3 The Japanese Insurance Market and Companies: Recent Trends

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3.1 INTRODUCTION

Although the Japanese insurance market in the 1990s was sluggish, it is still the second largest, only behind the U.S. market. According to Swiss Re (2004), U.S. total premium volume (including life and non-life insurance) in 2003 was 1,055 billion U.S. dollars, followed by Japan with $478 billion, the United Kingdom with $247 billion, and Germany with $171 billion.106

Although foreign insurers were eager to enter the Japanese insurance market and foreign governments strongly demanded the Japanese government to deregulate the markets, it was hard for foreign insurers to do so because of entry restrictions and the opposition of Japanese business groups, Keiretsu. However, foreign companies now can obtain nationwide sales networks by purchasing failed insurers. Contrary to the Japanese insurance market before the 1990s, foreign insurers have increased their market share substantially and play an important role in the Japanese insurance market. This is because the stagnant economy deteriorates financial conditions of traditional insurers and forces Japanese customers to seek financially sound companies.

Also, the ban on the entry of domestic insurers into the third-sector insurance markets was completely removed in July 2001, and the government reinsurance scheme for compulsory automobile insurance was abandoned in April 2002.107

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106 The premium volume for the European Union (EU), consisting of 25 countries, was $947 billion. Therefore, if we regard the EU as one market, Japan is the third largest insurance market.

107 As the life insurance and non-life insurance markets are defined as the first and second markets in Japan, the third-sector insurance market occupies a boundary market between life and non-life insurance markets, such as cancer insurance and medical expense insurance.
Insurers can now provide a wide range of insurance products and services, and competition in the insurance markets is getting more intense.

In sum, the Japanese insurance market has drastically changed since 1990, although there still remain several structural defects. Changes in the economic and financial environments have forced insurers to establish new business models. If a company fails to adjust to the new environment, it loses its market share and, at worst, goes bankrupt. Several big mergers, such as between Yasuda Life and Meiji Life, occurred to strengthen competitiveness.

The main purpose of this chapter is to explain not only how the Japanese insurance market and Japanese insurers have changed, but also why they have changed and, in some respects, have not changed. We also analyze several key aspects of the Japanese insurance market and Japanese insurers that make them unique.

The chapter is organized as follows. The Insurance Markets section describes the key structures of the Japanese insurance market as well as market environments. Because Japanese regulations strictly separated life insurance from non-life insurance businesses for a long time, it is easy to explain them separately. Thus, two sections are devoted to Life Insurers and Non-life Insurers. In the Other Insurance Providers section, we describe important insurance providers other than insurers: postal life insurance provided by the Public Post Agency (Japan Post) and Kyosai (a quasi-insurance provided by informal insurers, such as agricultural cooperatives). The importance of these providers is evidenced by the fact that 50 percent of Japanese households purchase postal life insurance and 15 percent purchase quasi-insurance from agricultural cooperatives. The Current Important Issues section explains two issues that make Japanese insurance markets unique. This section includes a discussion of public earthquake insurance and the resolution of failed insurers. This chapter’s structure will enable comparison of the Japanese insurance market with insurance markets in other countries.

3.2 INSURANCE MARKETS

3.2.1 Historical Background

Japan made the transition from feudalism to capitalism after the Meiji Restoration in 1868. Japanese leaders were eager to introduce various institutions and organizations from Western countries to construct a prosperous country. Yukichi Fukuzawa, a founder of Keio University, was the first person to introduce the concept of insurance to Japan. In 1881, Meiji Life was established as the first life insurance company in Japan by some of Fukuzawa’s students. Then, Teikoku Life and Nippon Life were established in 1888 and 1889, respectively. These three were stock companies. In 1902, Daiichi Life was established as the first mutual life insurance company. Initially, Japanese people hesitated to purchase death insurance because they felt that purchasers wanted the insured to die. Therefore, endowment insurance was a main product. Life insurance became popular, and the amount insured by life insurance was over 80 percent of gross domestic product (GDP) before World War II.