

The Japanese Insurance Industry

(and other musings)



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Natural Disasters



Q: What was Japan's deadliest natural disaster?

A) 2011 Tohoku Earthquake and Tsunami

B) 1995 Kobe Earthquake

C) 1923 Kantou Earthquake

D) 1792 Mount Uzen Eruption











Many disasters to choose from!

- Volcanoes
- Typhoons
- Earthquakes
- Tsunamis
- Pandemic



Uncertainty Avoidance



Cultural Dimensions Theory

- Gerard Hendrik Hofstede's four cultural dimensions framework
- Formulated in 1980 while working for IBM
- Describes “Uncertainty Avoidance” as the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty.

Q: Which country has the highest Uncertainty Avoidance score?

A) Greece

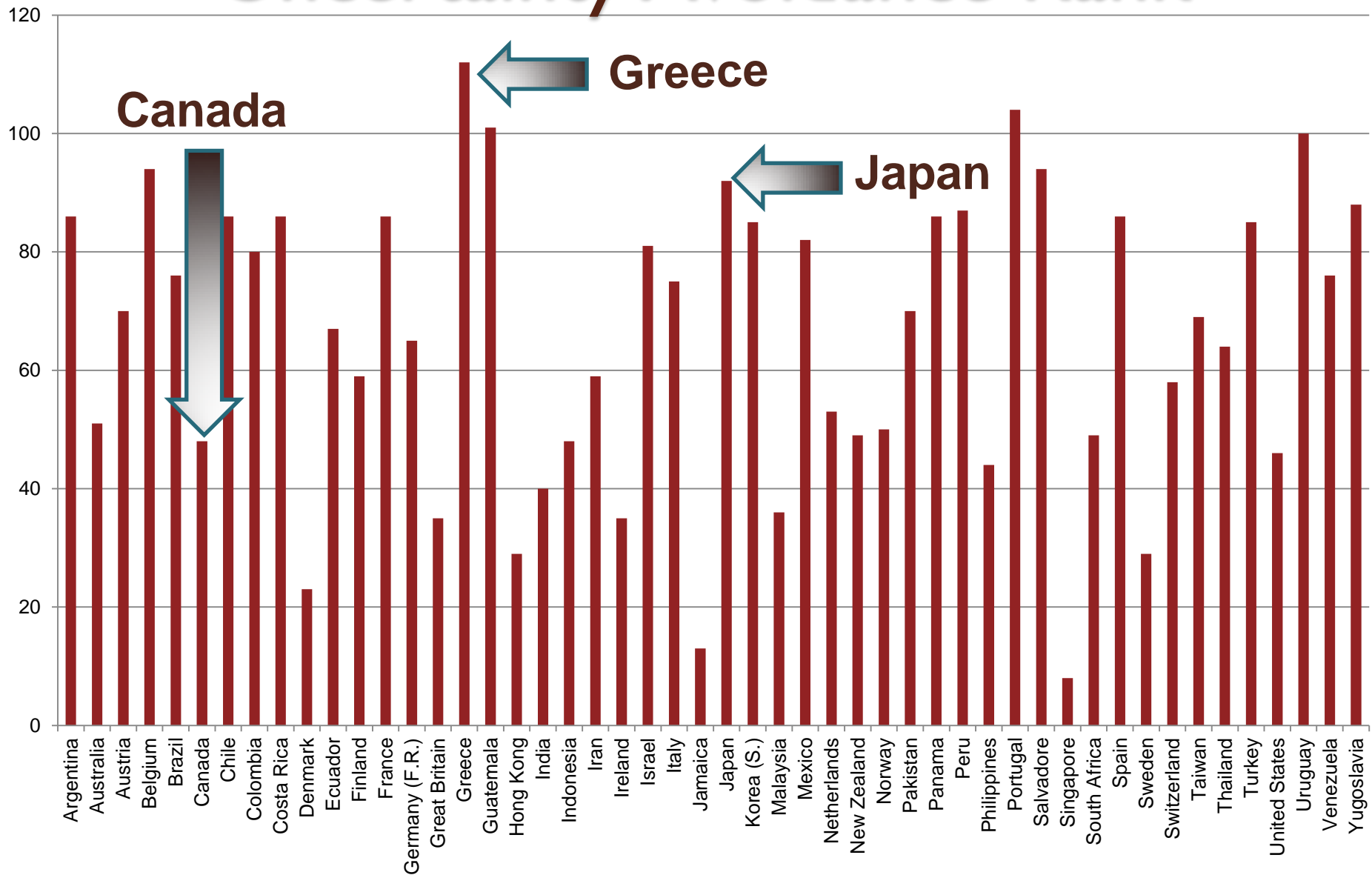
B) Japan

C) Argentina

D) Germany



Uncertainty Avoidance Rank



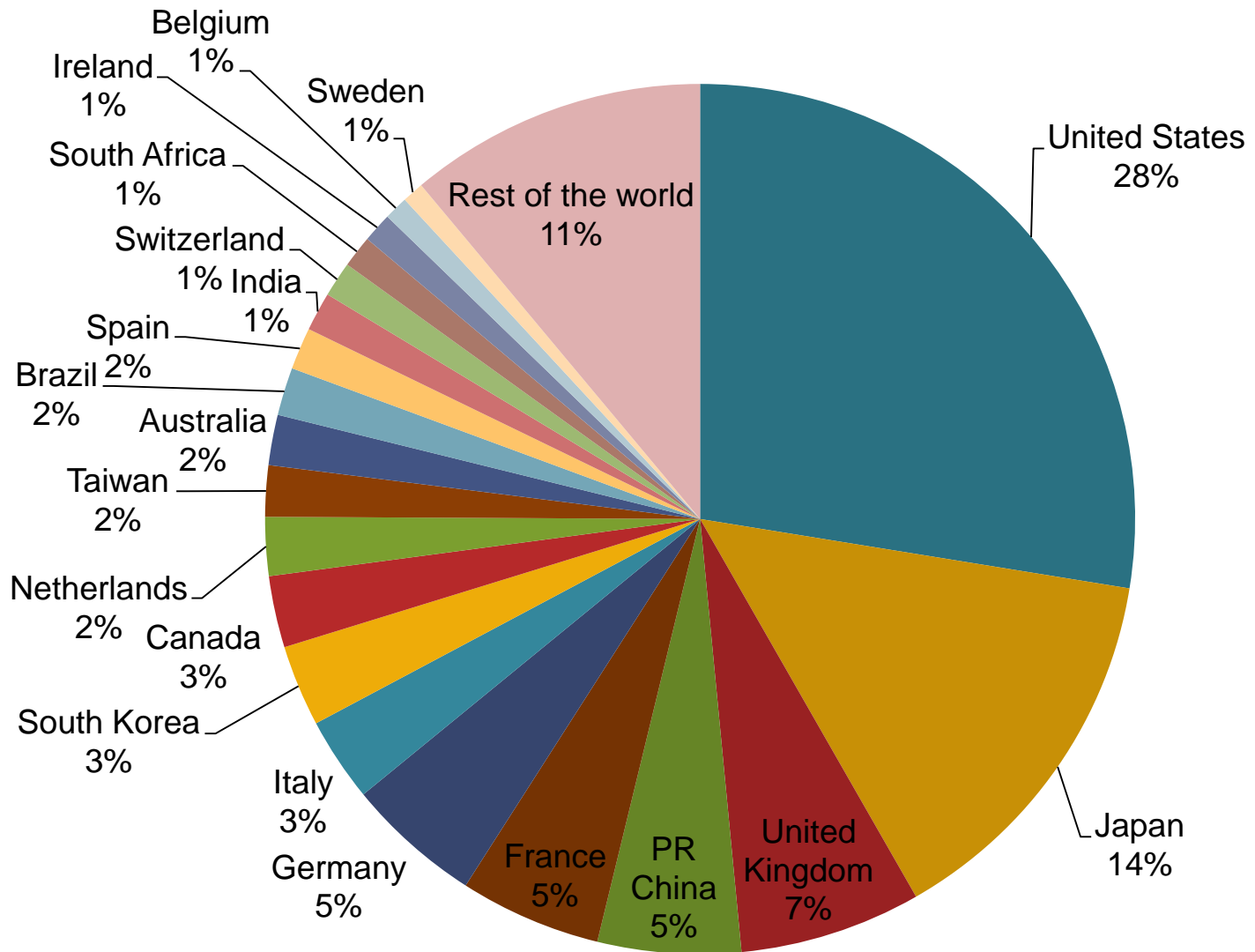
Uncertainty Avoidance

- Earthquake early warning system
- Highly efficient transit
- Household savings held in cash
- Bunting in baseball
- Well-developed insurance market

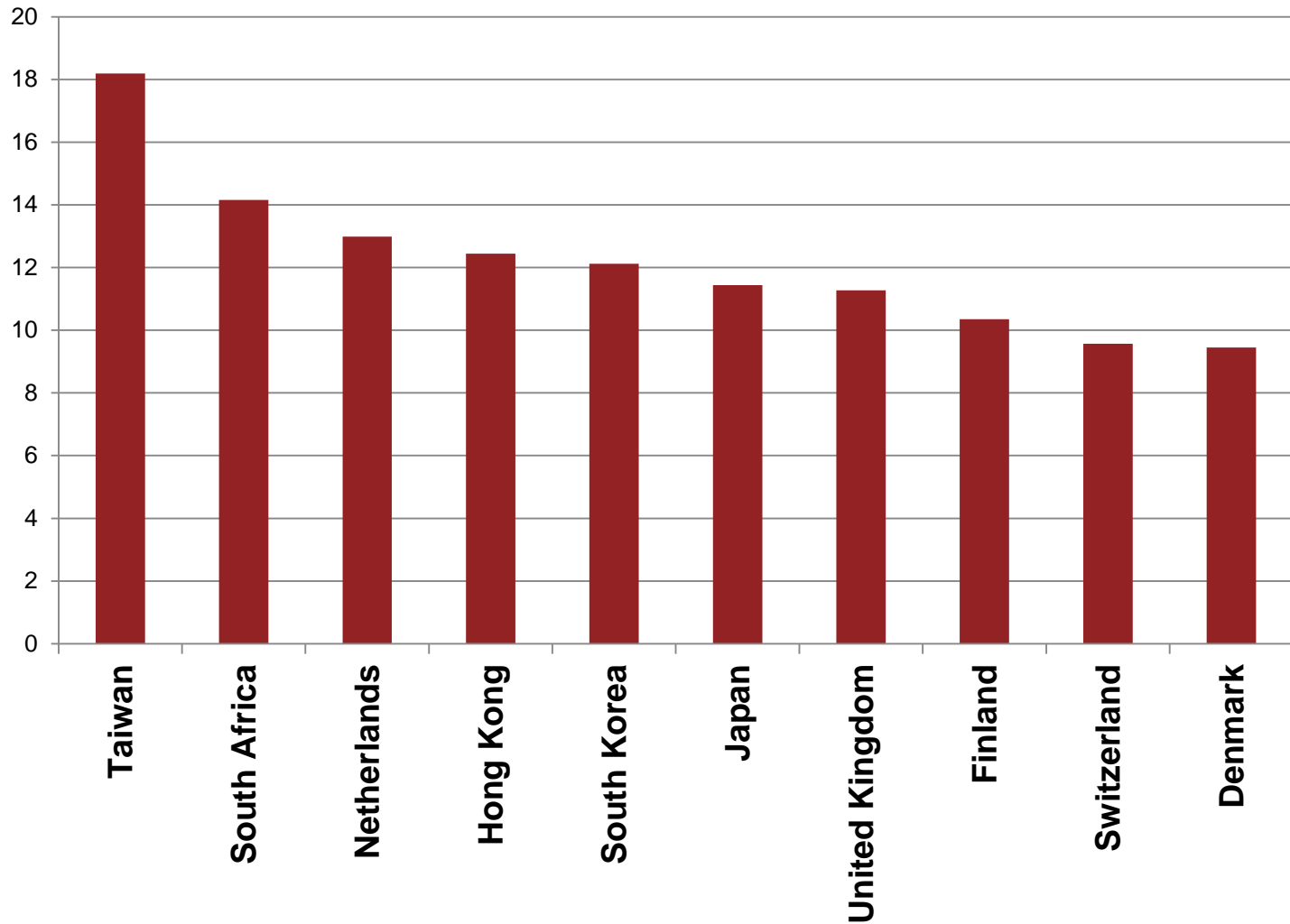
Japanese Insurance Market



2012 Premium Volume

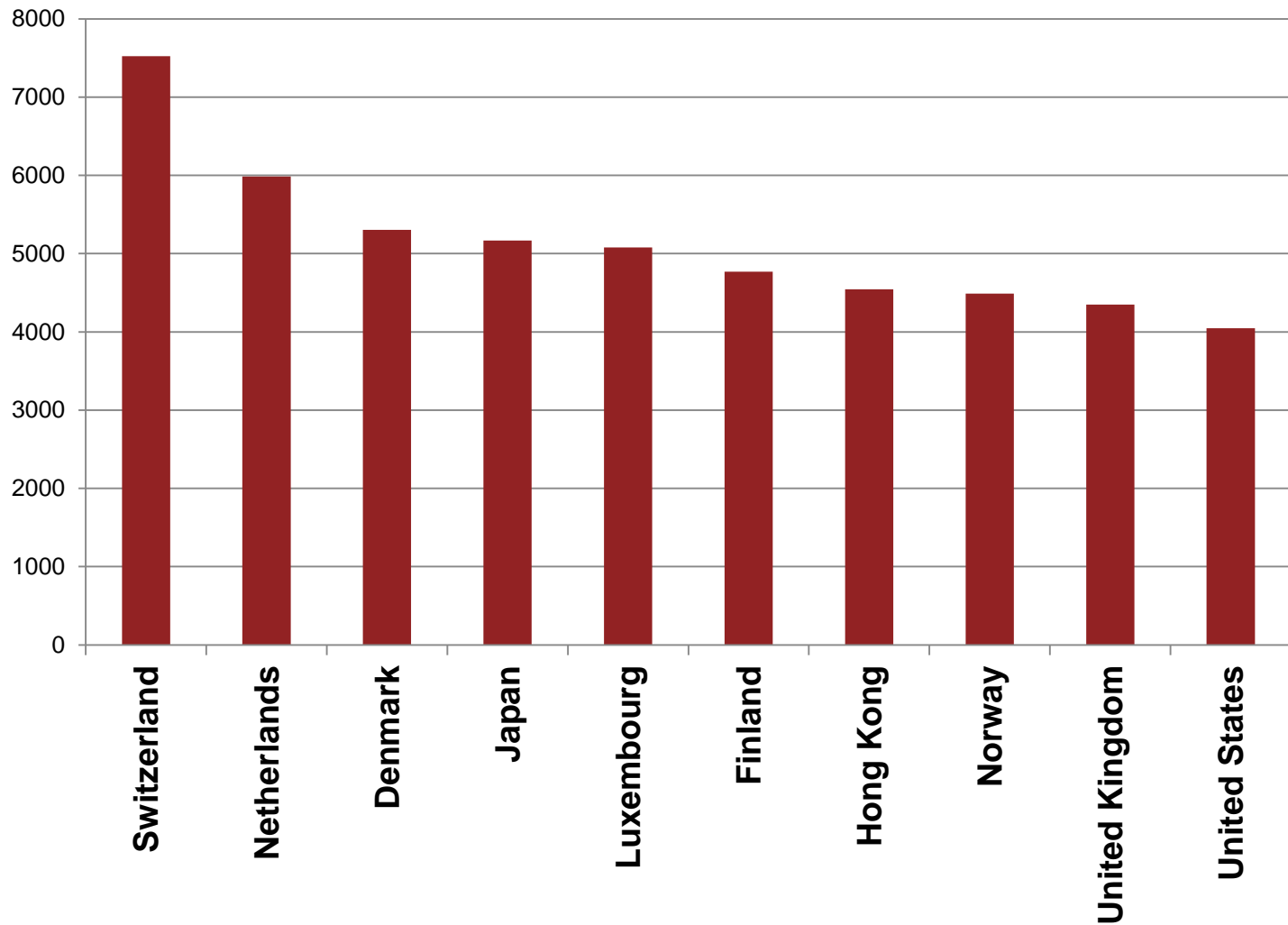


2012 Insurance Penetration (%)



Source: 2012 Swiss Re Sigma World Insurance Report

2012 Insurance Density (USD)



Q: What percentage of Japanese households had life insurance in 2012?

A) 95%

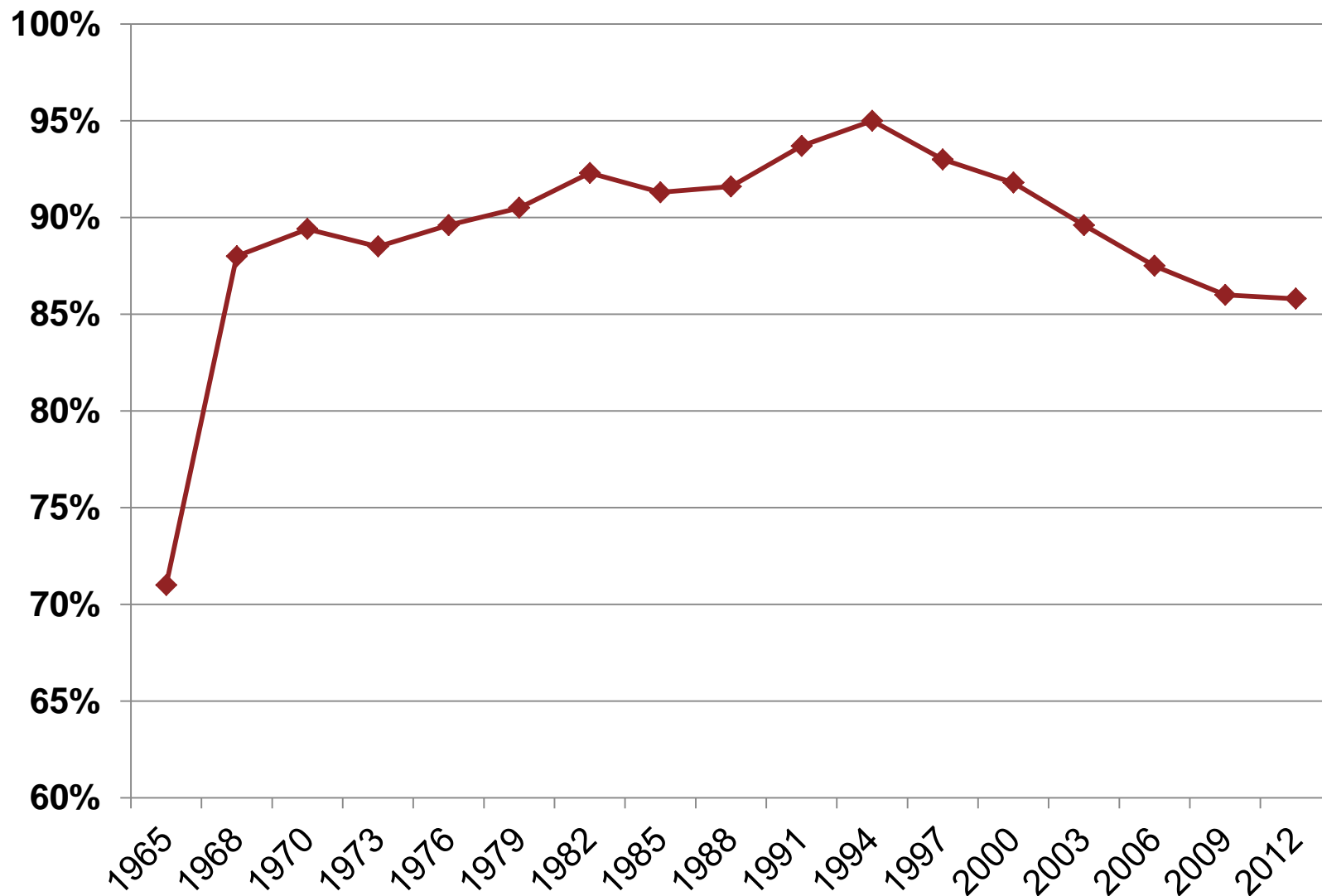
B) 85%

C) 75%

D) 65%

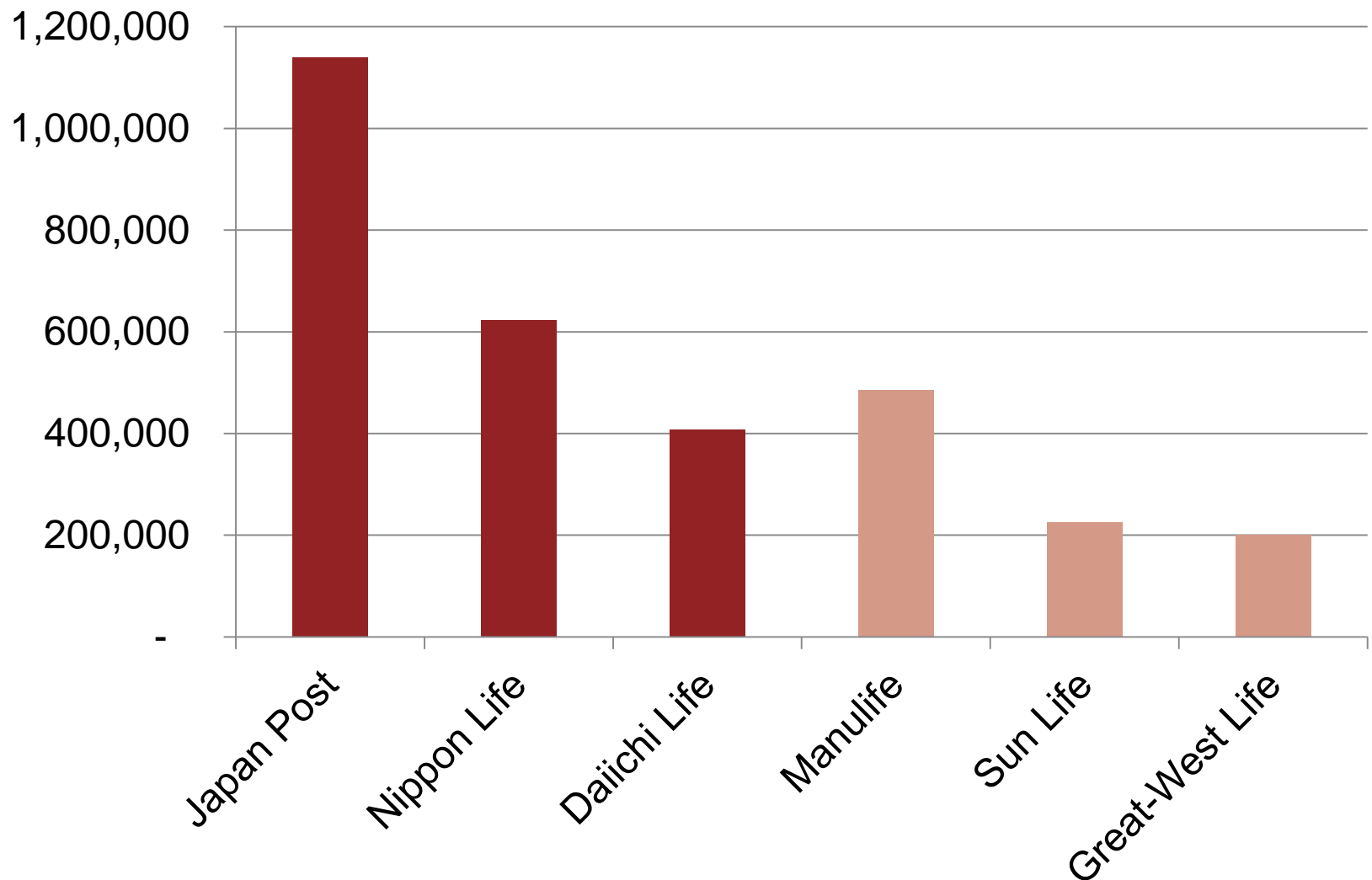


2012 Life Insurance Ownership (%)

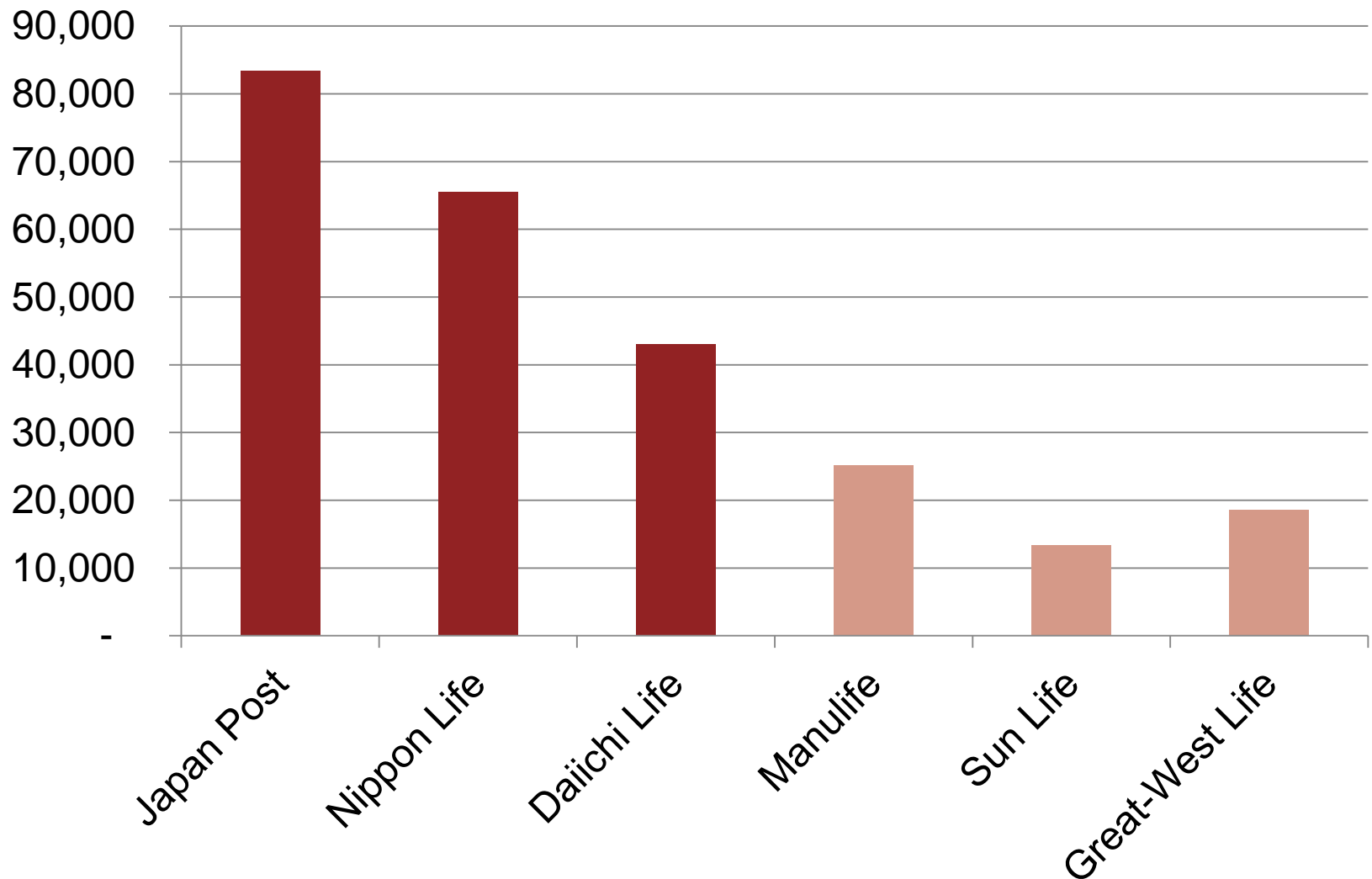


Source: 2013 LIAJ Report on Life Insurance Business in Japan

2012 Insurance Company Assets (Millions USD)



2012 Insurance Company Premiums (Millions USD)



Classifications of Insurance

First Sector

- Life Insurance, Annuity Products
- Business restricted to Life Insurance Companies

Second Sector

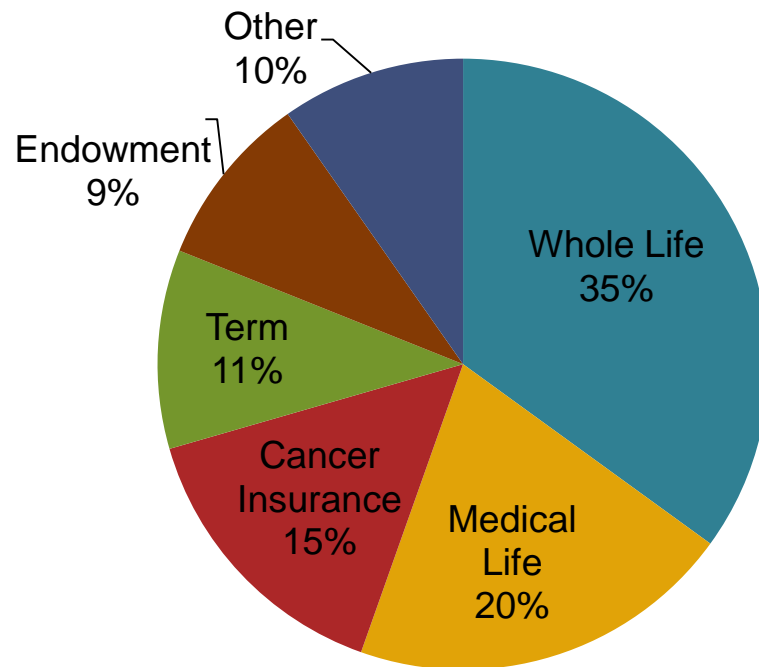
- Auto, Property, Fire Insurance etc.
- Business restricted to P&C Insurance Companies

Third Sector

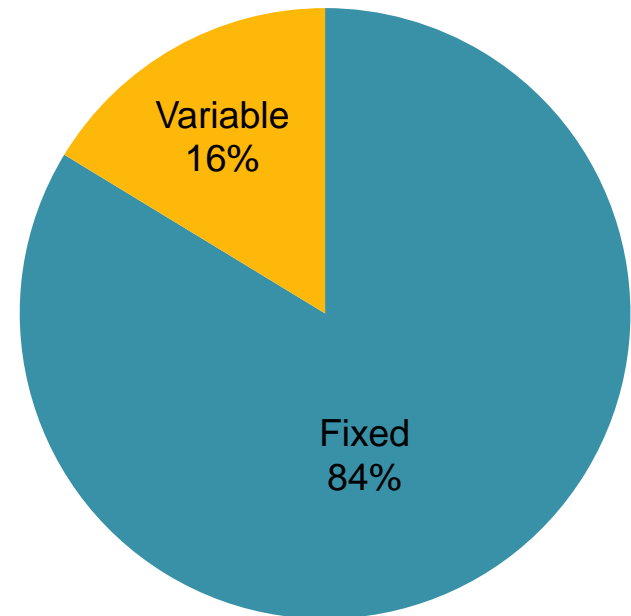
- Medical, LTC insurance
- Both Life and P&C companies may sell

First Sector Product Types

Individual Insurance



Individual Annuity



Japanese Economy



Q: What is Japan's biggest export?

A) Consumer Electronics

B) Motor Vehicles

C) Baseball Players

D) Robots

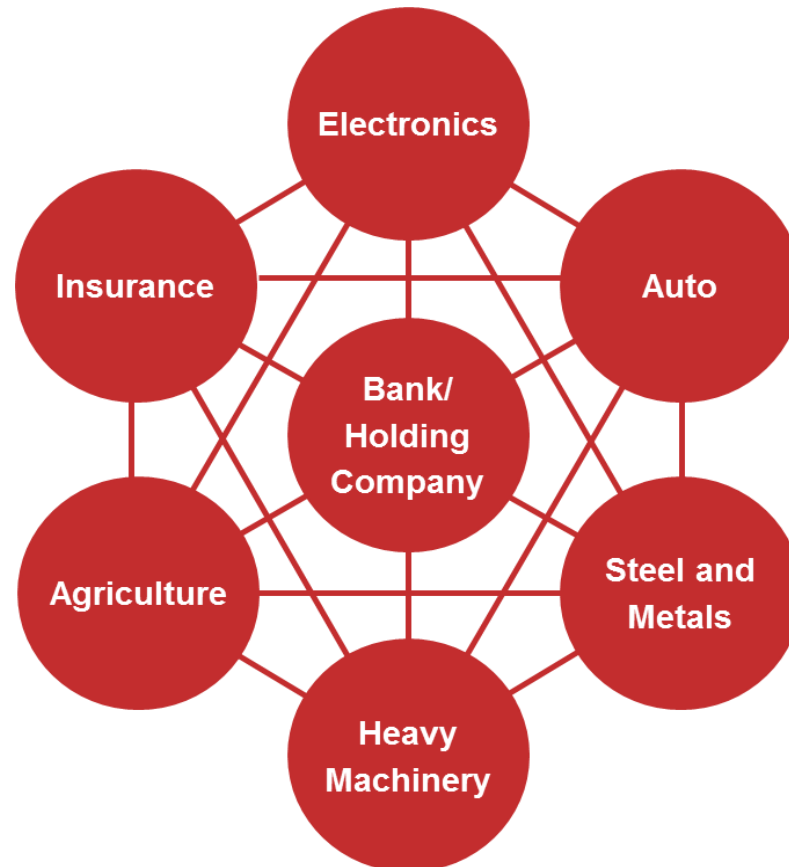


Postwar Period (1950's - 1970's)

- Heavy Industrialization
- Infrastructure Growth
- Liberalization of Trade
- Transition to Export Economy
- Democratization
- Emergence of the Keiretsu

Keiretsu

- Group of companies with interlocking dependent business relationships and ownership
- A bank is central to the structure



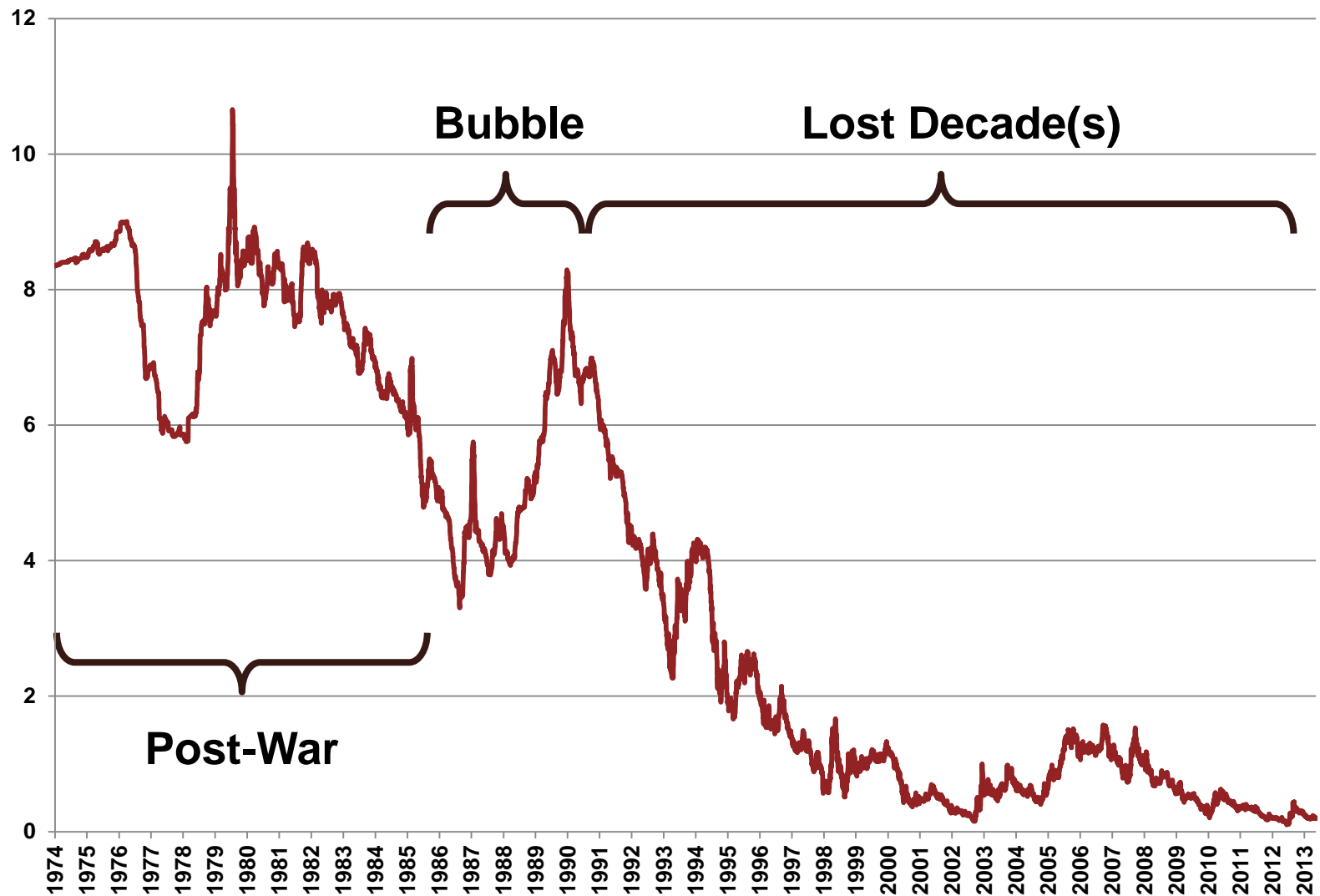
Bubble Economy (1980's)

- Asset prices skyrocketed
- Increased money supply
- Borrowing and speculation
- Delayed reaction by BOJ

Lost Decade(s) (1990's onwards)

- Gradual collapse of asset price bubbles and negative growth
- Bank and insurance failures
- Revision of finance law
- Growing Government debt
- Sustained decline in interest rates

JGB 5yr Historical Rates (%)



Source: Japan Ministry of Finance

Low Interest Rate Environment

- Two decades of declining interest rates
- Poor equity returns during the same period
- Life market dominated by long-term products with high guaranteed returns
- Under-developed ALM (asset duration too short)
- Led to the “negative spread” problem and structural changes in the industry

1996 Standard Valuation Law

- New reserve regime required NLP reserves
- Discount rates based on 10yr JGB rates
- Guaranteed rates peaked around 6% while discount rates now 2.75% caused increased reserves
- Resulted in guaranteed rates coming down to currently less than 2%
- Introduction of cash flow testing

Improved ALM

- Increase in asset duration
- Increase in domestic fixed income, especially JGBs
- Improved internal modeling/stress testing

Market Trends

- Move to shorter term products
- Focus on mortality and morbidity margins, especially 3rd sector
- ~~• Growth in variable annuities~~
- Foreign return-linked products
- Expansion outside of Japan

Working in Japan



Q: What is the meaning of the word
“Sumimasen”?

A) “Excuse me!”

B) “Yes Please!”

C) “I’m Sorry!”

D) “Thank You!”

E) All of the Above!



Unique Work Culture

- Communication barriers (High/Low context)
- Decision by Consensus
- Harmony (Never say “no”)
- Relationship building
- Group dynamic

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