

## Product Transitions in Japanese Life Insurance Market

### — Series 4: Stable Economic Growth Period —

Japan's economy entered a stable growth period after experienced its first time negative growth in 1974 which can be largely attributed to the oil crisis occurred in 1973. Consumer price increases had been drastically accelerated in the midst of the economic recession caused by the oil crisis. Under such circumstances, a possibility of decrease in the value of the existing insurance policy gradually became a fast-growing concern, and the needs for larger amount of insurance coverage increased significantly as well.

Products with a large amount of coverage consequently became the mainstream of life insurance industry in the 1970s. This tendency is particularly prominent in death benefit insurance probably because the national pension system had been playing a greater role in providing living benefit during this period.

Concretely, corresponding to the improvement of living standards associated with the economic development, a raise in the monthly amount of public pension benefit had been successively implemented in 1964, 1969 and 1973, namely from ¥10 thousand to ¥20 thousand and then to ¥50 thousand. Moreover, a price-index linking system for pension benefit was introduced in 1973 under which the amount of pension benefit will be raised in response to wage and price growth. It is notable that there was no rise in premium payments accompanying with the above reforms regarding pension benefit. The year 1973 was therefore called Welfare Society Year in the light of these remarkable improvements on pension benefits.

On the other hand, giving the further development of nuclear families associated with urbanization and economic growth, a death benefit in pursuit of securing family's financial future had undoubtedly become increasingly

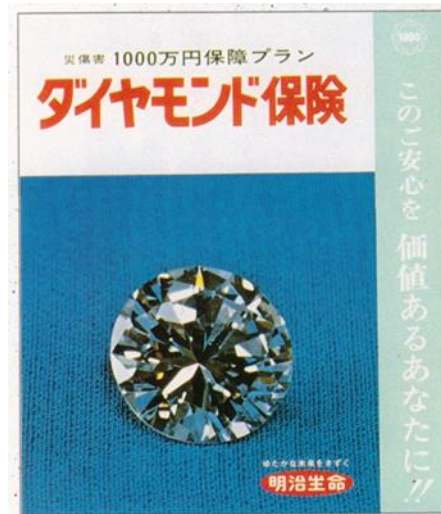


*Sugar Release by MAFF of Japan during the Period of Rampant Inflation Caused by the First Oil Crisis.*

*(Source: Showa History, Vol.5, p.162.)*

important. In addition to term riders, various types of whole life insurance policies and term life insurance policies had been developed in order to meet the demand for death benefit.

The notable point is that the market of term life insurance began to grow steadily overall especially in commercial lines, unlike the prewar period during which its sales performance was poor. For instance, key-man insurance was one of the most popular term life insurance products in the 1970s designed for the managers of small and medium-sized companies. In particular, a type of key-man insurance with a ¥100 million sum insured developed by Daido Life, one medium-sized insurance company, had gained a lot of popularity.



*A Brochure of A Product Representing the Start of the Large-amount Coverage Era, Diamond Insurance by Meiji Life in June 1969. (Source: 110 Years of History of Meiji Life, p.163.)*



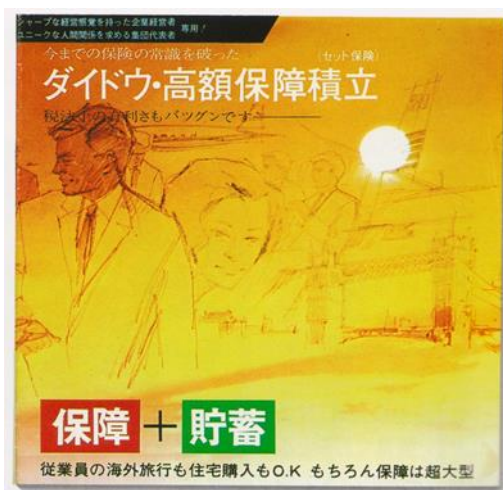
*A Special Product Designed for Female Customers, Dream Plan by Meiji Life in August 1975 Representing An Example of the Market Segmentation Strategies in 1970s. (Source: 110 Years of History of Meiji Life, p.185.)*

However, the types of endowment life insurance were still the industry leading products despite the fact that the shift to the types of whole life insurance had already occurred in some companies in the late 1970s. The shift of industry leading product to the types of whole life insurance eventually was accomplished by the mid-1980s.

Meanwhile, the deregulation of financial markets such as phased liberalization of interest rate had exerted significant influence on life insurance industry in the 1980s. A wide variety of financial products accompanying with the progress of financial deregulation and advancement of financial technology had emerged. This had been bringing consumers more options to manage their risks and consequently led to life insurance companies

being exposed to stiff competitive pressure from other financial institutions.

To respond to the above environmental changes, life insurance companies conducted an active sales promotion of a five-year term single-payment type of endowment insurance product in which the assumed interest rate had been set



*A Brochure of A Group Term Life Insurance Combining A Maximum of 50-million-yen Death Benefit with A Maximum of 10-million-yen Savings Benefit, One of the Representative Products in the Large-amount Coverage Era by Daido Life in April 1971.*

*(Source: Daido Life- 100 Years of Challenge and Creation, p.53.)*

at a relative higher level than the products provided by other financial institutions. Moreover, a revolutionary new product, variable insurance, in which policy value is linked with the investment performance of insurance company, was introduced. As a matter of fact, the former product emerged in the late 1970s and gained tremendous popularity from the mid-1980s, whereas the introduction of the latter product had been discussed since early 1970s and finally realized in October 1986.

The rapid growth of these two types of product implies that savings and investment functions of life insurance had become more emphasized during the 1980s.

Furthermore, the changes in taxation policy regarding payments of individual annuity insurance and term single-payment endowment insurance had also largely affected the growth of these product types which we will discuss more details in our next report.

*To be continued...*

*(YingYing Jiang, Ph.D. in Commerce of Hitotsubashi University)*