

Demographic Changes and Life Insurance Business in Japan

--- Series 3: Challenges and Opportunities ---

As we mentioned in the previous report, public pension system plays an important role in providing income security for the elderly citizens. On the other hand, national health insurance program introduced in 1961 provides Japanese citizens a universal coverage in health care, and there is also a special scheme for the elderly health care which is known as Act on Social Welfare for the Elderly started in 1963. It is needless to say that these social health systems have been playing an important role in protecting public health. Especially the amendment regarding the latter Act conducted in 1973 enabled the elderly a free medical service.



Nevertheless, rapid aging of Japan's population from the 1980s poses significant challenges for the above social welfare systems. Since then various reforms aiming at cutting back on the increasing public pension and medical service costs have been undertaken. There are two most drastic reforms regarding the public health care. The first one is that the elderly individuals are required a partial self-pay burden of their medical expenses after the law of Health and Medical Service System for the Aged promulgated in 1982 and enforced in 1983. The second one is that according to the amended health insurance law, a new calculation method for self-pay burden of employee's medical expense, namely changing from a fixed-amount to a fixed-percentage method, is introduced.

It is notable to mention that since 2008 there is a further increase in the elderly self-pay burden based on a new scheme for the population aged 75 or above which is also known as the Late-stage Medical Care System for the Elderly. Moreover, reforms with respect to the public pension system such as cutting

back on future benefits, raising premiums and/or pensionable age have been undertaken. On the other hand, a new public health care scheme which specializes in long-term care of elderly, Long-term Care Insurance system is introduced in April 2000.

In addition to the problems of rapid aging and declining fertility rate, however, the lingering slump of Japanese economic keeps aggravating the difficulties of securing enough financial resources to make the aforementioned social security programs sustainable. In fact, from the middle 1980s, government started to urge insurance industry to play a more active role in coping with issues resulted from the coming rapidly aging society. For instance, in 1985, the Social Security Advisory Council, an affiliated organization of Japan's Prime Minister Office, suggests that the private sector may get more involved in provision of service for the elderly. Meanwhile, the Insurance



Advisory Council, an advisory body to the Minister of Finance requests the life insurance companies to put more efforts on developing products related to medical care and long-term care.

In response to these requests, various types of medical care product and long-term care product occurred in the late 1980s. Most of these products were not designed as a single product but in a form of special contract namely as a rider since most of domestic life insurance companies were forbidden to sell those so-called the third-sector insurance products until 2001 when an Amended Insurance Business Act came into force. In contrast with long-term care products, the market of medical care related products, either the single product type or the rider type, have continued to grow significantly since then.

On the other hand, the shift of consumer needs from living benefits to death benefits has been observed from the late 1980s. Namely the market share of

whole life insurance products and term life insurance products have been showing an upward trend while that of endowment life insurance products has entered an underlying downward trend despite the fact that these trends reached a peak in the mid-1990s. Overall, nowadays the most popular products in Japan are whole life types of insurance and medical care related types which reflect that consumers concern are most concentrated on how to secure her family's financial future and take care of her medical expenses by herself.

It is noteworthy to mention that the market of personal annuity products has been growing slowly since 1990s, despite the fact that the reforms of public pension scheme such as cutback on future benefits and/or raise in pensionable age. The market growth of long-term care related insurance products is slow as well and there are no significant changes after the national Long-term Care Insurance scheme started in 2000.

However, according to the Nationwide Actualities Survey on Life Insurance 2015 published by the Japan Institute of Life Insurance (JILI), only 13.2% of survey respondents are satisfied with the existing social security programs on meeting their health and safety needs while 85% of them are not and think it is necessary to undertake some self-protections such as purchasing a life insurance policy and/or a personal annuity product. Meanwhile, 42.3% of survey respondents say that they cannot afford such self-protections and 21.6% of them say such self-protections are not available for them due to health concerns and/or age restrictions. These survey results imply that there is still room for developing life insurance business in Japan.

The End.

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