



FALIA Invitational Seminar in Japan
“Product Development Strategy Course”

Life Insurance Sales and Consumer Protection

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1. Japan Is a Rapidly Aging Society

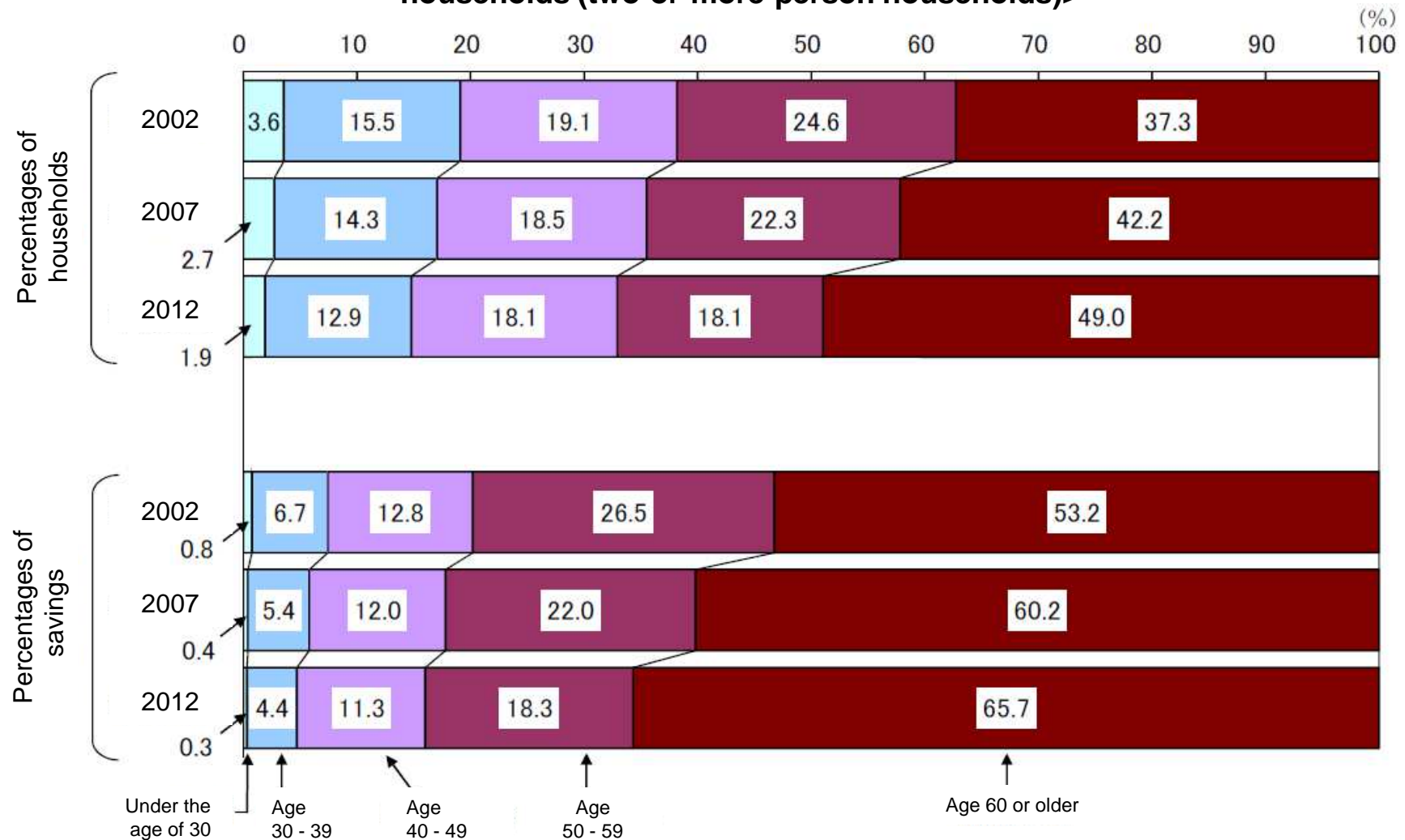
- Population of people age 65 or older \Rightarrow Exceeded 30 million people for the first time in 2012
- In 2013 they accounted for more than 25% of the population
- By 2020 they will account for more than 29% of the population (six percentage points higher than Germany, which is in second place)
- It has had the world's highest rate of population aging for ten years running
- This year they will account for more than twice the number of children ages 14 or younger

1. Japan Is a Rapidly Aging Society

- Comparison between 2010 and 2030 ⇒ Population of elderly people will grow older still
 - Age 65 or older.....25% increase
 - Age 75 or older.....61% increase
 - Age 85 or older.....121% increase
 - Age 100 or older.....476% increase
- Conversely, financial assets are disproportionately distributed in the households of elderly people
 - ⇒ Financial institutions (including life insurance companies)

1. Japan Is a Rapidly Aging Society

<Changes in the distribution status for savings by the age class of the heads of households (two-or-more-person households)>



(Source) Preliminary 2012 Annual Average Results from the Annual Report on the Family Income and Expenditure Survey (Savings and Liabilities) (Two-or-more-person Households), Statistics Bureau, Ministry of Internal Affairs and Communications (2013), see p.26

2. Problems with Banks' OTC Sales

- Banks' over the counter (OTC) sales of insurance began on April 1, 2001, with the ban on them lifted across the board on December 22, 2007.
- The ban on single payment whole life insurance via banks' OTC sales was lifted on December 22, 2005.
- With this type of insurance product the full amount of the premiums are paid when the contract is signed. It is a product for which the sum payable at death and refund at time of cancellation continue to increase as the number of years elapse, and which thereby offers death protection and savings potential.

2. Problems with Banks' OTC Sales

- The situation with banks' OTC sales is that products with good interest rates are recommended over deposit plans.

However,

- Whole life insurance is not a principal guarantee product.
- When a midterm cancellation occurs the refund at the time of cancellation may be smaller than the single premium depending on the number of years that have elapsed

2. Problems with Banks' OTC Sales

- A look at consultation cases with the National Consumer Affairs Center of Japan reveals numerous cases of elderly people encountering problems.
- There are numerous cases where the consumers did not realize that they were purchasing insurance plans and concluded the contract while under the mistaken impression that they were deposit plans.
- There were also problems seen with insufficient explanations of the fact that the refund at the time of cancellation would be smaller than that from the single premium in the event of a midterm cancellation.
 - ⇒ Problems with the suitability rule

2. Problems with Banks' OTC Sales

<Suitability Rule>

“This is a philosophy of striving to protect customers by recommending and selling products out of consideration for the attributes of the target customer (investment purpose and experience, asset status, tax status) when soliciting customers to purchase financial products such as securities or pensions”

2. Problems with Banks' OTC Sales

<Trends in the number of consultations>

(Unit: cases)

	2005	2006	2007	2008	2009	2010	2011
Single payment whole life insurance	48	64	101	114	98	121	206
Of which, those from banks' OTC sales	2	3	3	17	21	42	99

3. Major Consultation Cases

(1) Solicitation to an elderly man whose powers of judgment are in decline

A bank employee visited a man in his 80s who lives in a senior citizens' home and asked him if he would like to cancel his term deposit plan and sign a contract for a single payment whole life insurance plan. The man in question does not remember what contract he concluded or what he signed.

When his son hurriedly inquired about the matter with the bank he was told that if his father were to cancel the contract now he would incur a sizable surrender charge. What should he do?(Man in his 80s)

3. Major Consultation Cases

(2) A woman was solicited numerous times despite turning them down, until finally she gave in and concluded a contract.

A bank representative visited the woman at home and told her that her term deposit of 30 million yen that she had on deposit was nearing its maturity date.

He told her that if she didn't have any plans for how to use the deposit he would introduce some great products to her.

She declined since she was already enrolled in insurance

⇒ The bank employee explained that if she canceled the contract after three years had gone by the principal would be returned to her

3. Major Consultation Cases

(2) Next a more senior bank employee came and enthusiastically tried to solicit her.

⇒ In the end she enrolled in a 30 million yen single payment whole life insurance plan.

Several days later when the insurance policy arrived she found that the details were different than what she had imagined they would be, so she complained to the bank.

⇒ She was told that she would suffer a substantial loss if she were to cancel now.

(Woman in her 60s)

3. Major Consultation Cases

(3) When a woman approached the counter of a bank the representative told her that he wanted to give her a birthday present and led her to the second floor.

There another representative recommended to her a product that generates interest after three years have elapsed, but which also features a principal guarantee.

She had the experience of signing a contract for an investment trust that produced a loss that had been recommended to her by a different financial institution several years ago, and so she told the representative at the counter several times that she didn't want to sign a contract for anything other than a deposit plan. So when she signed the contract she was under the impression that it was for a deposit plan.

3. Major Consultation Cases

When she signed the contract she told them that she didn't have her bankbook on her, so the representative drove her to her house in his car to retrieve it.

It wasn't until the insurance policy arrived at her house that she first realized that it was the contract for an insurance policy.

She had not realized that she was being solicited to enroll in life insurance at the bank.

She wants to cancel the contract.

(Woman in her 70s)

3. Major Consultation Cases

(4) In July 2008 a man was visited at his home by a bank employee, and upon being solicited to enroll in a single payment whole life insurance plan for 15 million yen he signed a contract.

Afterwards an urgent need for money arose and in March 2009 he requested to cancel the contract, but was told that the refund on cancellation of the contract would be about 14.3 million yen.

When he was solicited it was explained to him that the plan had its drawbacks, but it was not explained to him that he would suffer a loss of about 700,000 yen if he were to cancel within one year.

Does he have any choice other than to reluctantly accept this loss?

(Man in his 70s)

3. Major Consultation Cases

(5) A woman went to her bank with the intention of amassing term deposits, but was recommended a product that would generate a small amount of interest once five years had elapsed, which she was told was a better deal.

At the time she thought it was a type of term deposit plan, so she filled out the forms and went through the procedures.

When she looked at the certificate that arrived after a little while she realized that it was a single payment whole life insurance plan, and she eventually paid 5 million yen in premiums.

She had no recollection of enrolling in insurance, so she was extremely surprised.

3. Major Consultation Cases

She soon needed money to repair her roof, which collapsed in an earthquake, and for her hospital bills and other expenses.

When she told the representative at the bank that she would like to cancel the contract he told her that canceling now would incur a loss of 200,000 yen.

She wants to get back all of the money that she paid into it.

(Woman in her 80s living in Fukushima Prefecture)

3. Major Consultation Cases

(6) A woman went through the procedures to cancel a 15 million yen term deposit plan at her bank's counter.

The bank employee recommended a product that would generate interest if she lived for five or more years.

Thinking that since it was a bank it must be a deposit plan she made a lump-sum payment of 15 million yen right there on the spot.

When she read the contract documents that arrived later she realized that it was a single payment whole life insurance plan.

She appealed to the bank to cancel during the cooling-off period.

3. Major Consultation Cases

But they told her that since the cooling off period had already elapsed this wasn't possible.

They also said that if she were to cancel, the cancellation fee would be about 700,000 yen.

When she signed the contract the explanation of the cooling off period was given to her verbally, and so she was just told to read the documents.

The explanation was insufficient.

She also cannot accept that such an expensive cancellation fee will be charged.

(Woman in her 60s)

4. Role Expected of Insurance Solicitors

- Generally when purchasers of products or services make their decision to purchase them they collect and interpret information related to said products or services.
- The demand for insurance products has been deemed to be “indirect.”
 - ⇒ Insurance products are invisible and intangible.
 - ⇒ Times when insurance products perform their functions are often tied with disasters or misfortune in people's lives.
- What is more, with insurance products expert knowledge is required in order to understand the insurance policy provisions listing the contract details and the “value of insurance” which include the policyholders' dividends.

4. Role Expected of Insurance Solicitors

- They evoke demand among insurance purchasers and raise their awareness of this, while encouraging them to select appropriate insurance products that are consistent with this demand.
- In order to do this, they provide information concerning insurance products and obtain the understanding of insurance purchasers, following which their core job is to guide them to concluding a contract.
- The aspiration they should aim for is:
**Informed purchase or selling
of insurance products.**

5. Conclusion

Under such circumstances

(1) Determine the customers' intentions, recommend insurance products consistent with their needs, and confirm that they are consistent with their intentions before concluding the contract

⇒ Make this mandatory. Introduce the obligation to determine customers' intentions.

The conventional use of documents for confirming customers' intentions is based on the obligation to improve structures at insurance companies.

(2) Prohibit the act of not informing customers of the important items found among the contract provisions in insurance contracts ⇒ Introduce the obligation to provide customers with information related to the insurance products suggested to them.

5. Conclusion

- It is important to set in place an environment in which customers can clearly determine their own needs and make purchasing decisions based on adequate information and a wealth of options
- Determine needs
Life insurance is not something that is bought, it is something that is sold.

⇒ This is something that must be changed.
- Having people determine their own needs and realizing rational purchases of life insurance in an appropriate manner is important.

5. Conclusion

Rational purchases of insurance refer to:

- ① Making purchases as inexpensively as possible
- ② of types of insurance consistent with one's own needs
- ③ at a value that is commensurate with only the amount of protection one needs
- ④ from insurance companies with adequate solvency.

The role of insurance sales channels (sales persons, agencies, banks, etc.) is what supports consumers in order to achieve this.