

Business of Foreign Life Insurance in Japan

--- Series 4: Changes in Competitions ---

As we mentioned in the previous article, in the early 1970s, the licensed foreign companies were expected to sell different products or use different distribution channels from the domestic companies. Not surprisingly, there were some distinct differences between foreign insurers and domestic insurers with respect to products and distribution channels during the period 1970s-1980s.

Firstly, the major products in foreign companies were nonparticipating types of insurance policies whereas domestic companies mainly sold participating type of policies. In fact, domestic companies were not allowed to sell nonparticipating types of products until the late 1990s, when the Amended Insurance Business Act was put in effect¹. Secondly, products sold by foreign companies put more emphasis on the protection function of insurance while those sold by domestic companies focused more on the saving function of insurance.

More specifically, with regard to death protection, many foreign companies provided products such as whole life insurance and term insurance. On the contrary, domestic companies offered endowment type of insurance policies as their leading products in which the savings function is emphasized more than in term life and whole life types of policies. There were also foreign companies specializing in health insurance products. For instance, the cancer insurance products provided by American Family Life are well known as successful examples. It is worth to mention that most domestic companies were forbidden to sell health insurance as single products until the end of 1990s².

Thirdly, foreign companies were using various distribution channels whereas sales agents were the dominant distribution channel of domestic companies at the time. Many foreign companies preferred agency channels and some of them even actively used non-life insurance agencies such as American Family and American Life. On the other hand, the sales agent channel developed by foreign companies was very distinct from that of domestic companies. A large portion of

¹ The dominant organizational form in Japan was mutual form at the time. There was only one joint venture company called Heiwa Life.

² Only few middle and small sized companies got approved of selling health insurance as single product. Meanwhile other companies were allowed to sell health insurance riders.

sales agents in domestic companies were part-time workers without high educational background. On the contrary, most sales agents in foreign companies were full-time workers with high educational background. As a typical example, all sales agents in Sony Prudential Life were college graduates and capable of using electronic devices for sales activities. They were called Life Planners. Moreover, some foreign companies also tried to sell life insurance in department stores and retail stores. Seibu Allstate Life is known as the first company among those.

The strategies of product and distribution channel adopted by foreign insurers undoubtedly provided a breath of fresh air to the domestic market. Domestic companies gradually began to adjust their strategies with regard to products and distribution channels from the mid-1970s onward. Major companies got approved to sell term life insurance as a single product by the end of 1974. Successive releases of health insurance riders designed for risks such as adult diseases and

cancer came up during the last half of the 1970s and the early 1980s. Instead of endowment insurance, whole life insurance began to become a major product in some companies since the late 1970s and eventually became the industry's

leading product in the mid-1980s. However, due to regulations, it was only from the early 2000s onward that the sales of nonparticipating types of insurance policies and health insurance as a single product finally became an option for domestic companies.

On the other hand, regarding the distribution channels, domestic companies began to place more emphasis on quality improvement activities for eligible sales agents with the cooperation of the Life Insurance Association of Japan from the late 1980s onward. The educational background of sales agents started to become important for some companies. Sales agents were required to not only participate in training programs but to also pass the qualification exams designed and designated by the abovementioned Association³. Some companies



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.)

³ For example, Financial Advisor Certification Examination started from 1988, the examinations for Life Consultant and Senior Life Consultant started from 1992, and so on.

also started to develop over-the-counter sales channels by setting up contact points in department stores and supermarket stores during the late 1980s.

The Japanese economy entered a severe recession after the “bubble economy” collapsed in the early 1990s. Nevertheless, no declining trend can be observed with regard to the entries of foreign life insurers to the Japanese market. In the 1990s about eight more companies entered and in the 2000s eleven more companies newly started business in Japan. In the early 2000s, especially, foreign companies received great attention when they succeeded in buying five of the seven bankrupt domestic life insurance companies. As of March 2018, sixteen of 41 life insurers are fully or partly owned by overseas capital. The fact that the Japanese government undertook the liberalization and deregulation of the insurance market starting in the second half of the 1990s is largely responsible for the entry of foreign capital despite the fact that some entries ended in failure.

The ongoing liberalization and deregulation, however, also enabled domestic companies to more easily and freely compete with foreign companies. For example, the previously mentioned sales of nonparticipating policies and health insurance as a stand-alone product became available to domestic companies. With respect to distribution channels, companies now sell insurance through independent agencies, brokers, or banks and other deposit-taking institutions. In other words, the segmented insurance market created by the regulations does no longer exist and all companies are at least nominally able to compete with each other on the same ground. As of March 2016, with respect to personal insurance and based on the total amount of policies in force at the end of the year three of the top 10 insurers are non-Japanese companies.

The End.

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