour and Welfare; December 2020), 872,683 births were recorded in 2020, which represented 25,917 fewer births over the preceding year and the lowest number of births ever recorded in the statistical history of Japan. This was due not just to the large number of people who avoided going to hospitals out of a sense that the risk of going to a hospital for childbirth was too high but also to the pervasive pessimism about the future of Japan that had taken root. When you actually speak with young people, you realize that there are very few people who imagine a positive future for Japan. Thus, I believe that the birthrate in Japan is very highly likely to remain low for the foreseeable future. While the population of young people will consequently shrink, advancements in medical technology will continue to extend life expectancy among the elderly, which means that Japan's population pyramid is expected to become even more distorted.

As a result, Japanese companies will not just employ foreign nationals but also look to the elderly to secure workers. For workers as well, it is generally understood that it is difficult to lead a life in old age sufficiently with only proceeds from a public pension; this issue is referred to as the so-called “20-million-yen-for-old-age problem”. Accordingly, there are many people who wish to continue working even into their golden years. On this note, Japan has also been referred to unfavourably as a “retirement-less society”. Against such a societal backdrop, the government revised the Act Concerning the Stabilization of the Employment of Older Persons and the Employment Insurance Act. Beginning this April, companies will be required to raise the age of retirement to seventy years, albeit through provisions that require that an effort to that end be made. It is said that these provisions will eventually be made obligatory. In other words, the more the average life expectancy for Japanese people increases, the more that moves to extend the retirement age will be accelerated.

In addition, the insurance industry has been seeing more and more insurance companies these days promoting new initiatives that primarily target elderly persons for sales.

(2) Increase in the burden placed on medical institutions

The impact of COVID-19 gave rise to a shortage of hospital beds at many medical institutions and caused the treatment of conditions that did not need to be carried out urgently to be deferred. The working environment for healthcare workers also continues to be severe and shows no signs of improvement. This state of affairs might continue not until COVID-19 is brought under control but until it is completely eliminated. In this context, the shortening of hospital stays could be accelerated beyond what we have seen to date, in part to help keep increases in national healthcare costs under control.

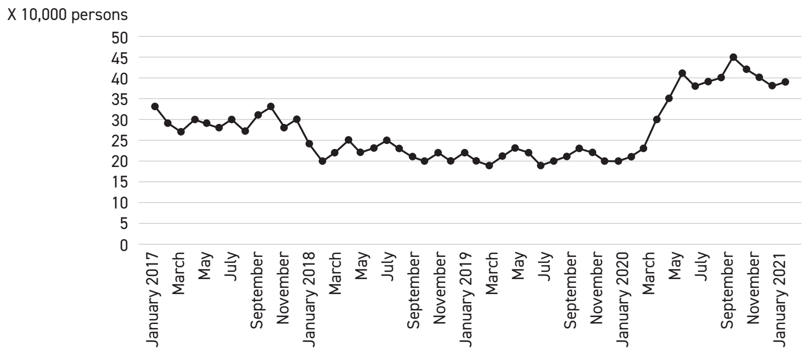
It was also decided that the percentage of medical costs to be paid on an out-of-pocket basis by latter-stage elderly persons (seventy-five years of age or older) whose income is at least a certain amount would be increased from ten percent to twenty percent in the fall of 2022. The fact that this percentage was raised despite careful deliberations amidst the reluctance of the elderly to receive medical treatment due to the impact of COVID-19 appears to indicate this situation was truly unavoidable from a financial standpoint. It is said that approximately 3.70 million people will be affected by this change. In order to maintain the national government's healthcare finances at a sound level into the future, I believe that it is highly possible that the percentage of medical costs to be paid on an out-of-pocket basis will increase further.

Against this backdrop, expectations for medical insurance sold by private-sector insurance companies are rising and such insurance will likely continue to make proactive inroads into the market as something to complement the public medical insurance system.

(3) Economic stagnation

Due to the spread of COVID-19 infections, many companies – primarily those operating in the service sector, such as restaurants and tourism operators – suffered losses. As a result, the number of unemployed persons grew significantly as shown in Figure 15.

Figure 15 Number of completely unemployed persons due to employer or business reasons (original figures)



Source: *Labor Force Survey (Basic Count)*, Statistics Bureau, Ministry of Internal Affairs and Communications

Of course, jobs could come back if COVID-19 were to be completely eliminated. However, it is hard to believe that economic activities could be immediately restored to normal levels. Moreover, tax increases in the future are unavoidable, such that it is undeniably possible that the Japanese economy will decline further irrespective of whether or not COVID-19 were to disappear. Indeed, the Japanese economy failed to grow during the period of twenty lost years after the collapse of the bubble economy. These days, only a few companies that are internationally competitive remain. Of course, some companies grew rapidly upon seeing the spread of COVID-19 infections as a business opportunity and could yet become international companies in the future.

The impact on the insurance industry will likely consist of greater price competition in terms of premiums than before for all sorts of insurance products due to client demand. Amid clamoring over the disintegration of the practice of lifetime employment, it is expected that demand for options to deal with the risk of disability will increase due to uncertainty regarding future employment. In addition, non-life insurance companies that can commercialize new risks that arise due to changes in the social environment are able to see business opportunities in present circumstances by precisely ascertaining the business risks facing companies that are rapidly growing thanks to COVID-19 and developing and providing products that meet the needs of these companies.

(4) Continuation of the low interest rate environment

Tax revenues dropped due to COVID-19 and caused government-issued bonds to more than triple in terms of amount in fiscal year 2020 over the preceding year to reach 112,553.9 billion yen. As the economy deteriorates, it is hard to believe that the Bank of Japan might change its interest rate policy any time soon, such that Japan's low-interest rate environment will probably stay intact for the time being. In addition, interest rates in the United States, which to date have been at a relatively higher level than interest rates in Japan, were temporarily lowered as the result of a quantitative easing policy whereby the Federal Reserve Board (FRB) lowered the policy rate to almost zero percent in response to the impact of COVID-19 but have since been on an upward swing.

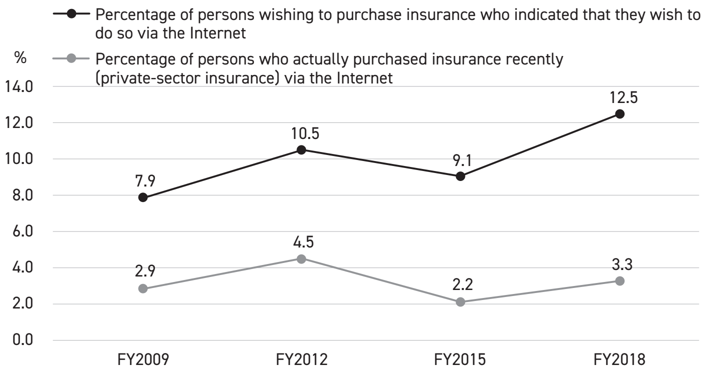
At the same time, the stock market is doing well and is currently in a holding pattern at a very high level despite a substantial fall in the Nikkei Stock Average in March 2020. Some people might assert that we are in a bubble that will soon burst while others might argue that we are not in a bubble, that stocks are appropriately priced right now, and that stock prices will continue to be maintained at a high level once COVID-19 comes to an end. Since I am not an expert on the economy, I will avoid saying anything about future trends in interest rates or stocks, but certain conclusions may have already been reached by the time this book is published. This economic environment has an exceedingly large impact on insurance companies and products and is closely tied to the management strategies of insurance companies.

(5) Awareness of social distancing and the rapid transition to a net-based society

Before COVID-19, the entire world was connected. Global interactions flourished and distances among people around the world were shrinking. The spread of COVID-19 infections, however, gave rise to the term *social distancing* and utterly transformed the way we behave. We put greater distance between us and non-family members and actively sought to avoid contact with strangers. As this way of living has been continuing for more than a year, I believe that social distancing has embedded itself deep into our psyche. In addition, many companies pursued measures to bring their infrastructure onto the Internet in order to allow their employees to work from home, as a result of which their business models themselves became transformed and corporate activities were required to change substantially. However, I believe that it is more accurate to say that COVID-19 bolstered previous efforts, however passive they may have been, to shift to the Internet than it is to say that COVID-19 caused companies to change course in a new direction. Even if COVID-19 eventually disappears, social distancing as a practice will probably remain embedded in our psyche and it is unlikely that the online business models of companies will revert back to what they were previously.

In addition, online selling has come to account for a very high percentage of all sales as a sales channel in the insurance industry. As there are many people who have learned to examine and purchase insurance products on their own via the Internet, I believe that online selling has become a sales channel that will remain highly promising even after COVID-19 comes to an end.

Figure 16 Percentage of persons wishing to purchase insurance who indicated that they wish to do so via the Internet and percentage of persons who actually purchased insurance recently (private-sector insurance) via the Internet



Source: *National Actual Condition Survey on Life Insurance* (Japan Institute of Life Insurance)

Figure 16 outlines an analysis of the results of a national survey on actual conditions related to life insurance as conducted by the Japan Institute of Life Insurance. Even though "the number of persons who would like to purchase insurance via the Internet" is trending upwards, "the number of persons who have actually purchased insurance via the Internet" remains flat. In other words, it is reasonable to believe that COVID-19 induced clients who may have been thinking about purchasing insurance via the Internet and who were ultimately unable to take actual action towards that end to instead make it happen by using the free time that was generated by working from home.

(6) Utilizing new technologies

As mentioned earlier, the use of FinTech has been proactively promoted by numerous financial institutions in recent years and companies have been competing with one another in terms of the way FinTech is being implemented. Many types of office work that has been carried out to date by way of a labor-intensive approach are being replaced by AI, RPA, and other technological tools in an attempt to reduce the number of workers that are employed. According to media reports, banks around the world announced layoffs in excess of 85,000 workers in 2020. Many articles have been written about Japanese mega-banks pursuing plans to reduce their workforce through the use of technology. These developments are not just part of a transient fad and will undoubtedly continue. More and more companies that operate call center departments, which have traditionally been manned by people, are introducing virtual agents to deal with customers through AI chat bots based on the use of virtual characters brought to life by computer graphics and animation. As mentioned earlier, automated driving technologies for automobiles have evolved at a pace far greater than expected as automotive manufacturers and IT manufacturers around the world have also been competing with one another through investments of huge sums of money. It goes without saying that this has also been boosted by consideration for SDGs, which entail environmental contributions made by eliminating gasoline-powered vehicles and replacing them with electric vehicles (EV). While the development of drones is also rapidly accelerating and their use in war zones is often covered in news stories, this is essentially a technology that can be used for a broad range of applications, such as the provision of support for victims in areas affected by a natural disaster or the delivery of goods to underpopulated areas. The evolution of virtual reality (VR) is also ongoing. VR is a technology that allows users to experience settings and worlds created with a computer and that makes it possible to experience virtual space by donning VR goggles or some other wearable device. Originally used in the gaming industry, this technology is also being increasingly used in business. I believe that online meetings will continue to evolve and eventually become a technology to make it visually appear as if people are participating in a meeting together without having to physically gather in the same location. This will lead to a change in the conventional approach to work, whereby people had to live in close enough proximity to the office to be able to commute there, and is also expected to significantly reduce the need to undertake time-consuming business trips.

With the spread of COVID-19 taking place amidst these developments in the area of FinTech, insurance companies accelerated the pace with which they were moving operational processes online. Once reforms begin, we should see operational transformations based on the use of new technologies take place everywhere irrespective of what is happening in terms of COVID-19 infections.

(7) A greater need for indemnifying products

The spread of COVID-19 infections has caused an increase in the number of cases in which indemnifying products are purchased by people who had been confident enough about their health to choose to forgo purchasing insurance but who have been seeing more and more people in their lives afflicted by COVID-19. Among indemnifying products, there has been an especially large increase in the number of people who have purchased medical insurance. Since hospitalization or home care in response to a COVID-19 infection can come to an end in as short a period of time as two weeks if the person is asymptomatic or only mildly affected, many clients choose to purchase medical insurance with a focus on lump-sum hospitalization payments that can be received on a lump-sum basis irrespective of the length of stay. Insurance companies themselves proactively advertise on website banners and elsewhere online by emphasizing lump-sum hospitalization payments of, for example, 200,000 yen irrespective of the length of hospitalization.

Incidentally, there were far more deaths from COVID-19 in the United States than in Japan. As of September 2021, a very high rate of one death per 500 people had been reached in that country. Some news stories indicated that the number of life insurance subscribers had been increasing as a result. Many young people had been purchasing life insurance online. If a new variant were to arise to cause the number of deaths from COVID-19 to rise sharply in Japan in the future, it is believed that the number of death insurance subscribers would increase in Japan as well.

(8) Further decline in the number of traffic accidents

The fact that the evolution of driver assistance and automated driving technologies in recent years has led to a continuous reduction in traffic accidents since the turn of the century was mentioned earlier. Traffic accidents have been decreasing even more since 2020, when COVID-19 infections began to spread. The number of traffic accidents, persons injured in traffic accidents, and fatalities caused by traffic accidents recorded in fiscal year 2020 declined by 19%, 20%, and 12%, respectively, on a year-on-year basis. This is likely attributable to people voluntarily deciding to stay indoors to combat the spread of COVID-19 infections and the corresponding reduction in the volume of traffic on public roads.

The actual loss rate for automobile insurance, which constitutes a current revenue source for non-life insurance companies, is now better than ever and was said to be sufficient to offset reductions in sales due to the increase in COVID-19 infections. Of course, if the loss rate improves, the reference loss cost rate declines. In addition, most automobile insurance plans have a term of insurance of one year. Since premiums for automobile insurance decline in conjunction with reductions in the reference loss cost rate, the fact that high earnings this fiscal year will not necessarily mean that high earnings will likewise be realized the following fiscal year is a source of concern for management executives at non-life insurance companies.

6 The future of the insurance industry

The fact that the spread of COVID-19 infections caused developments in the life insurance industry to accelerate is as I have described above. Let us now explore how the future of the life insurance industry will unfold.

Let me begin by stating that the situation is not at all favorable for both the life insurance industry and the non-life insurance industry. This is because, as I have explained earlier, the birthrate continues to decline and the population continues to age as the Japanese economy remains mired in a state of stagnation, such that the Japanese population and market are highly likely to shrink in the future. To make matters worse, since the low-interest environment has continued to persist for many years, insurance companies are finding it difficult to generate investment earnings and indemnifying products are losing their appeal.

Amid these circumstances, the decision on the part of many major life insurance companies and non-life insurance companies to make a foray into foreign markets consisting primarily of countries with rising populations is an exceedingly rational one. However, I do not believe that the situation is always one in which we are compelled to abandon the domestic market here in Japan. If we take the right approach and make the right decisions, there is probably plenty of room for growth.

Let me expound on this point on an industry-by-industry basis.

When it comes to the life insurance industry, you should expect to see, in simple terms, the size of the market for sales inevitably shrink as the population decreases since life insurance products are intended to cover *people*. In addition, since the sales situation for savings-type products, a type of product in which the life insurance industry specializes, is difficult, there does not seem at first glance to be a way forward for continued success. However, if the population of elderly persons increases, the need for new insurance products will also arise accordingly. For example, the market has not become sufficiently mature in various areas in which growth can be expected, including with respect to insurance to cover the insured person's own funeral expenses, insurance for persons who are already undergoing treatments for a medical condition, insurance related to areas in which we can expect to see an increase in the number of patients suffering from dementia and other conditions, and insurance related to the risk of unemployment.

In other words, if we can develop groundbreaking insurance products in line with changes to the social environment, it is definitely possible to increase sales through an expansion of the market.

In contrast to the life insurance industry, the non-life insurance industry is not as affected by the decline in the population since it broadly underwrites losses stemming from accidental incidents. The payment rate for automobile insurance, which accounts for a large proportion of sales, continues to improve significantly; this state of affairs is likely to persist for the time being. However, advancements in automated safe driving technologies will certainly reduce the incidence of traffic accidents and cause the automobile insurance market itself to shrink. The high frequency with which natural disasters have occurred in recent years has continued to worsen the balance of receipts and disbursements and the impact of global warming will surely cause more of the same to occur in the future. Since accident insurance, like life insurance, covers people, the size of the market will surely shrink in the years to come. New types of insurance, however, could come to represent future sources of earnings if new risks arising from the recent emergence of an online society and new business models can be skillfully commercialized.

Allow me to explain each item in detail.

(1) Markets and insurance products

a. Life insurance industry

The primary market for sales in the life insurance industry today is the individual segment. Within this segment, the main targets of life insurance companies are potential clients in their twenties to forties; these companies focus on pitching indemnifying products to these clients. This is because these are the years in which milestone life events – such as finding a job, getting married, having children, and contracting adult diseases – occur to cause the need for life insurance to increase.

While modern life insurance products provide exceedingly complicated forms of coverage, I believe that companies will be required to respond to societal demands brought about by worsening economic conditions and unemployment by offering insurance products that are simpler and that charge lower premium levels in the future. In other words, we are talking about the following types of insurance products:

(i) Death insurance

The desire for coverage to pay for family living expenses and childcare costs in the event that one dies at a young age remains as powerful as ever. Due to the worsening economic environment, however, it is expected that there will be more people who seek high amounts of coverage at low premium levels. For this reason, it is conceivable that fixed-term insurance products, such as term insurance and income protection insurance that offer high amounts of coverage at low premium levels for a fixed term will grow in terms of percentage of all sales to a greater extent than whole life insurance for which high premiums are charged.

(ii) Medical insurance

In response to the trend towards shorter hospitalizations, medical insurance that offers lump-sum payments not tied to the length of a hospital stay are gaining in popularity rather than medical insurance that offers hospitalization benefits tied to the length of a hospital stay. It is expected that this type of medical insurance will remain popular given the ease with which it is easy to understand even as hospital stays are expected to become even shorter in the future. However, competition for developing medical insurance products is extremely fierce among independent agents, such that there is the sense that competition is merely one of specifications with an eye on independent agents, thereby making these products into insurance products that cannot be expected to be as highly profitable as they once were. Thus, simple price competition with medical insurance will ultimately come to an end in the same way that we once saw with automobile insurance and companies will then compete based on the coverage they each offer their clients.

In addition, one approach to avoiding simple price competition is to offer health promotion-type insurance. By providing added value to clients other than the payment of insurance money and benefits, an insurance company can differentiate its products from the products of other companies.

(iii) Cancer insurance

Like medical insurance, cancer insurance has been undergoing intense competition for product development in recent years. Unsurprisingly, a strong aspect of this competition lies in the fact that it simply revolves around specifications.

There is a conventional approach whereby cancer insurance is sold as a cancer rider attached to medical insurance and an approach whereby cancer insurance is sold on a standalone basis; the approach that is used depends on each insurance company's product strategy. With cancer now being called a national disease of the Japanese people, there is no doubt that product development will be proactively pursued for both approaches. However, cancer is not an incurable disease. Presently, there are some specialists who believe that approximately sixty percent of cancer patients can be saved thanks to advancements in medical technology.

Moreover, medical technology to easily detect cancer at an early stage through samples of blood or saliva is also being developed these days. For this reason, cancer diagnostic benefits, which is highly popular as a coverage option, will likely not survive within the current framework of coverage. Certain measures could be taken, such as by limiting the cancers for which cancer diagnostic benefits will be paid to a certain stage or above or by setting different benefit amounts for each stage. Nevertheless, I believe that the primary focus will shift towards coverage for serious cancer treatments.

(iv) Disability insurance and income-protection insurance

As major insurance companies launched new products one after another in recent years, the profile of insurance products for unemployment rose rapidly. Opportunities to be showcased in special insurance features published in magazines also increased. It is believed that this is because the system of lifetime employment that supported the growth of Japanese companies in the postwar years had come to an end, thereby making it difficult for employees to entrust their future to the company for whom they worked and causing individuals to become aware of the risk of reduced income that would come with the loss of employment. Thus, the market for disability insurance can be expected to grow in size and the competition for the development of products related to this type of insurance among insurance companies will likely become increasingly intense.

At the same time, the birthrate is declining and the population is aging at an accelerating rate in Japan as mentioned earlier. According to the 2020 White Paper on Japan's Aging Society (Cabinet Office), those aged sixty-five years or older accounted for 28.4% of the population as of October 1, 2019; this figure is expected to peak in around 2040. For this reason, insurance companies will continue to engage in the same approach to sales activities for young people and will proactively seek to sell protection products to elderly persons, a segment that used to be targeted primarily for sales of savings-type products only. Elderly persons can now live longer thanks to advancements in medical technology and are increasingly expected to function as workers in society, such that their working environment is expected to expand in scope in the future. However, as you get older, the increase in the risk of contracting adult diseases and suffering from other types of illnesses and conditions cannot be avoided. In other words, it is expected that the lineup of insurance products for elderly persons who cannot enrol in a normal protection product because they are being treated for an existing condition will grow.

(v) Death insurance for elderly persons

Traditionally, death insurance for elderly persons has been sold for succession purposes and for the purpose of covering one's own funeral expenses.

It is against this backdrop that the demand for coverage for one's own funeral expenses has been increasing, in part due to the trend towards nuclear families in Japanese society. For such elderly persons, it is often difficult to pay high premium amounts, such that it is expected that death insurance for elderly persons will primarily consist of simpler whole-life insurance products and ultra-long-term insurance products in the future.

(vi) Medical insurance for elderly persons

When you get older, you often start to suffer from certain chronic conditions. A market for medical insurance to which relaxed underwriting standards apply that can be purchased even if you have chronic conditions has already been established and many insurance products for this market are already being sold. It is highly likely that this area will become a key battleground for life insurance companies in the future and further competition for product development will probably unfold. The reduced payment period for benefits found in medical insurance with relaxed underwriting standards in the past no longer exists and there is competition to expand the scope of coverage and lower premiums. Thus, competition that is merely in terms of specifications will, as with normal medical insurance, come to an end and will shift to competition for the development of highly unique insurance products that provide generous coverage for dementia and other illnesses and conditions specific to elderly persons. In addition, medical insurance for elderly persons should be required to provide added value in addition to the payment of benefits, such as by providing supplementary services designed to stop the progression of illnesses and conditions.

(vii) Disability insurance for elderly persons

At sales locations, there are more opportunities now to propose not just death insurance, medical insurance, and cancer insurance but also disability income replacement insurance to clients in their thirties and forties. It is expected that, with the increase in elderly workers, the number of clients who formulate old-age life plans for which they assume that they will still be working at the age of seventy or eighty years will rise. Accordingly, I believe that it is highly likely that disability income replacement insurance for elderly persons for which the underwriting standards have been relaxed for clients in their fifties and beyond will be developed in the future.

(Viii) Dementia and long-term care insurance

In recent years, many life insurance companies have launched dementia insurance, a type of insurance product that is garnering significant attention. The context for this can be found in a startling report issued by the Ministry of Health, Labour and Welfare, which states that there will be more than seven million dementia sufferers in Japan by 2025 and that dementia will affect one in five elderly persons aged sixty-five years or older. While dementia has long constituted a long-term care condition, long-term care insurance is a type of insurance product that many insurance companies have had difficulties selling to date. This is because clients in their thirties and forties have a difficult time imagining themselves suffering from a long-term care condition in the future. This is why some life insurance companies promote the selling of long-term care insurance by explicitly referring to dementia as a term that more easily gets through to general consumers. The status categories by level of long-term care required are required support 1 and 2 and required long-term care 1 to 5. In the past, the condition for the payment of benefits under long-term care insurance was that the person in question had to correspond to required long-term care 3 or 4 or above. However, there are more insurance products available these days that also pay out benefits for required support. Since the market is definitely expected to continue growing, it is likely that many insurance products will be developed and launched on the market to give rise to fierce competition in terms of sales. To this end, however, insurance companies will need to provide attractive coverage and supplementary services to motivate younger clients to purchase such insurance.

(ix) Savings-type products

Savings-type products are commonly sold to elderly persons for the purpose of diversifying risks for their retirement money and other funds and primarily consisted of variable annuities before the bankruptcy of Lehman Brothers and has since then primarily consisted of foreign currency-denominated annuities. However, it is possible that life insurance companies that will take on a more passive approach to selling foreign currency-denominated annuities will emerge in response to the rapid increase in the number of complaints lodged in recent years and the fact that foreign interest rates, which are higher than interest rates in Japan, are being lowered as a matter of policy in response to the spread of COVID-19 infections and will also be subject to standard policy reserves in April 2022.

Against this backdrop, some life insurance companies have begun to focus on re-selling variable annuities, in part because the stock market is roaring. As long as the stock market is doing well in a low interest rate environment, conditions for variable annuities are favorable and active sales are expected to continue. Life insurance companies focusing on selling savings-type products are nevertheless required to flexibly respond as they operate in an investment environment that is in a state of flux.

Incidentally, while foreign currency-denominated annuities and variable annuities were originally insurance products for comparatively wealthy clients, there are many people who are insecure about their old-age life plans, which means that you can expect to see demand for savings-type products for typical clients to increase in the future. This is because, since old-age funds could be depleted if you were to live to a very old age, greater longevity is regarded by some as a risk. Thus, it is possible that demand for tontines will rise in the future. Tontines are currently being sold by a number of life insurance companies. These are savings-type insurance products with considerable potential given that they can generate a certain amount of yield even under low interest rates by harnessing a lower return on death or a lower surrender value as a source of funds. If attractive tontines are sold in the future, they may very well grow into a substantial market.

So far we explained the personal market, from here we will talk about the group market in the life insurance industry. There are several types of group markets, a typical example of which is life insurance for company employees. In particular, the type of group insurance that can be voluntarily enrolled in with premiums to be assumed by employees is popular since a group discount that makes it more affordable than individual policies applies. This type of product will likely continue to be proactively sold in companies as part of the package of benefits these companies offer to employees.

On the contrary, there are two other types of insurance products for the group market that have garnered people's attention. The first is group insurance for all employees of a company. Premiums are fully paid by the company. Against the backdrop of labor shortages in companies, *health management* – which entails the strategic implementation of employees' health management and health promotion initiatives from a managerial perspective – has attracted significant attention as an effective way to increase the rate of employee retention. Many companies have already introduced comprehensive welfare group term insurance. By introducing group unemployment insurance for the entire workforce and other such insurance products as part of a company's benefits program, the attractiveness of the company can be considerably enhanced. For example, in the case of group disability insurance, a certain percentage of salary can be guaranteed until retirement if an employee can no longer work due to an injury or illness. This increases loyalty on the part of employees towards the company and allows employees to work with peace of mind. The introduction of such a benefits program can help prevent employees from quitting and lead to the recruitment of fresh, talented personnel. In addition, since all employees are covered, it is less susceptible to moral risks and adverse selection risks than with policies purchased by individuals, which means that a client can be provided with coverage that a life insurance company is typically not really eager to provide, such as coverage for infertility treatments and coverage for mental illness.

The second is group credit life insurance for persons who have taken out home mortgages. As an insurance product that is recommended by the bank when you take out a home mortgage, this type of insurance has been proactively sold by banks since around 1955 as an insurance product that is designed to pay off the outstanding balance of a home mortgage in the event that the insured person dies in the course of making mortgage payments. Since home mortgages represent an important financial instrument that generates valuable revenue for banks, group credit life insurance will no doubt continue to be sold. Group credit life insurance used to be an insurance product that only covered death or severe disabilities but now encompasses more and more options, including insurance products that pay out benefits equivalent to the outstanding balance of a home mortgage in such cases as when the insured develops cancer or becomes afflicted with any of the three major diseases (cancer, cerebral stroke, and acute myocardial infarction). For banks as well, the expansion of the scope of coverage is advantageous for obtaining additional interest or differentiating their loans from the home mortgages offered by other banks. Thus, we can expect to see revenue continue to increase through the introduction of new products in this category.

b. Non-life insurance industry

Next, I would like to explore the market and insurance products in the non-life insurance industry. Unlike the life insurance industry in which the sector catering to individuals is strong, the focus of sales in the non-life insurance industry as a whole appears to be the corporate sector. The reasons for this are as follows:

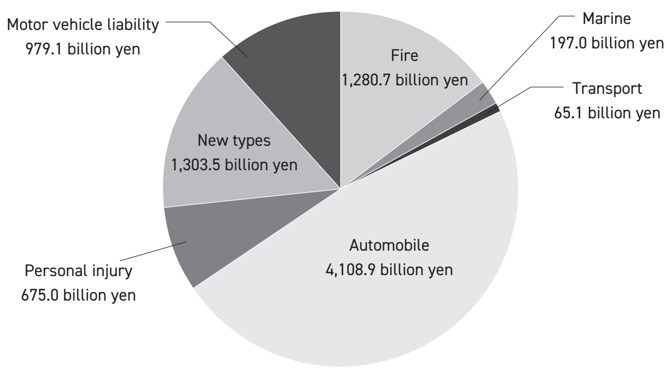
- Unlike life insurance that exists solely to cover people in terms of life and death and in terms of dealing with an injury or illness, non-life insurance can underwrite risks related to all sorts of chance accidents other than the life or death of a person. Thus, the commercialization and selling of insurance for risks arising in connection with corporate activities are inevitably made the focus of non-life insurance.

- Whereas life insurance companies build solid relationships with individual clients through their own sales representatives, non-life insurance companies have historically engaged in transactions through soliciting agencies for the most part. These soliciting agencies are closely linked to corporate activities, including with respect to the institutional agencies of corporate groups and dealer agencies. While non-life insurance companies underwrite insurance policies primarily providing automobile insurance and fire insurance coverage for many individual clients, the bulk of these policies are sold through corporate partners. For this reason, non-life insurance companies do not have many direct relationships with individual clients.

It goes without saying that this is not necessarily always the case given that some non-life insurance companies have their own exclusive professional agencies and that direct non-life insurance companies sometime sell directly to clients via online channels without going through soliciting agencies. However, the non-life insurance industry as a whole does not have a strong influence on individual clients. In light of the fact that the Japanese population is shrinking, it would be difficult to have high expectations of the individual sector going forward. As expected, the corporate sector will likely continue to be highly promising for the non-life insurance industry.

Non-life insurance companies have long endeavored to sufficiently strengthen their relationships with large companies. It has been pointed out for some time now, however, that they tend to avoid proactively working to make proposals to small to medium-sized companies that employ no more than 500 employees, in part due to considerations of efficiency when it comes to sales activities. Yet, when you realize that the size of a workforce increasingly does not reflect a company's strength, as demonstrated by the recent rise of FinTech ventures, you might begin to believe that it will also be important to focus on sales activities directed at small to medium-sized companies, in part as a way of making up-front investments.

Figure 17 Net premiums written (fiscal year 2019)



Source: Produced by the author based on materials released by the General Insurance Association of Japan

Figure 17 shows net premiums written by type of insurance in the non-life insurance industry today. I would like to describe what we expect to see for the types of insurance that account for bigger slices of the pie.

(1) Automobile-related insurance (automobile insurance + motor vehicle liability insurance)

Automobile-related insurance accounts for approximately sixty percent of the net premiums written for all non-life insurance and constitutes a mainstay product for many non-life insurance companies. As mentioned earlier, the evolution of driver assistance and automated driving technologies has led to a significant reduction in traffic accidents in recent years. In addition, revisions to the non-fleet bonus-malus system for automobile insurance that were implemented in 2012 led to the abolishment of the grade-deferred accident system, the application of an accident coefficient for three years following an accident, and higher premiums than for the same grade to which the same coefficient is not applied. These changes made it more difficult to make a claim in the event of a minor accident, gave rise to a dramatic improvement in the actual loss rate for automobile insurance, and significantly contributed to the profits of modern non-life insurance companies. While this favorable picture will no doubt persist for the time being, traffic accidents will become virtually non-existent someday if driver assistance technologies continue to evolve, thereby diminishing the raison d'être of automobile insurance. Of course, quite a lot of time will be needed to get to that point, such that today's automobile insurance will not become superfluous overnight. Nevertheless, it is inevitable that automobile insurance will someday lose its position as a revenue source in the non-life insurance industry. Accordingly, non-life insurance companies will be forced to look for new sources of revenue.

(2) Fire insurance

Fire insurance has for a long time reigned as a mainstay product second only to automobile-related insurance in the non-life insurance industry.

As mentioned earlier, however, profitability has worsened due to the high incidence of major natural disasters in recent years. Experts predict that natural disasters will continue to occur frequently due to global warming, such that it is difficult to expect that fire insurance will remain an insurance product that generates earnings. Since fire insurance is an insurance product described as being of an especially high public nature, it is socially unconscionable to raise premiums all at once. Recently, however, the General Insurance Rating Organization of Japan has been raising the reference loss cost rate in a short span of time. Non-life insurance companies have also raised premiums accordingly. While premiums will continue to be intermittently raised and while catastrophic loss reserves that have been depleted need to be restored and stabilized at an appropriate level of receipts and disbursements, the road ahead will be difficult to navigate. In addition, the current maximum term of insurance for fire insurance is slated to be reduced from ten years to five years in 2022. This too is a reflection of the inability to predict future natural disaster risks. For now, each large-scale natural disaster that occurs should continue to cause one's sense of security with respect to the loss rate to fluctuate up and down. If you were to seek to transform fire insurance into an insurance product that generates a long-term stable level of receipts and disbursements, it would be necessary to make fundamental product revisions, such as by expanding the scope of covered risks and substantially raising premium levels to dilute the share of natural disaster risks and by setting payment limits and deductibles for the provision of compensation for natural disasters. This is, however, not a very realistic option from a sales standpoint.

(3) Accident insurance

For accident insurance, a reference loss cost rate is calculated by the General Insurance Rating Organization of Japan as it is for automobile insurance and fire insurance. Accident insurance is a core item in the non-life insurance industry and has a long history. Most sales take the form of group policies in the context of benefit programs operated by companies.

As premiums are set based on group discounts according to the number of insured persons covered and on result ratings according to the actual loss rate, a certain level of premiums can be secured each year, but it is difficult to expect at least a certain level of profit. Moreover, since it is expected that many companies will reduce the number of employees in their workforce in line with the greater adoption of information technology, it would be difficult to make accident insurance an insurance product that could generate revenue for non-life insurance companies in the future.

(4) New types of insurance

New types of insurance is a collective term for non-life insurance other than automobile-related insurance, fire insurance, accident insurance, marine insurance, and transport insurance. It includes a huge number of specialized insurance products, such as theft insurance, construction work insurance, liability insurance, pet insurance, and credit insurance. The risks covered by new types of insurance are more unstable than what is covered by automobile insurance, fire insurance, and accident insurance. Some insurance products pay out insurance money exceeding 10 billion yen per accident. For such an insurance product, there is the possibility that a huge claims payment will be made. At the same time, there are also years when no accident will occur. An accurate analysis of receipts and disbursements cannot be undertaken without observing patterns over a long period of time.

Traditionally, insurance for companies was centered on insurance products for property managed or controlled by the company, such as buildings, plants, and vehicles. With the development of the Internet of Things (IoT) in business, however, the amount of property managed or controlled by companies is gradually shrinking and the risks faced by companies are changing to risks that are intangible. In fact, many non-life insurance companies are proactively acting to propose insurance products that cover cyber risks affecting companies. The spread of COVID-19 infections has also increased interest in the risks to business continuity. In the future, it is hoped that insurance products to cover new risks in connection with corporate activities will be developed. Furthermore, the commercialization of insurance products designed to cover such new risks could give rise to future sources of revenue for the non-life insurance industry.

When I speak to people in the non-life insurance industry, I sometimes hear negative comments about the future of the non-life insurance industry. ("Automobile insurance will eventually go extinct and fire insurance too continues to become less and less profitable, such that the future of the non-life insurance industry is dark indeed.") However, the fact that insurance products designed to cover all manner of accidental risks unrelated to the life and death of a person can be commercialized is a huge strength of non-life insurance, such that a situation that at first glance looks to be dire can be turned into an opportunity. At a time when global businesses are undergoing massive changes, the ability to correctly ascertain new risks and develop new products to respond to those risks is, I believe, the way forward. For example, just as product liability insurance emerged when the Product Liability Act (PL Act) was enacted in July 1995 and insurance for the protection of personal information emerged when the Act on the Protection of Personal Information was enacted in May 2003, changes in the world constitute some of the biggest business opportunities for non-life insurance companies.

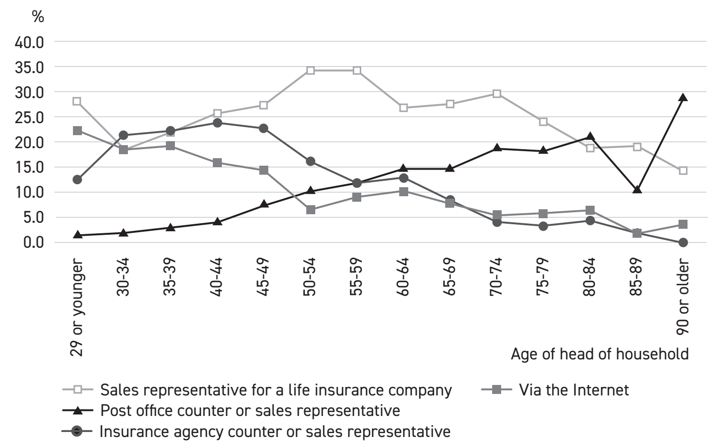
(2) Sales channels and solicitation management

First, I would like to describe sales channels from the standpoint of the life insurance industry and the standpoint of the non-life insurance industry.

a. Life insurance industry

The biggest sales channel in the life insurance industry is made up of sales representatives. The foundation of the life insurance industry in postwar Japan was built by people known colloquially as "life insurance ladies". In the past, they could visit the workplaces and cafeterias of companies both large and small and sell life insurance policies. In addition, many of them not only provided advice on insurance but also acted as advisors concerning all sorts of matters affecting clients, including work, marriage, and childbirth, and as community organizers. These days, however, the personal information of employees is subject to stricter standards of management and compliance requirements are imposed by companies. These changes have made it more difficult to access workplaces and resulted in fewer opportunities to come into contact with company employees. Thus, it is said that this sales channel is highly likely to decline in the future. At a time when more than a decade has passed since Internet-only life insurance companies first emerged on the scene, however, we see that sales representatives still wield enormous influence. To a significant extent, this is because, for a life insurance company that employs sales representatives, sales representatives are naturally high-achievers who help build up massive assets by securing many policies and are solidly backed by their companies. But that is not all. Among insurance products, life insurance in particular is not a product that clients are actively motivated to purchase. It is especially noteworthy that clients have a passive reason to purchase life insurance in a majority of cases. Unless this kind of insurance is recommended by someone else, no client would autonomously analyze his or her own future risks and happily purchase life insurance on the basis of his or her findings. Most clients first become aware of the need to purchase life insurance when something tragic or unfortunate happens to their own family, an acquaintance, a colleague, or someone famous. At such a time, a client will receive explanations and advice on his or her own life plan and family finances several times from insurance solicitors before deciding to purchase insurance. As an easy-to-understand example of this phenomenon, think about the many clients who became strongly aware of the risk of becoming infected by COVID-19 during the height of the pandemic and then chose to purchase medical insurance as a result. Purchasing an insurance product is a completely different experience from purchasing, out of curiosity, an amusing item that you just so happened to discover in the course of casually browsing an e-commerce site. Another reason is the low level of financial literacy among Japanese people. In Japan, there are probably very few people who can say that they learned anything about financial matters back when they were in school. A client with a low level of literacy about insurance can purchase life insurance with peace of mind by obtaining careful explanations from an insurance solicitor. Of course, there have also been many, many cases in which someone purchases life insurance on the recommendation of an acquaintance at or through work due to the character and commercial customs of Japanese people; this is unlikely to easily change anytime soon. Nevertheless, life insurance is regarded as the second-most expensive purchase in a lifetime after a home. For someone wishing to save money, reducing the amount spent on premiums paid monthly is a quick and easy solution. As more and more people work from home and the economy is expected to take a turn for the worst, there is no doubt that an increasing number of clients wish to understand the pertinent risks and purchase acceptable life insurance products on their own. Thus, insurance shops and other independent agencies as well as Internet-based direct sales will likely

Figure 18 Channels through which clients tend to enroll in insurance by age of the head of the household



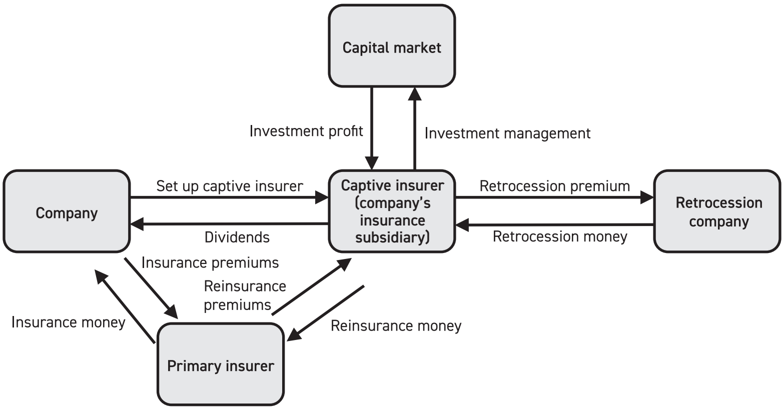
Source: FY2018 *National Actual Condition Survey on Life Insurance* (Japan Institute of Life Insurance) continue to secure a growing share of the market. Figure 18 shows the market share attributed to the channels through which clients wish to enroll in life insurance by age bracket.

The fact that many young people want to purchase life insurance through an insurance agency or the Internet and the fact that many elderly persons wish to purchase life insurance from a post office are in line with what we intuitively perceive to be true. At the same time, the fact that people of all ages want to enrol in a life insurance policy through a sales representative also supports the inferences that can be drawn.

b. Non-life insurance industry

Next, let us explore sales channels in the non-life insurance industry. Insurance agencies are a traditional mainstay channel in the non-life insurance industry. Among these agencies, institutional agencies through which corporate group affiliates operate an insurance business are especially influential. A company will purchase many non-life insurance policies to cover the business risks to which it is exposed and pay a substantial amount in premiums every year. At the end of the 1990s, the creation of captive insurers as a risk-financing method became a hop topic that was explored by many major companies. As shown in Figure 19, companies set up insurance subsidiaries in foreign jurisdictions with a properly developed legal system to underwrite their own insurance in an attempt to reduce costs but ultimately failed due to the time and costs involved. Many companies have also traditionally been concluding non-life insurance contracts through affiliated institutional agencies. This should remain the case going forward in order to reduce total expenditures for the corporate group as a whole. I am sometimes asked by people outside the insurance industry to explain why major companies continue to pay large sums of non-life insurance premiums rather than insure themselves. It is true that, in the long run, large companies in particular may end up with a simple balance of receipts and disbursements

Figure 19 How captive insurance works



Source: Produced by the author

that is negative since the premiums they pay annually include contingency loading amounts and insurance company profits. For a company, however, it makes sense to equalize its annual balance of receipts and disbursements through payments of non-life insurance premiums in order to avoid large fluctuations in its settlement of accounts from year to year due to the incurrence of extraordinary losses in a single year. In addition, a company needs to accumulate its own taxable reserves if it wants to insure itself. In contrast, non-life insurance premiums can be posted as expenses, which gives a company tax advantages. What I have described up to this point are general reasons to explain why a company might choose to go with non-life insurance. Just as important, however, is the support provided by a non-life insurance company to its client companies in their core operations. For example, if you are a dealer agency, the employees of a non-life insurance company might help you to procure an automobile on your behalf. When I used to work as a sales employee for a non-life insurance company, I often purchased the goods of clients out of my own pocket or helped acquaintances purchase such goods. When I was in charge of the food industry, I remember focusing on playing the role of an intermediary almost everyday for foodstuff that would be sold to colleagues and acquaintances. Thus, in the corporate sector, it is not simply a matter of assessing the good and bad features of an insurance product proposed by a non-life insurance company that determines whether or not it will ultimately be purchased by a client. In other words, from the perspective of sales channels, it is difficult for small to medium-sized and foreign-affiliated non-life insurance companies to make game-changing moves in the non-life insurance industry.

Incidentally, as mentioned earlier, the financial services intermediary business is emerging as a new sales channel for both the life insurance industry and non-life insurance industry thanks to legislation on the intermediation of financial services. This law will come into force in November 2021 to allow intermediaries for financial services to actually start operating. Since insurance products that can be subject to intermediation will be substantially restricted in the beginning, this system may not be all that attractive to these IT companies. However, many people these days use smart phone apps to make use of many different services. While the number of insurance products that can be sold on an over-the-counter basis at banks when the ban was first lifted was quite limited, this number rose over time. Likewise, if regulations applicable to the financial services intermediary business are progressively eased, we can probably expect to see this business do quite well someday as a sales channel.

Next, allow me to discuss solicitation management. Attempts have been made over and over again to enhance the sophistication of the solicitation management system in the insurance industry through past amendments to the Insurance Business Act and the enactment of the Insurance Act. In the individual market, there is no doubt that the focus of insurance solicitation going forward will gradually shift from face-to-face sales to an online approach. In such an environment, many insurance solicitors have presently begun making insurance proposals to clients online. In addition, many insurance companies have set up sections related to digital transformation (DX) to work on creating mechanisms for soliciting online and concluding policies online and are endeavoring to integrate these mechanisms with existing channels for face-to-face sales. Insurance solicitors can now be efficiently trained thanks to their ability to participate in study sessions mainly on an online and on-demand basis.

While it is great that everything has become convenient, we should be aware of the risks that lurk in the shadows. For example, the risk of identity theft is a headache. When you are face to face with a client, it is easy to verify his or her identity by checking a driver's license or other such item. When you are online, however, identification is rather difficult to verify. Furthermore, it is no longer possible for an insurance solicitor to visually verify that a person is the client. A change in the solicitation method necessitates the building of a new solicitation management system by an insurance company in line with the new method.

In addition, we will need to be concerned about other matters if we are to proactively engage in the senior market as the population of elderly persons increases. In the case of the life insurance industry, due attention needs to be paid to ensure that incorrect or improper insurance solicitation activities are avoided as set forth in the Guidelines Concerning Life Insurance Services for the Elderly, which was produced by the Life Insurance Association of Japan. For example, insurance policyholder proxy riders that a number of life insurance companies have recently begun to sell are a means of having procedures carried out by a representative designated in advance on behalf of the policyholder in the event that the policyholder can no longer express his or her intent due to dementia or other such condition and are believed to be effective in a super-aging society.

Finally, I wish to discuss solicitation commission in the context of the insurance industry. Solicitation commission for insurance is generally not disclosed at this point in time, a fact that is seen as one factor behind the cultivation of distrust in the insurance industry. With respect to over-the-counter sales at banks, discussions on the disclosure of solicitation commission for life insurance with market risks, such as variable annuities and foreign currency-denominated insurance, occurred in 2016 from the standpoint of establishing an equal footing with investment trusts. However, disclosure was ultimately not made a statutory obligation. At most, many banks came to disclose solicitation commission on a voluntary basis beginning in October 2016. We have not heard much about the topic of the disclosure of solicitation commission since then. However, it is also a fact that very high amounts of solicitation commission are still being offered to certain insurance agencies. For this reason, the appropriateness of solicitation commission is being carefully studied in the insurance industry.

It should also be noted that a new financial services intermediary business that is launched is subject to the obligation to disclose brokerage commission amounts. Thus, it is expected that insurance companies will someday be compelled to fully disclose their solicitation commissions.

(3) Investments and management

Since insurance companies in principle only sell insurance products, they should ideally achieve an investment yield at or greater than the expected interest rate for each insurance policy. Since much of the assets of an insurance company correspond to the policy reserves that are to be applied to the payment of future claims, however, their management is subject to certain restrictions given the fact that they are strongly required to be safe and of a public nature. Of course, aiming to achieve a super-high yield by proactively using junk bonds and derivatives is not permitted. While asset management is also important even for non-life insurance companies, it is considered to be especially a matter of life and death for any insurance company that underwrites many policies with long terms of insurance. Thus, at a time when interest rates continue to be low, a wide range of asset management options are selected, such as by ensuring high yields with foreign company bonds and purchasing long-term government bonds.

By the way, the spread of COVID-19 infections caused the policy interest rate to go down in many countries overseas and the stock market remains mired in what some have called a bubble. In a persistent low interest rate environment, many are expecting attractive savings-type products to be launched. In part because the appeal of yen-denominated fixed-amount saving products is low, however, variable annuities are once again in the spotlight these days. Amid ongoing conditions preventing us from getting a proper read on economic trends and the investment environment, savings-type products will probably be developed and sold as insurance products selected based not on the type of insurance in question but on the investment environment.

In the past, the act of holding shares in a listed company could expect to generate positive operating effects since share prices would naturally rise and dividends could be received while riding a wave of rapid economic growth and since the company, as a long-term stable shareholder of the given company could also target controlled property and aim to sell insurance to employees. However, institutional investors are now required to comply with a code a conduct based on the Stewardship Code, which means that they need to engage in dialogue to promote the sustainable growth of the companies in which they make investments and increase medium- to long-term investment returns for clients and beneficiaries. In Japan, the Financial Services Agency formulated the Japanese version of the Stewardship Code in 2014. Consequently, a company can, as in the past, be asked by a client company to become a stable shareholder and hold shares for a commercially valid reason but is no longer permitted to have any say in management. That is when the surprising news that a major life insurance company would sell shares in a regional bank came to light.

While this decision was made based on the severity of the management environment in which regional banks were operating, it is regarded as possible that a set of international capital controls that would be introduced in 2025 was also a factor. The insurance company likely spent a considerable amount of time agonizing over this decision upon weighing the pros and cons of continuing to hold the shares of the regional bank in question.

ESG investments are strongly promoted these days. A careful investigation needs to be conducted not just on the expected investment results but also to determine what kind of company or organization the investment target in question is in terms of the kinds of initiatives it has undertaken. While Japan lags behind other countries when it comes to SDG-related initiatives, insurance companies whose business is of a highly public nature and that wield significant influence as institutional investors are being asked to become proactively involved in ESG investments in the face of greater social pressure to promote SDGs. In fact, some insurance companies are now investing in green bonds as well as children bonds issued by the International Bank for Reconstruction and Development. In addition, many major insurance companies have declared that they will apply ESG assessments to their investment decision-making process. This is not just something that is being done as part of public relations activities carried out for the purpose of burnishing the reputation of insurance companies. We are now in a time when any company that makes inappropriate investments will be culled from the international market. Since it is highly likely that a company with a high ESG rating will be able to secure many business advantages, you can assume that ESG investments will consequently generate very favorable investment results.

This point should be even more important for a major insurance company that is seeking to expand overseas.

(4) Operations

The memory of seeing many insurance companies deciding to adopt a remote working system and shifting primarily to a work-from-home arrangement when COVID-19 infections were spreading is probably fresh in your mind. More than a year later, insurance companies have been endeavoring to improve their internal operations, such that many insurance companies can be said to have made most of their operations possible to carry out remotely. These days, you can even interact with the Financial Services Agency online. In addition, the insurance industry has been moving towards the adoption of a paper-less stance in part for the purpose of reducing carbon dioxide emissions in line with the SDGs. It is now possible to submit an application and signatures online without having to submit a physical application form at the time you purchase insurance and developments are also moving full-steam ahead towards the digital distribution of insurance certificates, policy booklets, and policy conditions. No doubt, current status updates sent annually to policyholders will also eventually be made available online. However, since all sorts of interactions with clients will mainly take place through email and since there will be fewer opportunities to actually meet clients face-to-face, insurance companies should be aware that it will become more difficult to verify a client's current address. Since many clients fail to notify their insurance companies of a change in address once they have purchased an insurance policy, insurance companies need to retain multiple elements for maintaining contact with clients. If a client's email address as obtained from the client at the time his or her policy was purchased is incorrect, there is a risk that the client's personal information could be leaked to an outside party. For this reason, information pertaining to clients needs to be handled strictly in terms of the ways it is obtained and managed.

Incidentally, the spread of COVID-19 infections helped to spur the introduction of such new technologies as RPA and AI, which first began to be adopted in the insurance industry several years ago. While the operations of insurance companies as they relate to insurance products continue to become increasingly complex, as can be seen in the emergence of health promotion-type insurance and supplementary services based on the use of new technologies, these products need to be managed with due care. It is not the best analogy, but I remember the story of how a convenience store once introduced a slew of new services but ran into a host of problems because the part-time workers hired by this store could not keep pace as far as their understanding of these new services was concerned. Thus, it is important that a backup system to enable a manual recovery process to be carried out in the event that a problem, however unlikely, occurs be established. While it is important to cut labor costs and streamline operations to help reduce business expenses and lower premiums, a company will have gotten its priorities wrong if they were to result in the inconveniencing of clients. In fact, I often hear of cases in which problems persist when a newly introduced AI system does not work especially well. Since insurance is a business that depends on the trust and confidence of clients, a system that minimizes problems as much as possible is required.

(5) Systems

The underlying systems in use by financial institutions are exceedingly complex and the development of products incurs enormous costs and resources. Since vast amounts of data need to be continuously held for a long period of time after a product is launched, existing programs are often overwritten when a system is updated, which can then easily give rise to programming errors. News stories in which a major bank experienced frequent system glitches that had a huge societal impact remain fresh in my mind.

In addition, Japan is home to many insurance companies. The underlying systems in use at these companies come in many different shades and textures. System development costs incurred for the development of products can vary greatly depending on the underlying system in use and has been known to range from hundreds of millions of yen to billions of yen. Moreover, depending on the characteristics of a system utilized by an insurance company, the system in question would be compatible with some insurance products but not others. For example, let us assume that an insurance company utilizing an underlying system that is compatible with indemnifying products wishes to develop and sell variable annuities; this would require substantial system development work to be carried out. This is because the characteristics of the system in use make it difficult to incorporate the daily price fluctuation data needed for a variable annuity into in-force policy data. Thus, if you really must develop an insurance product that is not very compatible with your own system, you will be faced with a decision to either engage in development work that will require considerable time and money to be expended or purchase a different underlying system to be run in tandem with your current system. In either case, an insurance company assumes a rather heavy burden when it comes to developing a system for product development purposes.

These days, insurance companies are promoting FinTech and making insurance products more and more complex. In the future, we can expect to see attractive insurance products developed by incorporating data on clients' health condition, data on clients' driving history, and other pertinent data into the underlying systems. Thus, it is expected that system development skills will become an important factor in determining the success or failure of an insurance company. This is because an insurance company with a low level of system development skills will be unable to develop complex insurance products and unable to provide clients with attractive supplementary services. In addition, more and more insurance companies are introducing auxiliary systems – including systems to help insurance solicitors calculate premiums and produce design documents, actuarial systems to help finance departments settle accounts and analyze proceeds and disbursements, and systems to help marketing departments analyze Big Data and formulate future marketing strategies – to go along with their underlying systems. In many cases, these systems are linked with underlying systems, such that a simple upgrading of an underlying system could affect these peripheral systems. Thus, when upgrading a system, the company will need to investigate the extent to which the entire company would be affected and the seriousness of the applicable risks from a high-level perspective. Moreover, when carrying out a system upgrade, many insurance companies use outside vendors. However, it would be ideal to see system upgrades produced on an in-house basis in order to promote the accumulation of IT know-how within the company.

(6) Supplementary services

Supplementary services have long been offered to policyholders as perks attached to many insurance products. Many of these supplementary services are provided for free to clients who purchase an insurance product and their contents vary greatly from insurance company to insurance company. An older well-known example can be found in the assistance services that are attached to insurance for overseas travel. These services are wide-ranging and include telephone consultations and emergency transfer support offered when traveling abroad. Many different types of supplementary services, such as road-side service with automobile insurance and a second-opinion service with medical insurance, exist these days but do not enjoy a high profile among clients. I myself was once in charge of supplementary services back when I was working for a non-life insurance company. As an individual policyholder, I currently take advantage of supplementary services on a rather active basis. For example, I have used a supplementary services attached to a fire insurance policy to contact someone and have the water pipes in my home cleared of a blockage in the middle of the night on several occasions. I imagine there are many clients who could have avoided spending money unnecessarily and felt greater peace of mind if they had been more aware of the existence of the supplementary services they were entitled to use.

Traditionally, supplementary services were typically provided over the phone. The promotion of FinTech gave rise to an environment in which supplementary services that had never before been conceived of could be developed. For example, supplementary services that do not rely on telephone calls for their provision have emerged, such as a service attached to automobile insurance that immediately contacts the insurance company when an accident occurs and a service for receiving immediate advice from a doctor via a chat setup when a physical health issue arises. There are also many supplementary services that are unrelated to the contents of the insurance product to which they are attached, with some providing discounted rates for stays at affiliated hotels for example. However, we should expect to see supplementary services that are closely linked to the contents of the insurance product to which they are attached prevail as mainstream options in the future. The most common example of this are the supplementary services attached to currently popular health promotion-type insurance policies. Yet, other examples consisting of supplementary services designed to prevent diseases and the recurrence of diseases covered by insurance products that selectively cover specific diseases are expected to continue increasing. While such supplementary services are already attached to cancer insurance and dementia insurance, I believe that other supplementary services that focus on adult diseases and diseases specific to women will also emerge in the future. Furthermore, some non-life insurance companies are developing disaster-prevention applications tied to the contents of their products.

Competition in terms of product development in the insurance industry is only becoming more and more intense, such that insurance companies that decide to no longer compete in terms of premium rates because they would otherwise fall short of the break-even point will inevitably emerge. In this environment, we should see an increase in cases in which the provision of attractive supplementary services will encourage clients to select certain insurance products. Many insurance companies have already established deeper ties with many IT companies that have launched start-up ventures and are busy working on developing attractive supplementary services. In addition, advancements in technology could help revitalize the insurance industry as supplementary services that we cannot even imagine at this time emerge down the line.

(7) Human resources

In part because Japan is an aging society with a low birthrate, many companies have been frantically scrambling to find young workers in recent years. With the labor market being a super-sellers' market, young people with talent continued to be highly sought after. The insurance industry was no exception, such that young people who had just graduated from university or who were recent graduates looking to change jobs were able to receive offers of employment from many insurance companies on the spot. The spread of COVID-19, however, turned this picture on its head. Working from home became the main approach to work at many insurance companies and most means of communications came to involve online channels. Consequently, companies came to be deprived of the flexibility to train inexperienced employees. This is probably one of the adverse effects of remote working arrangements. On the other hand, there was growing demand for experienced workers who could be put to work right away even if they may have been a bit older. In an increasing number of cases, companies who might have been happy to have young, talented workers join them prior to COVID-19 are being forced to turn down those who lack the requisite experience. Of course, the situation should return to normal once COVID-19 is brought under control, at which point many insurance companies will go back to recruiting primarily younger workers.

However, as technological advancements enable the streamlining of operations and make it possible for many insurance companies to reduce the size of their workforce, the type of employees sought by insurance companies will surely change. Of course, employees who are young, loyal, and work really hard are valuable. However, the demand for talented employees who can, irrespective of age, harness a wealth of practical experience to create something on their own will likely increase. More and more insurance companies these days are raising their mandatory age of retirement from sixty years to sixty-five years. Revisions made to the Act Concerning the Stabilization of the Employment of Older Persons, which went into force in April, mandates that companies make an effort to raise the mandatory age of retirement to seventy years.

Of course, not all elderly persons will be desired by many companies. Yet, the insurance industry is one that is compelled to comply with numerous laws and guidelines, such that I feel that there is plenty of room to allow elderly persons with a wealth of experience to play an active role. In any case, there is no doubt that those who can perform duties that cannot be done by AI and those who can demonstrate creativity will be in demand. Moreover, increasing the number of women in management positions is a pressing issue in the insurance industry.

I am often asked, "Insurance companies in Japan employ a large number of female employees but why are there so few female executives?" The answer is simple. It is because insurance companies, without exception, used to hire only a very small number of female recent graduates to fill career-track positions. As a result, men account for an overwhelmingly large number of executives at insurance companies in Japan and a movement to work hard to increase the number of female managers in this industry is presently spreading. I heard from a female acquaintance of mine who is a career-track employee at an insurance company and she relates how she was once told by a superior that she would not be recognized as a good employee if she could perform no better than a man. While this is not something that you can imagine ever being said to someone today, it encapsulates the extremely conservative values that were prevalent back then in the insurance industry. Of course, the percentage of women among recently graduated employees in the insurance industry these days is rising at a dramatic pace and the situation will likely improve with the passage of time. Cultivating a diversity mindset for not only the issue of women in executive positions is not just a matter of principle but also an extremely important theme for making the best use of the skillsets of employees in the workplace.

(8) Office environment

The spread of COVID-19 infections caused many companies to set up a remote working system to allow their employees to work from home.

Consequently, many workers were freed from commuting hell and found themselves with more spare time on their hands, which they were able to use to catch up on the sleep they were previously lacking and to spend on interests and pursuits. Even the members of sales sections who had believed that it was important to actually meet and speak with clients face to face realized that it was possible to carry out many sales activities online instead. Of course, meeting and speaking with someone in the flesh can help get the point across more effectively in some cases and facilitate closer communications, thereby increasing the chance that you are accommodated. In addition, meeting someone in a setting that is not face to face can make it more difficult to engage in an interaction regarding a sensitive topic and more likely to result in a misunderstanding. The existence of vast office space situated on prime real estate in urban areas has come to be seen as a problem that arose during this long period in which employees were working from home. Premiums obtained from clients can be divided into net or pure premiums and additional premiums. Additional premiums include the rent for such office space. With competition for product development expected to persist in the future, it is essential that business expenses be reduced. The fastest way to achieve this is to lower office rents. Since insurance is a business based on trust and confidence, it was traditionally thought that having office space situated on prime real estate in an urban area would increase the trust clients placed in you and help in cultivating loyalty among employees. However, I believe that this is not necessarily an essential condition. Downsizing an urban office or relocating to the suburbs should be seen as an action that can be socially understood with ease in this day and age. Insurance companies have always been seen as paper businesses and are now oriented towards paperless operations in line with the SDGs, which means that there is probably a lot of scope for improvements in terms of the office environment. Downsizing an office building should be regarded as an important option not just for reducing the amount of paper consumed but also for helping to reduce carbon dioxide emissions through reductions in power consumption. It goes without saying that offices can never be fully eliminated due to the need to maintain relationships with external parties.

From the standpoint of employees at a time when paperless operations are being increasingly adopted, there are now more people who do not particularly care about where they work so long as it is an environment in which the Internet can be accessed. In fact, some employees at my own workplace have gone back to their hometowns to work remotely. When they need to physically come to work, there are no problems if they come to the office by processing the visit as a business trip. Insurance companies used to require that employees, regardless of their preferences, live somewhere within a reasonable commuting distance of the office, whether that was Tokyo or elsewhere. There used to be so many people who felt that they had to go back home to take care of their parents or for some other reason and therefore believed that they had no choice but to say goodbye to their career working for an insurance company. However, more and more insurance companies will allow employees to work in remote places, which in and of itself will serve to draw exceptional people to such companies in hopes of working for them.

(9) Other

These days, we have come to hear many news stories about a major life insurance or non-life insurance company setting up a subsidiary underwriting small-amount, short-term policies in order to promote the sales of such policies as a group. These subsidiaries sell many unique insurance products that belong to a category that is currently attracting a lot of attention; examples of these products include an insurance product that covers the various costs associated with the solitary death of a resident, an insurance product that covers the cost of tickets if the insured person is unable to participate in an event due to an emergency, an insurance product that covers the legal fees that are incurred if the insured is involved in a false accusation of molestation or is a victim of molestation, and an insurance product that pays a lump sum in the event that the insured contracts COVID-19 or any other infectious disease. There are, however, probably many people who wonder why a company does not develop and sell such products on their own. Of course, the fact that each type of license to operate an insurance business imposes restrictions in terms of what kinds of insurance products can be sold under that license is one reason. Nevertheless, there are several other reasons that apply as well, the biggest of which is probably the ease with which small-amount, short-term insurance can be used. Generally speaking, a life insurance or non-life insurance company wishing to develop a new insurance product needs to conduct internal studies to a sufficient extent before obtaining the approval of the authorities and then carrying out system development work and preparing a solicitation system. All of this requires huge investments in terms of time and money.

On the other hand, small-amount, short-term insurance companies have an easier time entering the market than regular insurance companies and can develop products with great agility. Of course, when it comes to small-amount, short-term insurance, there are limits to the insurance amount and term corresponding to insurance products that can be sold, which means that we cannot hope to see an explosive volume of sales. However, the ability to sell experimental insurance products at low cost, the way such products can fulfill a foot-in-the-door role in selling a company's own insurance products, and the effectiveness of such products in cultivating new markets – such as consumers in younger age brackets – via the Internet are considered to be sufficiently advantageous for insurance companies. At a time when the profitability of existing insurance products is declining for insurance companies, experimental initiatives are important and will likely continue to be undertaken. However, a lack of sufficient capital and shortages of experts are pressing issues.

I would like to change the topic a bit to note that I have been involved in developing products in the non-life insurance and life insurance industries for more than two decades. Regardless of the industry, the amount of useful data we had was key to the development of products. In the past, apart from the reference loss cost rate calculated by the General Insurance Rating Organization of Japan and the Standard Mortality Table produced by the Institute of Actuaries of Japan, the data we used to calculate insurance premiums were limited to such examples of general statistical data as the Patient Survey and Demographic Survey released by the Ministry of Health, Labour and Welfare. As a result, the premium rates that could be calculated and risk categories were subject to limits and it was difficult to differentiate your own products from the products of other companies. However, it is typical now for each insurance company to collect its own performance data to calculate insurance premiums. In addition, the scope of data that can be used for the development of products has been expanding, as can be seen in the emergence of numerous companies that sell data on subscribers to health insurance unions upon converting them into unique codes. Moreover, advancements in FinTech have allowed insurance companies to engage in wide-ranging collaborative actions together with start-up venture companies, medical institutions, and other entities, the process of which has enabled them to obtain data that can be helpful for the development of products. In addition, some insurance companies are proactively working to obtain health-related data by having clients and their own employees wear wearable devices. Of course, you will often hear of cases in which useful data could not be obtained through the course of a large number of initiatives carried out as part of upfront investments. Nevertheless, no data can ever be obtained if no efforts are made.

Accumulated data is of no significance unless it can actually be used. The use of data for product development purposes is just an example. Data can also be used to analyze profitability, in conjunction with supplementary services, for the management of risks, and otherwise for a host of different purposes. For this reason, many insurance companies are striving hard to hire and train data scientists.

This is not an assertion I am making because of my position as an actuary, but I firmly believe that insurance companies that control the data will eventually dominate the market.

7 In conclusion

Japan has now entered an age of chaos. Many young people are pessimistic about the future and cannot envisage a future that is bright. It was against this backdrop that COVID-19 spread and exacerbated this state of doom and gloom. The Japanese economy is stagnant and the population has begun to shrink thanks to the country's super-low birthrate and the aging of society. There is no doubt that these uncertainties regarding the future are helping to further spur on the decline in the birthrate in Japan.

It has been a quarter of a century since the insurance industry in 1996 first started to undergo a massive event consisting of deregulation and liberalization. The insurance industry up to that point in time was an industry that had been relatively stable, such that it was almost inconceivable for a company to fail as long as it adopted an orthodox strategy and stuck to copying the activities of other companies. While a number of insurance companies went under in the wake of the collapse of the bubble economy, these failures were mostly attributable to the materialization of investment risks. Given the low interest rates that remain in place, it is hard to imagine that an insurance company committing the same mistake these days would emerge.

However, as stated in this book, there are too many negative aspects woven into the fabric of the insurance industry today; few stakeholders can imagine a future that is decidedly optimistic. There is no mistaking the fact that the gravy train – which refers to the time when an insurance company could simply develop the same insurance product sold by other companies and sell it to generate substantial profits – has left the station. The stable industry of the past is no more. Indeed, the insurance industry could, like other industries, decline at any time. When I speak with friends in the insurance industry, I realize that many people are seriously wondering what they can do to keep their heads above water until they retire.

Having said that, the function of insurance is absolutely vital in society, and I am convinced that it will not disappear in the future. This is because the role it plays in terms of helping people in financial distress is an important one and because the business of insurance is one that is of a highly public nature. Management executives at insurance companies will be required to have an excellent sense of balance to allow them to handle these challenging issues and steer their companies down the right path. To this end, they must have the skills to obtain and correctly analyze a broad array of information from within and outside the insurance industry and ensure the effective implementation of strategies accordingly. Unfortunately, insurance companies that fail may ultimately be culled from the industry. Insurance companies that survive will surely be those that can recognize opportunities in dire moments and take actions that are forward-thinking and positive. We operate in a difficult environment, but I fervently hope that the insurance industry will continue to evolve in a healthy manner and trust that the healthy evolution of the insurance industry will stabilize social infrastructure and thereby lay the foundation for the growth of the sluggish Japanese economy.

Profile of the author

Toshiya Noguchi was born in Yamaguchi Prefecture on October 5, 1968. After graduating from the Department of Mathematics of the Faculty of Science and Technology at Keio University in March 1993, he joined Mitsui Marine & Fire Insurance (currently Mitsui Sumitomo Insurance Company) in April 1993, where he was in charge of retail sales, commercial sales, product development, product management, product promotion, underwriting, and actuarial operations. In April 2005, he was temporarily transferred to Mitsui Sumitomo Marine City Insurance Life Insurance (currently Mitsui Sumitomo Primary Life Insurance), where he was in charge of product development, actuarial operations, re-insurance, and more. In July 2007, he joined SBI Life Insurance Establishment Preparatory Company (currently AXA Direct Life Insurance), where he was in charge of product development, sales management, advertising, planning and research, and more. In June 2012, he joined the Japanese branch office of Zurich Life Insurance Co., Ltd., (currently Zurich Life Insurance), where he was in charge of product development, policyholder services, marketing, advertising, branding, CSR, SDGs, and more and succeeded in reorganizing the company's management structure. Since July 2023, he has been serving as Representative Director and President of AEON Allianz Life Insurance Co., Ltd.

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