

Product Transitions in Japanese Life Insurance Market

--Series 2: Reconstruction and Restoration Period--

Life insurance companies tended to have more managerial discretion over the design of products before World War II started. As the war progressed, however, the regulations on insurance business such as asset investments and product development had been gradually strengthened. For instance, despite the fact that the death and/or injury due to the war are generally included in the exemption clauses of insurance contracts, the regulatory authorities demanded a fully unconditional payment without increasing premium rates since April 1943.

Meanwhile, the insurance companies had been also strongly requested to commence sales of *Koa Hoken*, a type of patriotic life insurance product designed by the regulatory authorities in June 1943. Most companies started selling this product by September 1943 except very few companies such as Dai-ichi Life¹. A notable point regarding sales of *Koa Hoken* is that the private insurance companies are allowed to sell nonmedical life insurance product for the first time. The reasons for its nonmedical design were said to be the simplification of clerical procedures and the countermeasures for the shortage of labour, especially of medical examiner.

The regulatory framework for insurance business established during wartime such as standardization of product basically continued to exist up to the mid-1990s. Inflation and a surge of commodity prices occurred in the aftermath of the World War II caused a severe recession. Either the cancellation or the lapse of life insurance policy had increased significantly. In the meantime, the vast amount of insurance payment and the loss of overseas assets due to the war had plunged many life insurance companies into financial difficulties.



The First Leaflet for National Savings Movement Issued by Life Insurance Association of Japan in 1939.

Source: 110 Years of History of Meiji Life, p.112.

¹ The reason Dai-ichi Life refused the request for sales of *Koa Hoken* was a concern in the underwriting risks.

Under such circumstances, the regulatory authorities released several policies to reconstruct the insurance industry.

Firstly, a premium raise to cope with increasing costs and expenses of life insurance companies had been initiated by the authorities in April and November 1946, which were so-called Standard Premium and Provisional Premium respectively. It means a uniform premium system had been accomplished as the latter official premium rates were adopted by all insurance companies in January 1947.

Secondly, the authorities urged the insurance companies to commence the sales of term life insurance product in spite of its poor performance during the pre-war period as we mentioned in the previous report. The background of this movement was that endowment insurance products were still the main products of most companies but its high premium rates hampered the purchase motivation of consumers when Japan's economy was in the midst of a deep recession. As a result, many insurance companies started the term life insurance business from 1946.

Thirdly, deregulations of nonmedical monthly instalment life insurance and nonmedical group term life insurance were implemented in 1946 and 1947 respectively. The former type of products had been monopolized by the government-owned Postal Life Insurance Service until the partial revision of the Postal Life Insurance Act in October 1946, while the latter type of products had been considered as a legally monopolized business for Nippon Dantai Life Insurance Company² until the enforcement of Japanese Antimonopoly Act in April 1947. Meiji Life was the first company moving into the above deregulated insurance markets in 1948, and most companies joined the business as well by the end of 1951³.



A Pamphlet for Monthly Instalment Insurance Issued by Daido Life.

Source: Daido Life- 100 Years of Challenge and Creation, p.45

² Nippon Dantai Life Insurance Company was a domestic life insurance company, established in September 1934. The company specialized in group life insurance business until April 1947.

³ Dai-ichi Life introduced its first nonmedical product in September 1947.



A Poster of Life Insurance Awareness Month Issued by Life Insurance Association of Japan in 1951.

Source: *100 Years of History of NISSAY*, p.171

On the other hand, some savings-type insurance products gained a lot of attention during the high inflation period of 1946-49. There were about five companies which even made this type of products as one of their major products⁴. However, it gradually lost popularity as the period of inflation ended and the economy started recovering in the mid-1950s after the “special procurement” boom swept across Japan⁵. Meanwhile, the Ministry of Health and Welfare issued a new Life Table in November 1954 which showed a decline in Japanese mortality rates.

Responding to the new Life Table, insurance companies conducted a reduction in premium simultaneously in April 1956, and many new products had been springing up.

However, it was not possible for a company to pursue a *real* product strategy that seeks differentiation vis-a-vis other companies since the premium and the design of product were highly standardized by the regulatory authorities at the time, although the company was entitled to make a decision on its leading products and product portfolio composition as well. Needless to say, such regulatory regime worked favourably to the large companies due to economies of scale. The widening disparity between the large and small-to-medium sized companies gradually became a concern for various societies especially the regulatory authorities.

To be continued...

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⁴ All were small and medium sized companies.

⁵ A boom brought about by the Korean War (June 1950- July 1953).