

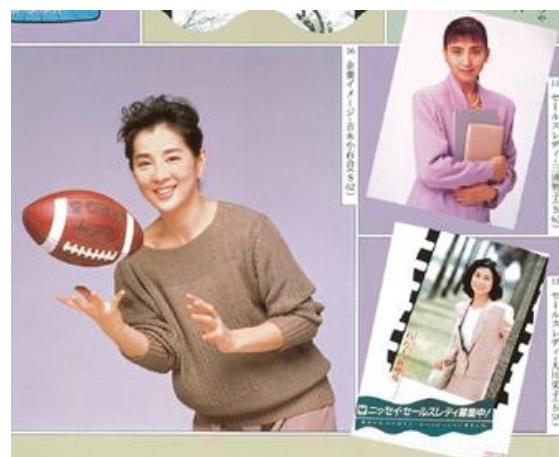
## Life Insurance Distribution Systems in Japanese Market

--- Series 3: From the High Growth Period to the Bubble Economy Period ---

The insurance demand increased significantly as the Japanese economy entered a high growth period from the late 1950s. Since either the price or the policy design discriminations were prohibited de facto by the Finance Ministry at the time, the sales competition was simply carried out through a human-wave tactics of sales agents. Females still accounted for most of the sales agents. Especially the prevalence of electrical appliances such as rice cooker and washing machine from the end of 1950s also facilitated the housewives' entry into the insurance sales business because those home appliances enabled them to make more free time from doing the housework.

However, the productivity of sales agents began to deteriorate as the life insurance subscription rates rose and the sales competition became more furious. Some agents whose sales activities were mostly based on their personal connections occurred. They tried to sell policies to their relatives and friends who might buy an insurance policy not because of a necessity but because of a sense of social obligation or compassion which are generally called *Giri* and/or *Ninjyo* in Japanese. There were also some agents who first tried to make and/or maintain a close personal connection with certain people by frequent home-visit with presents, and then tried to get them to purchase insurance policies. Such sales activities were called *G-N-P* solicitations, namely to sell an insurance policy by means of *Giri*, *Ninjyo* and *Present* respectively.

The subscriptions acquired via *G-N-P* sales promotions tended to have a low persistency rate. Some policyholders cancelled their subscriptions before maturity to purchase some new policies from different agents or sometimes they just wanted to terminate these policies because which were not necessary from the beginning. On the other hand, the employment relationship between sales agent and insurance company seemed very vulnerable. Many of sales agents were apt to quit when they became unsatisfied with their employment conditions or when they failed to meet the



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Source: 100 Years of NISSAY, p.251.

quota assigned by the company. Because, however, most sales agents at the time were part-time employees, job-hopping will not harm their careers as much as it does to the full-time employees. Also, it was not so difficult for them to find another sales agent job from a different insurance company.

For the last few decades, the problem of low persistency rate of policies which was largely caused by the *G-N-P* solicitation method, and the problem of low retention rate of sales agents which was presumably due to the furious sales competition in the absence of price and product design discriminations, and the lack of sufficient professional training, had been drawing lot of attentions and concerns from various societies especially the regulatory authorities. For instance, in September 1958, the Ministry of Finance urged the insurance companies to take some countermeasures against the aforementioned issues. However, no significant improvement had been observed.

Then, in April 1959, as an advisory committee of the Finance Ministry, the Insurance Council, which consists of specialists from the different fields such as



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Source: 100 Years of NISSAY, p.251.

insurance industry, financial institutions, scholars and policyholders, was established. The issues regarding the sales agents had undoubtedly been placed on the agenda of this committee. They suggested that the insurance companies should set some clear requirements and/or make them stricter for sales agents, and should reinforce the professional training for new recruits as well. In the meantime, the committee also emphasized the importance of developing a full-time

sales agent system.

As a result, a Universal Examination System for sales agents was introduced in April 1963, and a professional education system for sales agents was standardized in 1965. Nevertheless, no significant improvement had been observed in the above problems regarding sales agents particularly from the late 1960s since when the penetration rate of life insurance has reached a peak and the sales competition has become more intense, although there was a slight increase in the number of full-time sales agent.

On the other hand, consumer needs also began to diversify from the late 1960s as the Japanese economy develops and the citizens' living standards are being ameliorated. Besides the demand for larger amount of life insurance coverage, the needs for medical care increased rapidly. Some insurance companies started to provide healthcare coverage by adding special arrangements to the existing life insurance policy. Meanwhile, some foreign insurance companies such as *Alico Japan* and *Aflac Japan* which specialize in the medical coverage successively entered into Japanese market since December 1973.

Accompanying with the entry of foreign insurance companies into Japanese market, a new distribution channel, namely the *OTC* (over-the-counter) sales occurred. This channel was mainly set in such as the department store or the supermarket. Moreover, *Sony Prudential Life*, a joint life insurance company established in August 1979, also brought a revolutionary sales agent system into Japan. The sales agents in this company are called Life Planners. All of them are full-time employees with strong sales skills before entered the *Sony Prudential Life* and will receive a professional training in financial planning after entered the company. The distinctive characteristics of this Life Planner system are the comprehensive sales skills and financial knowledge owned by the sales agents, which enable them to provide optimal products to meet the various needs of the consumers.

However, there had been no change in the fact that the part-time female agents were still the main sales force in most of domestic companies from 1970s to 1980s. Especially in the late 1980s when Japan entered a bubble economy period, the consumer needs became more diversified associated with the liberalization of interest rates and the deregulation of finance. Although some domestic companies began to introduce new channels such as the *OTC* sales or to put more attention on developing the full-time sales agent channel.

*To be continued...*

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