

## **The Latest News in Japan's Life Insurance Market 2019: Why Independent Agencies become subsidiaries one after another?**

**HOKEN NO MADOGUCHI GROUP INC. becoming a consolidated subsidiary of a trading company.**

The news that HOKEN NO MADOGUCHI GROUP INC. became a consolidated subsidiary of ITOCHU Corporation, a major trading company has sent a shockwave.

The group operates an Insurance Shop chain, Hoken No Madoguchi, nationwide and the total number of shops are over 660, which makes Hoken No Madoguchi the largest chain in the Insurance Shop channel. Insurance Shop is rather a late comer as an insurance distribution channel, however; the sales style of 'comparison recommendation based on intention confirmation' has been fully implemented and the shops manage the stable business overall.

On the other hand, if you turn your eyes to the financial base of independent agencies, which are the operating bodies of insurance shops, you'll find that it is unstable because they have a strong dependency on sales commissions paid by insurance companies and the insurance companies usually revise their commission structures at their own discretion.

The commission structure has shifted to one with an emphasis on the business quality over the past few years. For the independent agencies that don't have financial strengths to invest in a system and human resources to follow such shift, becoming a subsidiary of insurance companies has become one of their survival options.

The news about the subsidiarization of Hoken No Madoguchi became particularly a

shocking news, maybe even more so with such backdrop.

On October 29, Itochu announced that the company raised its share of Hoken No Madoguchi from 46.2% to 57.7%, and made it a consolidated subsidiary.

Itochu started to enter into the capital and business alliance with Hoken No Madoguchi in June 2014 and the total investment amount was JPY 16 billion prior to the consolidation.

“Through the acquisition of Hoken No Madoguchi which will be the core of our customer-oriented business we pursue, we’d like to support the further improvement of the quality of customer service and the further expansion of the business,” Itochu explains its aim.

Although nothing specific has been disclosed, it is expected that Hoken No Madoguchi can differentiate itself from other competitors by adopting Itochu group’s digital technology to improve its strength in making proposals and its number of customers.

Itochu also has subsidiarized Family Mart, a convenience store chain, so there might be some possibilities that the marketing strategy aiming for a synergy effect between Hoken No Madoguchi and Family Mart is in its mind.

As of FY2018, the number of shops of Hoken No Madoguchi is 662, 415 directly operated shops and 247 partner shops, and it is the largest Insurance Shop chain nationwide. By adding 80 affiliated shops through the alliance with 23 different regional banks, the total number of shops reaches 742.

**Enhancing the ability to respond to the development of the digital society.**

Every July when its new fiscal year begins, Hoken No Madoguchi holds a kick-off meeting where the preceding fiscal year is summarized and the new fiscal year's basic policy and performance indicators are made clear.

The annual slogan for FY2019 (from July 2019 to June 2020) is "Realize the company that all the customers say 'Thank you!'". In the management policy, the company emphasized that something "must not be changed" and something "must be reformed and innovated" have to be clearly identified and then engage in business operation accordingly.

Among the things that must be reformed and innovated, Hoken No Madoguchi included the enhancement of the ability to respond to the development of the digital society and the further enhancement of the information security system.

Points discussed for the enhancement of the ability of the response to the development of the digital society are as follows:

- ① Establish a cutting-edge "market/customer strategy" by accurately capturing any changes in the market and customers.
- ② Heighten the added value of customer information and earn customers-for-life.
- ③ Enhance and strengthen guiding measures from air battle (the Internet) to ground battle (actual shop), including a shop strategy.
- ④ Establish a strategy by integrating all of the directly managed, partner, bank affiliated, and existing shops.

The performance appraisal system has also been completely revised.

It was the conventional results-oriented evaluation before, and was changed to the comprehensive evaluation, by which employees are evaluated based on criteria such as "customer feedback", "nurturing other employees", "teamwork as a shop", "individual

7-article evaluation", and "policy/measure initiatives".

During the kick-off meeting, Hoken No Madoguchi also declared, "To achieve 'the excellent and the most caring company for customers', we will do what we're supposed to do wholeheartedly and seriously without taking anything for granted, building customers trust, and walk together with customers on this endless battle.

Hoken No Madoguchi has Seven 'Mantras' for their employees for daily operations such as ① Understanding a customer's intention is the beginning of our work; ② Putting yourself in customer's shoes is the basis of our work; ③ Meeting customers expectation is the duty of our work; and ④ It is the customer evaluation which measures our work.

**A succession of purchases of Insurance Shops by major life insurance companies.**

Another example of the acquisition of Insurance Shops is that of Life Salon by Nippon Life Insurance Company in May 2015 with the acquisition price of JPY 1 billion. Nippon Life led the way into Insurance Shops channel by major life insurance companies. As of the end of October 2014, Life Salon had 50 shops, including 9 shops in Aichi and 7 shops in Tokyo, and the sales in FY 2013 were JPY 237 million.

Nippon Life dispatched 10 employees to Life Salon to accumulate marketing know-how of the Insurance Shop channel.

In March 2017, Nippon Life announced another acquisition of Hoken-no 110 Ban, which had 89 shops, 42 of which were located in the Kyushu area.

Sumitomo Life Insurance Company also purchased Hoken Design which had 20 shops in the Kansai area in July 2017. Hoken Design was established in July 2008 with the capital of JPY 20 million. The shop operates 8 in Osaka, 5 each in Kyoto and Hyogo, 2 in Nara and so on.

Among Sumitomo Life group companies, Izumi Life Designers operates its Insurance Shop, Hoken Hyakka which is operated mainly in the Tokyo metropolitan area with 71 shops and through the acquisition of Hoken Design, the group now has the total of 91 Insurance Shops in the Tokyo metropolitan and Kansai areas.

Dai-ichi Life Insurance Company Ltd., also acquired 100% of the shares of the independent agency, Alpha Consulting and made it a wholly-owned subsidiary. Alpha Consulting was established in August 2002 with a capital of JPY 10 million. There are 22 shops nationwide and 120 sales agents.

Asahi Mutual Life Insurance Company also subsidiarized Insurance Shop, F.L.P, which has 20 shops mainly in the Tokyo metropolitan area.

Moreover, in June 2019, MetLife Insurance K.K. acquired 100% of the share of the independent agency, Fortissimo Co., Ltd. and made it a subsidiary. Fortissimo was established in April 2000 with a capital of JPY 10 million. There are 50 employees working with it.

MetLife says, “By becoming a part of MetLife Japan, Fortissimo will provide more added value to customers and further grow as a comprehensive insurance agency to exceed customer expectations.”

As a tough business environment surrounding independent agencies, such as the mandatory improvement of solicitation rules for customer-oriented business operation and the revision of insurance commission continues, being transformed itself into a

subsidiary of major life insurance companies has become one of the options to survive among independent agencies.

### **Stern eyes on incentives for Independent Agencies**

A major factor that put independent agencies in a severe business environment is the enforcement of the revised Insurance Business Act in May 2016.

Obligation to grasp customers intention and obligation to provide customers with information have been adopted as the basic rules for insurance solicitation. Particularly in the obligation to grasp customers intention, final confirmation alone is not considered sufficient and the development of the series of the confirmation process became mandatory in such a manner that Confirming customers intention → Insurance proposal (with reasons to propose these products) → Reconfirmation → Checking any discrepancies → Concluding contracts.

Moreover, the management systems to execute the above confirmation process has been imposed, and actual implementation of the PDCA cycle has been required to make it function as an organization. The breakdown of the cycle is: establishing internal rules and manuals (PLAN), operating accordingly (DO), checking and analyzing the results of execution (CHECK), and improving any problems (ACT).

Strict eyes are also turned to incentives for independent agencies.

Financial Services Agency pointed out, “It is important that commissions paid to independent agencies can be explained reasonably to the customer, and commissions should not distort the grasp of customers intentions and comparison recommendations by adding extra commissions as bonus according to sales volume.”

In response to this, insurance companies have changed their commission structures from a traditional method that evaluates only performance to a method that evaluates operational quality, such as customer-oriented business operations and other initiatives that contribute to service improvements.

As a result, independent agencies have become required to invest in a system for improving business quality and for developing human resources, so even if the commission level doesn't change, the cost increases accordingly.

For these three and a half years since the enforcement of the revised Insurance Business Act in May 2016, the independent agencies which operate 50-70 shops in regional cities have been choosing to become a subsidiary of a major life insurance company in search for survival under the circumstances where the thorough customer-oriented business operation is the condition to survive in the life insurance market. And now even Hoken No Madoguchi, the industrial leader, also had no choice but had to choose to be a subsidiary of a trading company.

It's been 20 years since the first Insurance Shop was launched. There is no doubt that they have established a solid position in the life insurance distribution channels with strong consumer supports.

The investment in AI and such is inevitable to draw a next growth strategy, however; their financial strength is too weak to do so. These subsidiarizations of independent agencies, especially Insurance Shops over the past few years have brought out their reality once for all.

From now onward, the independent agencies, by becoming a subsidiary of a life insurance company, will be required to contribute to their group's business results to some extent. Between the customer value that they have built up so far and the pressure

to make contribution to performance results, what kind of future Insurance Shops will seek- 2020 will be positioned as the year when a new stage begins for them.

**Annual contracts of 452,000, 30% of which is non-life insurance products**

Just for your reference, some of KPIs that Hoken No Madoguchi disclosed for FY 2018 (July 2018-June 2019) are as follows:

- Number of policy holders: 1,072,054 (increased 145, 329 policy holders from the end of the previous fiscal year).
- Number of policies in force: 2,244,795 (increased by 307,557 policies from the end of the previous fiscal year).
- Number of new businesses issued: 452,000. Some examples of the breakdown of the new businesses by product type are 110,000 for medical insurance, 79,000 for automobile insurance, 78,000 for cancer / three major disease insurance, 59,000 for whole life insurance, 37,000 for term insurance, and another 37,000 for fire insurance, and earthquake insurance combined, respectively. Non-life insurance accounts for 31.1% and secures a certain portion of the share.
- Number of annual consultations: 909,659 with the breakdown of 554,431 new customer consultations at the largest, followed by 177,181 additional consultations with existing customers, and 178,047 actual insurance buying procedures. The number of new customer consultations has increased by 98,000.
- Persistency rate: 97.3% for the 13<sup>th</sup> month, 95.1% for the 25<sup>th</sup> month, 92.6% for the 37<sup>th</sup> month, 89.6% for the 49<sup>th</sup> month and 87.4% for the 61<sup>st</sup> month.

Renewal rate for automobile insurance is 90.2%.

- Execution rate of 3+① activity: 78.6% and it is steadily increasing from 58.3% in FY 2016 and 66.1% in FY2017.

3 in the 3+① activity indicates the number of consultation before concluding contracts and +① indicates the time when customers visit the shop again with insurance certificates after they are delivered. By explaining and checking the policy contents together with customers once again, the completeness of confirmation of customers intention and comparison recommendation, both are the new insurance solicitation rules, is increased.

About the writer:

**Kenichi Suzuki** is an insurance journalist working for a major insurance trade paper for 34 years. From 2000 onward, he covers a wide range of insurance news including on-line life insurers, insurance shops, overseas expansion of Japanese major life insurers, business strategies, Insurance Council, InsurTech, to name a few. He hosts a private study group, Insurance Marketing Study Group. He occasionally takes a role of a speaker for OLIS seminars and has previously lectured at OLIS overseas seminars in Taipei, Seoul, Beijing, Bangkok and Jakarta.