

Business of Foreign Life Insurance in Japan

--- Series 2: Entries and Withdrawals in the Prewar Period ---

In contrast to the 1880s when only four domestic life insurance companies had been founded, in 1890s a boom in life insurance business occurred. More than forty companies were established between 1893 and 1899. Accompanying the boom, excessive competition and reckless management became rampant and raised serious concerns about the sound development of Japan's life insurance industry. Many newspaper articles criticizing the above issues and urging the necessity of government regulation and supervision of insurance business were published during this period.

In response to the situation, a series of regulatory policies via such as laws or administrative rules were put in force from July 1898 onward, when the Commercial Law became effective. Article 690 of the then Commercial Law stipulated the provisions for reserve funds of insurance company for the first time. In June 1899, the Detailed Rules regarding Insurance Companies were issued by the then Ministry of Agriculture and Commerce right after the enforcement of the Amended Commercial Law. However, the above regulatory policies were only applied to domestic companies according to the Treaty of Amity and Commerce.

Soon after the announcement of the Detailed Rules regarding Insurance Companies, an Imperial Ordinance regarding Foreign Insurance Companies was issued. According to this ordinance, foreign companies were required to apply for a business license in order to continue business in Japan by the end of 1899. Meanwhile, running life insurance business and nonlife insurance business at the same time was no longer allowed. A report as of December 18 of that year in *Jiji Shimpō* states that among the existing 141 companies in Yokohama, only 68 companies had applied for business license. With respect to life insurance, in 1899 only Equitable Life applied for the business license and received it in July 1901. Then in 1901 Standard Life, Sun Life and Manufacturers' Life, in 1902 New York Life and Mutual Life also succeeded with their applications respectively. Besides the companies already mentioned, there was only one more licensed foreign life insurance company in Prewar Japan. Namely, China Mutual Life, a British company located in Shanghai China, obtained its license in 1911.

Unfortunately, however, foreign insurance companies' business in Prewar Japan did not prosper as expected and five of the seven companies had withdrawn by the end of 1926. Namely, Standard Life and Mutual Life in 1904, Equitable Life in 1913, China Mutual Life in 1924, and New York Life in 1926 gave up their Japan business respectively. It was said that the requirement of provisions for deposit accounts by foreign insurance companies enacted in 1903¹ was largely responsible for the withdrawal of Standard Life and Mutual Life. According to the provisions, foreign life insurance companies were required to deposit 150 thousands yen with certain banks designated by the authorities. Later in 1914, the amount of the deposit account was raised to an amount not less than 60% of the company's legal reserves.

In contrast, the main reasons responsible for the withdrawal of the other three companies were more likely to be related to their bad business performance in the Japanese market and/or their home market. More specifically, the withdrawal decision by China Mutual Life was made after its approval for raising premium got rejected by the authorities in 1924. On the other hand, with respect to the two American companies - Equitable Life and New York Life - it was speculated that their deteriorating performance in their home market and the Japanese market largely resulted from the ban on selling tontine life insurance policies legislated by the State of New York in 1906. The main characteristics of tontine policies provided by the two companies at the time were that both the amount of coverage and policy dividend were much larger than the policies provided by most domestic companies.² However, from the mid-1900s onwards, many domestic companies started to provide policies with a large amount of coverage and/or policy dividend. In particular, the emergence of mutual companies from 1902 onwards greatly stimulated the competition in policy dividend. Consequently, it became very difficult for the foreign companies to create a competitive advantage via product differentiation.

As the only two foreign companies left in Japan after 1926, Sun Life and Manufacturers' Life carried out their business until the end of 1941 when the Pacific War started. According to the Enemy's Property Control Act promulgated and enforced in December 1941, Sun Life and Manufacturers' Life had to transfer all their policies in force to Kyoei Life, a domestic company established

¹ These provisions were stipulated in Imperial Ordinance No.380 which was issued in 1900 and became effective in 1903.

² In a tontine policy, dividend will only be paid after a significant number of policy years (five or more) had elapsed.

in 1935 as a reinsurance company for substandard insurance products sold by domestic companies. All transfer procedures were completed in May 1942. Since then, there was no foreign insurance company operating in the Japanese market.

To be continued...

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