

OLIS 2010 Autumn

The Trend of Life Insurance Industry

October 21, 2010

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- Born in Shizuoka Prefecture in February 1945
 - Graduated Chuo University and joined Hoken Mainichi Shinbun Co., Ltd (Held positions such as chief editor of life insurance and executive editor)
 - Became an independent insurance journalist in August 1999
 - Distributing mail magazine “inswatch” (www.inswatch.co.jp) for Insurance Agencies since August 2000 (Editor/Member of the Board)
 - Established a limited private company, Inspress, in November 2000 (Mr. Ishii is the Representative of the Company)
- * Lectures on life insurance/non-life insurance/kyosai and writes articles to specialized magazines related to insurance for economic magazines or newspapers

I. Current status of the Japanese life insurance companies

Chart 1 Insurance companies operating in Japan (47 companies)

Type of insurance company	No. of companies	No. of companies mainly operating bank business	No. of companies established anew
Domestic insurance companies	19	3	4 (Internet 1, 2 from Kyosai, Other 1)
Foreign insurance companies	18	7	Internet 1
Non-life affiliated life insurance companies	9	2	—
Joint Venture	1	1	—
Small claims short term insurance company	66	26 companies-Home contents/indemnification insurance, 28 companies-Life/Medical, 7 companies-Pet insurance, 5 companies-expense insurance and others	

- Traditional insurance companies reduced to 9 companies, 7 went out of business during 1997 to 2001 and 1 went out of business in 2008 (Collapse of the 20 domestic life companies structure)
- Revision of the Insurance Business Law in April, 1996 (Mutual entering of life and non-life, Approval of Distributor Agreement for Independent Agencies), Liberalization of the financial/insurance industry
- Major foreign based life insurances are ALICO, AFLAC, Prudential and Zurich Sudden increase from 4 Japanese agencies (1. Accepting bankrupted life insurers 2. Lift the ban on the Bancassurance channel)
- Lift the ban on the Bancassurance channel (December 2001, October 2002, December 2005, December 2007) = Domestic/Foreign companies continue to enter the channel mainly to sell VA
- Enforcement of the Revised IBL in April 2006 (establishment of small claims short term insurance company)

II. Changes in the environment surrounding the life insurance industry

(1) Progress of the falling birthrate and the aging society

- Entering into a super-aging society, which 1 in 3 will be over 65 years old, in 2030
- 1.37 birthrate in FY 2009. Acceleration of the falling birthrate and natural reduction (number of deceased are more than the number of births)
- Entering into a population declining society

Chart 2 Japanese population and estimated future population (unit: 10,000 people)

Age range	0 to 19	20 to 39	40 to 59	60 to 79	Over 80	Total population
March, 2010	2,300	3,245	3,305	3,083	807	12,742
June, 2022	2,296	3,230	3,298	3,094	818	12,738
Estimated population in 2030	1,548	2,343	3,139	2,918	1,563	11,522
Estimated population in 2055	1,055	1,556	2,140	2,513	1,655	8,993

*Information from the "Population statistics document 2010," by Ministry of Internal Affairs and Communications Statistics Bureau

Chart 3 Population in Asia by age (unit: 10,000 people)

	Total population	0 to 14	15 to 64	Over 65	Over 65 years old (%)
Japan (2009)	12,742	1,690	8,117	2,936	23.0
Korea (2007)	4,845	873	3,490	481	9.9
China (2000)	124,261	28,452	86,981	8,827	7.1
Thailand (2007)	6,604	1,452	4,668	483	7.3
Cambodia (2004)	1,282	495	737	50	3.9
Indonesia (2005)	21,337	6,196	14,148	992	4.6
Iran (2006)	7,049	1,768	4,915	365	5.2
India (2001)	102,861	36,361	61,315	4,910	4.8
Saudi Arabia (2004)	2,267	778	1,425	63	2.8

*Information from "The World Statistics 2010," by Ministry of Internal Affairs and Communications

(2) Japanese economy's growth rate is in the tendency of slow down

- Actual performance VS Forecast of actual GDP

GDP for FY 2008 =▲ 3.7%

GDP for FY 2009=▲ 1.9%

- Forecast for the next 10 years

First 5 years =1.1% to 1.5% (forecast)

Latter 5 years = 1.5% to 2.8% (forecast)

- Cooling of Corporate Performances = Reduction in disposable earnings in households (Reduction in Corporations' insurance needs, tendency to reduce premium)

- Households=deterioration in employment and lower increase in wages
(Stronger tendency in reviewing coverage)

(3) Shrinkage in the insurance market and changes in consumer needs

- Changes in needs from death protection to living protection
- Reduction in business in-force = Less than 1,000 trillion yen of in-force volume
- Change in insurance products = Shift to annuity/medical/nursing care from death protection
- Characteristics of recent life insurance products = Development of Cancer and Medical insurance policy (Handling advanced medical treatment, simplification and lower price, targeting female customers)

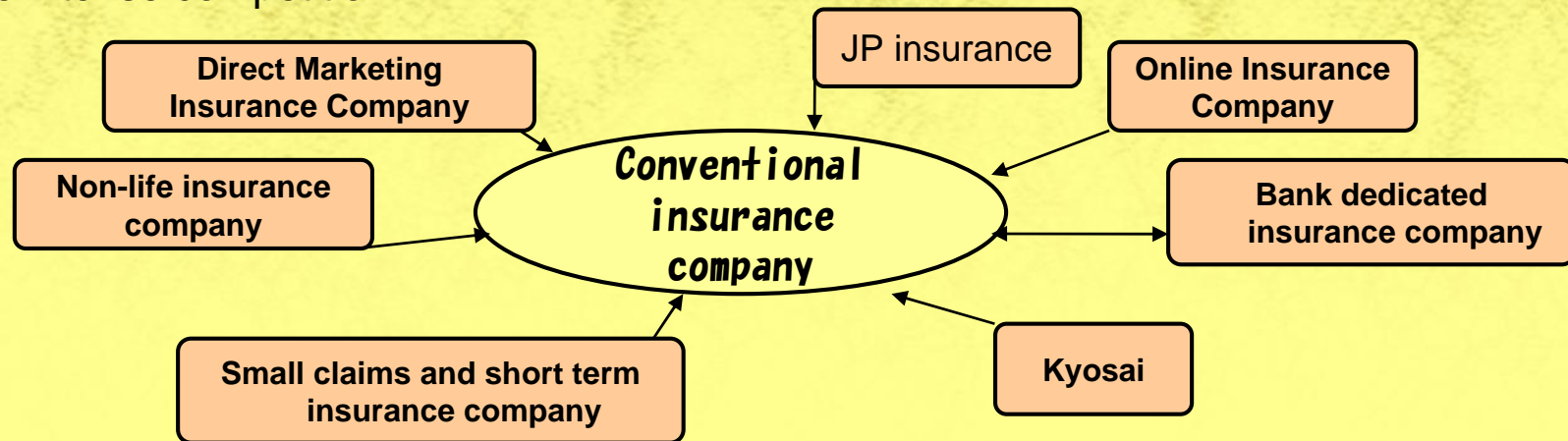
Chart 4 Trend in the in-force business in life insurance (unit: 10,000 policies, % compared to the previous year, 100M yen)

FY	Individual insurance		Individual annuity insurance	
	No. of policies	Amount	No. of policies	Amount
1998	12,012 (96.6)	14,090,150 (96.3)	1,439(100.7)	816,377 (98.8)
2006	10,978 (99.8)	10,263,360 (95.9)	1,581(106.0)	858,636 (106.8)
2007	11,011 (100.2)	9,810,643 (95.6)	1,663(105.2)	881,437 (102.7)
2008	11,299 (102.7)	9,398,425 (95.8)	1,742(104.7)	893,105 (101.3)
2009	11,705 (103.6)	9,029,471 (96.1)	1,834(105.3)	941,765 (105.4)

*Created from "The trend in life insurance for FY2009" by the LIAJ

III. Emergence of new insurance companies

Chart 5 Changes in the environment surrounding traditional insurance companies and the intense competition



- Increase in companies dedicated to Bancassurance businesses and the expansion of bancassurance channel (banks/securities) = Banks have become a leading channel for life insurance
- Emergence of online insurance companies and lowering prices in insurance products = increasing popularity among young adult segment (LIFENET insurance, NEXTIA Life Insurance)
- Emergence of insurance companies targeting a specific market = Providing products, which corresponds to new channels (Medicare Life)

Chart 6 Trend in insurance companies, who are placing Internet/mobile channel as their main channel

Company Name	
Lifenet Insurance Company	23,506 in-force policies as of end of March, 2010. Exceeded AP 1B yen. Exceeded 30,000 in-force policies as of the end of June. Partnership sales in not only Internet but with also banks, agencies, and comparison sites. Selling disability income insurance from April.
Nextia Life Insurance	13,094 in-force policies as of the end of March 2010. Became a subsidiary of AXA Japan Holdings. Online insurance company. Completes from application to issue online. Launched Cancer Insurance (term/whole life) from July.
AIRIO Life/Rakuten	Capital and business alliance. Develops and sells new products, which correspond to Internet, as well as aims to conduct “web to real” type sales by referring customers of Rakuten group web to partnered agencies of Airio.
SBI	Considering online type insurance company
AIOI/KDD	Preparing to establish a mobile non-life company for au subscribers
Tokyo Marine & Nichido Fire Insurance/NTT Docomo	Comprehensive tie-up. Offer 4 types of products such as leisure insurance “DoCoMo One Time Insurance,” golfer insurance, overseas trip/domestic trip insurance

IV. Diversified insurance distribution channel

(1) Walk-in type insurance shops are increasing

- Approx. 2,000 shops nationwide
- Nationwide roll-out, Regional roll-out, and Shops operated by insurance company
- “Life Plaza Holdings,” the largest shop in Japan (164 shops, Sales volume 6.1B yen as of June, 2010)



Nissei Life Plaza



Life Planning Park



Izumi Life Designers (Hoken Hyakka)



Aflac Service Shop



Hoken Ichiba



Minnanno Hoken Plaza (LPH)



Insurance Counsel Center



Ohisama Hoken (Above and below)

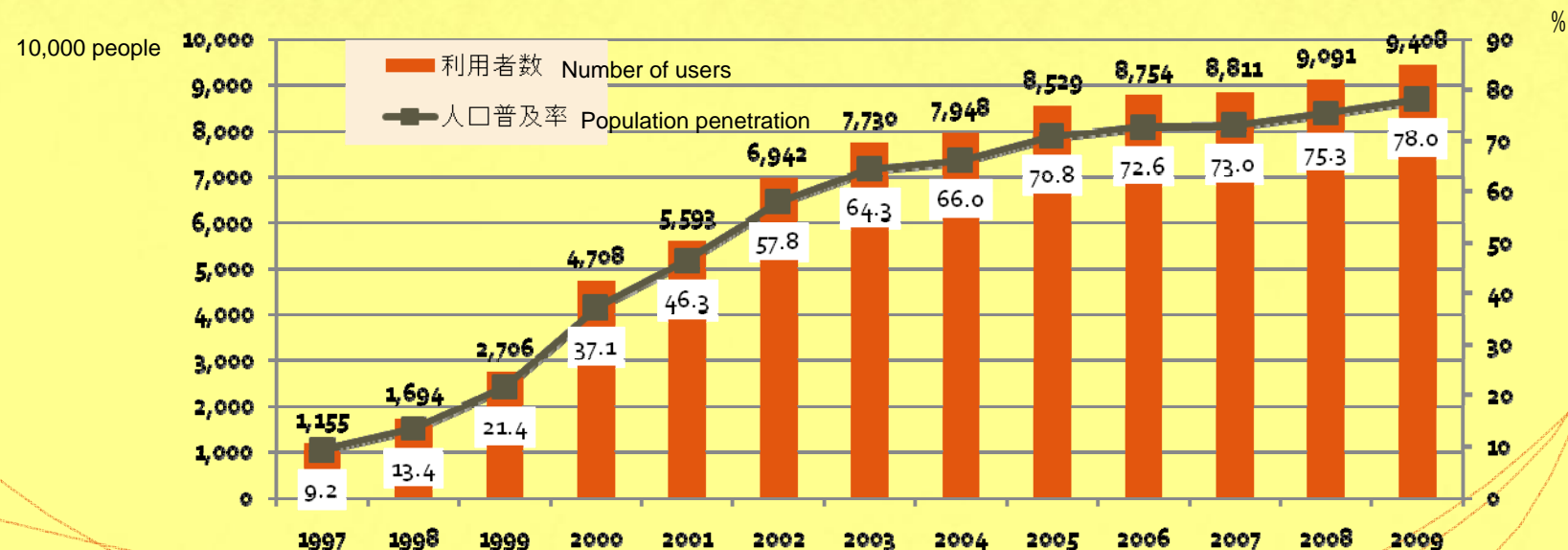


Hoken Salon

(2) New businesses by Internet Agencies

- Spread of the internet in Japan (chart 7)
- Emergence of insurance comparison site
- Referrer customers to insurance companies
- Referrer customers to agencies (shops) or Financial Planners

Chart 7 Number of internet users and the shift of population penetration ratio (individual)



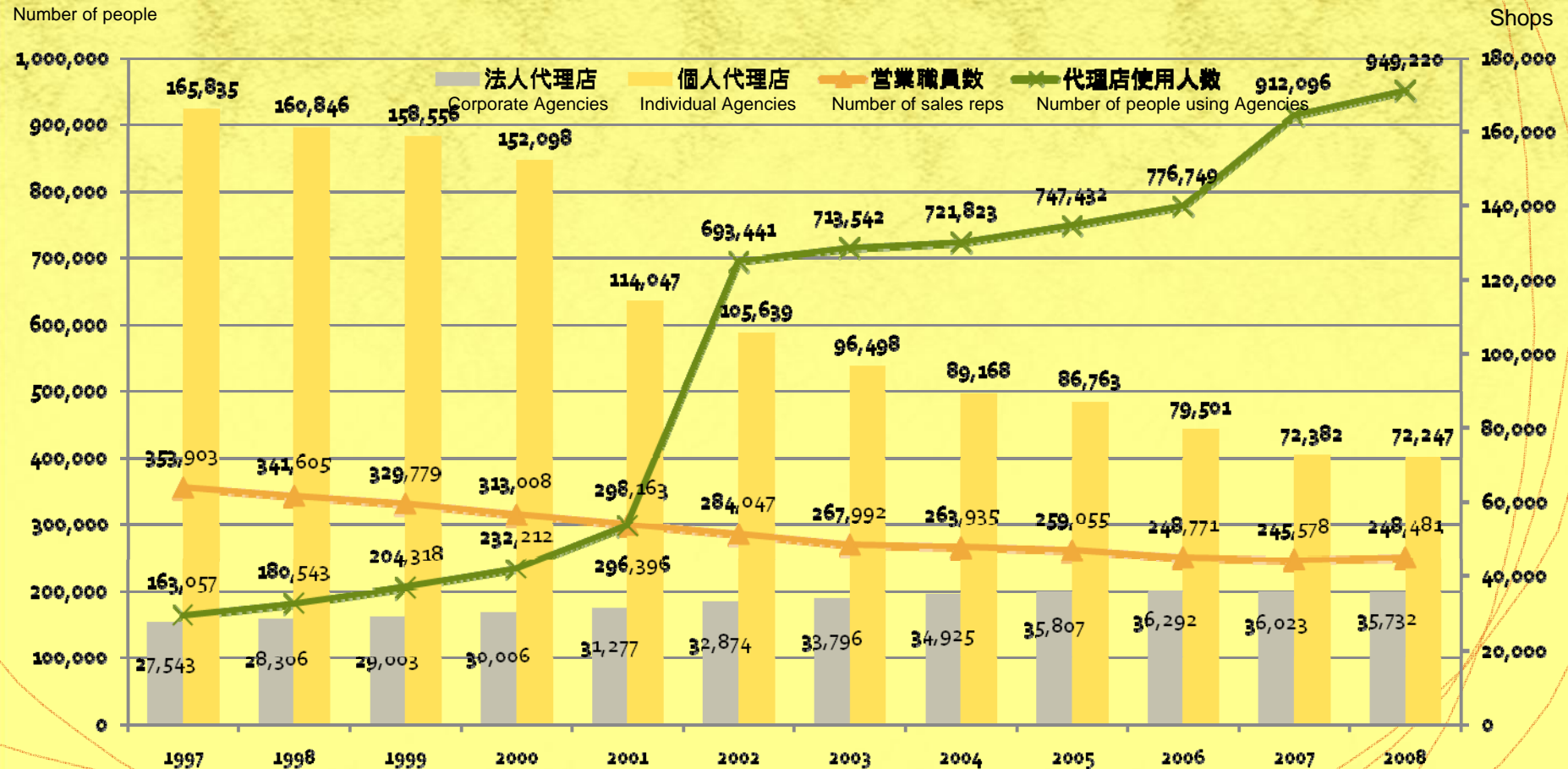
総務省「平成21年通信利用動向調査」より

From the Communications Usage Trend Survey for 2009 by the Ministry of Internal Affairs and Communications

V. Current status and challenges in the sales representative channel

- Shift in the number of sales representatives (chart 8)
- Decrease in sales reps and change in the way of working (Shift to quality from quantity)
- Differentiation with diversified channel (face-to-face type, consulting type)
- Role differentiation in the market
- Required sales rep image in the future

Chart 8 Registered number of sales reps at the end of the fiscal year and the trend of registered agencies as well as number of people using agencies



From "2009 Trend of Life Insurance" by the LIAJ

*Number of people using Agencies is the total of number of people using Corporate Agencies and number of people using individual agencies

*Number of Sales reps are from the number of registered people at the end of the year

VI. Future vision of insurance sales

- Comprehensive protection type product and product by channel and by market
- Commoditized products and consulting type products
- Mix of channels (Internet, mobile, and call center)
- Changes of channel selection awareness among consumers (chart 9)
- Existence value and the role of sales rep channel

Chart 9 Private Insurance Company Channels (recently joined or are inclined to join) (%)

	Life insurance salesman	Direct Marketing	Insurance shops	Banks/Securities	Agency OTC
2009 Research	68.1	8.7	1.9	2.6	6.4
2006 Research	66.3	9.1	2.1	3.3	7.0
2003 Research	71.8	5.7	2.7	1.6	6.7
2000 Research	77.6	3.3	1.6	1.3	8.8
Desired Channel (2009 Research)	30.7	15.0	5.4	3.5	5.1
Desired Channel (2006 Research)	26.8	15.9	6.4	3.5	4.5

* Information from "National survey on life insurance 2010" by Japan Institute of Life Insurance

*Insurance salesman lowered to 5.5 from 6.6 in work. Household increased to 25.3 from 20.7

*Internet increased to 7.9 from 5.9 in Direct marketing

*Banks increased to 3.3 from 3.1 in Bank/Securities channel

VII. Direction of the future life insurance industry

(1) Pressure to strengthen management basis

- ① Shrinking market and securing revenue by investing in overseas
- ② Handling FSA's "Revision of the Solvency Margin Ratio"
- ③ IAIS to align solvency regulations globally
- ④ Demutualization of Daiichi Life, market evaluation and evaluation of other insurers
- ⑤ Pressure to strengthen management basis and looming possibility of industry reorganization

(2) Sales collaboration may be triggering reorganization?

- ① Meiji Life and Tokyo Marine & Nichido Fire Insurance
- ② Daiichi Life, Sompo Japan, and Aflac
- ③ Sumitomo Life, Mitsui Life and Mitsui Sumitomo Insurance
- ④ Nippon Life and Prudential
- ⑤ Amalgamation of life and non-life insurance (practically a combination of sales)
- ⑥ Lower barrier in life/non-life (impact to IBL)

Chart 10 Solicitation on non-life by life insurance sales reps (mainly automatic insurance)

◆ Nippon Life/Nissei Dowa = Premium earned 68 billion yen (mainly automobile insurance)
◆ Daiichi Life/Sompo Japan = Number of case sold 550,000 policies, annual conversion 30.4 billion yen and accounts for 2% of gross new business of Sompo Japan
◆ Sumitomo Life/Mitsui Sumitomo Insurance = annualized premium 38.1 billion yen (number of new automobile policies 60,291 policies)
◆ Mitsui Life Insurance/Mitsui Sumitomo Insurance = annualized premium 10.6 billion yen
◆ Meiji Yasuda Life Insurance/Nippon Koa = 396,000 policies, premium income approx. 20.5 billion yen
(Performance as of end of 2009)

*Grand visit activity is rolled out to policyholders by sales reps in main life insurance companies to lead to new businesses/superimposed policies. Non-life sales by sales reps is mainly centered on property insurance (automobile/fire) in association with occupation visit field but it is possible that non-life product sales (cross sell) including individual policies will increase in the future.

(3) Lehman shock, AIG crisis and foreign based life insurance

① AIG to withdraw from life insurance sector

- Sale of ALICO Japan (to Metlife)
- Sale of AIG Edison and AIG Star (to Prudential)
- Non-life Chartis Group (Fuji Fire and Marine/The Fuji Life Insurance)

② Impact of suspending VA in Bancassurance

- Hartford Life (unknown when to resume)
- ING (Resumed in August 2010)
- How far a new insurance company (Bank dedicated company) can grow its sale ?

(4) Acceleration on group integration and consolidation of non-life affiliated life insurance

① Three mega structure of non-life and integration of life subsidiaries/advancing in size

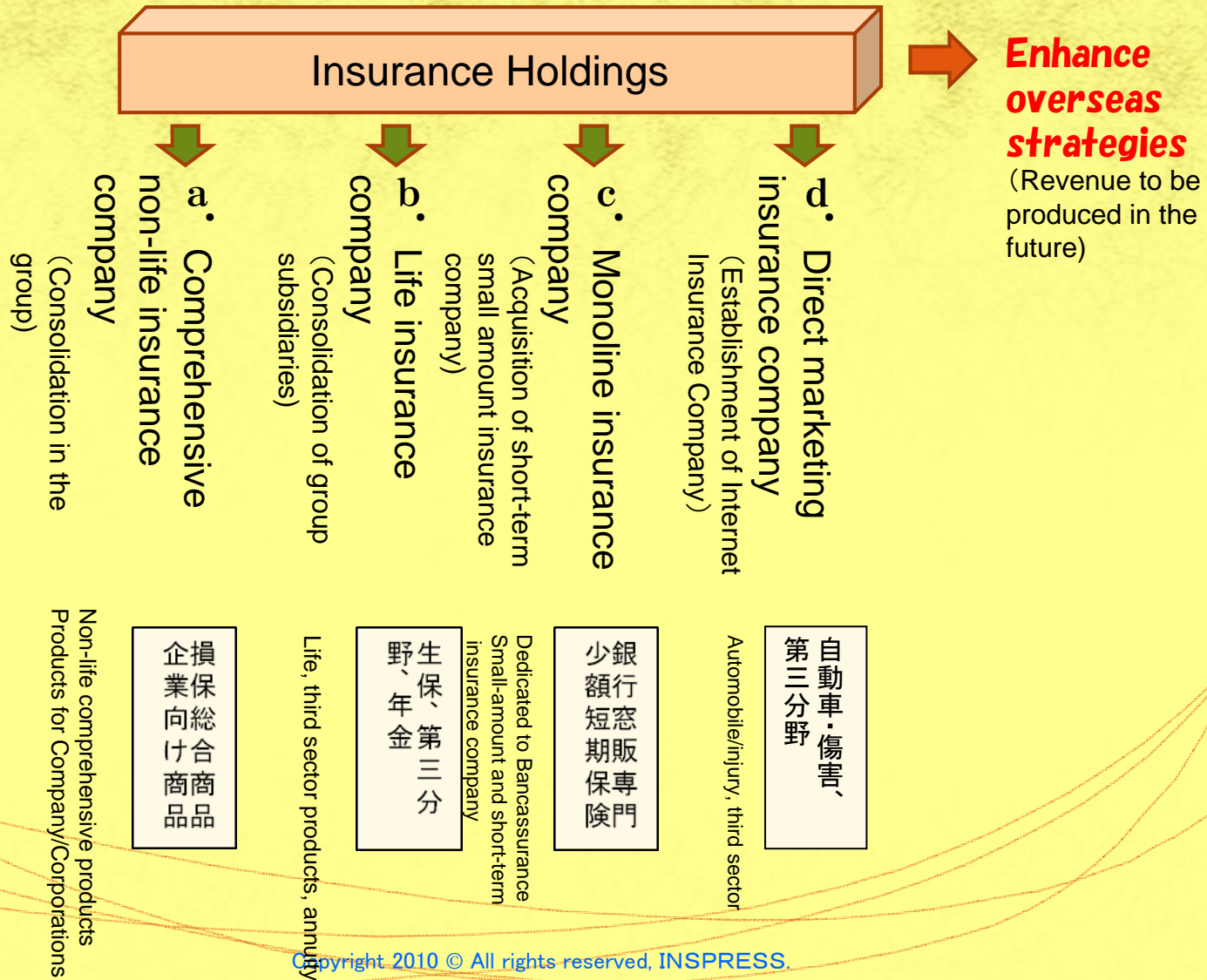
<MS&AD Holdings>

=Aioi Life Insurance, Mitsui Sumitomo Kirameki Life Insurance

<NKSJ Group>

**=Sompo Japan Himawari Life , Nipponkoa Insurance
(October 1, 2011) (Sompo Japan DIY Life Insurance)**

② Three mega structure of non-life and integration of life subsidiaries/advancing in size



③ Future of the life insurance industry

