

Product Transitions in Japanese Life Insurance Market — Series 5: Bubble and Deflationary Economy Period —

In 1980s, savings and investment functions of life insurance had become more emphasized as we mentioned in the previous report. Single-premium endowment insurance product with a relatively high assumed interest rate, individual annuity product and newly introduced variable insurance product were those designed to respond to such market needs. Giving the brisk capital market conditions, preferential taxation policies also played an important role in expanding the market of the above insurance products.

For instance, new taxation policy released in April 1984 not only permitted individuals to claim tax deductions for paid-up annuity premiums, but also applied an occasional income taxation policy to maturity proceeds of five-year single-premium endowment insurance products which boosted the popularity of certain products although it fades away soon after the policy was terminated in 1988.

On the other hand, several important legal reforms regarding the public health services were carried out in 1980s which have stimulated the development of medical care insurance market to some extent. Concretely, for example, according to the Law of Health and Medical Service System for the Aged promulgated in 1982 and enforced in February 1983, the elderly individuals are required a partial self-pay burden of their medical expenses for the first time. Moreover, in 1984, an amendment to the Health Insurance Law regarding the calculation method for self-pay burden of employee's medical expense was enacted. Under the amended law, a fixed-percentage method was introduced instead of the fixed-amount method.

These revisions which are considered to be attempts to cut back on the increasing public medical service costs, however, virtually increased the system users' burden and created a growing demand for medical care



A Snapshot of TV Advertisement for Variable Insurance released by Nippon Life in 1987.

Catchphrase of the Advertisement: Enjoy The Changes.

(Source: *100 Years of History of NISSAY*, p.250.)

insurance. Meanwhile, life insurance companies also commenced developing the nursing care insurance market considering the extension of life expectancy and rapid growth of aged population.



A Poster for Individual Dental Insurance Plan, the First Release by Meiji Life in 1988. (Source: *110 Years of History of Meiji Life*, p. 208.)

As the Japanese economy entered a long-running deflationary period associated with the collapse of the stock market and real estate market in the beginning of 1990s, the environment surrounding life insurance business began to change significantly. The type of variable insurance undoubtedly lost its popularity as a financial product due to the sluggish stock market. The prolonging stock market slump also forced life insurance companies to lower the assumed interest rates of their products. Under such circumstance, in pursuit of death benefits,

the demand for the types of whole life insurance with term riders or simple term life insurance was facilitated, whereas the type of endowment insurance which combines compensation element and savings element together became rather unreasonable.

Nevertheless, giving the fact that there is no significant improvement in disposable personal income due to the lingering economic recession, a growing trend in the needs for medical care has been observed, while the needs for death benefits has entered an underlying downward trend after reached a peak in the mid-1990s. Such changes became more obvious in and after the 2000s which could be partially attributed to the drastic revision of Insurance Business Act in 1995.

For example, most of medical coverage for hospital expenses due to illness or injury provided by domestic life insurance companies, which was also called the third sector, was only allowed in a form of special contract with the exception of some small and medium-sized companies before the legal reforms. From July 2001, such constraints are fully removed and the mutual entry of life and non-life insurance companies into the so-called third sector is permitted by the amended Act.

In the meantime, the mutual entry of life and non-life insurance companies into each other's markets through subsidiaries also became legalized from 1996

which has intensified market competition and stimulated product development. However, overall the Japanese life insurance market is undergoing many dramatic changes. Some traditional life insurance products such as the endowment life insurance which had long been a very popular product in Japan are losing the popularity, whereas some new markets such as medical insurance or cancer insurance are showing significant potential for growth.

The End.

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