

History of Life Insurance Business in Japan: Features on Industrial Organization

OLIS 50th Anniversary Life Insurance Symposium

25 October 2017

JA Kyosai Conference Hall, Tokyo

Takau Yoneyama

Tokyo Keizai University (Professor of Business History)

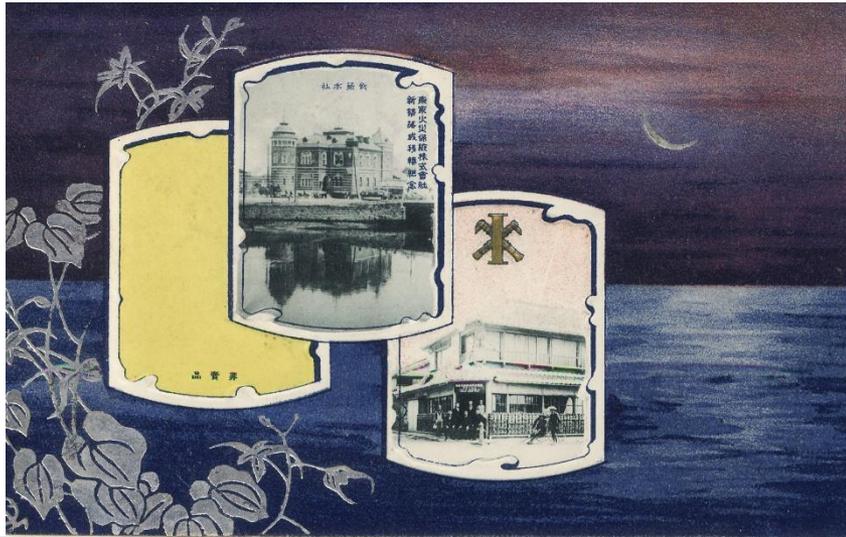
Hitotsibashi University (Professor Emeritus)





- I. Modern Insurance from the Western
 1. Early insurance business in Japan
 2. Insurance Business Act and its impacts
 3. Changing of the authority
- II. Industrial Organization of Life Insurance after the WWII
 1. Serious problems just after the WWII
 - Financial problem
 2. Changes of management and insurance supervisory
 3. The Post-war Life Insurance system and its results
 4. Stability and concentration
 - Why were these features caused?
 - Explanation on changes in the 1980s
 5. Low interest rates and its impact on life insurers in the 1990s
- III. Transformation of the Post-war Life Insurance system
 1. New legal framework for the next system
 2. Changes after liberalization, the late 1990s
- IV. Conclusions; Recent events in Japanese Life Business

I. Modern Insurance from the Western





1. Early insurance business in Japan

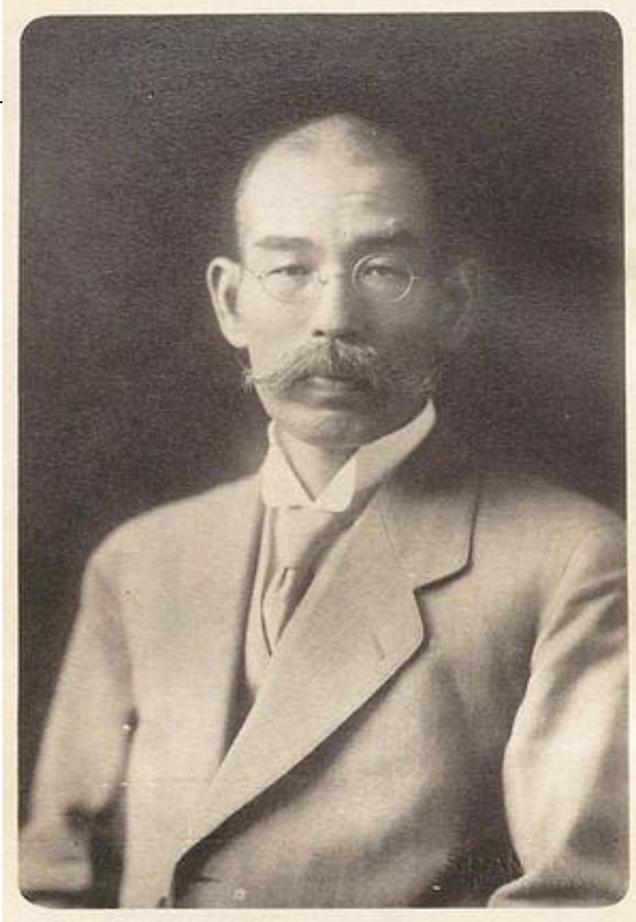
After the Meiji Restoration in 1868, Japanese business Leaders soon introduced insurance business from the western countries.

- *Tokio Marine* was established in 1879. The first modern insurance company in Japan.
- *Meiji Life* was founded in 1881. The first modern life assurance company in Japan.
- *Tokyo Fire* was established in 1887. The first Fire Insurance Company in Japan.



2. Insurance Business Act and its Impacts

- Insurance Business Act, 1900
 - The first supervision Act for insurance in Japan.
 - Dr. Keijiro Okano and Mr. Tsuneta Yano (See Pictures.)
 - Mutual insurance was newly introduced into Japan.
 - New strong mutual life insurers like the Dai-ichi and Chiyoda.
 - Legal reserve are strictly fixed by law.
 - The Nihon Kairiku lastly went into liquidation.
 - The authority can intervene insurance company if it would be in financial troubles.



Professor Keijiro Okano

Mr. Tsuneta Yano





3. Changing of the Authority of Insurance Regulation

- The supervisory authority began to regulate insurance business under **the Insurance Business Act, 1900**.
- At that time, **the Commerce and Industry Bureau** in the Ministry of Agriculture and Commerce was in a position for regulatory authority over insurance business.
- The Bureau developed to be **the Ministry of Commerce and Industry** in 1925.
 - For conducting the war, the Ministry of Commerce gave its authority on insurance to **the Ministry of Finance (MOF)**.
- MOF had been taking the responsibility on insurance business until FSA was separated from MOF in 1998.

II. Industrial Organization of Life Assurance after the WWII



Restart of Life Assurance Business after 1945

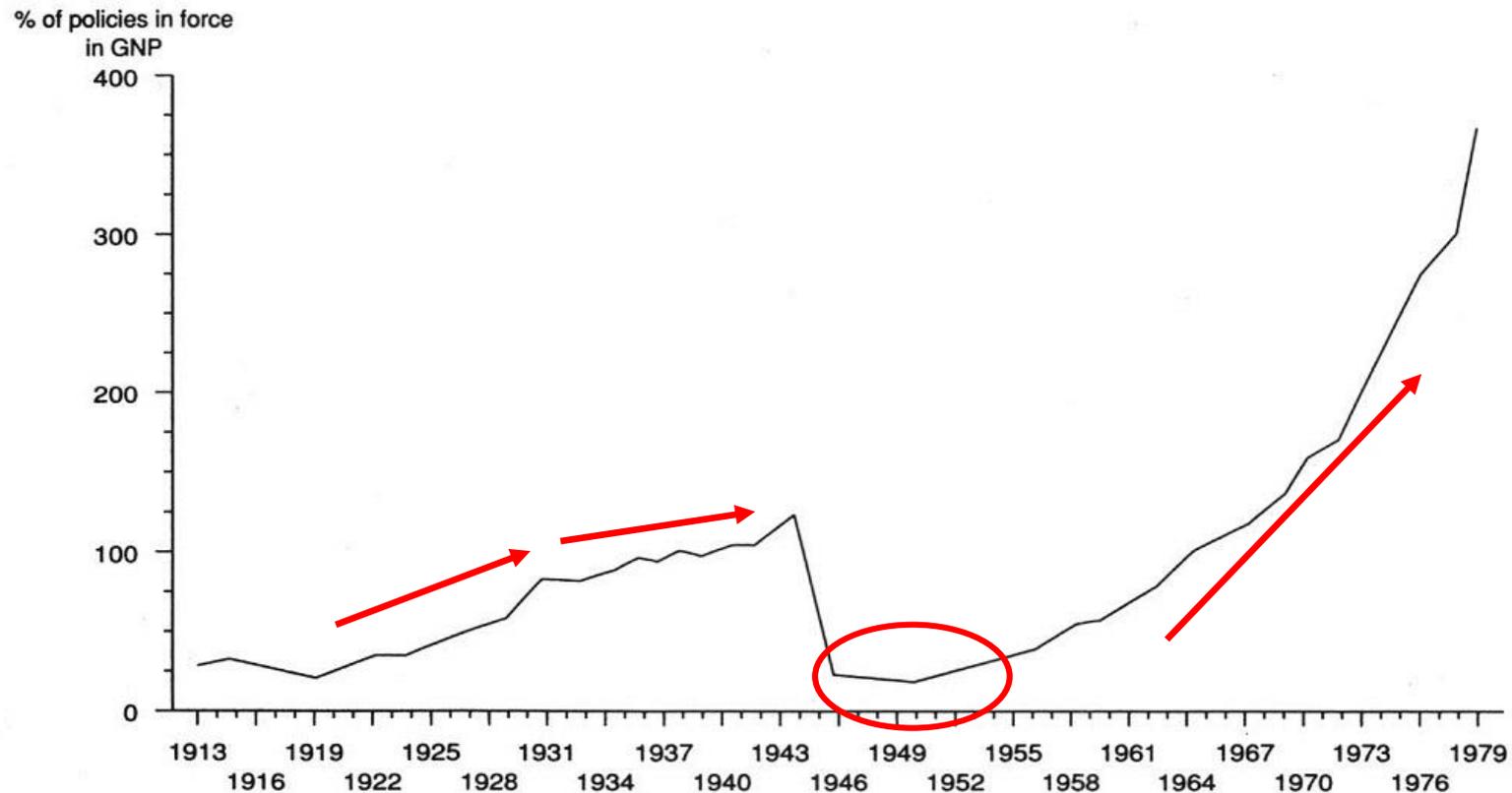


Figure 10.1 The growth of the life insurance business in Japan, 1913–1980

Sources: *Hoken nenkan* (Japanese Insurance Almanac), annual; *Insurance: Statistics of Life Insurance Business in Japan*, annual, et al.



1. Serious problems just after the WWII

1. Loss of overseas assets
 2. Reduction of life market
 3. High rate of Inflation
 4. Management and Labor problems
- How did the life insurers find their way out of difficulties?
 - Were they supported by Government?
 - Consequently what had happened in industrial organization of life business?

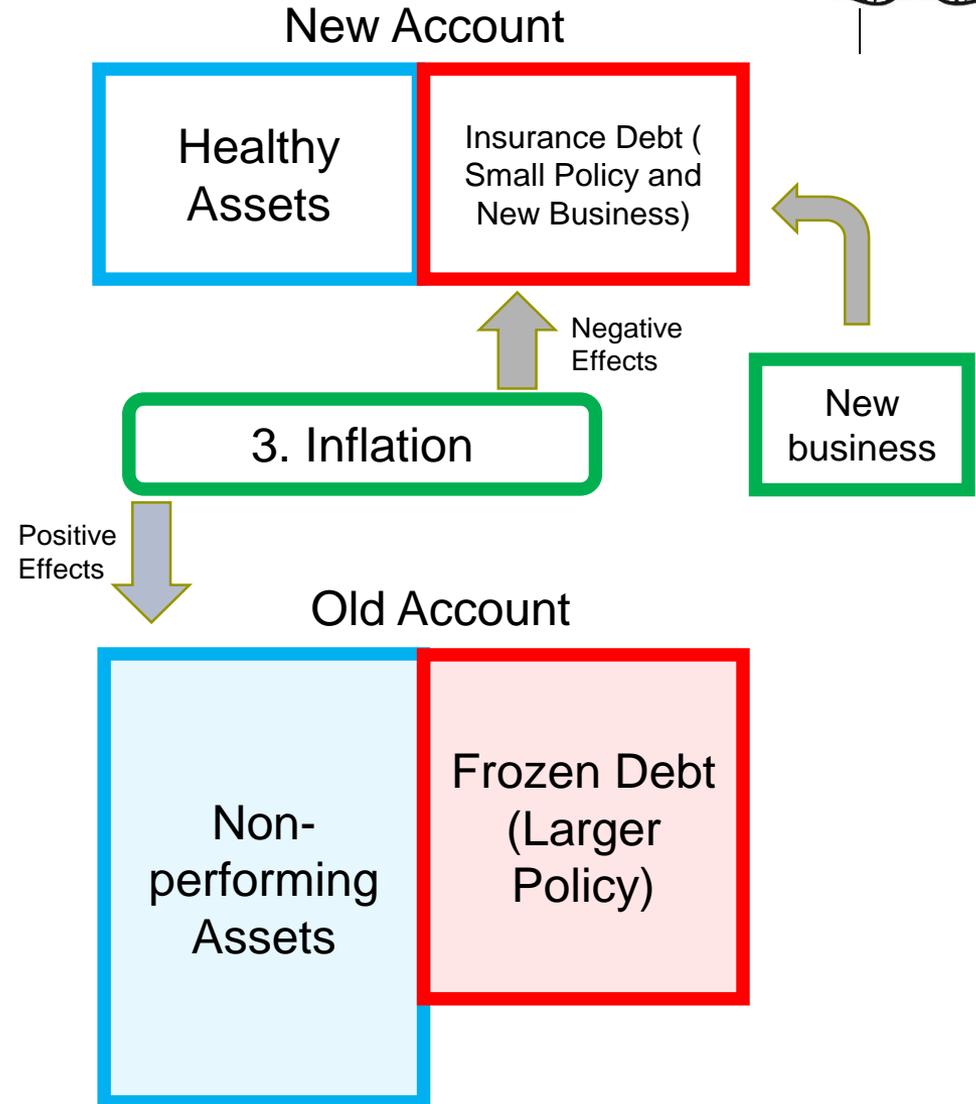
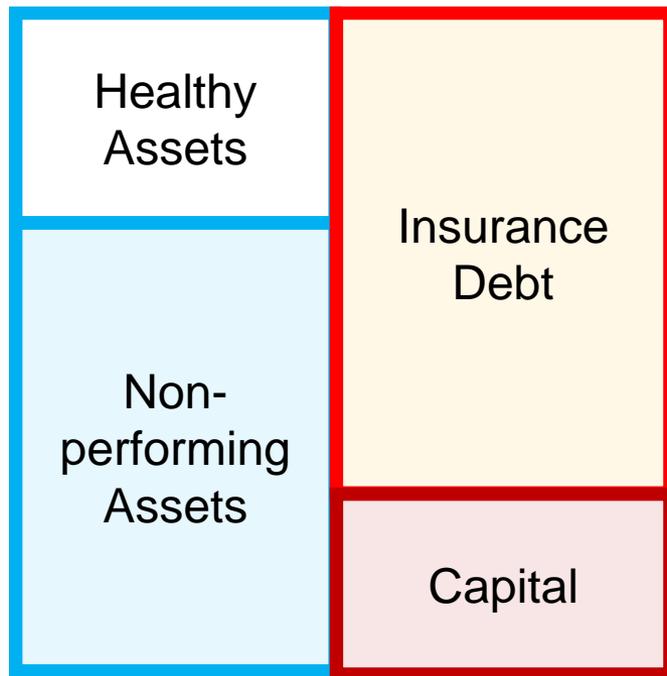
Financial Problem of Life Assurance Company was solved under Financial Institution Reconstruction Improvement Act



Great hits by WWII

1. Loss of overseas assets
2. Reduction of life market

BS just after the WWII



2. Changes of Management and Insurance Supervisory (1) Management



Changes of Management

- Almost life companies established **mutual companies** based on the new account, and closed the old stock company after liquidation of the old account.
- Zaibatsu, a family controlled business group, lost its strong connection with its life insurance companies.
- Nearly all life insurance companies became to be '**Managerial enterprise**' (A. D. Chandler)

2. Changes of Management and Insurance Supervisory (2) insurance supervisory



Changes of Insurance Supervisory

- Controlled price competition makes policyholders safe, because life insurers don't go bankrupt by cut-throat competition. 'Policyholders protection'.
- How to control?: Product approval by MOF. 'Same product, same price' policy.
- Historical conditions for controlled price competition:
 - Common life products under war economy
 - MOF, new authority, had already had a reported system on details of expense from Life insurers.
 - Top managers don't like price competition from their historical experience. They recognized vicious circle among performance and profit. The more sales cost spend, the more performance is achieved, but the profit must be reduced.
- As a result, MOF and insurance business leaders introduced so-called the post-war life insurance system which had been in long-

3. Post-war life insurance system and its results



- Changes in ‘Capitalism’
 - Competitive capitalism by Zaibatsu to ‘**cooperative managerial capitalism**’ (A.D. Chandler)
- Changes in corporate objectives
 - ‘**Policy in force**’ rather than profits. ‘The bigger it is, the longer it survives’.
 - ‘**Internal promoted top managers**’ in new built **mutual life** companies prefer longevity to short-term profits. ‘Japanese Management’ (R. Komiya)
- Changes in corporate behavior
 - Since same price regulation and limit of new business expense forced life insurers, competition were concentrated into **sales activities**.

4. Stability and Concentration to larger life insurers

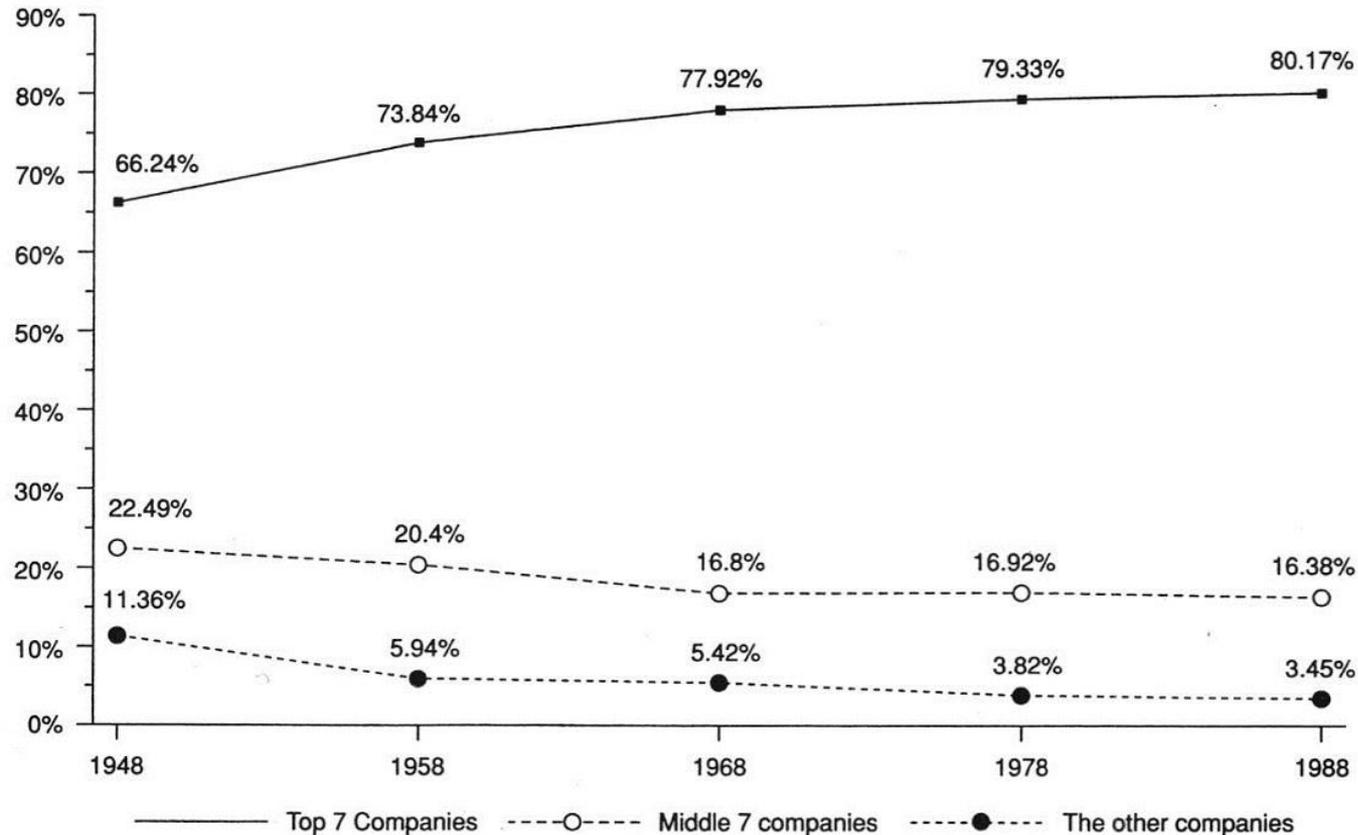


Figure 10.3 Concentrations of Japan's life insurance companies, 1948–88

*Table 10.2 Policies in force of all Japan's life insurance companies
1948–88, (¥ m.)*

	<i>Policies in force</i>				
	<i>1948</i>	<i>1958</i>	<i>1968</i>	<i>1978</i>	<i>1988</i>
1 Nippon	83,143	872,355	10,321,575	100,429,675	258,336,498
2 Dai-ich	43,377	595,203	6,379,669	64,132,340	181,040,246
3 Sumitomo	14,584	386,211	5,143,646	59,226,018	168,698,985
4 Meiji	30,466	512,580	4,427,378	45,531,420	118,145,231
5 Yasuda	16,704	212,155	3,156,966	35,809,099	87,510,411
6 Asahi	34,603	440,238	4,692,111	32,483,724	82,101,317
7 Mitsui	19,071	288,804	2,902,096	29,906,600	73,192,223
8 Kyoei	1,298	145,398	1,190,340	13,655,031	40,425,067
9 Chiyoda	25,092	268,746	2,220,670	14,531,277	38,174,471
10 Daido	7,037	69,611	640,388	12,916,965	31,632,090
11 Toho	16,626	149,218	1,648,158	10,563,402	24,704,869
12 Nippon-Dantai	8,720	117,189	966,307	12,688,012	24,356,128
13 Fukoku	18,102	110,043	770,271	8,501,320	23,821,193
14 Dai-hyaku	5,288	53,654	547,052	5,505,132	14,841,625
15 Taiyo	1,219	66,930	591,350	5,150,536	12,241,802
16 Tokyo	13,410	82,360	536,657	3,938,790	10,344,567
17 Nissan	6,115	45,310	880,731	5,580,918	9,396,549
18 Heiwa	15,715	43,779	337,387	1,723,336	2,826,440
19 Seibu Allstate				304,954	2,391,116
20 Yamato	4,715	19,675	121,384	634,925	1,655,333
21 Sony Pruco					1,055,484
22 Taisho	335	8,019	65,803	344,646	959,773
23 INA					531,447
24 Equitable					229,494
25 Prudential					97,641
Total	365,285	4,479,459	47,514,137	463,253,166	1,208,710,000

Notes:

- 1 Kyoei's policies include reinsurance business in 1948, 1958 and 1968.
- 2 Kyoei's reinsurance business is not included in the total in 1958 or 1968.
- 3 Reinsurance policies are not included in 1978 and 1988.
- 4 The newly established companies are not listed in 1978, but are included in that year's total.

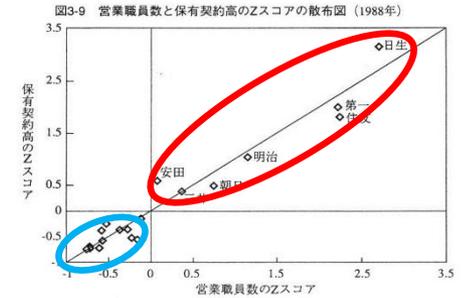
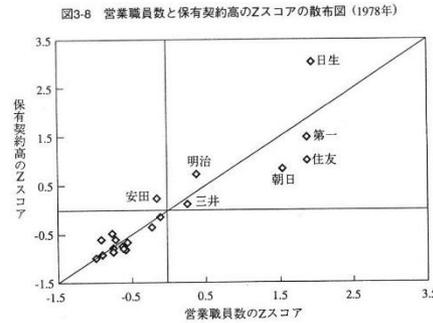
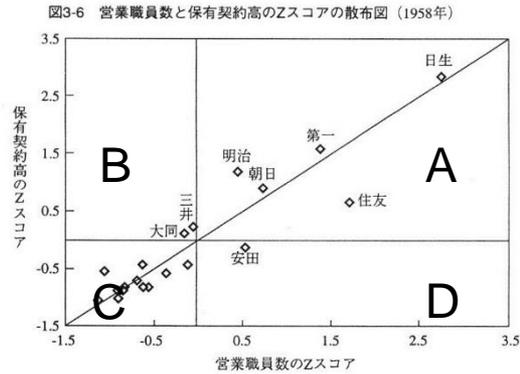
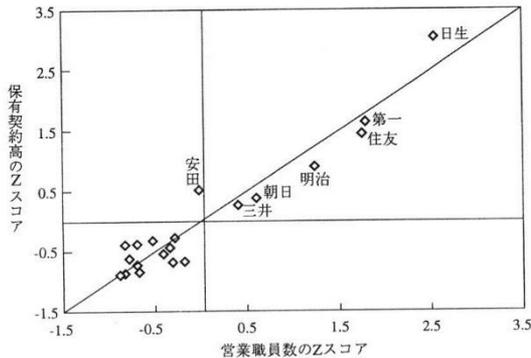


図3-7 営業職員数と保有契約高のZスコアの散布図 (1968年)



Bipolar decomposition among life insurers, 1958-1988

表3-3 戦後生保企業の両極分解

	1958	1968	1978	1988
Aグループ	5	6	6	7
Bグループ	2	1	1	0
Dグループ	1	0	0	0
Cグループ	12	13	14	18

(注) Aグループは、保有契約高、営業職員数が、ともに平均以上。
 Bグループは、保有契約高が平均以上で、営業職員数が平均以下。
 Dグループは、保有契約高が平均以下で、営業職員数が平均以上。
 Cグループは、保有契約高、営業職員数がともに平均以下。

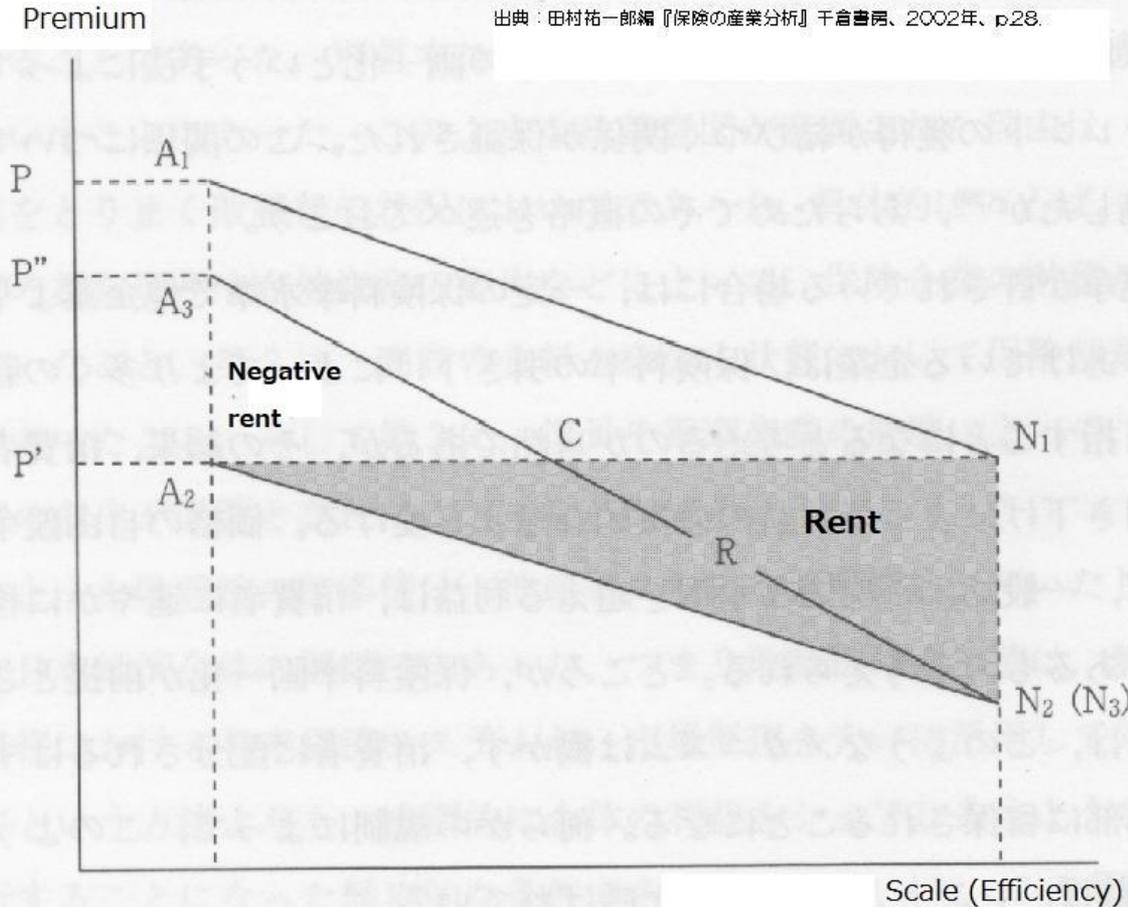
Why were these features caused?



- Stability, Concentration and Polarization
 - ‘Larger life insurer takes more, smaller one takes less’ worked under the post-war life insurance system.
- How did the system work?
 - Larger life insurers takes a kind of rent under product approval by MOF.
 - MOF did not immediately approve new cheaper product of larger life insurers.
 - When smaller or less efficient life insurers can manage to do new cheaper level, it is approve to all life insurance companies. (See the next graph)

Mechanism of generating of rent for larger life insurers

出典：田村祐一郎編『保険の産業分析』千倉書房、2002年、p.28.



How did the system work?

Larger life insurers takes a rent under MOF's price regulation.

MOF did not immediately approve new cheaper product of larger life insurers.

When smaller or less efficient life insurers can manage to do the new cheaper level, it is approve to all life insurance companies.

In the meanwhile, larger or efficient life insurers get a rent.

The rent should be given to consumers under free competition, but it spent for industrial stability.

The rent partly used to make an investment for sales force, and partly payed for CSR activities and promoting academic activities.

図4-4 収入保険料と保有契約高のXYグラフ(上位企業)(1974年)

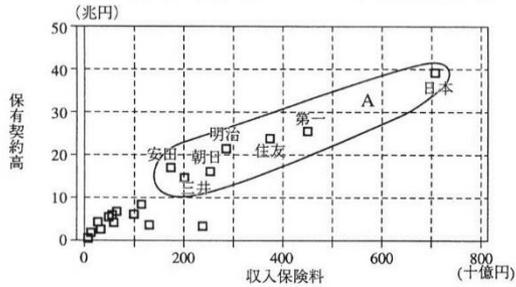


図4-5 収入保険料と保有契約高のXYグラフ(上位企業)(1984年)

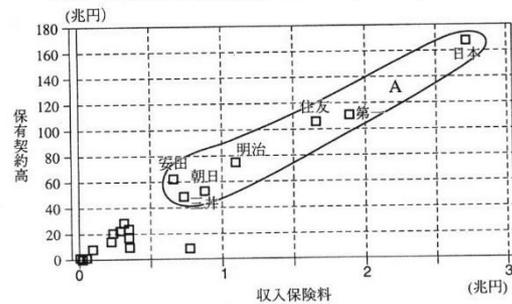
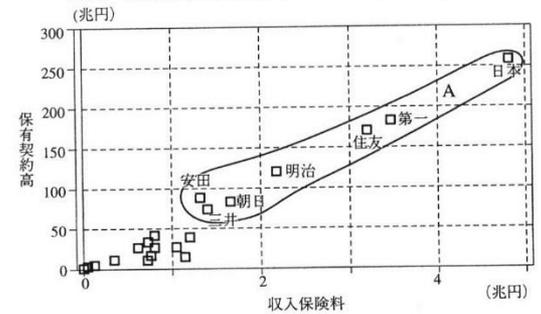


図4-6 収入保険料と保有契約高のXYグラフ(上位企業)(1988年)



**Larger life insurance companies, 1974-88
Ranking didn't change.**

図4-7 収入保険料と保有契約高のXYグラフ(中位企業)(1974年)
(兆円)

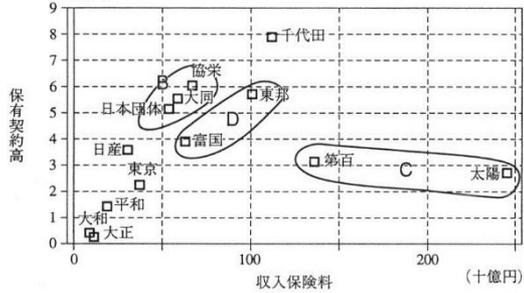


図4-8 収入保険料と保有契約高のXYグラフ(中位企業)(1984年)
(兆円)

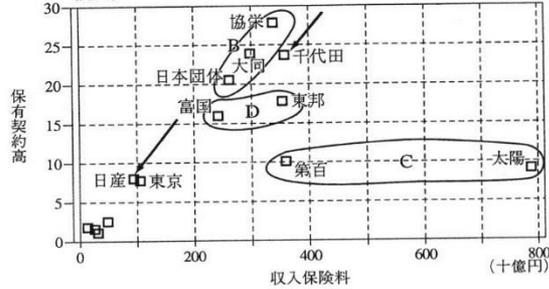
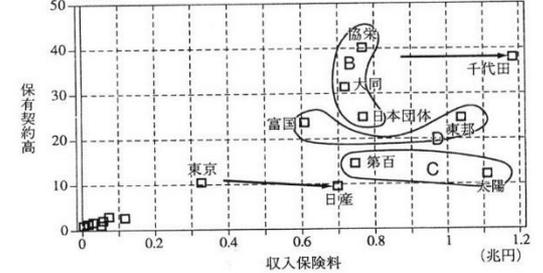


図4-9 収入保険料と保有契約高のXYグラフ(中位企業)(1988年)
(兆円)



Middle life insurance companies, 1974-88
Both grouping and ranking changed in 1980s.

Explanations on the change in 1980s



- Change in the 1980s was **superficial**, and it is **applicable only for middle ranked life insurance companies**.
- They aggressively sold the **investment-type life products** for getting premium income, because of their sweet expectation on better asset management in the late 1980s.
- Contrary to expectations, bubble economy suddenly was bursting in December 1989, and such companies were **troubled on negative spread** between the assured interest rate and the actual interest rate.

5. Low interest rate and its impact on Life insurers



- The Government and Bank of Japan has been keeping **low interest rate** in 1990s.
- The low interest policy was supporting banks which had too much bad debt produced by bubble economy.
- On the contrary, all life insurance companies had difficulty in **negative spread between actual interest and the assured interest** of life products.
 - Bankruptcy: Nissan Life (1997), Chiyoda Life (2000), Tokyo Life (2000), Kyoei Life (2000)
 - Failures: Toho Life (1998)

III. Transformation of the Post-war Life Insurance System



Collapse of 'The same product, the same price' policy.

1. **Functional failure:** The downward tendency of the price was stopped in the early 1990s, because of interest loss more than expense profits and mortality gain. **The mechanism illustrated in sheet 17 doesn't work!**
2. **Trend of the times:** Deregulation was requested at home and abroad.
 - A proposal to revise the Insurance Business Act.
 - A request for market liberalization from the USA.
3. **Historical reason:** The system still survived even when the historical conditions which supported the system had already disappeared.



1. New legal framework for the nest system

Amendment of Insurance Business Act, 1995

- Deregulation
 - Life insurers can sell non-life products by having off affiliate non-life insurance companies, and vice versa.
 - Deregulation on the licensed life product.
 - Entrusting self-regulation on policy dividend and so on to life insurers.
- Policyholder's protection
 - Solvency margin regulation
 - Establishment of Guarantee fund.
 - Life Insurance Policyholders Protection Corporation of Japan.

2. Changes after liberalization, the 1990s



Features Gradually but steadily

- More impact on non-life insurers.
- It greatly affected on sales channels.
 - The ‘insurance shop’ which are Independent agents which are deployed by independent agencies.
 - Net selling life insurers.
 - Reorganizing sales agents especially in non-life market.
- Under the post-war system, no insurance bankrupts happened, but some life insurance companies went bankrupt after 1997.
 - Safety net did work in some way.
 - Solvency regulation is too optimistic. More strict rule and discussing about what it should be.

IV. Conclusions: Changes after liberalization after 2000



Changes after 2000

Market: Changes in products portfolio and channel

- Medical insurance products rather than traditional life products like whole life and endowment.
- Increasing speed of the development of new sales channels.

Consumer Protection: FSA directed that the inappropriate payment and non-payment after 2005 should be checked and paid by insurance company.

- Consequently the quality of life products was improved.
- Consumer protection laws; The Consumer Protection Fundamental Law, and the Financial Instruments and Exchange Act.

Industrial Organization: Concentration to larger life insurers is not changed

- Conversion to business corporation
- Kampo Life, post office life assurance, was privatized by the government.
- The new insurance law covers not only insurance company but also Kyosai, Co-operative insurance.

Strategy: Starting up activities overseas

Thank you for your attention!

