



**Product Development Strategy Course,
FALIA Seminar**

Overview of Life Insurance Industry in Japan



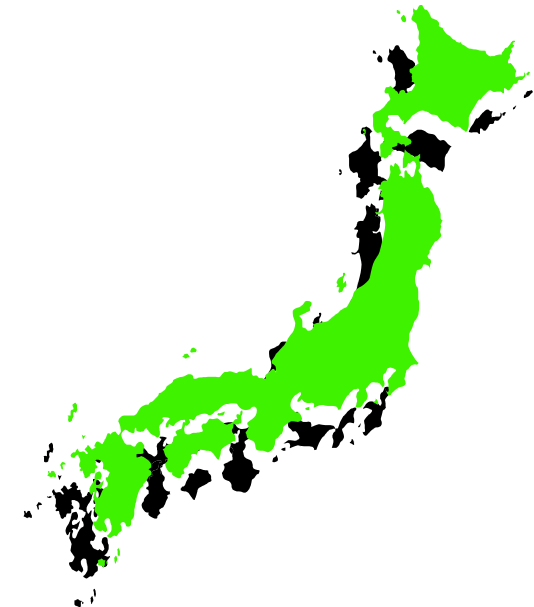
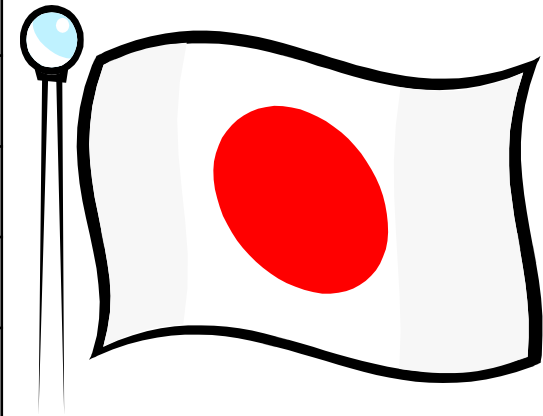
May 22, 2014

The Life Insurance Association of Japan

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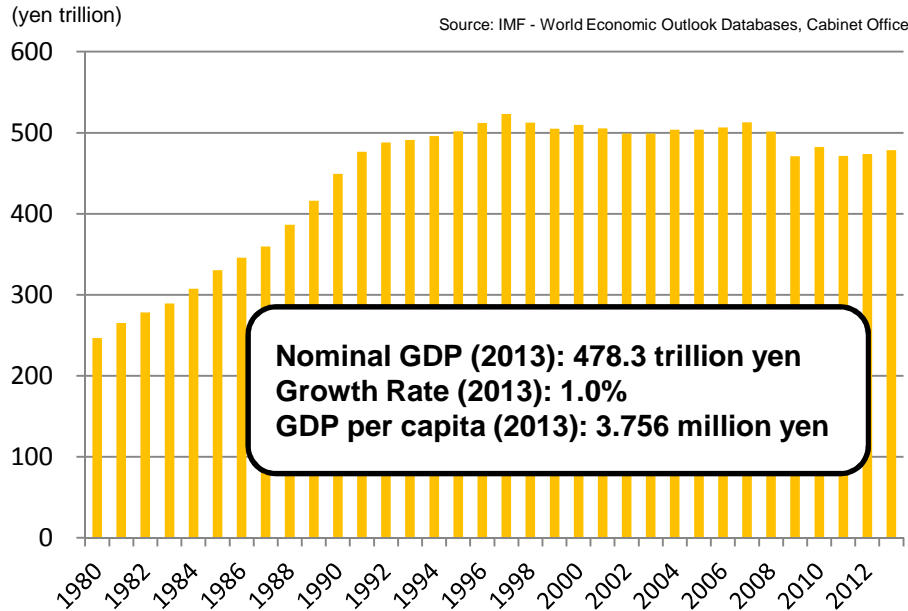
1. General Information

Name	Japan
Area	377,914km ² (rank 60 th)
Population	127 million (rank 10 th)
Capital	Tokyo
Language	Japanese
Main Religion	Shinto/Buddhism
Government	Prime Minister: Shinzo Abe (Liberal Democratic Party)
Trade	Import: crude oil, petroleum products, LNG (liquefied natural gas), clothes, coal, non-ferrous metal, semiconductor electric component Export: automobile, auto component, steel, semiconductor electric component, boats and ships, plastic, engines and turbines

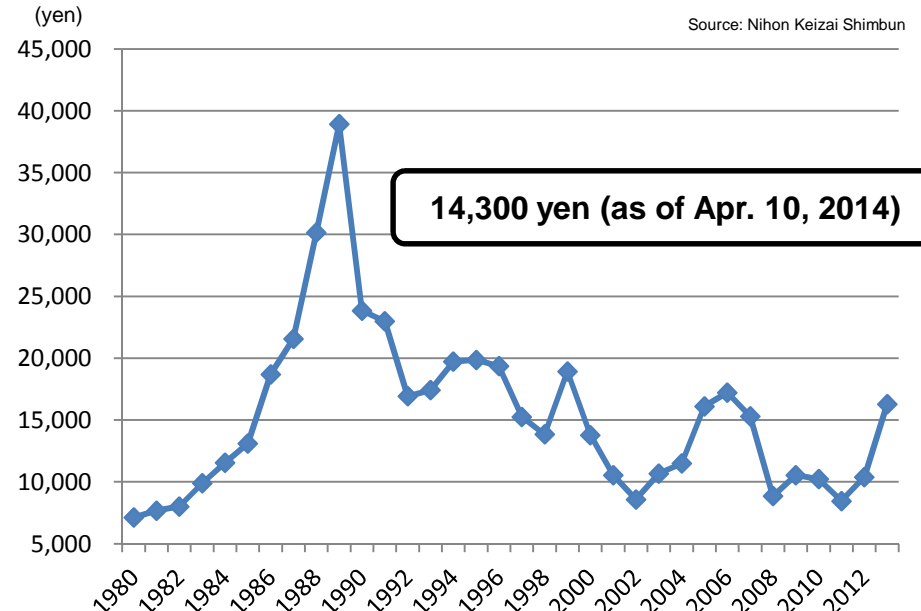


2. Economic Trends

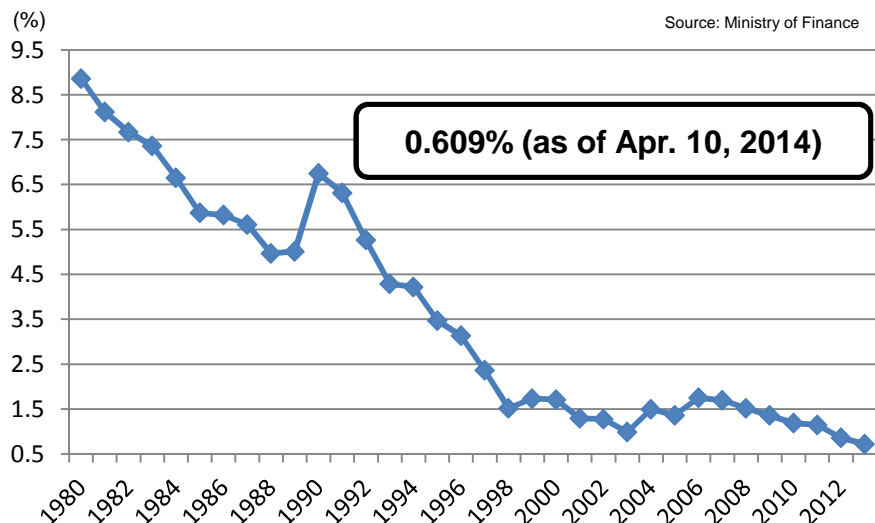
(1) Changes in Nominal GDP



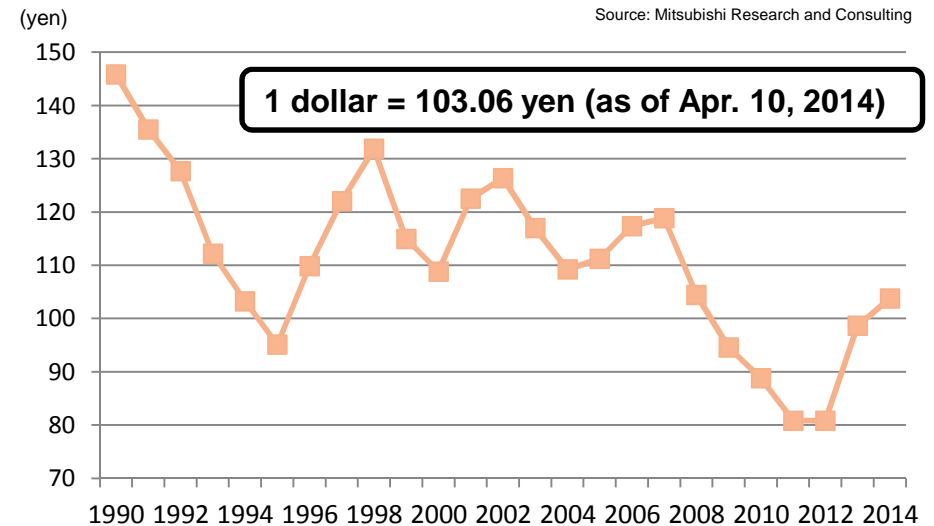
(2) Stock Price (The Nikkei Stock Average)



(3) Interest Rate (JGB 10-year yield)

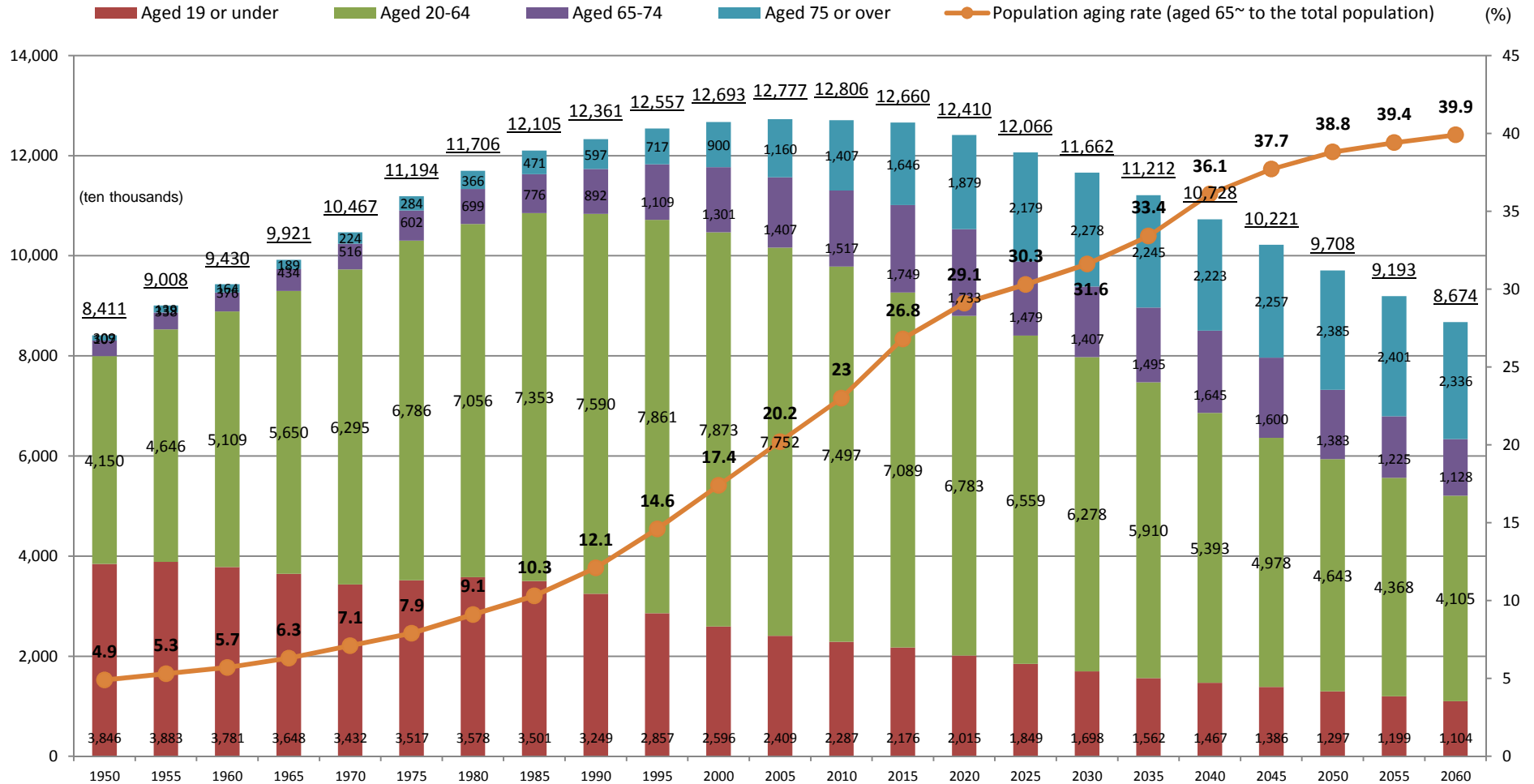


(4) Yen-Dollar Exchange Rate



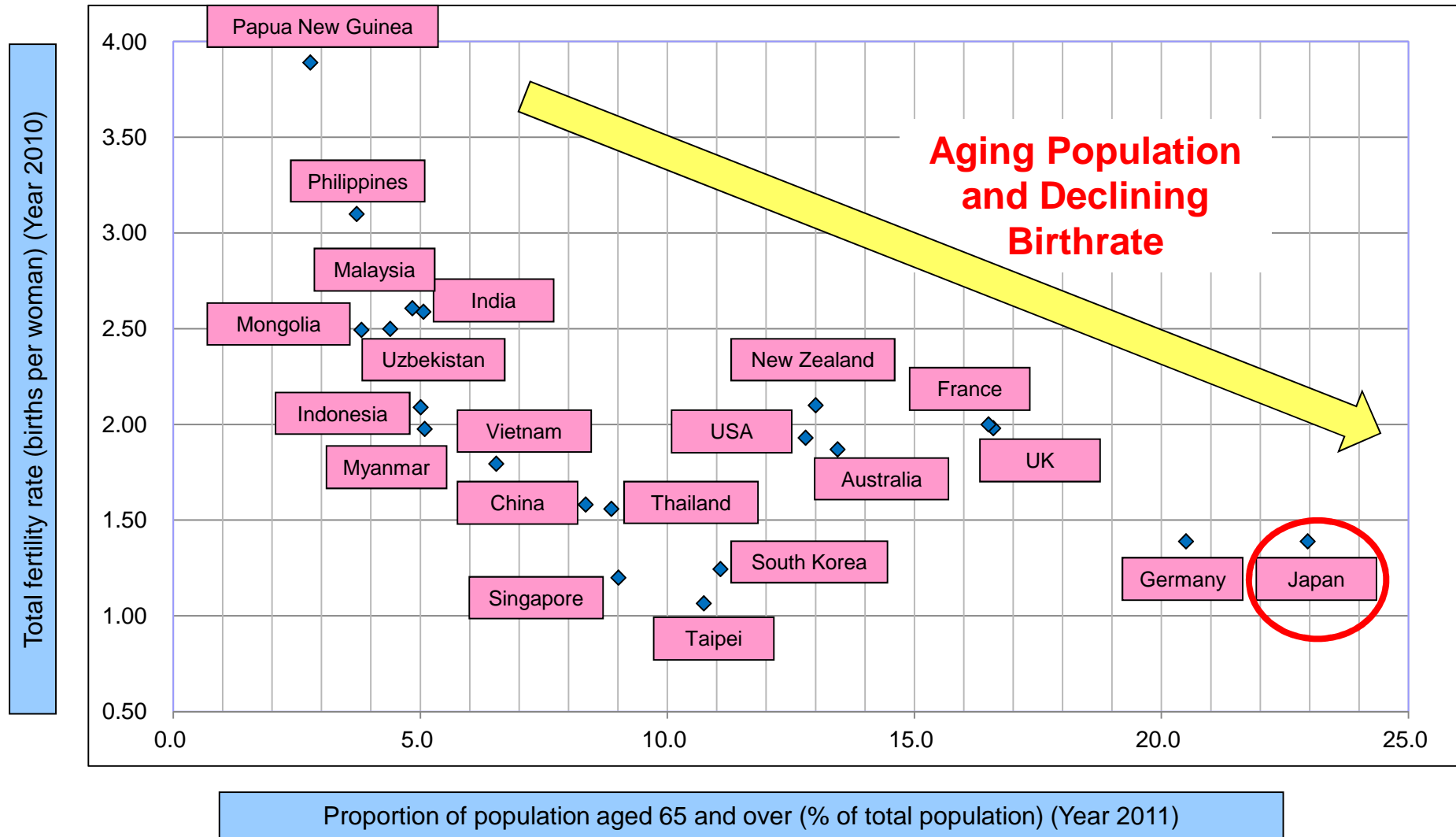
3. Demographic Changes

<Population Demographics>



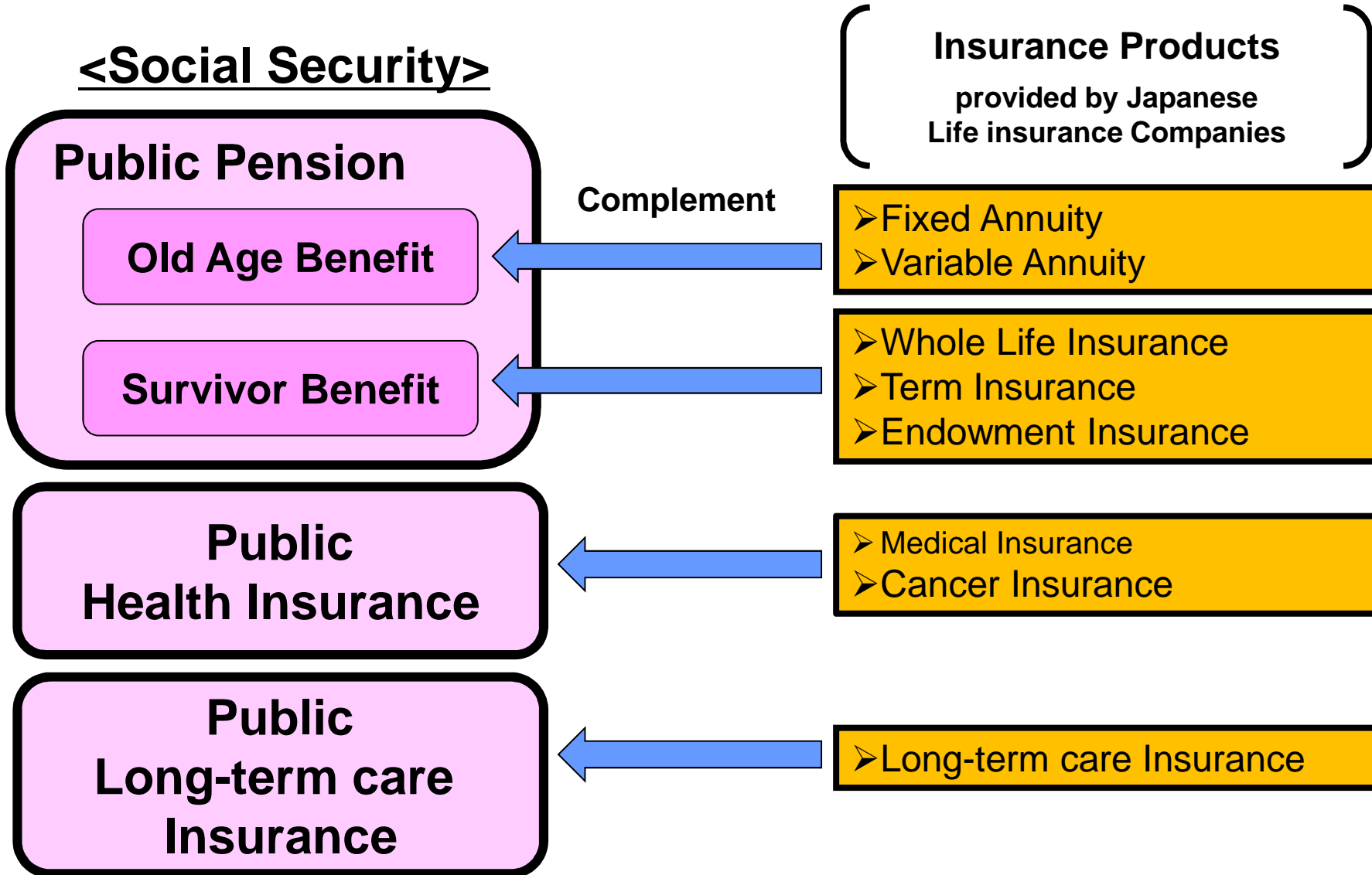
Source : "Population Census", The Ministry of Internal Affairs and Communications, The result of the medium variant projection under "Population Projection for Japan (as of January 2012)", National Institute of Population and Social Security Research; Note: The total population from 1950 to 2010 includes the population of uncertain age.

4. Aging Population



Source: Asian Development Bank(ADB), National Institute of Population and Social Security Research

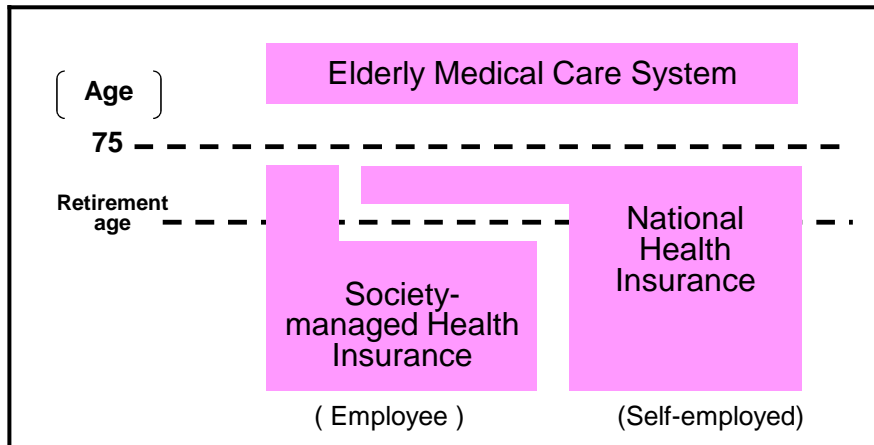
5. Social Security System



(1) Public Pension

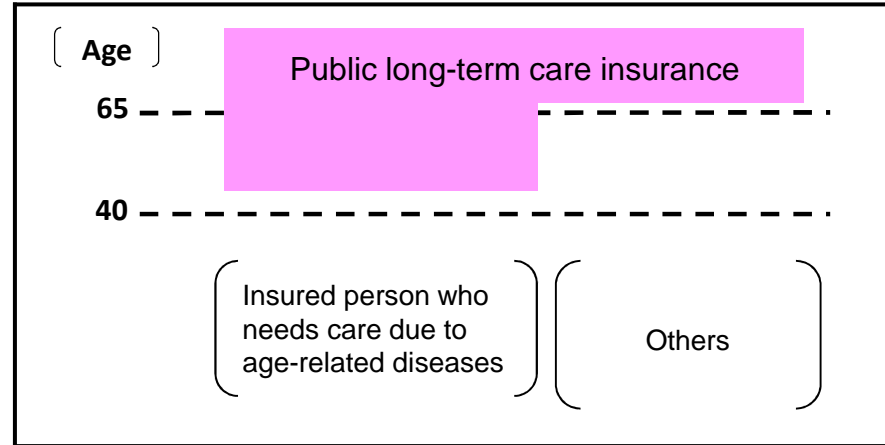
Old Age Benefit	Survivor Benefit
<ul style="list-style-type: none"> > Cost <ul style="list-style-type: none"> • National Government Subsidies • Premium <ul style="list-style-type: none"> • self-employed ... ¥15,040/M • employee ... 17.120% of salary ✓ Public Pension can use fund (¥123 trillion) to ensure paying benefit sustainably. > Benefit <ul style="list-style-type: none"> • Starting age <ul style="list-style-type: none"> • 65 years old ✓ Some older people can receive it from 60 years old. • Amount <ul style="list-style-type: none"> • self-employed ... ¥778,500/Y • employee ... income-related amount/Y ✓ Amount is adjusted not only for price fluctuation but also for a decrease in population. • Eligibility to receive pension benefit <ul style="list-style-type: none"> • premium payment for 25 years(10 years after October 2015) 	<ul style="list-style-type: none"> > Cost <ul style="list-style-type: none"> ✓ Same as Public Pension (Old Age Benefit) > Benefit <ul style="list-style-type: none"> • Survivors' Employees' Pension <ul style="list-style-type: none"> • Eligibility ... Employee • Amount ... 3/4 of Old Age Benefit(Pension) • Widow's Pension <ul style="list-style-type: none"> • Eligibility ... Self-employed <ul style="list-style-type: none"> Age of widow is 60-65 • Amount ... 3/4 of Old Age Benefit(Pension) • Survivors' Basic Pension <ul style="list-style-type: none"> • Eligibility ... Employee and Self-employed <ul style="list-style-type: none"> Survivors have children • Amount ... ¥778,500/Y <ul style="list-style-type: none"> + ¥224,000/Y per child

(2) Public Health Insurance



- Cost
 - National and Local Government Subsidies
 - Premium
 - Society-managed Health Insurance fixed % of salary
 - National Health Insurance/Elderly Medical Care System premium determined by local government
- Benefit
 - Benefit in Kind
 - 70% of Medical Service Cost
 - ✓ 70% may increase to 80% or 90% when insured person is under 6 years old or over 70 years old.
 - ✓ Out of pocket expense is limited depending on age and income of insured person.
 - ✓ Medical Service doesn't include some highly-advanced medical technology.
 - Benefit in Cash
 - Child birth allowance

(3) Public Long-term Care Insurance



- Cost
 - National and Local Government Subsidies
 - Premium
 - Insured persons who are 40-65 years old premium fixed depending on Public Health Insurance
 - Insured persons who are 65- years old premium determined by local government
- Benefit
 - Benefit in Kind
 - 90% of Long-term Care Service Cost
 - Insured persons who are 40-65 years old can receive benefit only when they need long-term care due to age-related diseases.
 - ✓ Out of pocket expense is limited depending on age and income of insured person.
 - ✓ Long-term Care Service Cost is fixed depending on care-needs of insured person.

1. History of Life Insurance Industry in Japan

(1) During Meiji – Taisho Era (1898-1926)

- ◆ **Payment of insurance benefits for deaths from wars, Spanish flu and Great Kanto Earthquake**
⇒ Increased awareness of the importance of life insurance
- ◆ **Main products were changed from Whole Life Insurance to Endowment Insurance.**

- The first life insurance company, Meiji Life, was set up in 1881, followed by the setting up of Teikoku Life in 1888 and Nippon Life in 1889.
⇒ Many people started life insurance business following with the expansion of market, but most of them did not run its business in a statistical basis
- The Insurance Business Act was promulgated in 1900.
⇒ This led to enhance the supervisory system, and many companies suspended their business
- The first mutual life insurance company, Daiichi Life, was set up in 1902.
- The government started to operate the postal life insurance business in 1916 in order to provide insurance coverage to low income people.

(2) Early Showa Era (1926-1945)

- ◆ **Endowment still remained popular as a main product.**

- Main distribution channel had been initially agencies operated by persons of influence in local communities, but changed to tied sales agents.
⇒ This caused intensifying sales competition and failure of small and medium sized life insurers.
⇒ Major 5 life insurers (Nippon, Meiji, Teikoku, Daiichi and Chiyoda) began to have powers in the industry.
- The outbreak of WWII placed significant practical burdens on life insurers on a war footing.
- The defeat in war led to loss of assets abroad and sharp decrease in the value of securities held, which had devastating impacts on the asset position of life insurers. Besides, life insurers faced the need to make benefit payments for war deaths, the decrease of premium income due to low sales of new insurance contracts and the increase of operating costs due to inflation.
⇒ Life insurers faced a critical situation for its business operation.

(3) During the Postwar Economic Reconstruction (1945-1958)

- ◆ **The amount of policies in force had recovered in 1958 to the level of that before the WWII.**
- ◆ **With the progress of industrialization, the number of employees were increased and the welfare system of companies was developed.**
 - ⇒ **The need for group term life insurance was growing.**

- In 1946, Financial Institutions' Reconstruction and Readjustment Act was promulgated, which required life insurers to separate their insurance accounts into new and old accounts. Under the Act, life insurers conducted the reconstruction and readjustment procedures under its new accounts.
Several stock insurance companies converted to mutual companies. The number of mutual life insurers increased to 16 companies.
- In 1946, monthly premium payment method, which had been initially allowed only to postal life insurance, was also allowed to private life insurance products offered by private life insurers.
- In 1947, "The Month of Life Insurance" was set to conduct promotion campaign for life insurance every November.
 - * The Month of Life Insurance: Upon the proposal by J.P. Royston, the Insurance Commissioner of GHQ, the board meeting of LIAJ passed the resolution to designate November as the Month of Life Insurance for the promotion of life insurance in September 1947. Since 1947, the promotion campaign for life insurance has been conducted every November as the industrial annual event, playing a key role to enhance penetration of life insurance.
- In 1948, the Act pertaining to regulation on insurance solicitation was promulgated.
(Intensifying sales competition→ Need for the regulation to prevent illegal insurance solicitation)
- Life insurers started to employ many women as tied sales agents who conduct insurance solicitation and collection of premiums in their assigned areas.

(4) Postwar High-Growth Era (1958-1988)

- ◆ **The collapse of the traditional large family structure (population concentration into urban areas and trend toward nuclear families), the low employment rate of women**
⇒ **The necessity for death coverage was widely getting to be acknowledged.**
- ◆ **The economic growth in Japan**
⇒ **Increase in disposable income**
- ◆ **The society where all Japanese are middle class**
⇒ **Increase in number of people who feel need for insurance coverage**
- ◆ **The success in door-to-door insurance solicitation by utilizing female workforce**
- ◆ **In 1955, endowment insurance with term rider was launched and became a main product.**
- ◆ **From the 1980s, whole life insurance with term rider became a main product.**
- ◆ **In the late 1980s, insurance products with savings element became popular in the context of high yielding.**

- **Until the mid-1990s, the insurance industry continued its growth during the high economic growth in Japan.**
- **The relaxation of regulations (such as liberalization of dividend to policyholders, approval of management of assets abroad) was promoted.**
- **Mass hiring and mass turn-over of tied sales agents came to be acknowledged as a big problem.**
⇒ **In 1976, the three-year improvement program for the recruitment of sales agents was developed.**
- **In the 1980s, significant amount of unrealized profits was generated by the rise in land prices and stock prices.**
⇒ **This led to the increase in expected interest rates and the payment of high dividends.**

(5) After the Collapse of Bubble Economy (1989-2005)

- ◆ Little growth in income
⇒ Need for cutting down household expenses ⇒ cancellation of insurance contracts or downsizing the coverage
- ◆ Trend to choose to remain single or postpone marriage
- ◆ Aging society with a declining birthrate
⇒ Declining the need for death coverage

- The amount of contracts started to decrease after reaching its peak in the mid-1990s.
- Significant damage was caused in asset management due to the decrease in stock prices, the increase of bad loans, and continued extremely low interest rates.
⇒ “Negative spread” where the actual investment returns fall below the expected interest rates, pressed the business management of life insurers.
- In 1996, the Insurance Business Act was fully revised (such as allowing mutual business entries by life and non-life insurers through subsidiaries, maintaining the financial soundness of insurers, and introducing policyholders protection funds).
⇒ Reduction in dividend rate, raise in premium amount
⇒ 7 life insurers failed during 1997-2001.
- Development of bankruptcy resolution system, and review of systems to maintain the financial soundness of insurers.

(6) In Recent Years (2005~)

- ◆ Diversified consumer needs and behaviors
- ◆ From death coverage-oriented to living coverage-oriented (medical and post-retirement security)
⇒ Diversification of insurance products
- ◆ Diversified distribution channels (e.g. bancassurance, independent agencies or internet)

- The problems regarding the payment of insurance claims came to light from 2005.
 - ✓ A through review of the payment process of insurance claims
 - ✓ Improvement of its business management reflecting the complaints and opinions from outside
 - ✓ Customer-friendly description and products
⇒ Improvement of customer satisfaction with life insurance products and services
- Responses to the Great East Japan Earthquake

II Life Insurance Market in Japan

2. Japan's Position in the World Life Insurance Market

<Life Insurance Premium Volume by country in 2012>

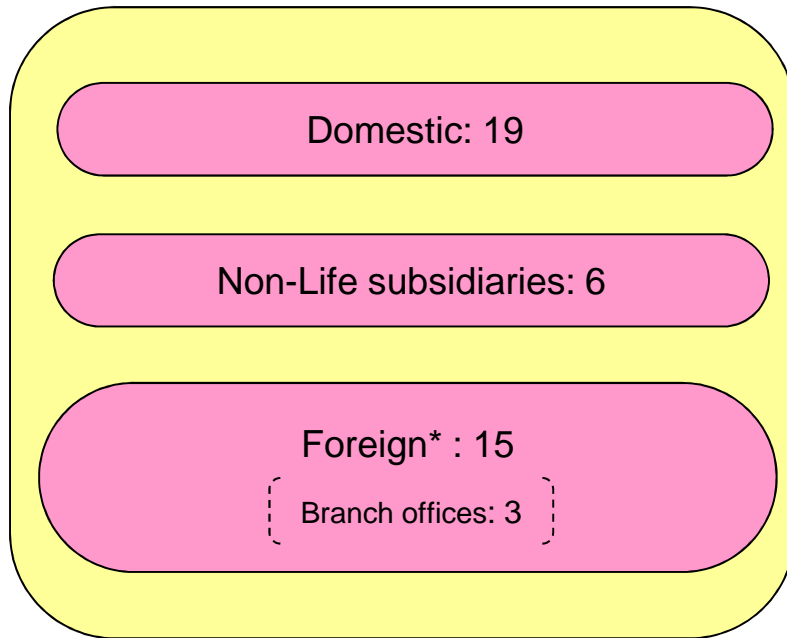
Ranking	Country	Share in World Market
1 →	United States	21.66% ↑
2 →	Japan	20.01% ↑
3 →	United Kingdom	7.86% ↓
4 →	France	5.70% ↓
5 →	China	5.39% ↑
6 →	Germany	4.06% ↓
7 →	Italy	3.56% ↓
8 →	South Korea	3.01% →
9 →	Taiwan	2.77% ↑
10 →	India	2.03% ↓

<New Premium Written by company in 2012>

Ranking	Company name	Ranking	Company name
1 →	Axa S.A.	11 ↓	Nippon Life Insurance Co.
2 →	UnitedHealth Group Inc.	12 ↑	Kaiser Foundation Group of Health Plans
3 ↑	Allianz SE	13 ↓	WellPoint Inc.
4 ↑	Assicurazioni Generali S.p.A.	14 ↑	Prudential plc
5 ↑	National Mutual Insurance Federation of Agricultural Cooperatives	15 ↑	Zurich Insurance Group Ltd.
6 ↓	Japan Post Insurance Co.Ltd.	16 ↓	Meiji Yasuda Life Insurance Co.
7 ↑	Munich Reinsurance Co.	17 →	Dai-ichi Life Insurance Co. Ltd.
8 ↑	Prudential Financial Inc	18 ↓	Life Insurance Corporation of India
9 ↑	China Life Insurance (Group) Co.	19 ↑	MetLife Inc
10 →	State Farm Group	20 ↓	American International Group Inc

3. Life Insurance Companies in Japan

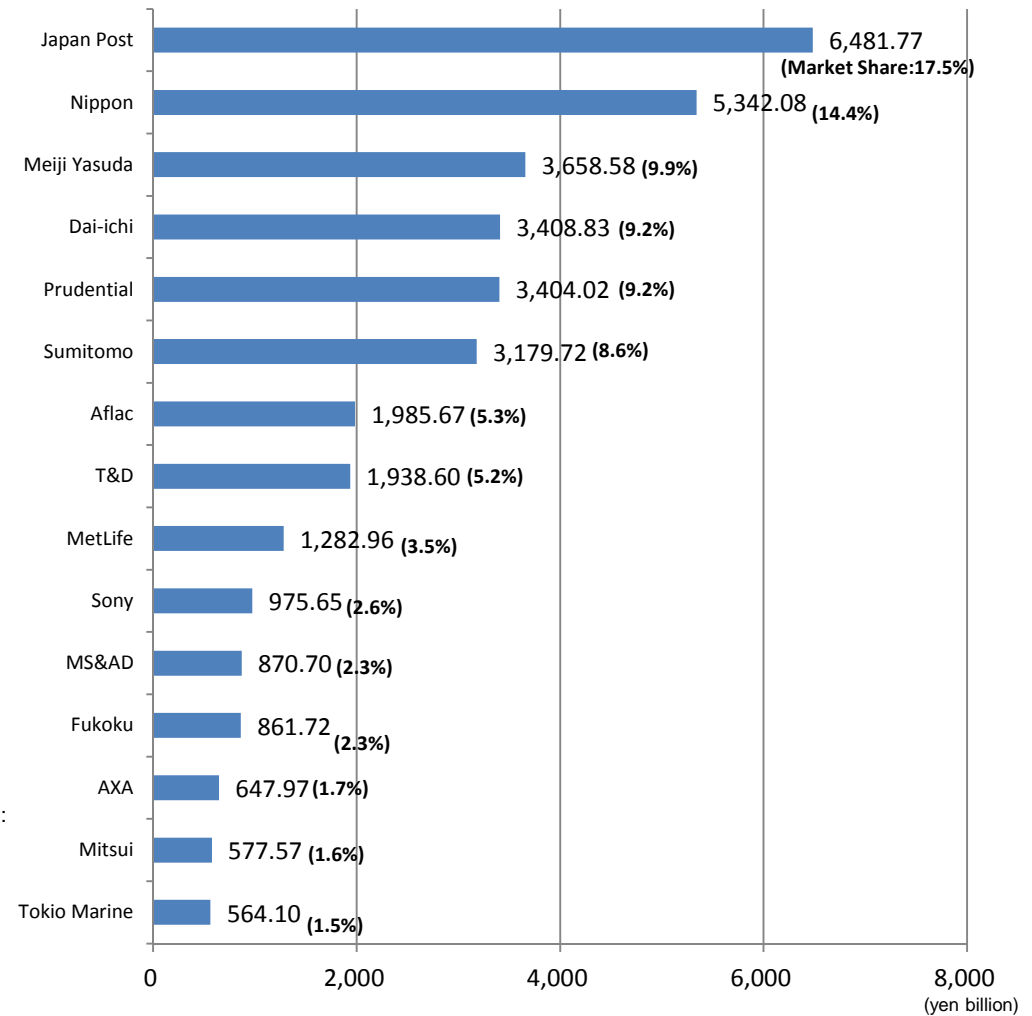
Total : 43 (as of September, 2013)



*Foreign stake of 50% or more

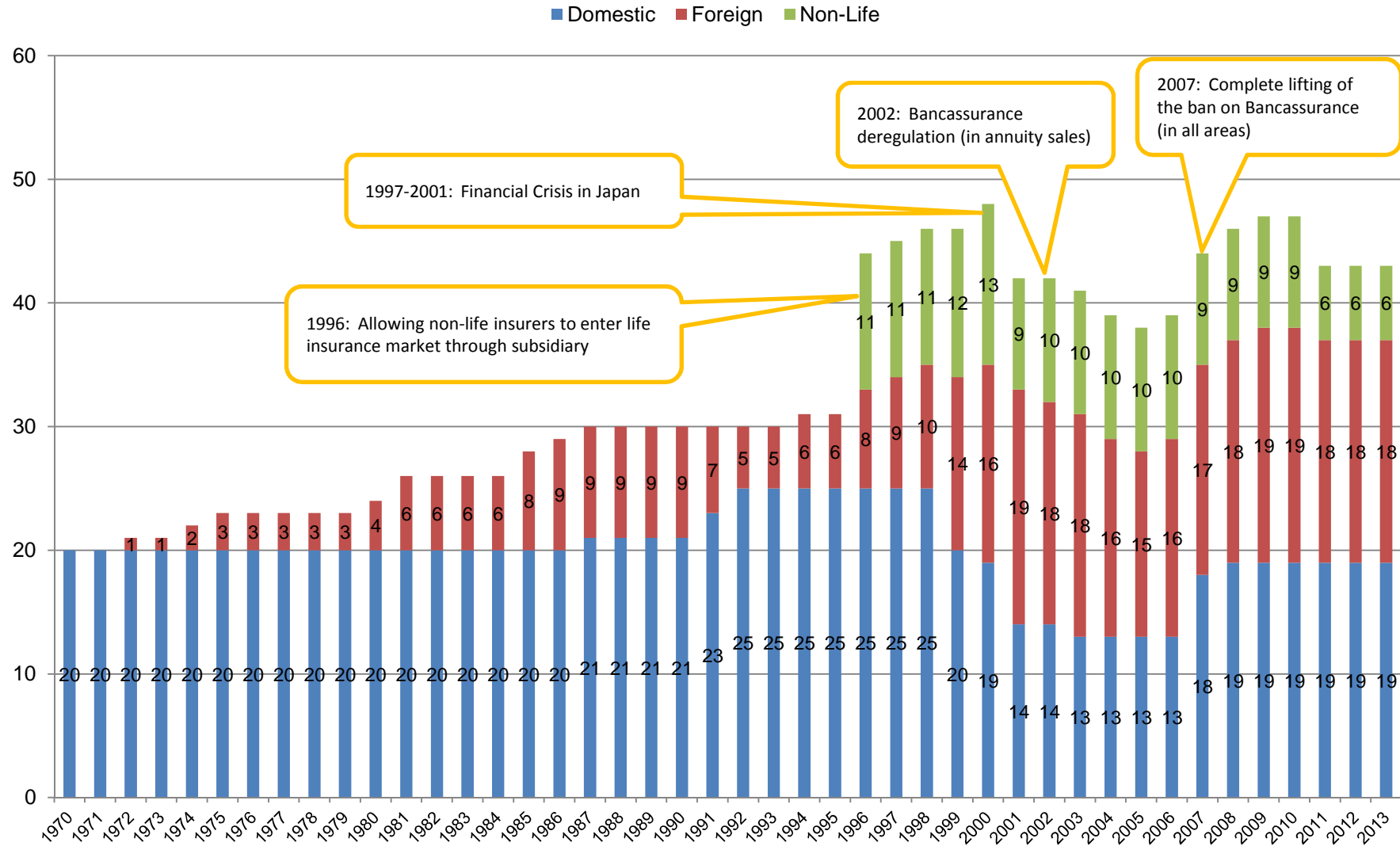
(Note) Dai-ichi: Dai-ichi+Dai-ichi Frontier; Prudential: Gibraltar+Prudential+PGF;
 Sumitomo: Sumitomo+Medicare;
 T&D: Taiyo+Daido+T&D; Sony: Sony+Aegon Sony; MS&AD: Aioi+Primary; Fukoku:
 Fukoku+Fukokushinrai; Tokio Marine: Tokio Marine Life Insurance+Tokio Marine
 Financial Life Insurance; AXA: AXA Life+AXA Direct

Premium Income of Japanese Life Insurers in 2012



Source: The Life Insurance Association of Japan

4. Changes in Market Participants

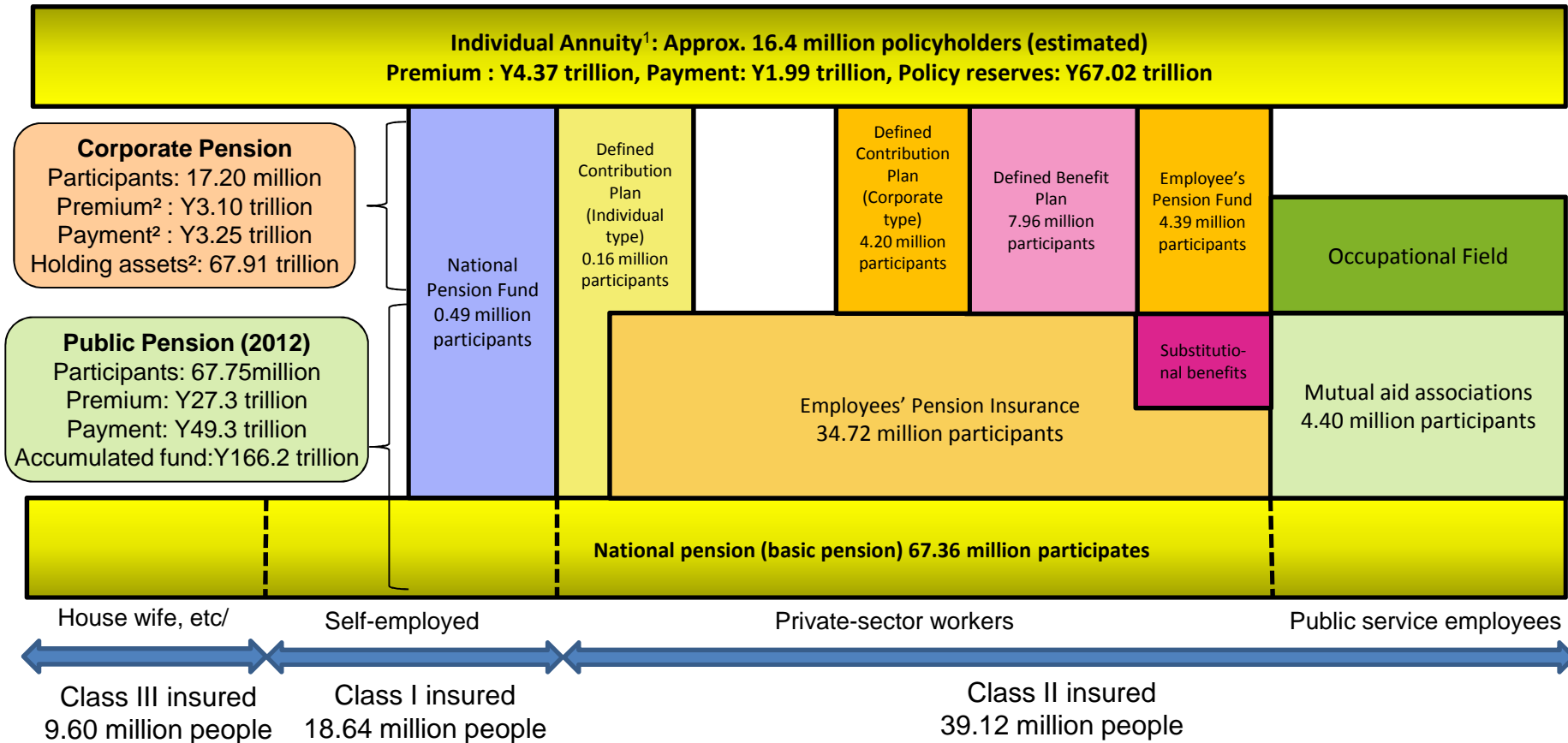


Source: Financial Service Agency, The Life Insurance Association of Japan

5. Role of the Public and Private Sectors in Life Security

(1) Post-Retirement Security

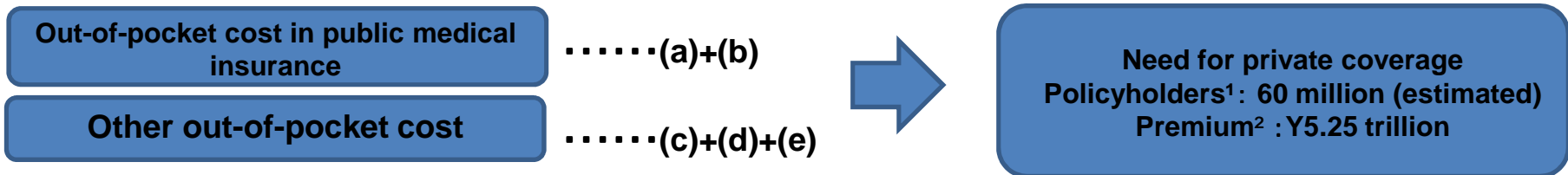
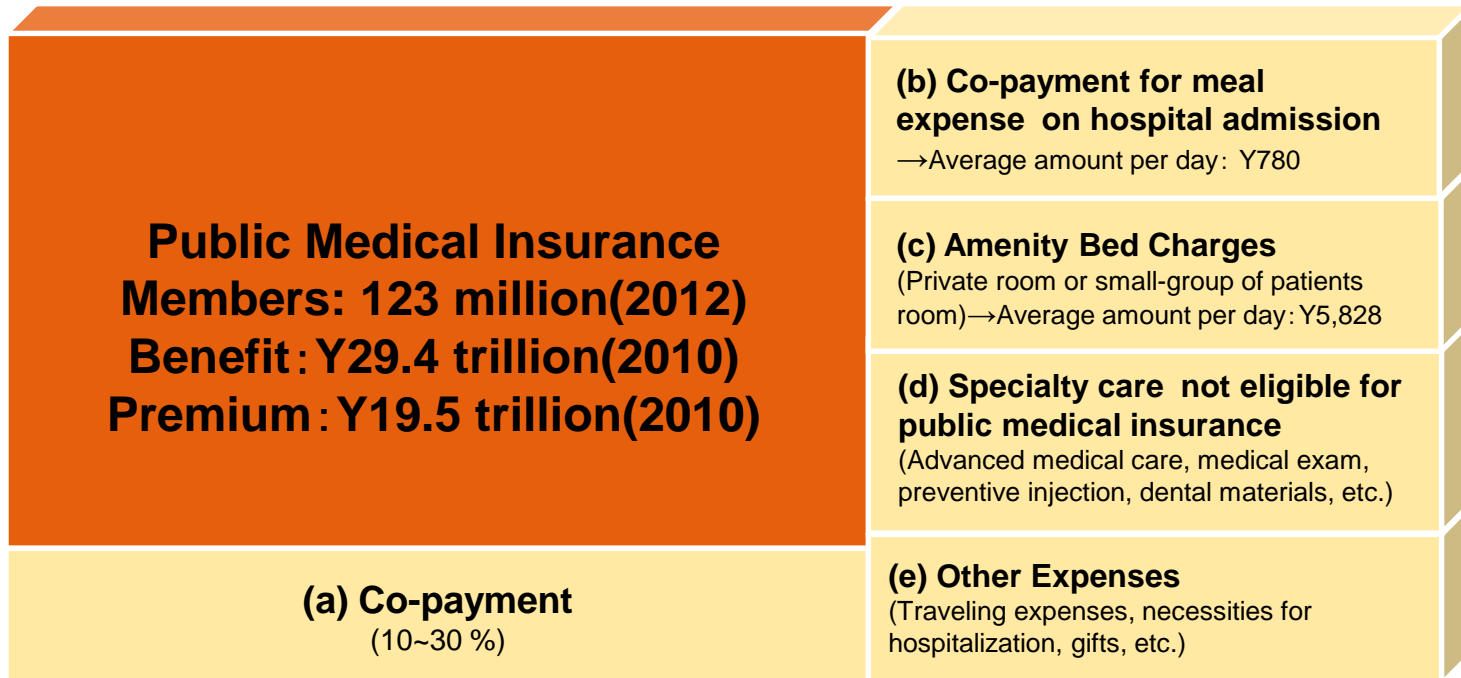
<Pension System in Japan (the end of March, 2013)>



1. Estimated by the survey of JILI

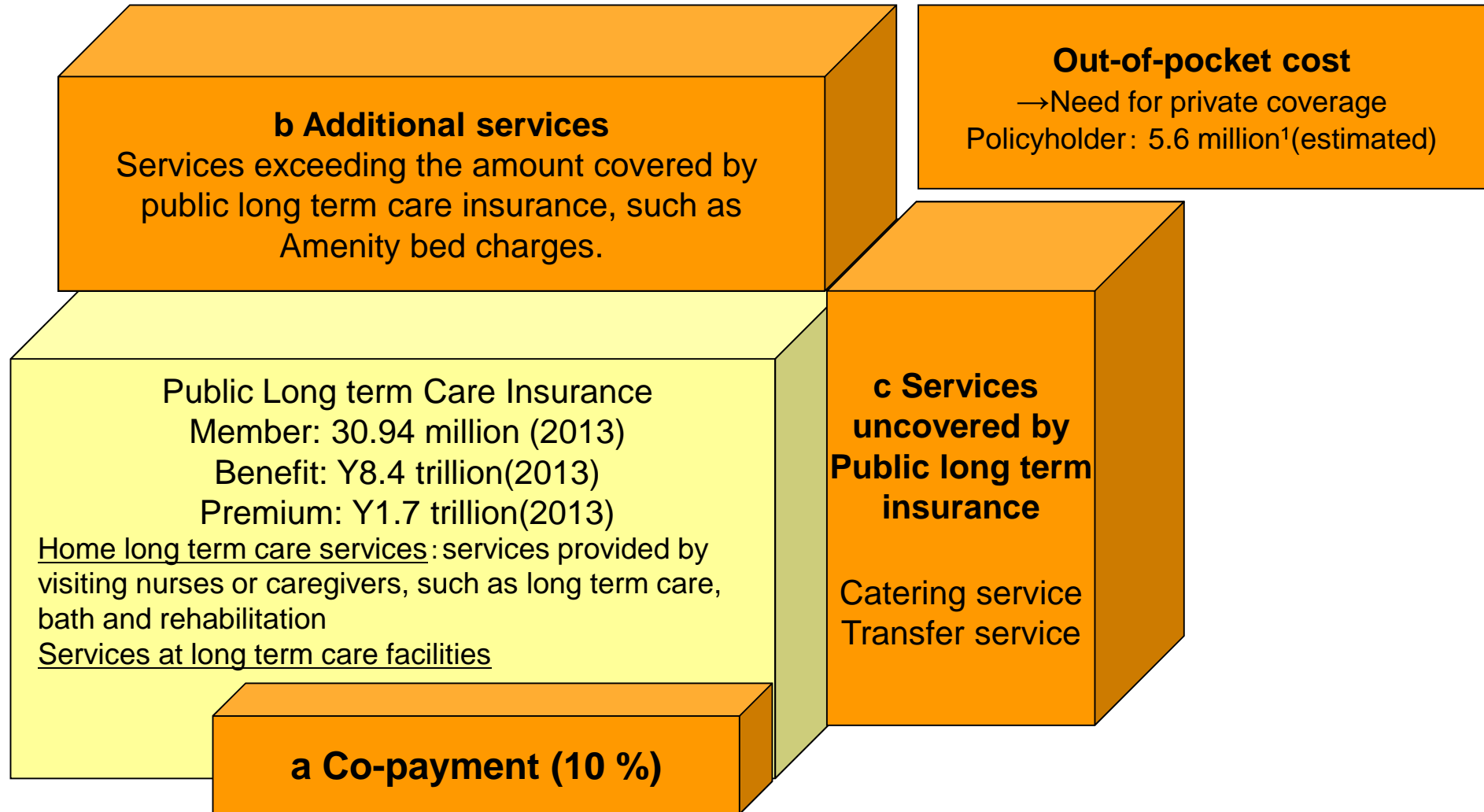
2. Total of employees' pension fund and defined benefit plan

(2) Medical Security



1. Estimated by the survey of JILI
 2. Including medical, accident and long term care insurance

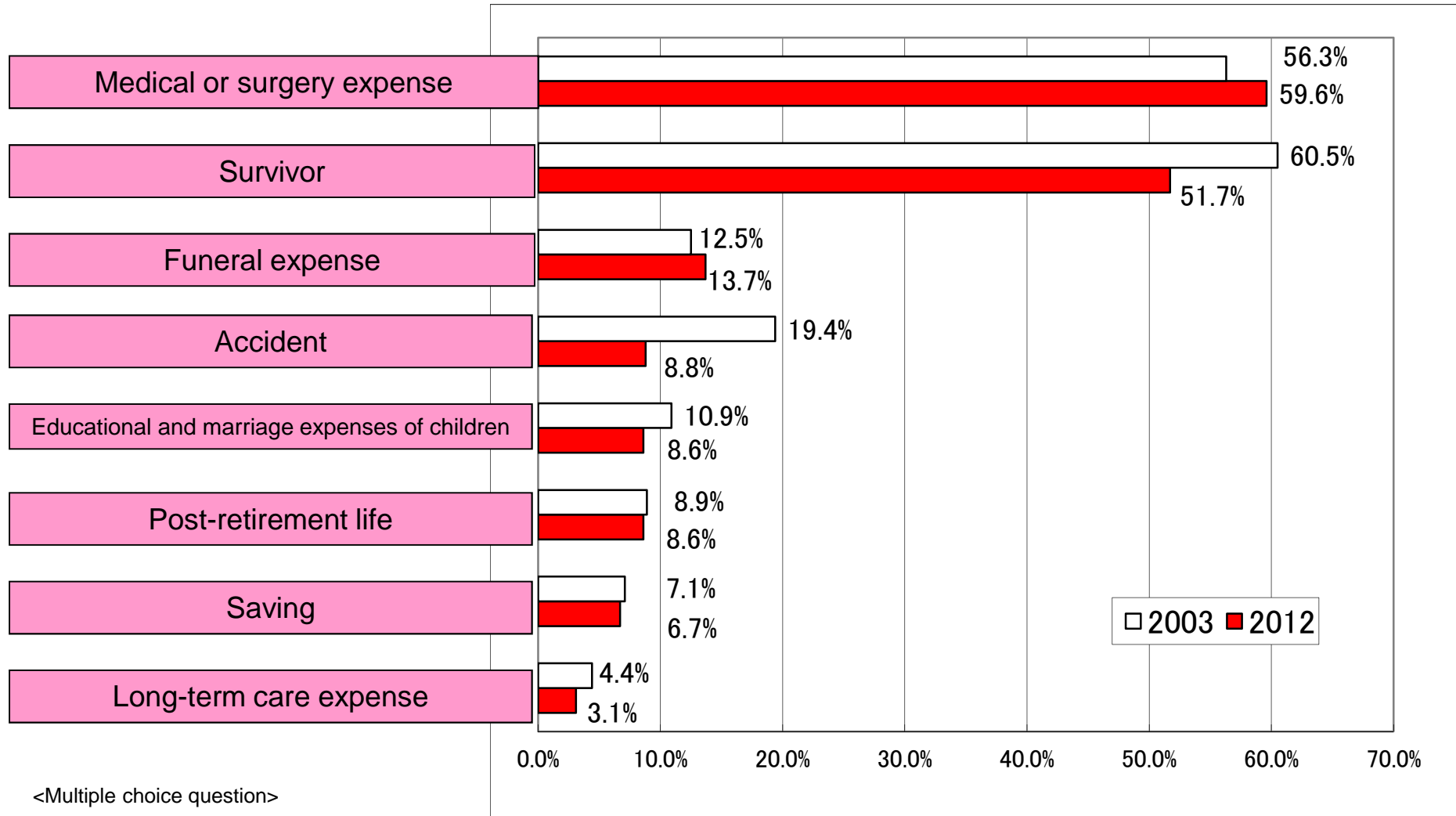
(3) Long-Term Care Security



1. Estimated by the survey of JILI

6. Statistical Data regarding Private Insurance Business

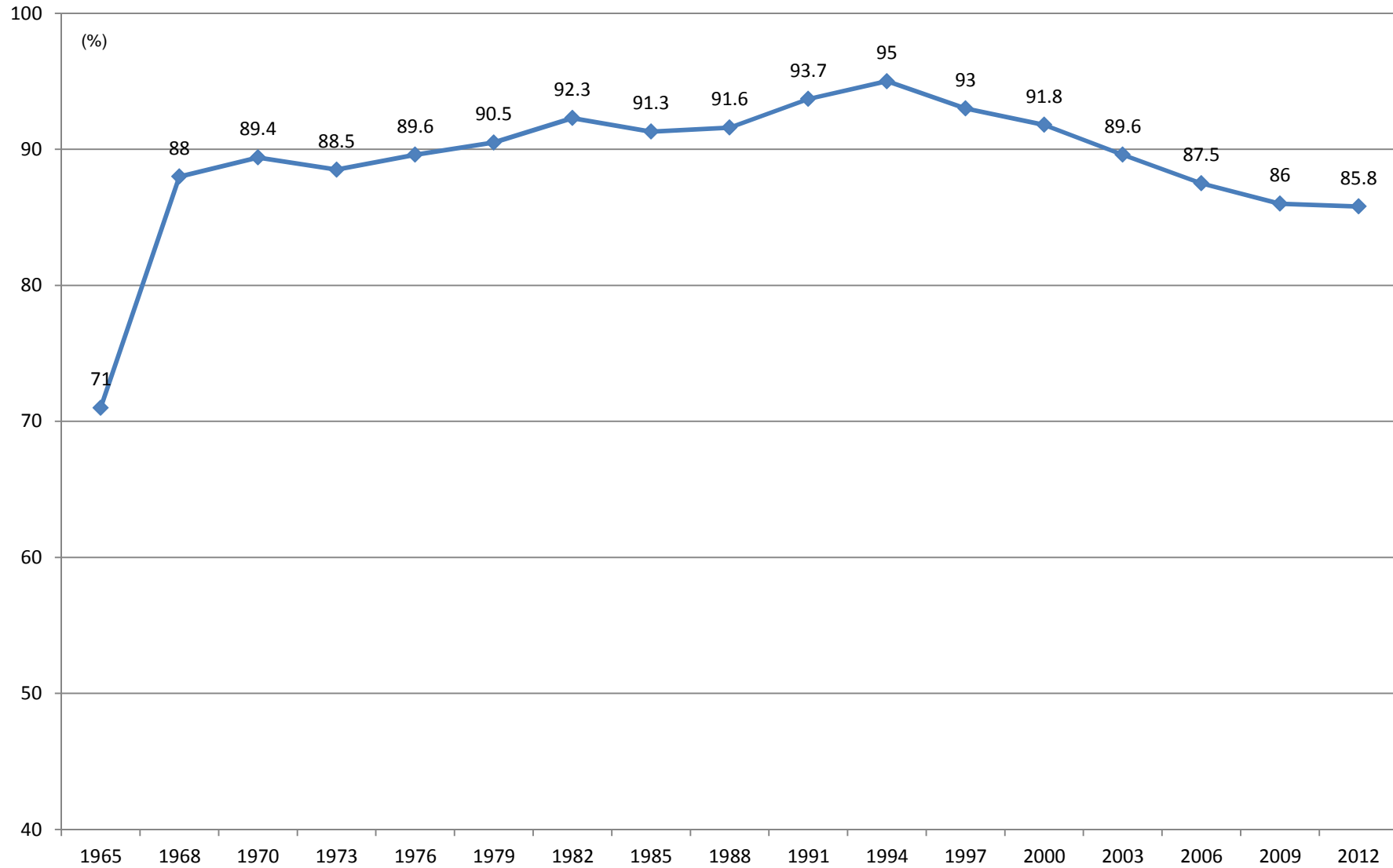
(1) Purpose of Life Insurance Ownership



Source: Japan Institute of Life Insurance: consumer survey

II Life Insurance Market in Japan

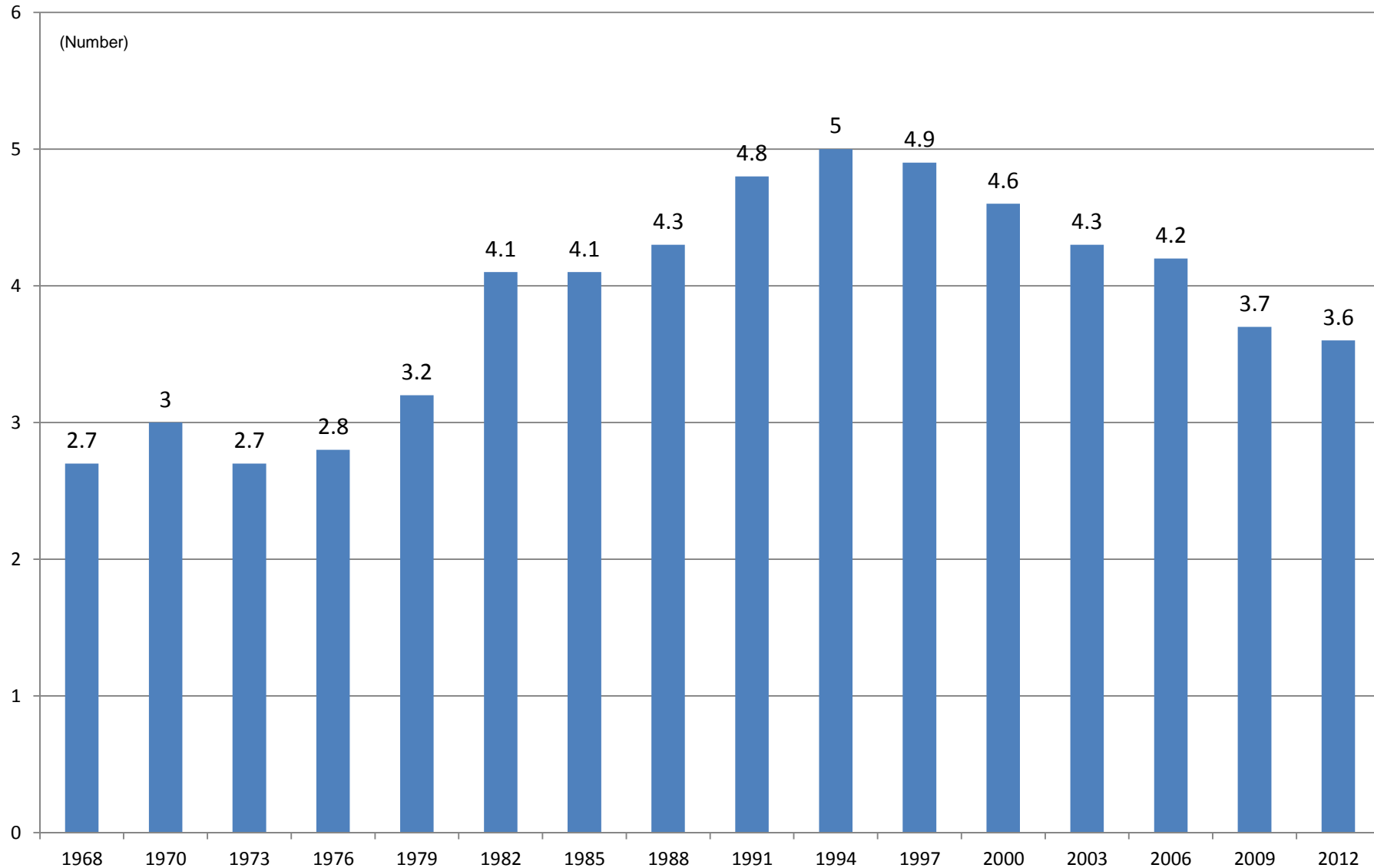
(2) Changes in Life Insurance Ownership Rate per Households



Source: Japan Institute of Life Insurance: Consumer Survey

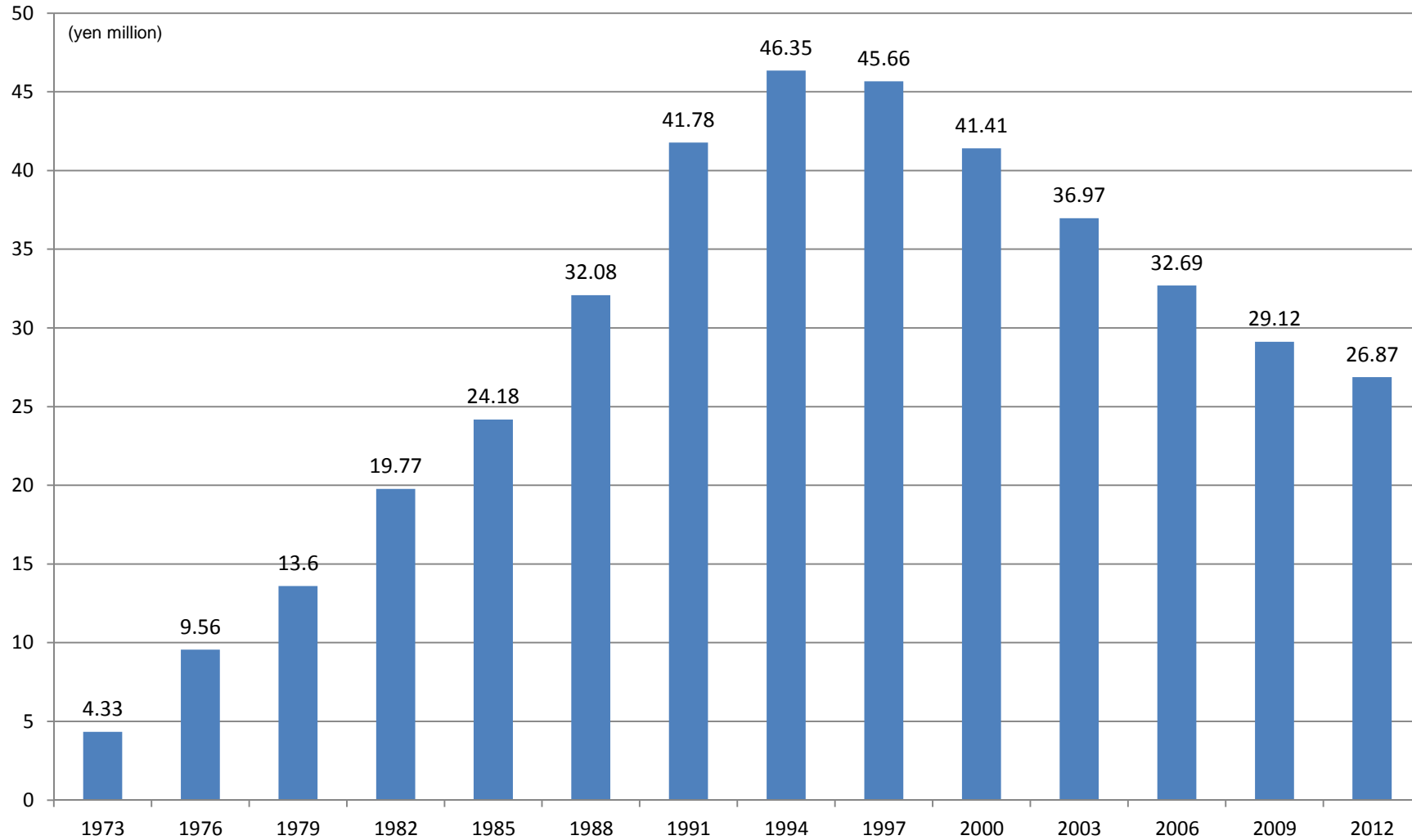
Note: The data includes the total of private life insurance (including Japan Post Insurance), postal insurance and JA cooperative

(3) Number of Life Insurance Policies Owned by Household



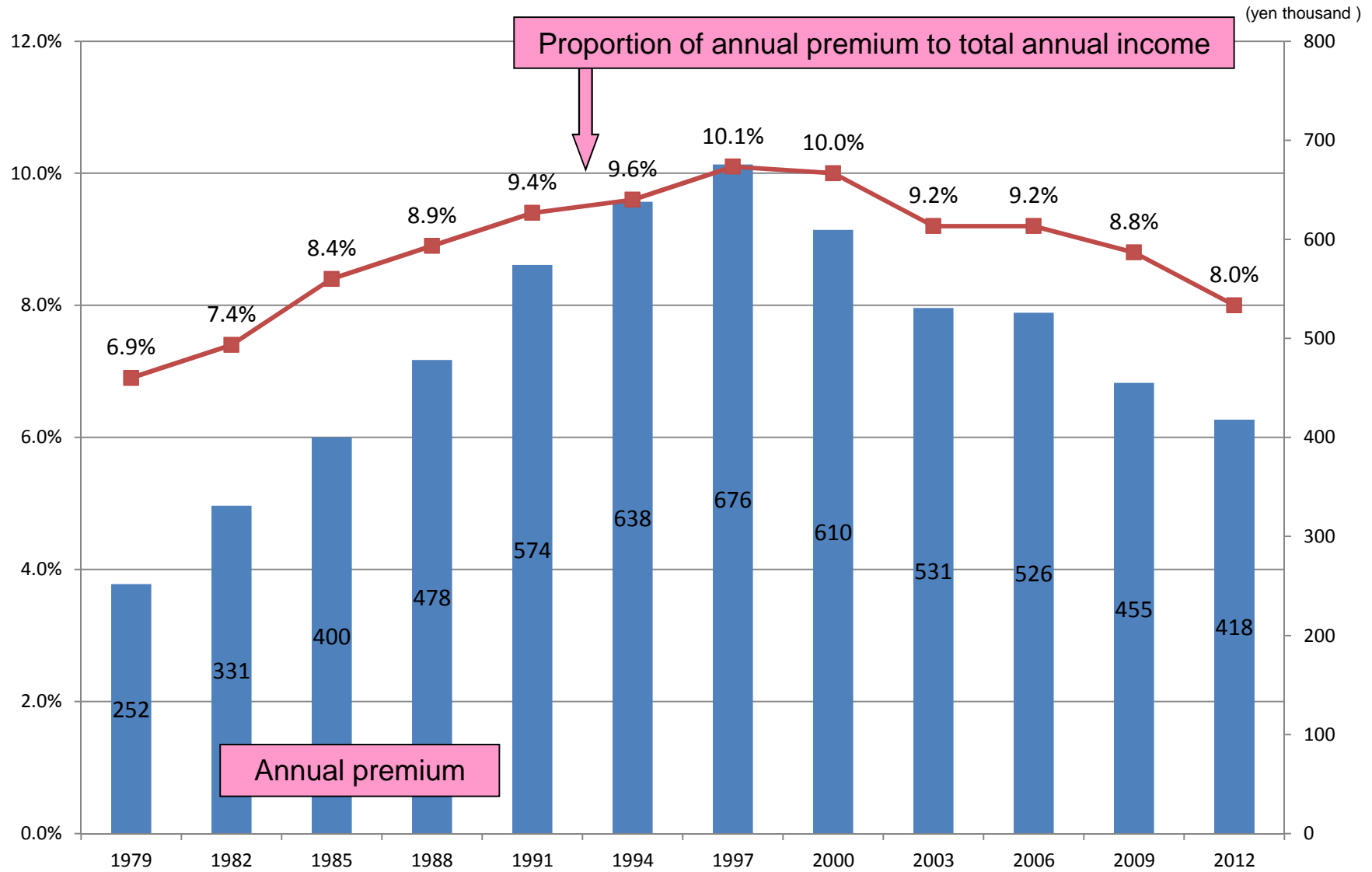
Source: Japan Institute of Life Insurance: Consumer Survey

(4) Average Amount of Coverage per Household



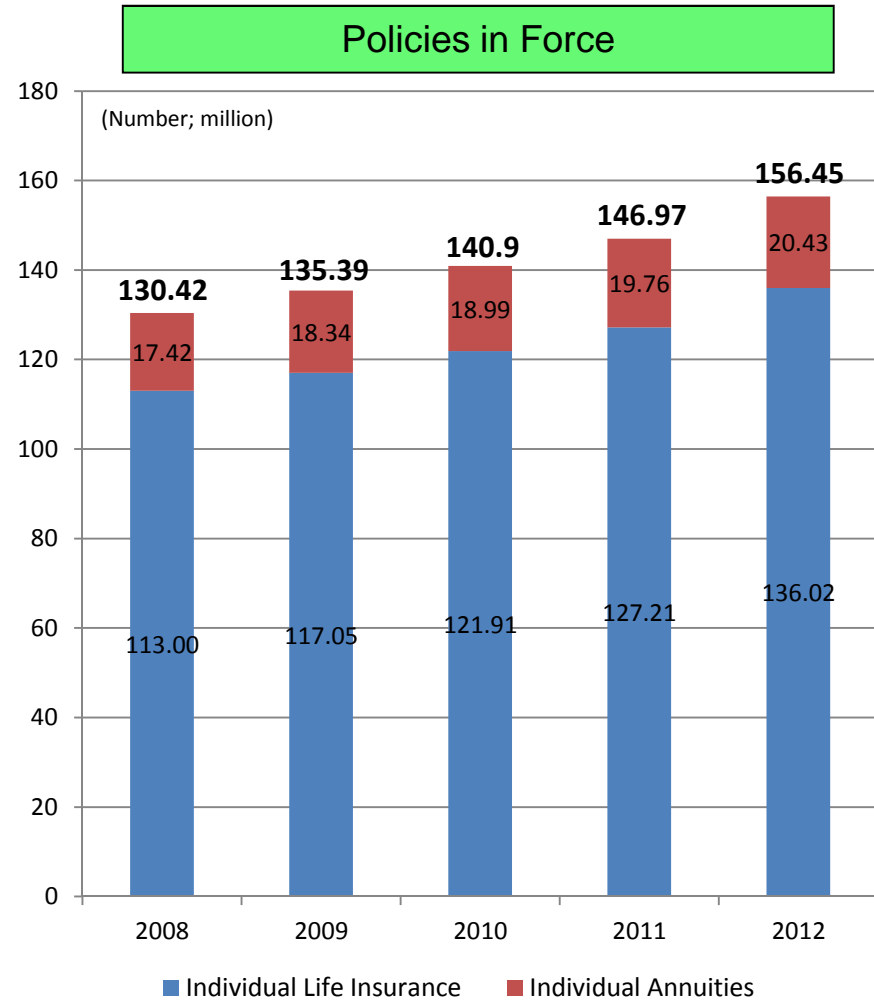
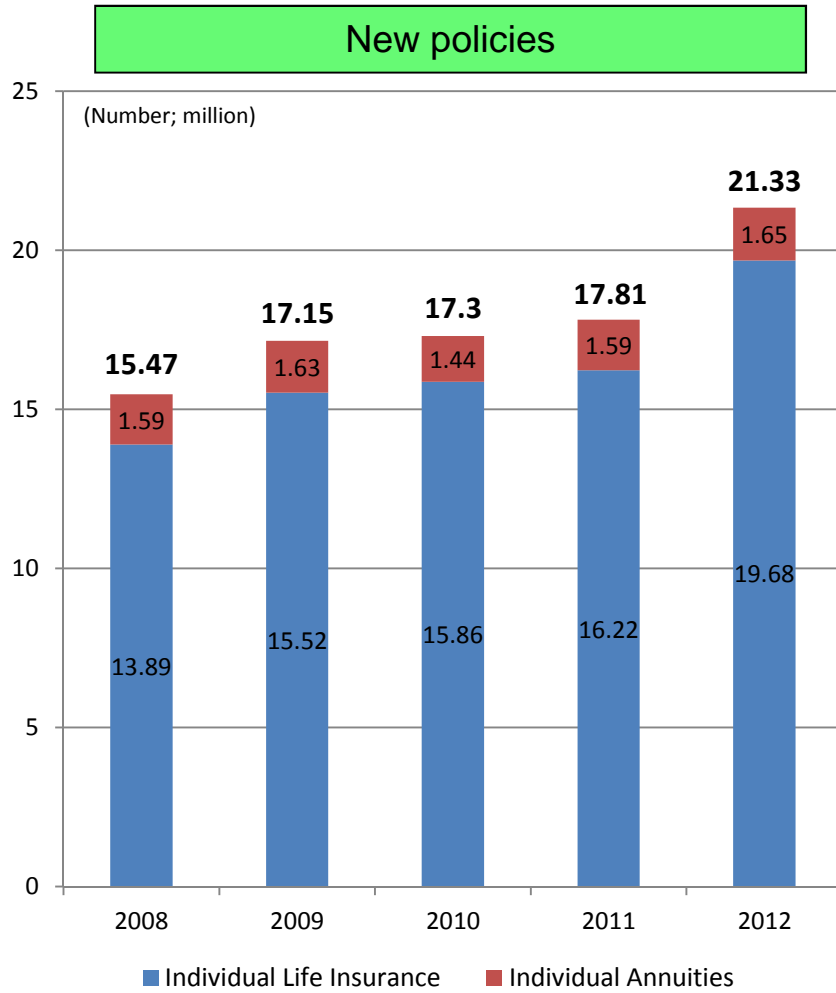
Source: Japan Institute of Life Insurance: Consumer Survey

(5) Annual Premium Payment per Household

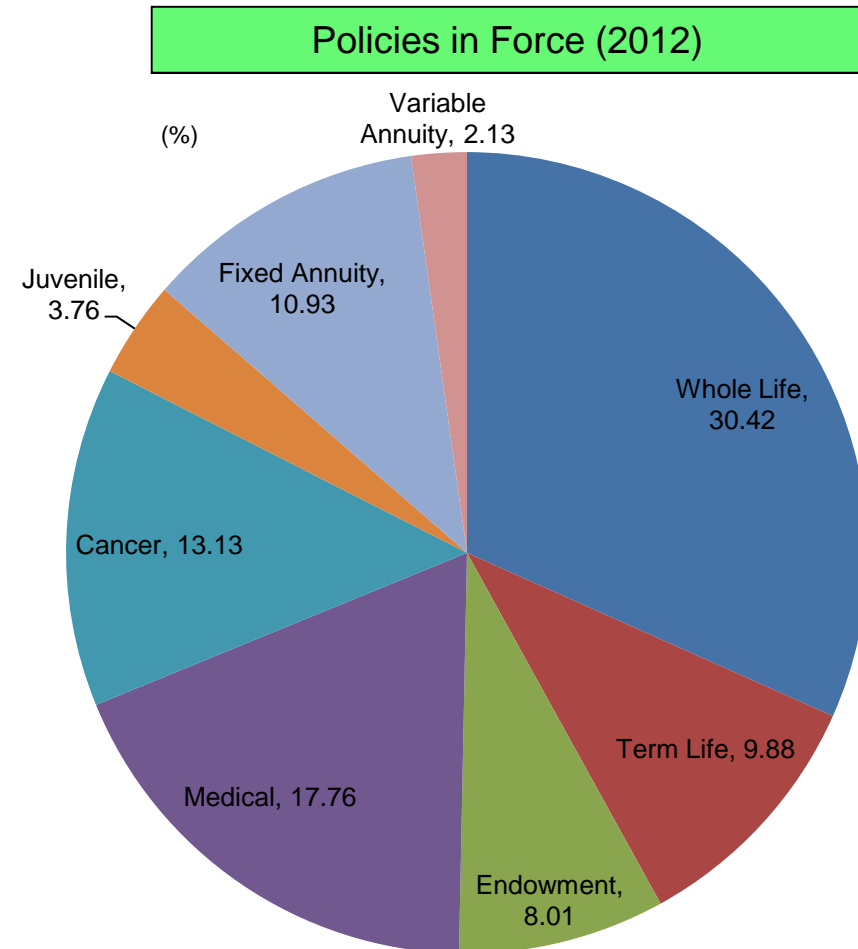
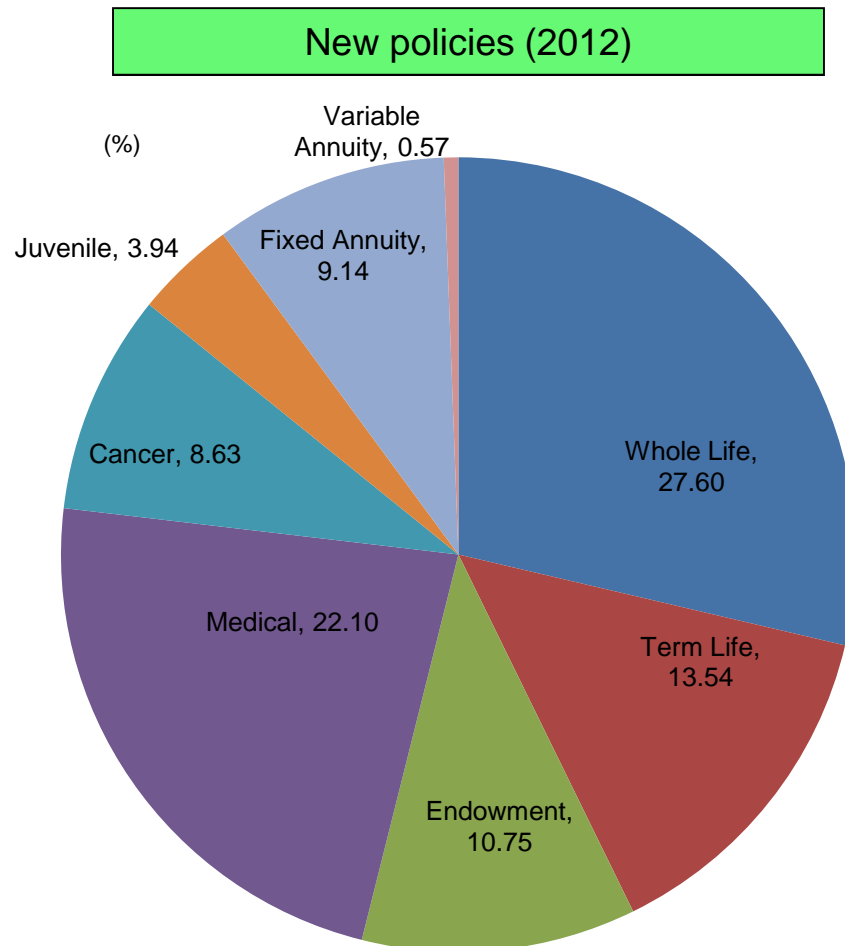


Source: Japan Institute of Life Insurance: Consumer Survey

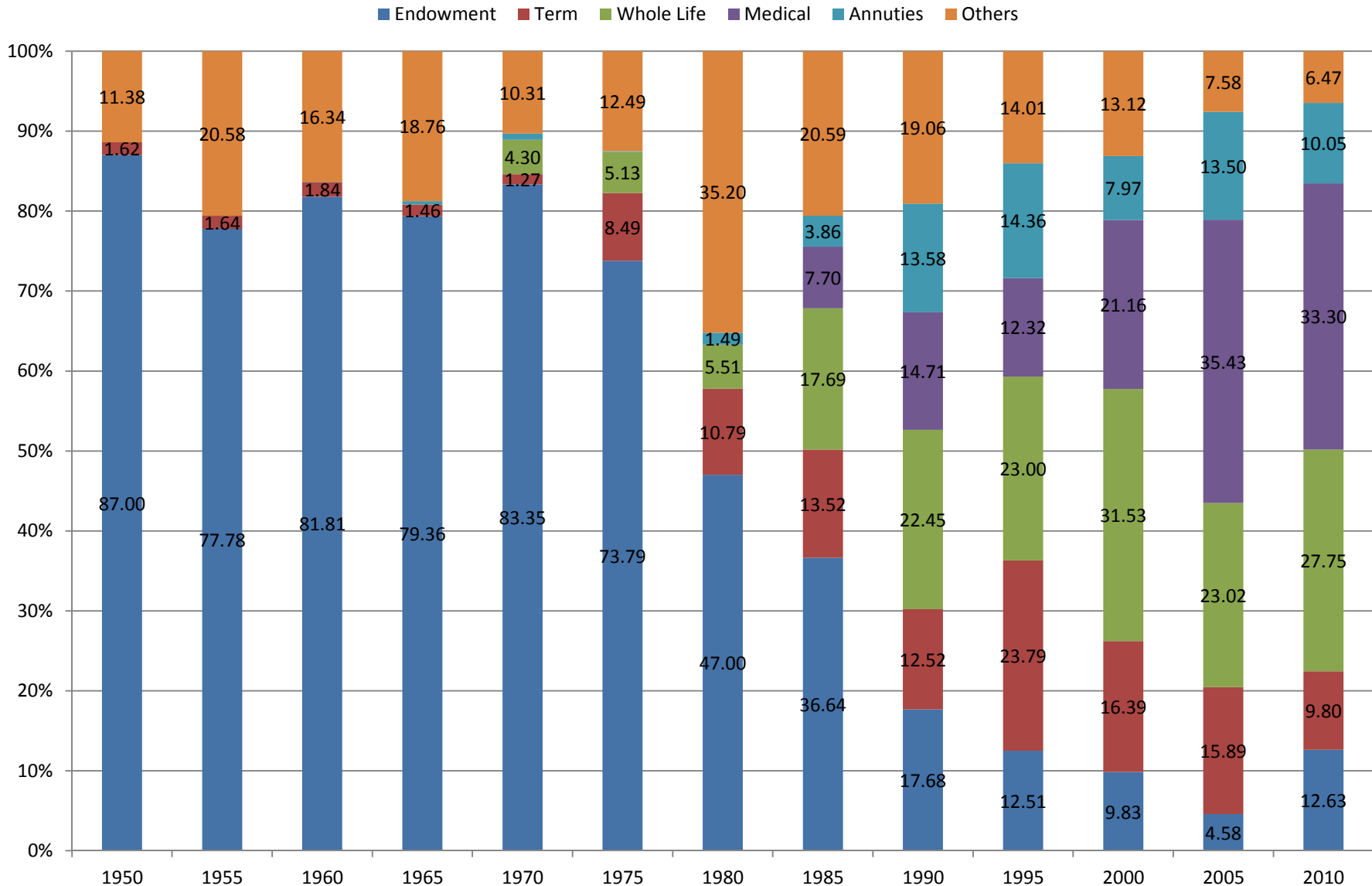
(6) Number of Individual Insurance Contracts



(7) Individual Insurance Share by Type

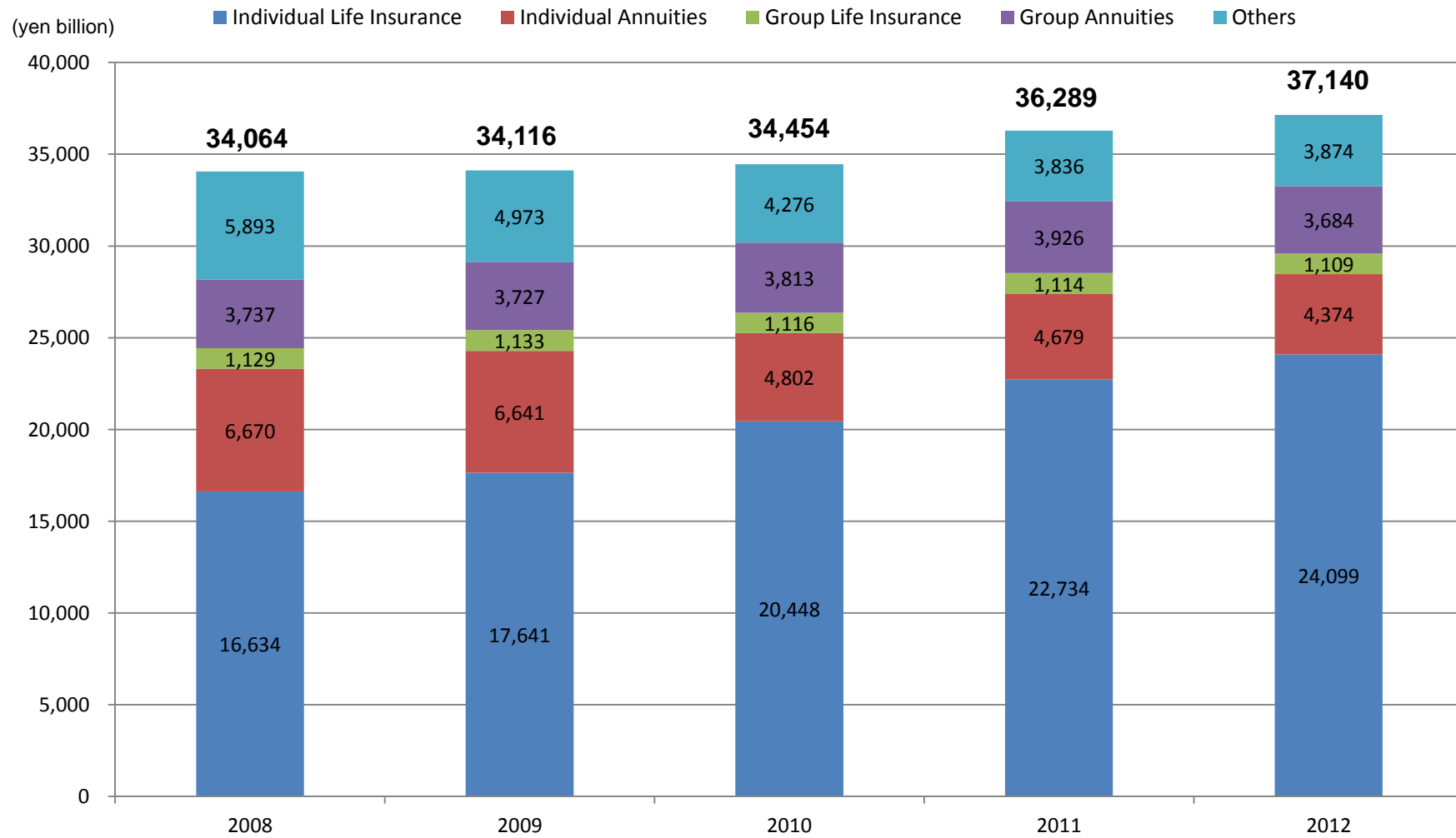


(8) Changes in Product Portfolio (the number of new policies)



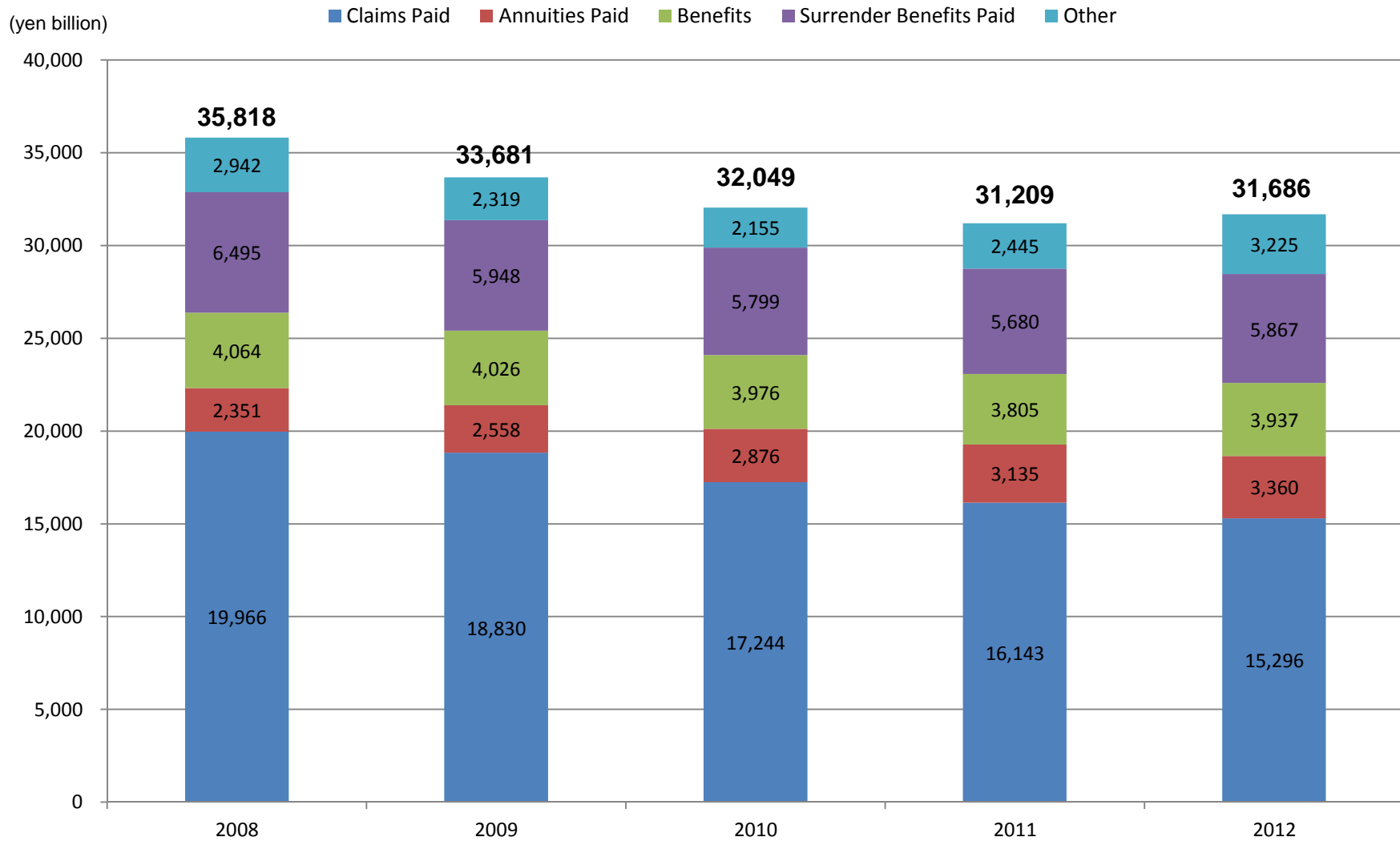
Source: The Life Insurance Association of Japan

(9) Premium Income

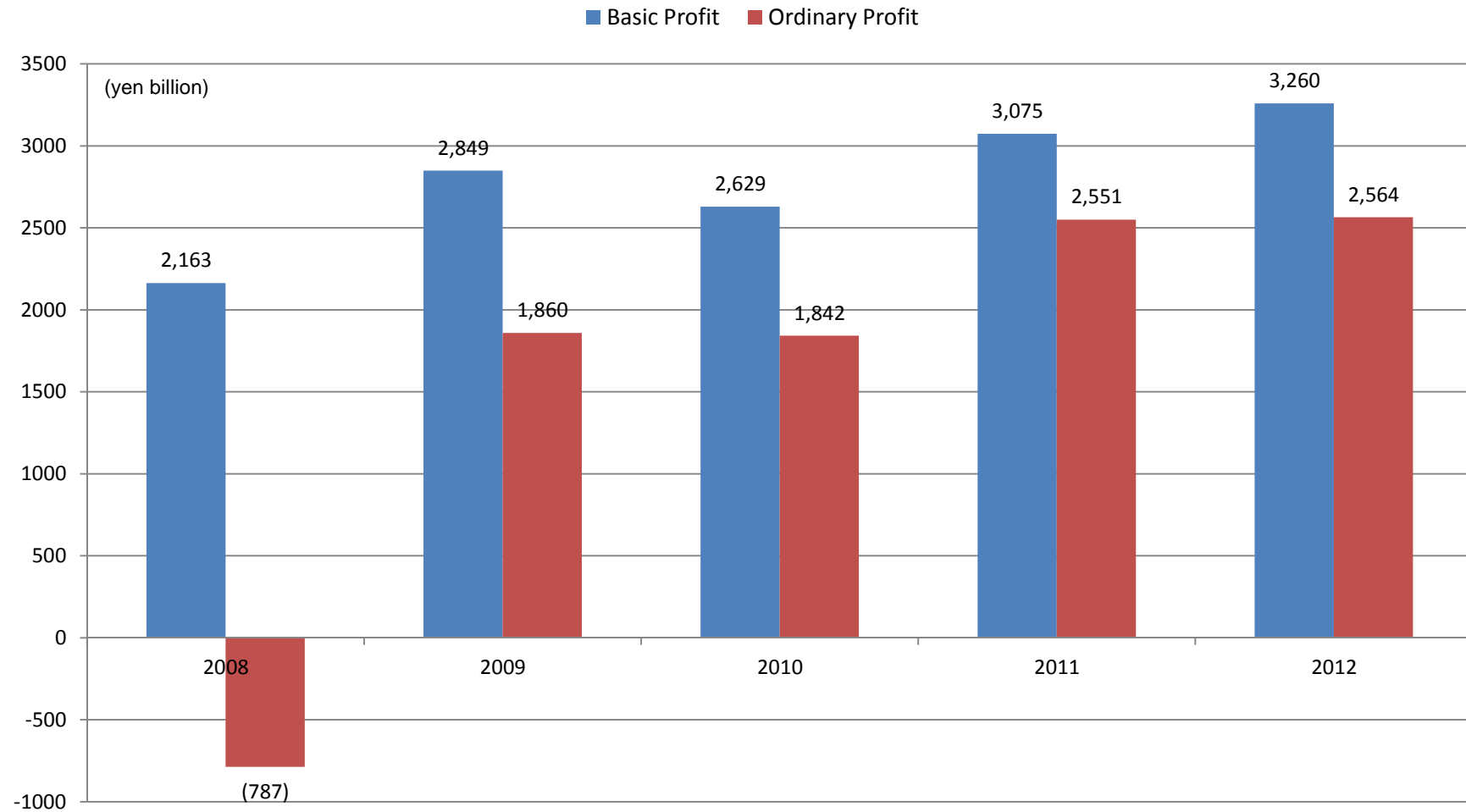


Source: The Life Insurance Association of Japan

(10) Insurance Payment



(11) Profit



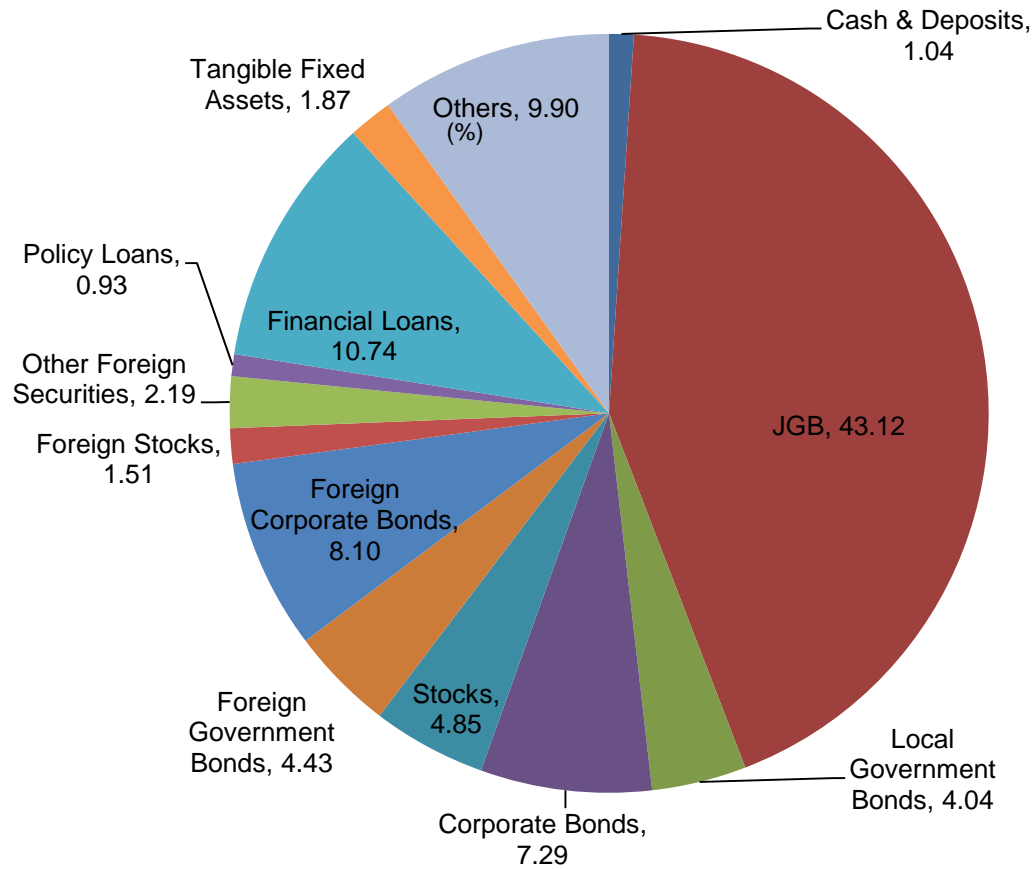
Basic profit represents the profitability of the life insurance business.

*Basic Profit = Ordinary Profit - Capital Gain/Loss - Nonrecurring income/loss

(12) Total Assets and Portfolio Yields

Total Assets: 345 Trillion Yen

(As of the end of March 2012)

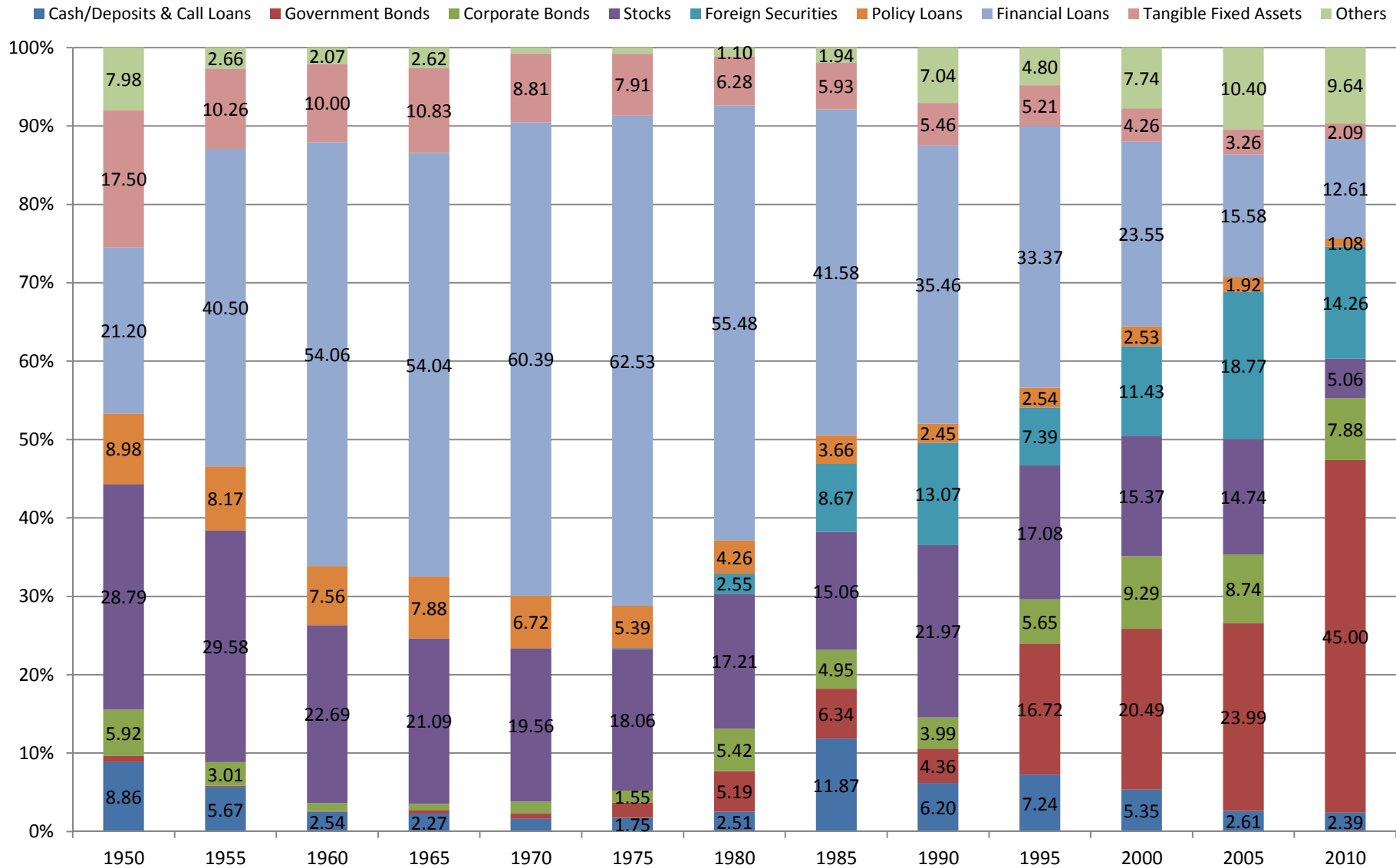


Portfolio Yields by Type of Assets

(As of the end of March 2012)

	Bonds	Domestic Stocks	Foreign Securities	Financial Loans	Real Estate
2008	1.72	-4.35	-3.00	2.16	3.22
2009	1.64	2.33	2.52	2.05	2.87
2010	1.86	1.25	2.06	1.98	2.52
2011	1.91	1.56	2.91	1.94	2.27
2012	2.00	0.61	5.25	2.18	2.35

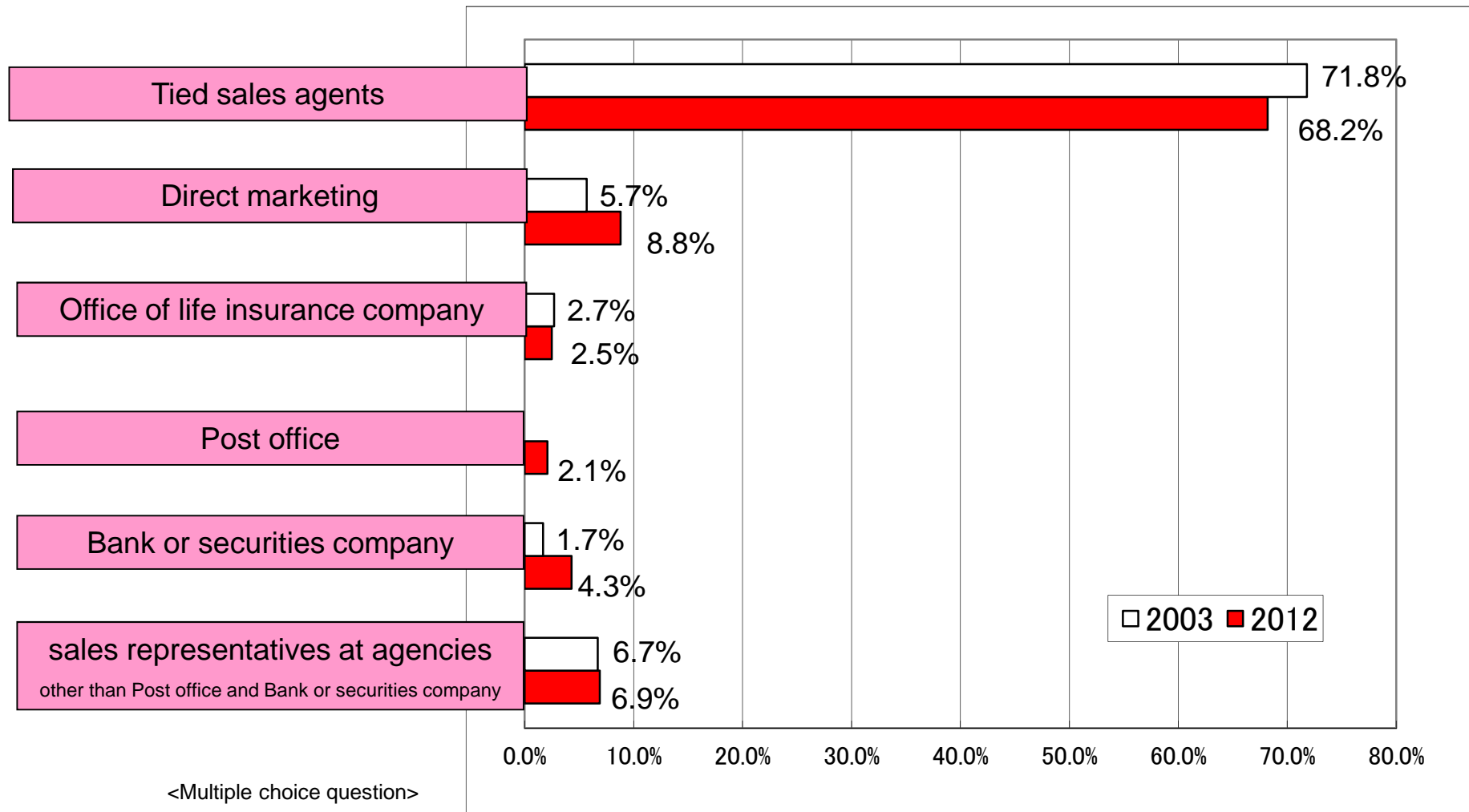
(13) Changes in Asset Management Portfolio



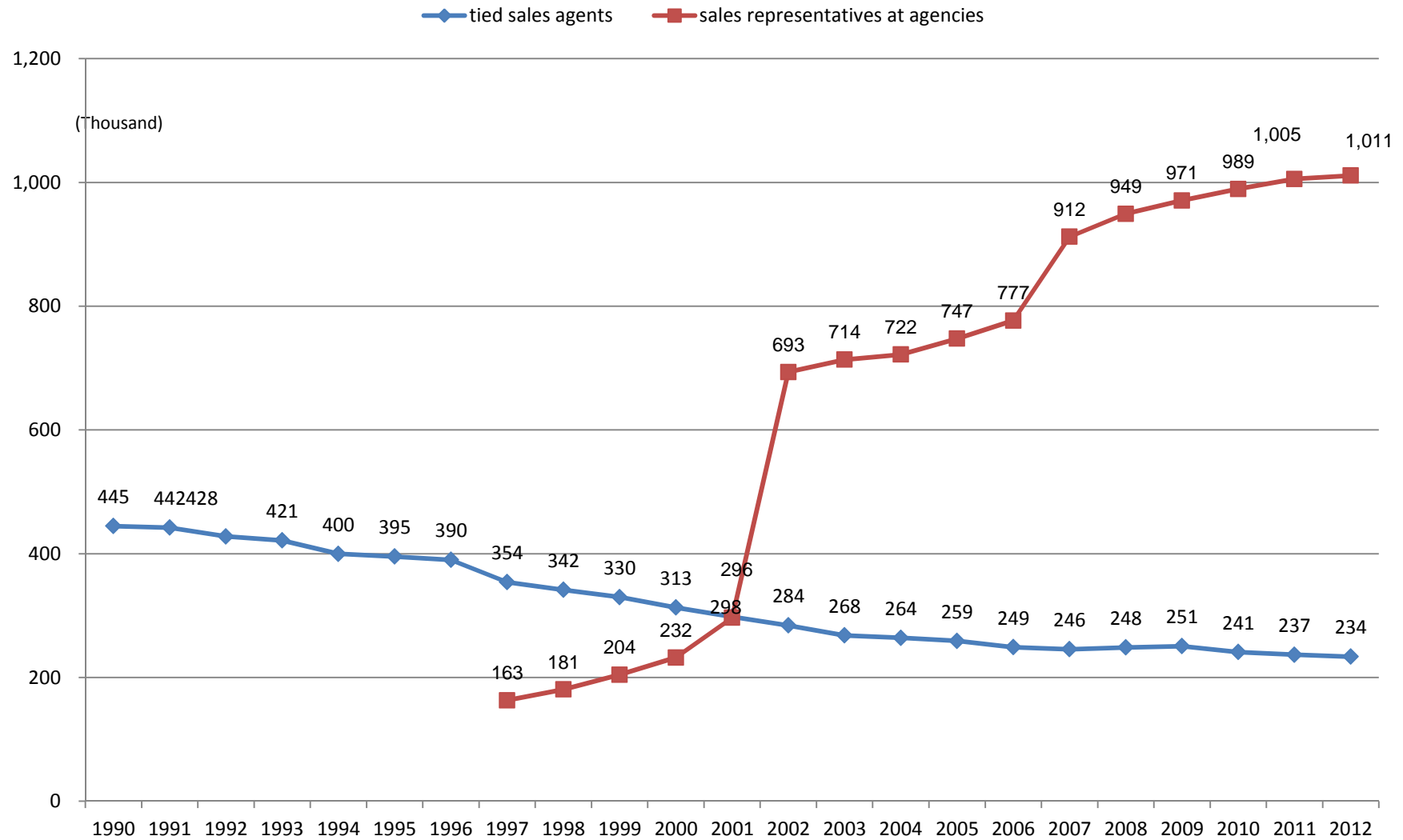
Source: The Life Insurance Association of Japan

(14) Distribution Channel

1) Share of Distribution Channel (consumer survey)



2) Number of Life Insurance Sales-Person



7. Neighboring Industries

(1) Cooperatives (Kyosai)

- While insurance does not limit the scope of policyholder, Kyosai is a scheme, “formed by residents in the same region or persons engaged in the same occupation, which provides a certain amount of benefits from the pooled financial contributions of the membership for disaster, death or accident with the aim of mutual assistance.”
- However, Kyosai has the same key role in the society as a security provider.
- At the same time, while insurance is provided by insurance companies in accordance with the Insurance Business Act, Kyosai is provided by various different groups or organizations (e.g. operated by regions or occupational unions) and the type of their regulation widely varies.
- Kyosai is categorized as regulated Kyosai and unregulated Kyosai. The former operates its business under the supervision of relevant authorities, but the latter is not under any supervisory authorities since there is no legal requirement on their business operation. This caused various troubles on benefit payments and solicitations, and therefore, after the revision of the Insurance Business Act in 2006, unregulated Kyosai was required to be either an insurance company or a small-amount and short-term insurance company to continue its business.

Comparison of Kyosai and Insurance

	National Mutual Insurance Federation of Agricultural Cooperatives	National Federation of Workers and Consumers Insurance Cooperatives	The Federation of Japanese Consumer Cooperatives	Life Insurance Company (Nippon Life)
Governing Law	The Agricultural Cooperative Society Law	The Consumers' Livelihood Cooperative Society Law		Insurance Business Act
Administrative Office	Ministry of Agriculture, Forestry and Fisheries	Ministry of Health, Labor and Welfare		FSA
Product	It is allowed to offer both types of cooperative products of life insurance and general insurance (There is no regulation on concurrent operation)			A company should choose which type to operate, either life or general insurance.
Maximum limit on payable benefits (Life Insurance Type)	Death benefit: ¥500 mil. Annuity: ¥30 mil. per year	Death benefit: ¥30 mil. Annuity: ¥0.9 mil. per year	Death benefit due to traffic accident: ¥20 mil. Death benefit due to sickness: ¥8 mil. Accident hospitalization: ¥10k per day Sickness hospitalization: ¥9 k per day	No limit
Business scale (Note1)	-Number of policies: 19.01 mil. -Premium income: ¥4,253 bn. -Total asset: ¥47,633.2 bn.	-Number of policies: 8.65 mil. -Premium income: ¥274.4 bn. -Total asset: ¥3,116.4 bn.	Number of policies: ¥17.75 mil. Premium income: ¥486.4 bn. Total asset: ¥56.86 bn.	Number of policies: 14.49 million Premium income: ¥3,513.3 billion Total asset: ¥51,009.4 billion
Other	- No safety net measures other than contribution of certain amount of deposits - Preferential tax treatment			Obligation to be members of LIPPCJ

Note 1: Number of policies in force, premium income (total of individual insurance and individual asset (cooperative life and mutual aid pension)), and total assets.
Note 2: The total asset of cooperatives includes general insurance type assets.

(2) Small Amount & Short-term Insurance

About Small Amount & Short-term Insurance

- After the revision of the Insurance Business Act in 2006, unregulated Kyosai was required to be either an insurance company or a small-amount and short-term insurance company to continue its business within two years from the effective date of revised IBA.
- The number of small amount and short-term insurance companies is 77 as of April 2014. The number of policies in force is 5.18 million, and the amount of premium income is 51.7 billion yen.

Comparison of Small Amount & Short-term Insurance Company and Insurance Company

	Small Amount & Short-term Insurance Company	Insurance Company
Operation requirement	Registration by Prime Minister	Licensing by Prime Minister
Minimum capital amount	10 million yen + deposits	1 billion yen or more
Product	Limited to short term insurance with small amount of benefits and with no refund payment - Coverage period Life/Medical insurance: For 1 year General insurance: For 2 years - Maximum benefit amount Serious disability or death due to sickness: 3 million yen Hospitalization due to sickness or accident: 0.8 million yen Serious disability or death due to accident: 6 million yen General insurance: 10 million yen	No limitation on its term, amount and refund A company should choose which type to operate, either life or general insurance.
Asset Investment	Safety asset (e.g. deposit and government bond)	Free of choice in principle (e.g. stock, real estate and loan) * It has limits on asset investment ratio.
Other	Obligation on information disclosure, regulation on solicitation, obligation on accumulation of policy reserves, inspection and supervision	

(3) Postal Life Insurance

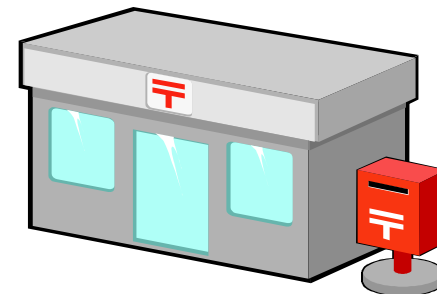
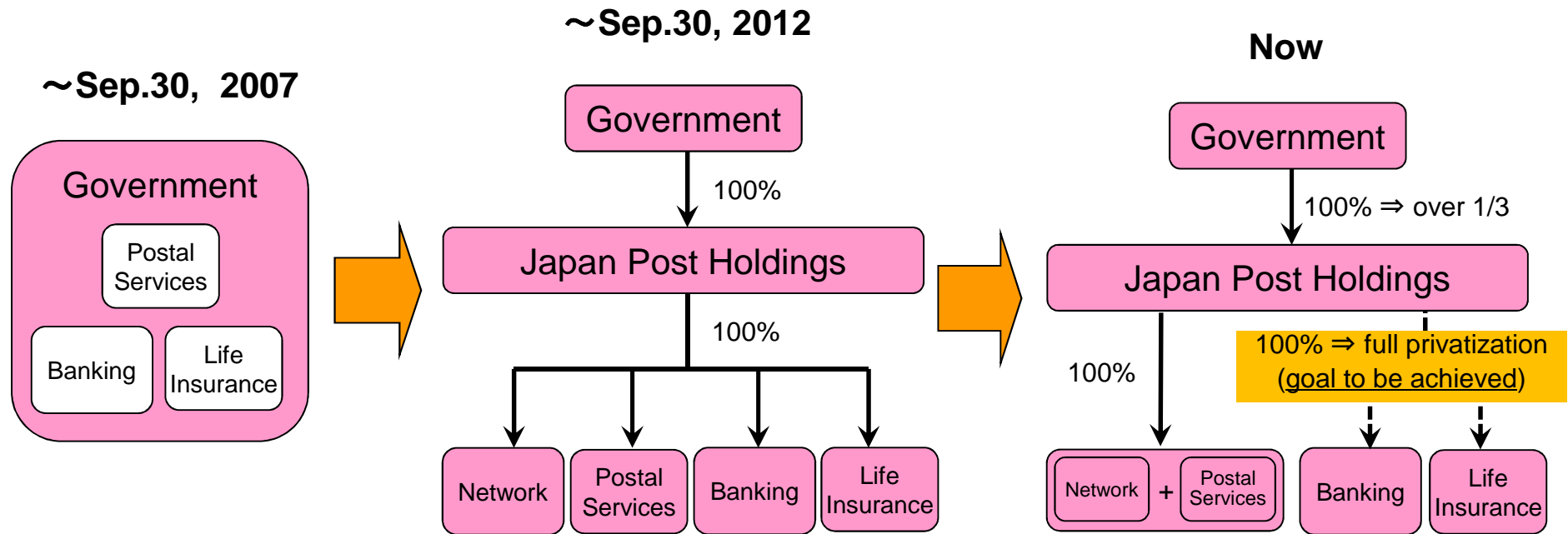
Overview of Postal Life Insurance

- State-owned postal life insurance business
 - > Postal life insurance was established in October 1916 with the aim to provide low premium insurance with simple enrollment procedure.
 - > While private life insurance was mainly for middle-income class at that time, postal life insurance targeted general working class which was not able to enroll in private life insurance of that time. At that time, postal life insurance was considered as a scheme to complement a function of private life insurance.
- Issues concerning postal life insurance business
 - > Various new postal insurance products were developed, following the development of new products and services of private life insurance companies.
 - > As this was a state-owned business, certain privilege was offered to postal life insurance business such as government guarantee of benefit payment and tax advantages (corporate tax exemption).
 - > The market share of postal life insurance business was grown, and the amount of policies in force was approximately 157 trillion yen, the amount of premium income was approximately 9.2 trillion yen (33% of premium income of private life insurance) and the amount of total assets was 117 trillion yen (55% of total assets of private life insurance) as of the end of fiscal 2006.
- Postal Services Privatization
 - > In promoting the reform of central government ministries, government funds and loans to postal life insurance business was raised an issue while downsizing and improving the efficiency of the administrative organizations.
 - > While the total amount of postal deposits and assets of postal insurance reached to 350 trillion yen, its assets were allocated to the public-sector business in principle. In this context, postal services privatization was expected to contribute to activation of the private-sector business.
 - > In 2005, Postal Service Privatization Act was enacted with the aim of promoting public convenience through various types of high-level postal services by enhancing the autonomy, creativity and efficiency of its business management. In 2007, Japan Post Holdings was established, which consists of five companies including Japan Post Insurance Company.

Japan Post Insurance

- Japan Post Insurance Company was established in October 2007 based on the Postal Services Privatization Act.
 - > Private life insurance company subject to Insurance Business Act
 - > Government guarantee was abolished for new contracts (concluded after its privatization)
 - > Total asset: 112 trillion yen
- Taking into account government funding to JP Insurance, a certain level of limitations is imposed on its business operation:
 - > Maximum limit on payable benefits: Death benefit 10 million yen (sum total 13 million yen), Annuity 0.9 million yen per year
 - > Requirement to conduct new business: Authorization by FSA Commissioner and Minister for Internal Affairs and Communications

Progress of Postal Reform



(1) Life Insurance Premium Deduction

Tax Deduction for Life Insurance Premiums

Tax deduction scheme for life insurance premiums is a preferential tax treatment which deducts a certain amount of premium paid from the policyholder’s income, which leads to reduction of income tax and resident tax.

Background to establish this scheme

- The scheme was established in 1924 and was reestablished in 1954 as a part of promotion measures for capital accumulation, once abolished in 1947 from the perspective of simplification of the procedures.
- In 1984, the tax deduction scheme for individual annuity was newly established with the aim of “promotion of self-help efforts for stability of post-retirement life” and “promotion of mutual assistance for post-retirement life.”

Tax Deduction Scheme for Life Insurance Premiums		
Total Deductible Limits Income tax: ¥120,000 Resident tax: ¥70,000		
Life Insurance	Long-term care/Medical Insurance	Individual Annuity
Deductible limits Income tax: ¥40,000 Resident tax: ¥28,000	Deductible limits Income tax: ¥40,000 Resident tax: ¥28,000	Deductible limits Income tax: ¥40,000 Resident tax: ¥28,000

(2) Tax Exemption for Death Benefits

Tax exemption is applied to death benefits with the limits of “5 million yen multiplied by the number by legal successor” since the death benefit is considered the inheritance to provide coverage for deceased’s family.

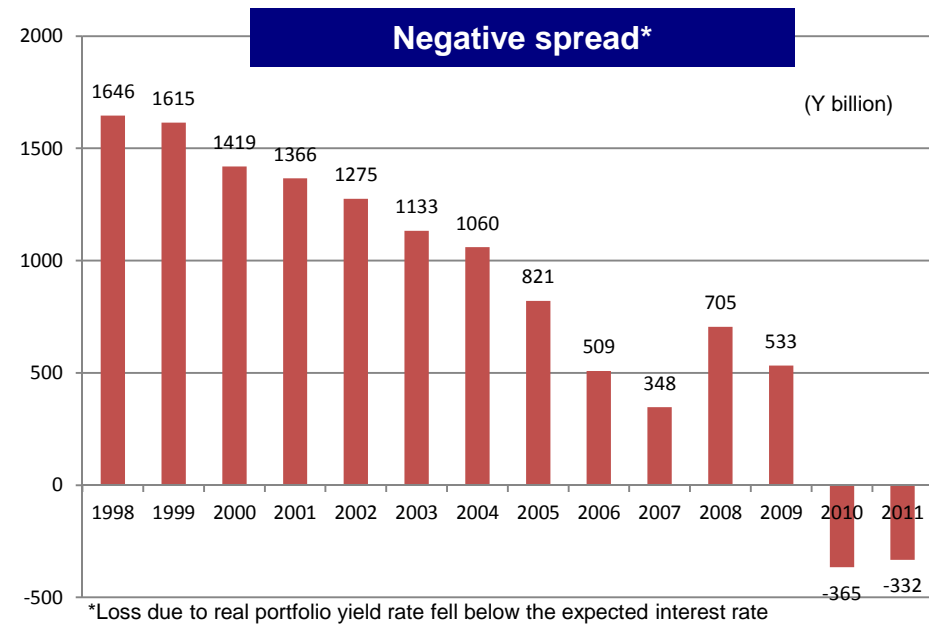
(3) LIAJ’s Request on Tax Reform

In response to our long-standing request, new tax deduction scheme was established, which applies tax deduction newly to premiums of long-term care/medical insurance contracts in addition to that of life insurance contracts and individual annuity contracts.

The LIAJ submitted the requests on tax reform for fiscal year 2014 such as stable and sustainable operation and further expansion of the scheme.

(1) Financial crisis in the 1990s

- Changes in economic situation
 - The Japanese economy maintained favorable growth until 1989 mainly due to the expanding domestic consumption. However, stock prices and land prices plunged after peaking in 1989.
 - Maintain low interest rate policy for a long time for monetary relaxation
- Impacts on the life insurance industry
 - The amount of both new business and business in force declined affected by the economic downturn
 - Lower investment yields caused large negative spread
 - Financial condition deteriorated due to falling stock prices
 - The ratio of stocks in insurers' portfolios was 22% in 1990

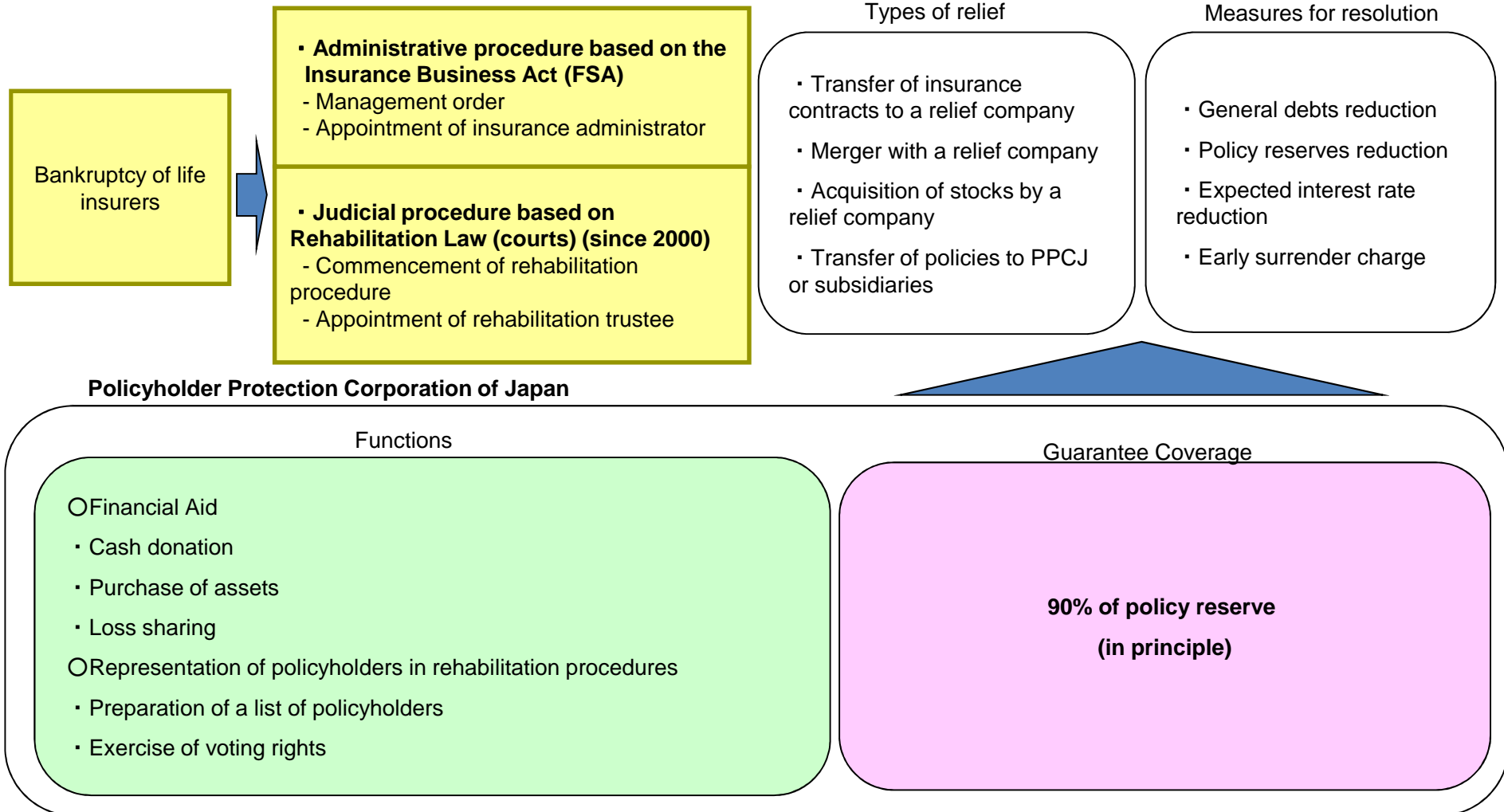


Source: Bank of Japan, Financial Service Agency

(2) Bankruptcy cases of life insurers

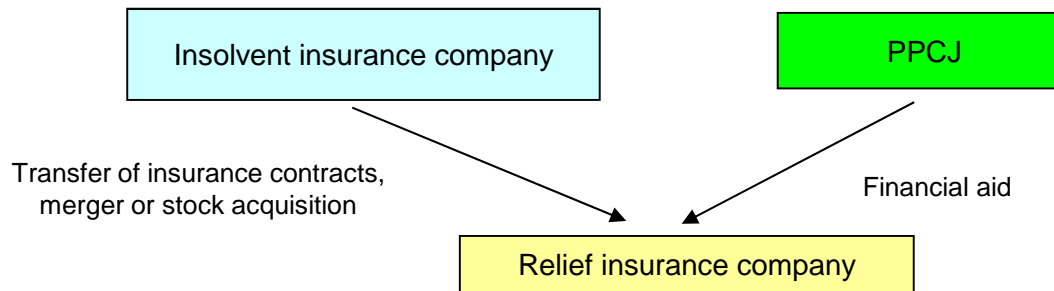
	Nissan Life	Toho Life	Daihyaku Life	Taisho Life	Chiyoda Life	Kyoei Life	Tokyo Life	Yamato Life
Procedure	Administrative	Administrative	Administrative	Administrative	Judicial	Judicial	Judicial	Judicial
Excess liabilities (a)-(b)	Approx. 302.9 (April 1997)	Approx. .650 (June 1999)	Approx. 317.7 (May 2000)	Approx. 36.5 (August 2000)	Approx. 595 (October 13, 2000)	Approx. 689.5 (October 23, 2000)	Approx. 73.1 (March 31, 2001)	Approx. 64.3 (October 17, 2008)
Asset (a) (billion yen)	1,822.7	2,190	1,300	154.5	2,233	3,725	690	194.9
Liability(b) (billion yen)	2,125.6	2,840	1,617.6	191	2,828	4,414.5	763.2	259.2
Relief Insurance Company	Aoba Life (Prudential Life)	GE Edison Life (Gibraltar Life)	Manulife Life	Azami Life (PGF Life)	AIG Star Life (Gibraltar Life)	Gibraltar Life	T&D Financial Life	Prudential Financial Japan Life (PGF Life)
Aid amount by LIPPCJ (billion yen)	200	366.3	145	26.7	0	0	0	27.8
Changes in Policy								
Reduction of policy reserve	No reduction	10%	10%	10%	10%	8%	No reduction	10% (additional reduction for high-interest policy)
Post-reduction expected interest rate	2.75%	1.5%	1.0%	1.0%	1.5%	1.75%	2.6%	1.0%
Date of Resolution	October 1, 1997 Transfer of contract	March 1, 2000 Transfer of contract	April 2, 2001 Transfer of contract	March 31, 2001 Transfer of contract	April 20, 2001 Conversion to a stock company (Restart business)	April 3, 2001 Restart business	October 19, 2001 Conversion to a stock company (Restart business)	June 1, 2009 Restart business

(3) Resolution scheme



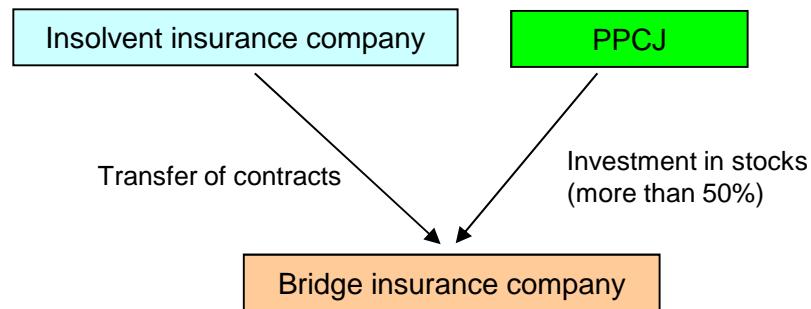
(4) Policyholder Protection Scheme

<When a relief company exists>

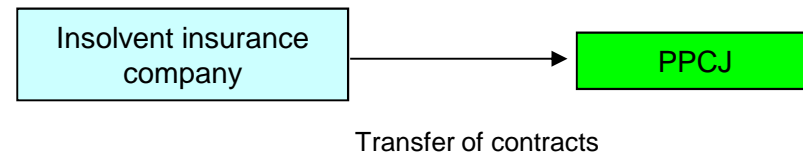


<When a relief company does not exist>

1. Transfer of contracts to a bridge insurance company



2. Contracts undertaken directly by the PPCJ



(5) Funding scheme

The size of protection funds based on the assumption of few bankruptcies in a decade

■ Contribution

- Contribution of life insurers (per year): ¥33 billion
- The amount is allocated to each member based on policy reserves and premium incomes
- Financial resources: ¥400 billion

⇒ Designed as pre-funded regime; however, post-funded in practice because of several bankruptcies in the early stage

■ Loan and government assistance

- When the amount of financial aid exceeds its financial resources
 - Borrow money from financial institutions (debt cap: ¥460 billion)
 - government guarantee is available
 - The government subsidy is available if the amount of financial aid exceeds the debt cap
 - extended until the end of March 2017

(6) Regulatory Measures

a) Distribution Regulation

- Bring down the bottom limit of the distribution rate from 80% to 20% in order to secure adequate internal reserves in 2002.

b) Demutualization

- Insurance Business Law was amended in line with the revision on demutualization in order to facilitate active usage of its scheme. Major life insurers in Japan are mostly mutual companies; however, recently some major companies have been shifting to stock companies.

Mutual company			Demutualized company	
Nippon Life	Meijiyasuda Life	Sumitomo Life	Daido Life	Taiyo Life
Asahi Life	Fukoku Life		Mitsui Life	Dai-ichi Life

c) Provision of Cutting Expected Interest Rate

- For protection of policyholders, in 2003 a process has been established to enable insurers which will have difficulties in continuing their insurance business to reduce expected interest rate (So far, this system has not been implemented).

d) Additional policy reserves

- Life insurers, as laid down in Ordinance for Insurance Business Law, must accumulate additional policy reserves where there is an obstacle to fulfill obligations.

e) Solvency Margin Ratio

- In 1997, solvency margin ratio was introduced.
- Since then, the ratio experienced a number of revisions, for example, when the fair value accounting of securities were introduced.
- The solvency margin ratio is calculated as follows:

$$\frac{\text{Total amount of Solvency Margin}}{\text{Sum Total of Risks} \times 1/2} \times 100$$

*Total Amount of Solvency Margin: Total capital, subordinated loan, major reserves

*Sum total of risk: underwriting risk, underwriting risk of third sector insurance, expected interest risk, asset management risk, business management risk, minimum guarantee risk

f) Early Warning Measurers

- Under the Early Warning Measures, supervisory authorities aim to prompt commitment of parties concerned to work toward administrative improvement by issuing orders to secure adequate business management when solvency margin ratio falls less than 200% since 1998.

g) Future Cash Flow Analysis

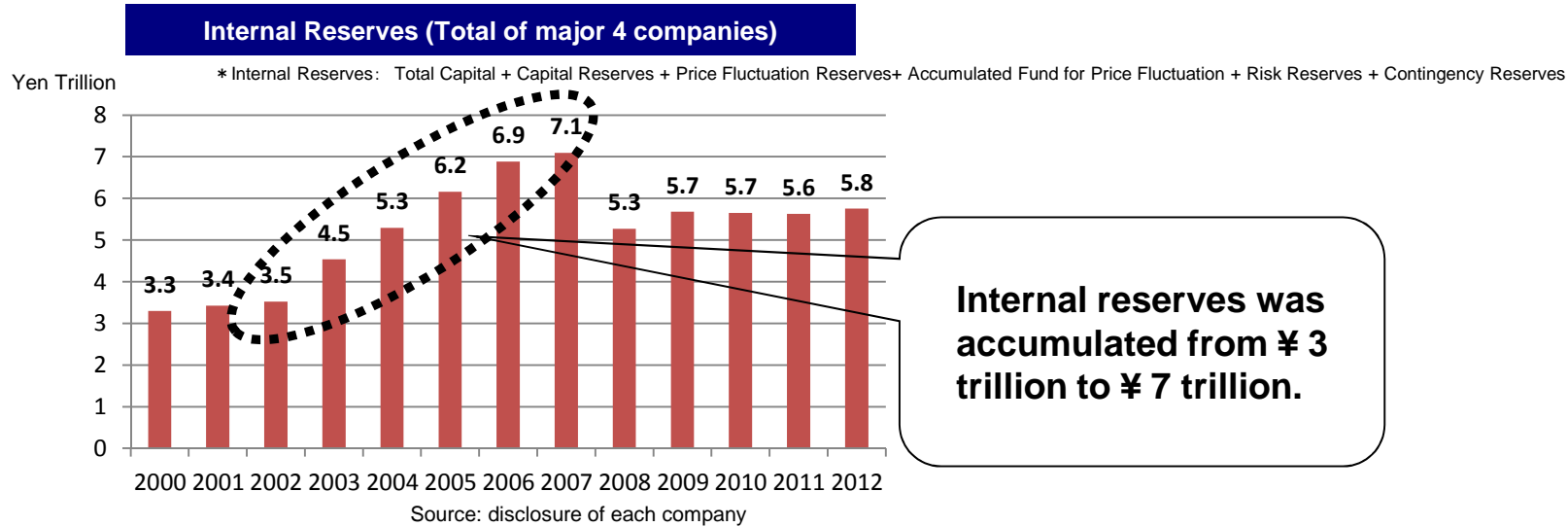
- Appointed Actuaries must verify following points and submit opinions to board of directors in every fiscal term.
 - Whether policy reserves are accumulated based on the actuarial mathematics or not. If accumulation of required policy reserves are impossible, an appointed actuary must describe the need of additional policy reserve accumulation in a written opinion.
 - Whether it is difficult for an insurer to continue its business according to a result derived from rationally calculated future cash flow based on the actuarial mathematics or not.
- Reporting of the analysis to the Financial Services Agency has become mandatory since fiscal 2000.

h) Improving rules of Policy Reserves Accumulation (introduction of bond to ALM)

- In the discussion of fair value accounting introduction, the Association of the Institutes of Chartered Accountants decided to permit the classification of bond to ALM only for insurance companies in 2000 given that the AML matching has been taken for the bonds. This measure was introduced in order to appropriately reflect the features of insurance liabilities (most of them are consisted by policy reserves which would be accumulated based on the assumed interest rate determined at the conclusion of contract). Life insurers hold long-term bonds in order to offset the risks of interest rate fluctuation as a part of ALM.

(7) Efforts of Industry

a) Accumulating Internal Reserves

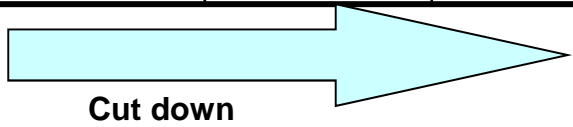


b) Stock Holding

Total assets and stock holding

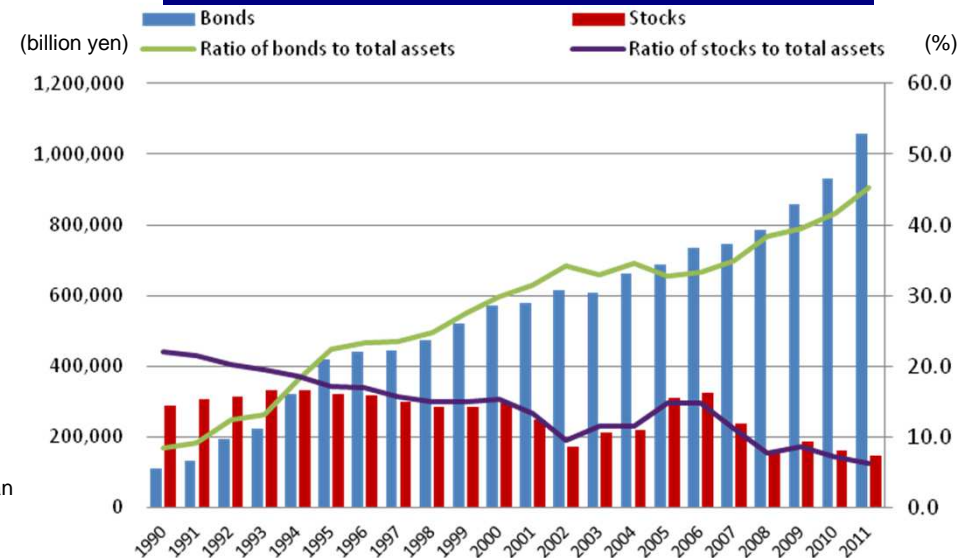
¥ trillion

	1995	2000	2012
Total assets	187	191	244
Stocks	32 (17.1%)	29 (15.4%)	17 (6.9%)



(Excluding JP Insurance)
Source: The Life Insurance Association of Japan

Trends in Amount and Ratio of Bonds and Stocks



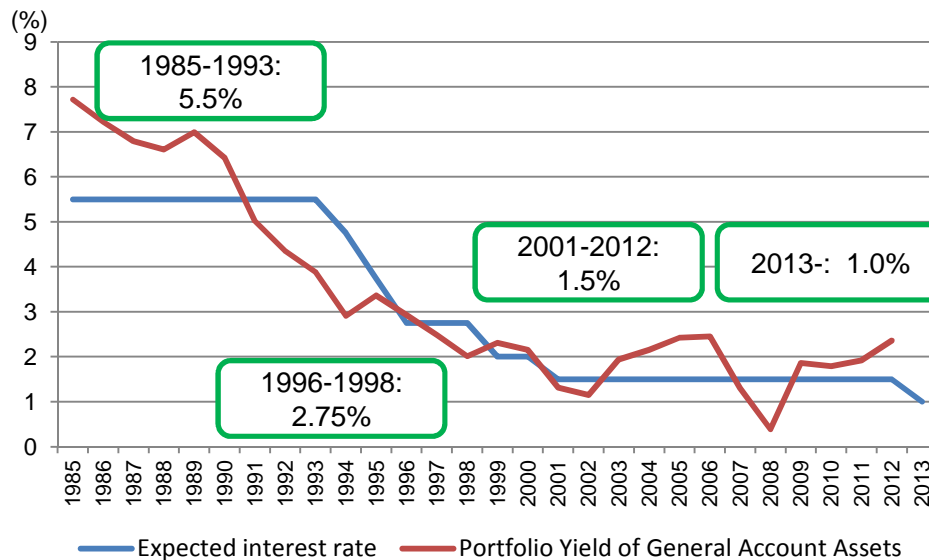
c) Duration of Bonds

Breakdown of JGB by time of maturity (Total of major 4 companies)

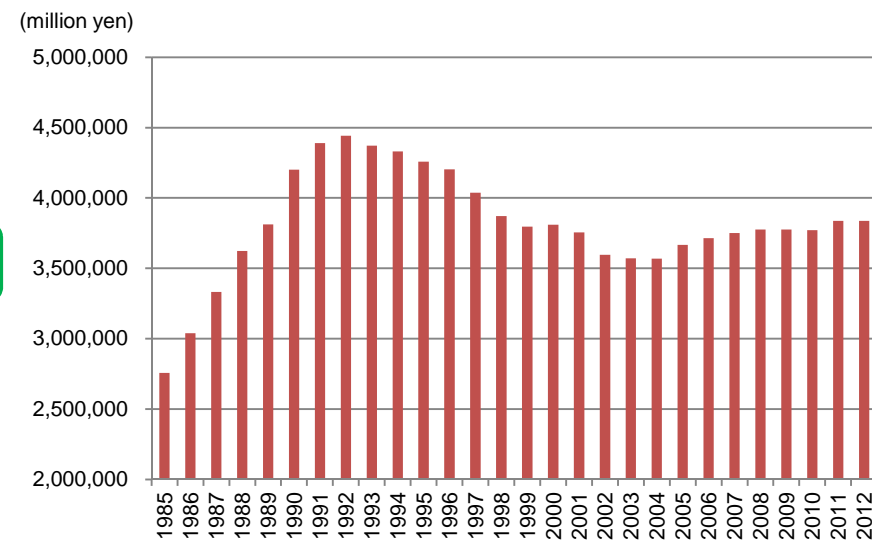
	2000	2012
Below 10yr to maturity	88.3%	22.3%
Over 10yr to maturity	11.7%	77.7%

Based upon disclosure of each company

d) Expected interest rate of new sales product



e) Reduction of operating expenses



Source: FSA, LIAJ

f) Accumulation of additional policy reserves

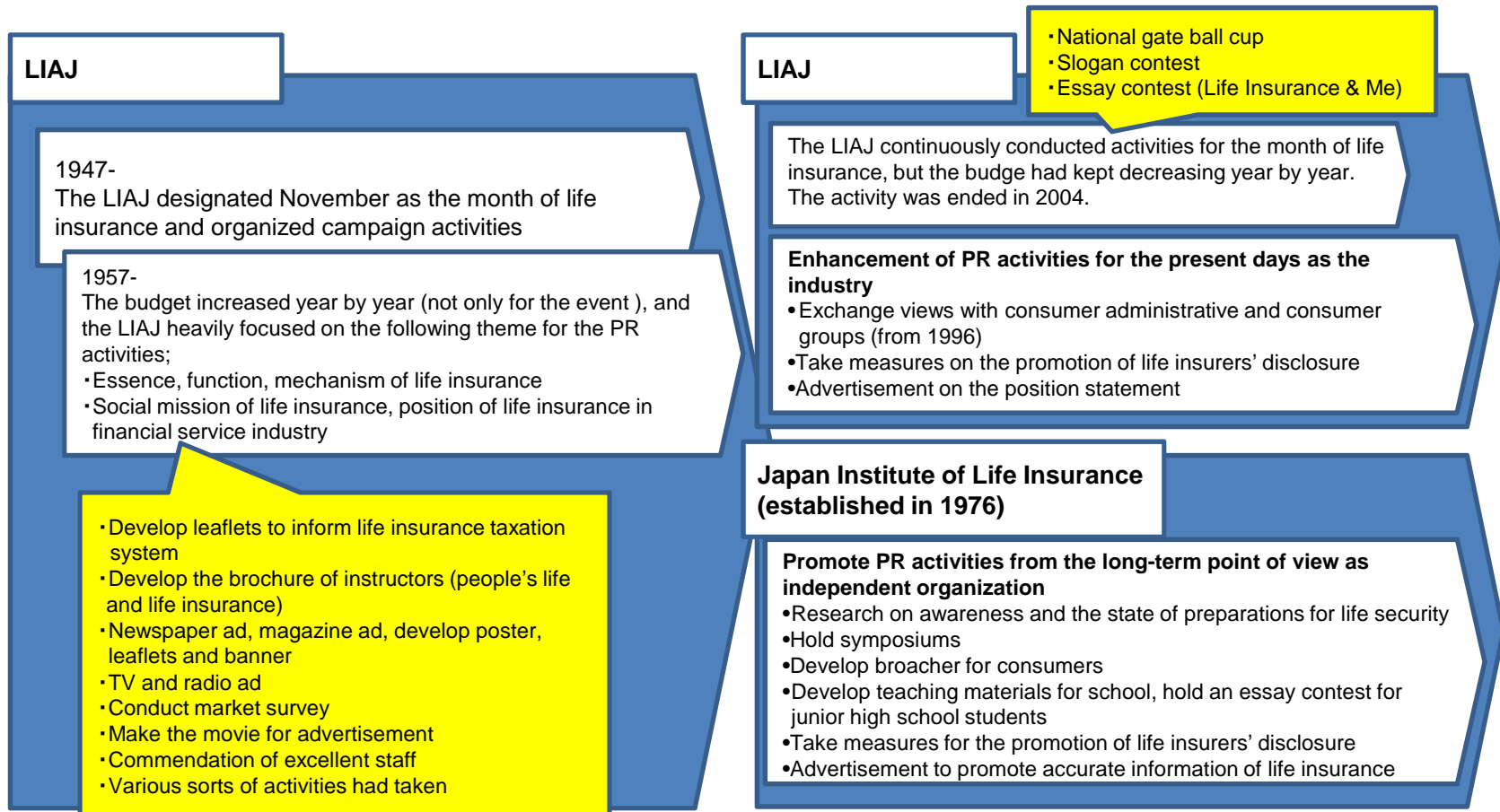
- In order to ensure further financial soundness and dissolve negative spread, some insurers started to accumulate additional policy reserves

g) Changes in sales products

- Shifted from saving type products (such as whole life insurance & endowment) to protection type products (such as medical insurance).
- Started sales of adjustable interest funding life insurance

(1) The Month of Life Insurance

- ◆ The LIAJ designated November as the month of life insurance and organized campaign activities. Member companies follow this activities and made a lot of efforts on their insurance sales in this month.
- ◆ The LIAJ put a huge budget on this activities, making advertisement through the newspaper, radio, and TV to penetrate life insurance for people and call for the importance of life insurance.
- ◆ The Japan Institute of Life Insurance (JILI) was established in 1976, and the JILI took the promotion.
- ◆ Neither LIAJ or JILI does not hold any events related to the month of life insurance , but some companies still set the high level sales target in November in order to make aggressive sales in the month.



(2) Initiatives toward Further Promotion of Mutual Understanding with Consumers

The LIAJ promotes the initiatives toward the mutual understanding with consumers, and developed and published the information booklet for the elderly, *Life Insurance Reference Book*, and the financial education DVD for Preschool and Elementary Students, *Three Important Stories: Learning with Chibi Maruko-chan*.

Information Booklet for the Elderly "Life Insurance Reference Book"

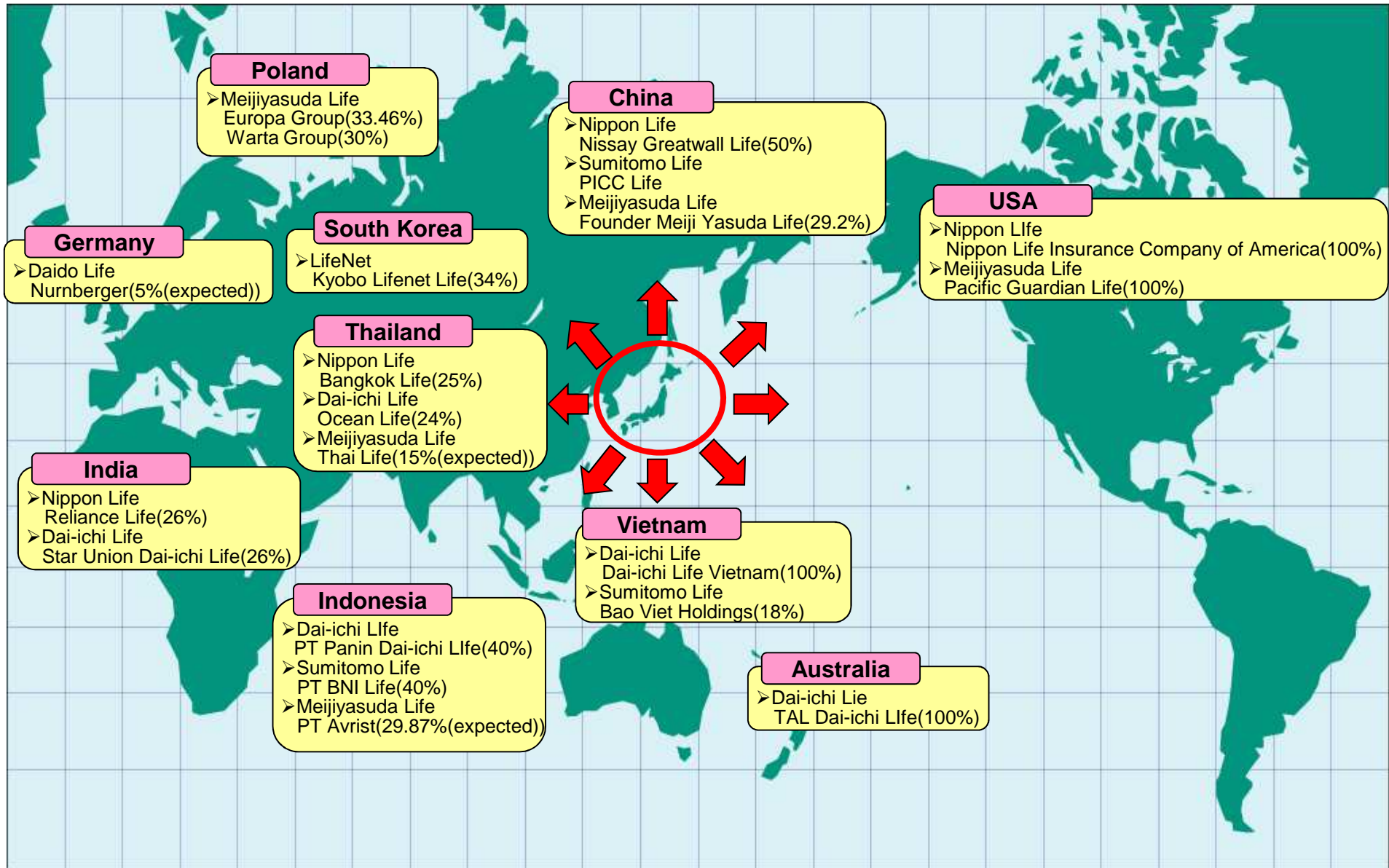
- ◆ This is a booklet which specifically provides the important information and the points of attention for the elderly at all stages of contract period.
- ◆ This is designed to be memorable with the textual information using illustration, taking into account design, character font and volume from the perspective of eye-friendliness and understandability.
- ◆ We distribute them to consumer centers, and inform and use them at the life insurance study group and the interactive dialogues on life insurance held by LIAJ and JILI.



Educational DVD for Preschool and Elementary Students Three Important Stories: Learning with Chibi Maruko-chan

- ◆ This DVD can be a first step to acquire basic financial literacy and skills in harmony with their growth. Students can enjoy learning the fundamental of financial education such as about the importance of money and planned spending habits through the stories of popular cartoon character Chibi Maruko-chan.
- ◆ This can be utilized to learn the topics of "consumption and environment" in the home economics course under the curriculum guidelines of elementary schools, and therefore, we will distribute them until June 2014 to elementary schools for free together with its instruction manual which provides examples to utilize it.
- ◆ Also, we will distribute them to public libraries for free in order to provide many children with opportunities to watch this DVD.

III Topics: 4. Insurance Business Operation in Overseas



* () is ownership rate.

(1) Domestic Regulations

To Obtain Public Trust in Insurance

- ◆ Establishment of basic rules for insurance solicitation such as;
 - Obligation to ascertain customer's wishes: Clearly spell out in laws and regulations obligations such as requiring solicitors to propose appropriate products in accordance with the customer's wishes/intention
 - Obligation to provide necessary information: Make it mandatory for insurance solicitors to offer explanations on product information during insurance solicitation under laws and regulations.
- ◆ Establishment of regulations on insurance solicitors such as;
 - Obligation to insurance solicitors to improve their solicitation system, taken into account recent increase in number of independent insurance agencies: Make it mandatory for insurance agencies to develop legal/regulatory compliance regimes.

To Activate Insurance Market

- ◆ Deregulation in overseas operation: Expand special provisions of regulation on the scope of business of subsidiary companies of acquired foreign insurance companies
- ◆ Deregulation in insurance brokers: Abolish the approval requirement on insurance brokers to conduct brokerage business for long-term insurance contracts if its coverage period is five years or longer

To Secure the Soundness of Life Insurance Market

- ◆ Implementation of Horizontal Review for financial monitoring of SIFIs and other major financial institutions
 - Horizontal review is one of the inspection methods, which selects common inspection items and examines them under a uniform point of view across the financial institutions by using the same review criteria for all financial institutions subject to the review.
- ◆ Encouragement of Implementation of Sophisticated ERM
- ◆ Changes in the rule of standard assumed interest rates

(2) International Regulations

- ◆ Regulations on G-SIFIs, ComFrame, Economic value-based solvency regime, FATCA/AEOI

(3) Strategy of Life Insurers

- ◆ Enhancement of supplementary services, Initiatives to better serve the elderly, International business operation

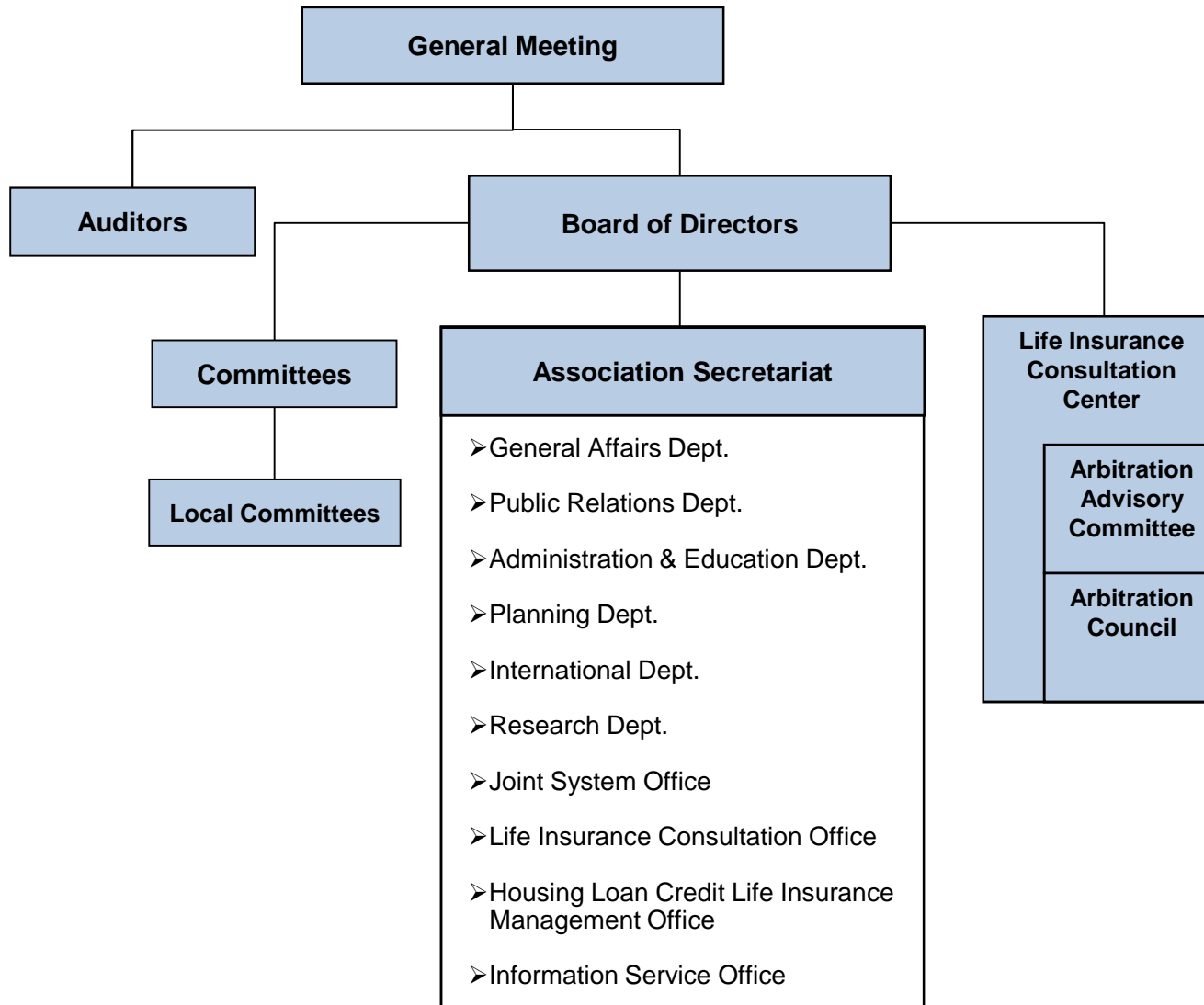
1. Overview of LIAJ

Foundation	The LIAJ started as an incorporated association with formal authorization by the authorities concerned on the 7 December 1908
Member Company	43 Companies (as of July 2013) The LIAJ consists of life insurance companies which are licensed under the Insurance Business Act. (Enrollment is not obligated by the law.)
Board Member	Representatives of life insurance companies and the association's full-time executives
Number of offices	54 offices The main office in Tokyo and 53 branch offices in all the prefectures.
Purpose	To strive for the sound development of the life insurance industry and the maintenance of its reliability
Main Activities	<ul style="list-style-type: none"> ▪ Representing the opinions of life insurance industry ▪ Conducting research and taking statistics ▪ Development of voluntary guidelines ▪ Education ▪ Public relations ▪ Social contribution ▪ Consultation and Alternative Dispute Resolution ▪ Operating Life Insurance Network Center

<History>

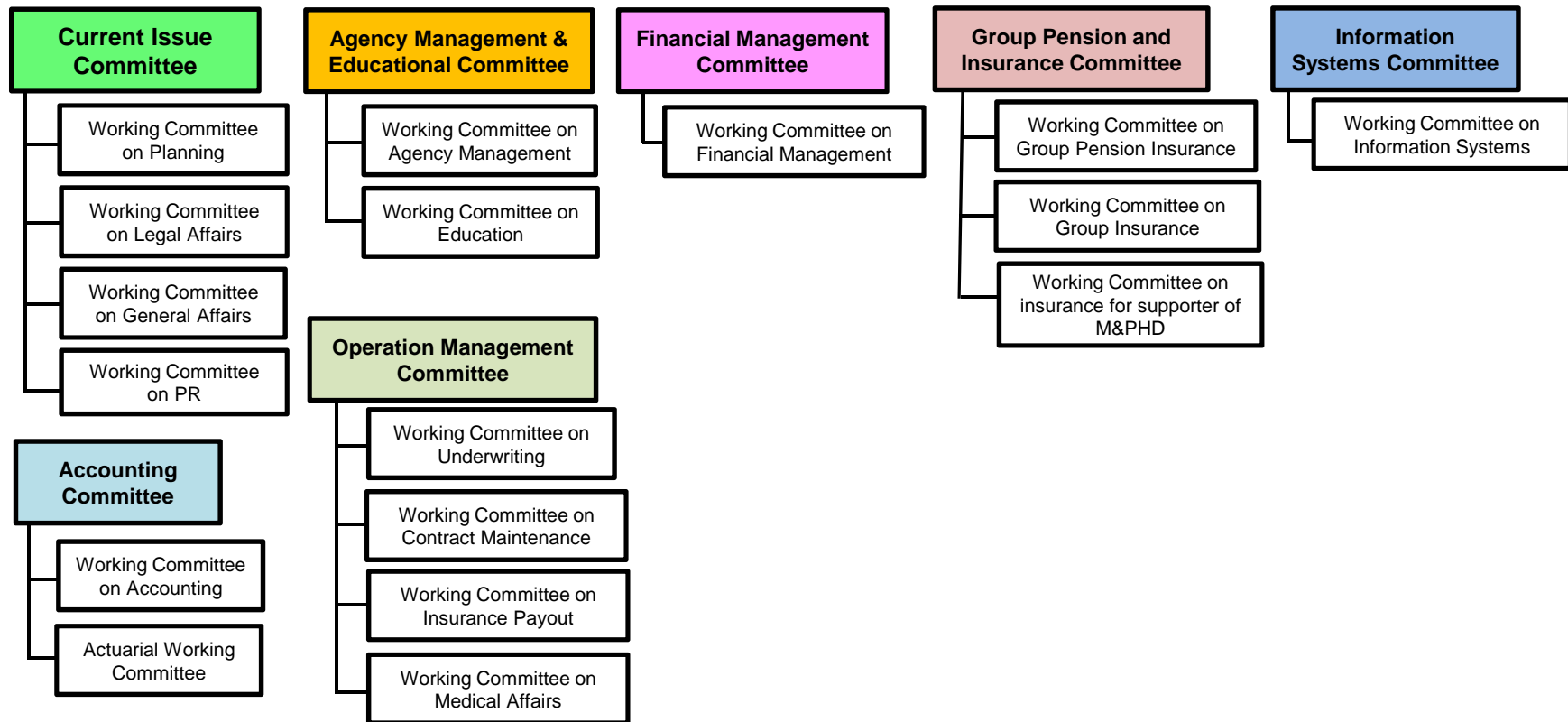
Year	Item
1898	The Forum of Japanese Life Insurers was founded.
1905	The Forum of Japanese Life Insurers was reorganized into the Association of Japanese Life Insurers.
1908	The Association of Japanese Life Insurers was authorized as an incorporated association.
1942	The Life Insurance Control Association was founded. The Association of Japanese Life Insurers was renamed the Life Insurance Network, and most of its operations were transferred to the Life Insurance Control Association.
1945	The Life Insurance Council of Japan was founded to take over the operations of the Control Association after it was dissolved. The Life Insurance Network was renamed the Life Insurance Association of Japan (LIAJ). All the operations of the Life Insurance Network were transferred to the LIAJ.
2008	The LIAJ marked the 100th anniversary since its foundation.

■Organization Chart:



<Organization of Association>

- ◆ There are seven committees under the Board of Directors because the wide range of technical issues including solicitation and conclusion of insurance contract, maintenance and insurance payment, asset management and accounting are required to be discussed. Each committee is looking into its technical issues.
- ◆ The committees consist of representative from all member companies since the committees deal with the issues related to the entire industry.



2. Role of LIAJ

(1) Research and study of theories and practices relating to life insurance

- a. Research on taxation and consumer protection measures relating to insurance
- b. Research on insurance regulations and supervisions of other countries in order to enhance the infrastructure of life insurance industry in Japan
- c. Research on matters of laws and accounting relating to life insurance business

(2) Representing the Opinions of Life Insurance Industry

- a. Policy recommendation on tax breaks relating to life insurance contracts and for fulfillment of regulatory reform requests
- b. Representing the opinions on act amendments proposed by FSA and relevant ministries
- c. Representing the opinions and submitting recommendations to international organizations such as IAIS
- d. Representing the opinions on deliberations and exposure drafts of IASB

(3) Developing voluntary guideline

In order to fulfil social responsibilities and business roles, the LIAJ has defined a code of conduct for life insurance companies and their management/employees to follow and provides voluntary guidelines for practical handling and points to consider, to be reflected in their operations.

<List of voluntary guideline>

- For appropriate representation of life insurance products
 - Guidelines for Appropriate Representation of Life Insurance Products
 - Guidelines for System related to Reviewing Materials for Soliciting Life Insurance Products
- For appropriate insurance payouts
 - Guidelines for Appropriate Insurance Payout Procedures
 - Guidelines for Advising Customers on How to File a Claim
 - Guidelines for Developing Medical Certificates
 - Guidelines for Insurance Claim Procedures on Great East Japan Earthquake
- For appropriate solicitation
 - Guidelines for Policy Overview
 - Guidelines for Warming Information
 - Guidelines for Pre-contact Documentation
 - Guidelines for the Sales of Life Insurance with Market Risks
 - Guidelines for Appropriate Application or Underwriting of Life Insurance Policies Targeting Minors as the Insured
- For personal information protection
 - Procedural Guidelines for Personal Information Protection in the Life Insurance Business
 - Practical Guideline for Life Insurers' Security Control Measures to Secure Personal Data Protection

(4) Life Insurance Consultation Center

The LIAJ was designated by the FSA as a designated dispute resolution body based on the Insurance Business Act, and therefore handles complaints and resolves disputes related to life insurance business and foreign life insurance business.

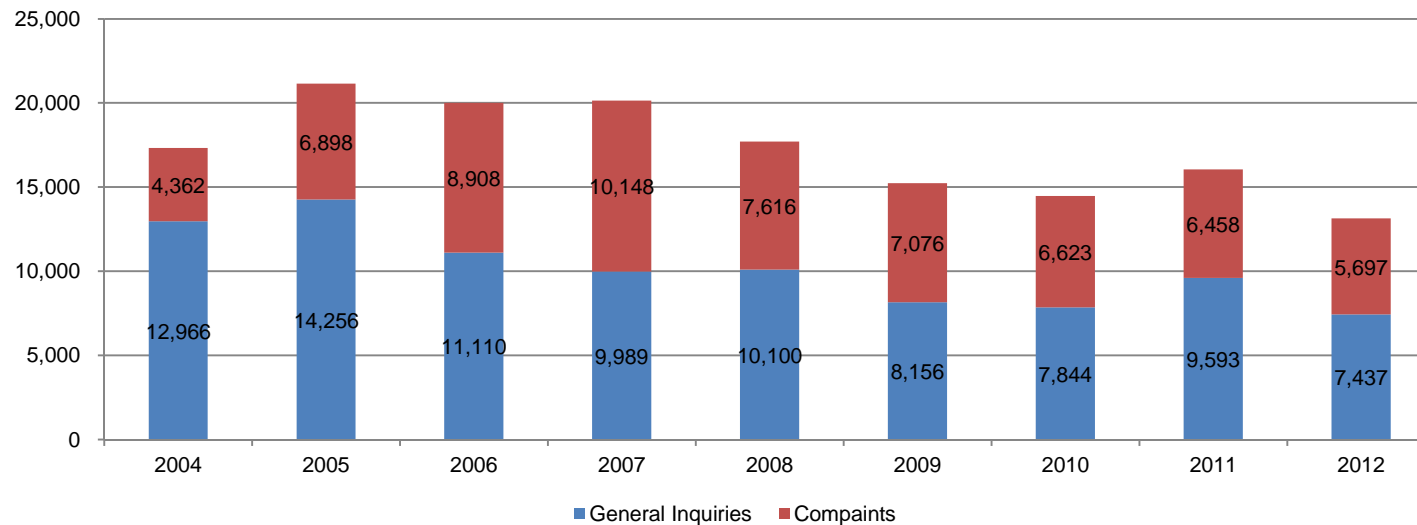
In order to conduct those activities, the Life Insurance Consultation Center was established within the LIAJ. The Center and its offices provide consultation and receive inquiries or complaints from policyholders or consumers.

*Financial ADR system: Alternative conflict resolution procedures in financial sectors. The competent authority shall appoint the dispute resolution organization based on the law (came into force in October 2010)

1) Appropriate Handling of Inquiries and Complaints

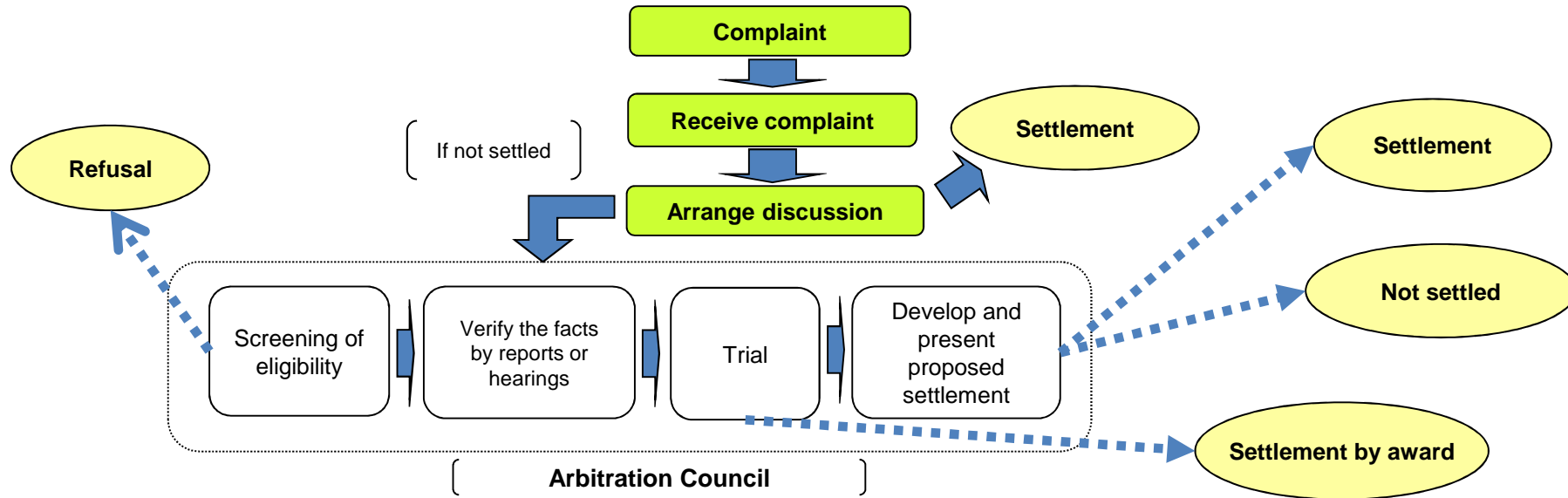
In the Life Insurance Consultation Center, expert consultants deal with inquiries and complaints from a neutral position. When the Center receives a request to resolve a complaint, it strives to reach an early settlement such as by making requests for a settlement and by mediating settlements with the life insurers involved.

<Number of inquiries and complaints>



2) Operation of Arbitration Council

When a customer files a complaint with the Center, the Center arranges the negotiation between the life insurer involved and the customer to reach a settlement. In principle, if they cannot reach a settlement within one month, the Center convenes the Arbitration Council to resolve the dispute. The Arbitration Council consists of 10 members (4 lawyers, 4 consumer advisors and 2 staff of the Life Insurance Consultation Center) and strives to achieve an appropriate resolution of the dispute.

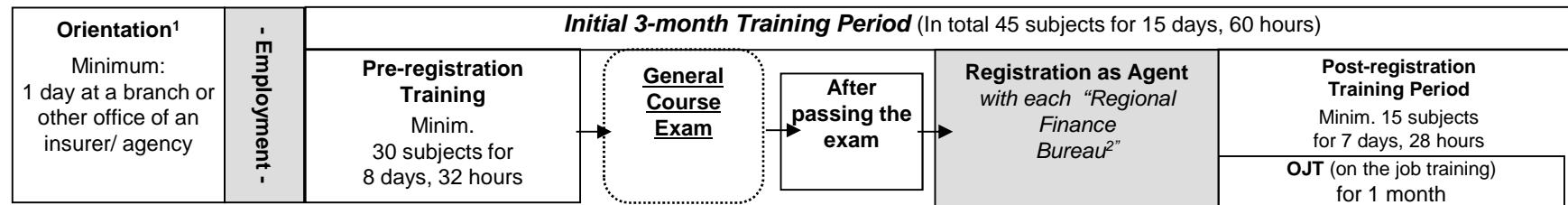


<Number of Filings for Procedures of the Arbitration Council>

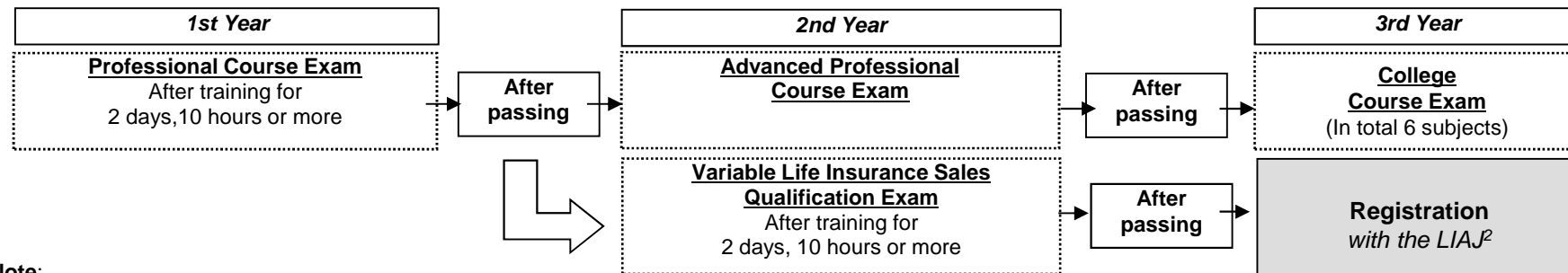
FY	2008	2009	2010	2011	2012	Total
Number	82	122	172	260	208	844

(5) Common-to-Industry Educational System for Life Insurance Solicitors

Under the laws and regulations, tied sales agents and sales representatives at agencies need to be registered with the FSA to sell life insurance products as life insurance solicitors. The LIAJ administers the General Course Exam to check the knowledge, quality and capacity of examinees required for their registration. The LIAJ also operates the examination system for the “Professional Course”, “Advanced Professional Course” and “College Course” in order to better meet policyholders’ needs. In addition, the LIAJ administers the Variable Life Insurance Sales Qualification Course Exam for insurance solicitors to sell variable life insurance/annuities.



Trainings and Exams after being employed³



Note:

1. In the case of agencies, they will hold a briefing session for business consignment before pre-registration training starts.
2. The registration after passing the General Course Exam will be made at each examinee’s Regional Finance Bureau, while the registration after passing the Variable Life Insurance Sales Qualification Exam will be made at the LIAJ.
3. This is a suggested sample training schedule to acquire sales skills in three years.

(6) Anti-Moral Hazard Measures

In order to promote sound management of a life insurance system, the industry is making efforts to prevent moral hazards such as fraud related to hospitalization benefits and fraudulent procurement of insurance money. Main countermeasures are as follows.

1) Policy Data Registration System

A policy data registration system was established to help detect those trying to receive insurance claims illegally by enrolling in several insurance policies for short periods. When life insurance companies receive an insurance policy (including riders like death benefit and hospitalization benefit), the relevant data of policyholders may be stored at the registration center within the LIAJ. Life insurance companies refer to the registered details to judge whether to accept the contract or whether to pay claims for death or hospitalization benefits.

2) Policy Data Inquiry System

Life insurance companies and National Mutual Insurance Federation of Agricultural Cooperatives (*Zenkyoren*) have cooperatively operated the Policy Data Inquiry System aiming to contribute the continuous development of sound life insurance and cooperative system since April 2002. Under the system, the data held by National Mutual Insurance Federation of Agricultural Cooperatives and the data registered in the Policy Data Registration System by the LIAJ can be cross-referenced. They refer to the registered details to judge whether to accept the contract or whether to pay claims for death or hospitalization benefits.

3) Cross Reference System for Assessing Insurance Claims

Upon receiving insurance claims, participating insurance companies and three co-operatives (National Mutual Insurance Federation of Agricultural Cooperatives, National Federation of Workers and Consumers Insurance Cooperatives and Japanese Consumers' Co-operative Union) cross-reference other organizations' data on policyholders. They then use the information when deciding whether to accept a claim from a policyholder or to terminate or cancel an existing contract.

(7) Others

➤ Social Service Activities

- Activities to Enhance Family Bonds by Reading Picture Books to Children
- Activities to Enhance Family and Community Bonds through Environmental Education
- Financial Aid for Child-rearing Support Organization
- Scholarship Program for Privately-funded International Students in Japan
- Scholarship Program for Education of Care Workers

➤ Operating Life Insurance Network Center

The life insurance industry established an industry-wide network called the Life Insurance Network Center, or LINC in 1986. This network enables insurers to provide more efficient services and to improve information security in the insurance industry, and also reduces the burden of clerical work at a client company.

With several improvements to the network system since its establishment, the Center currently operates the following 12 systems.

- Inter-network settlement system among member companies
- Data exchange system on individual policies whose monthly premiums are collected through payrolls
- Data exchange system on asset-formation insurance
- Registration systems on medical care insurance
- Registration system on licensed life insurance solicitors
- Registration system on policy data
- Data distribution system on National Pension Fund insurance
- Data exchange system on life insurance business statistics
- Data exchange system on joint Employee's Pension Fund Insurance Report
- Cross referencing system for assessing insurance claims
- Data exchange system on corporate pension plans among principal companies
- Statistics collection system on incidence rates including mortality

Thank you

If you have any question, please feel free to contact me at
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