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# Current state of Japanese life insurance sector (2)

## *Risk-based approach to life insurance business in Japan*

### Part 2: Life insurance market trends

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#### Summary

- Japan's life insurance sector is adapting to risks exposed by structural changes in the domestic market.
- Japan's shrinking population and changing population mix are changing life insurance needs. A rise in new entrants, diversification of sales channels, and global regulatory changes are altering the competitive environment.
- The emerging risks insurers need to respond to include fewer opportunities to assume insurance underwriting risk, diversification of insurance underwriting risk, changes in the value chain and supply chain, and changes in methods for controlling investment risk.
- These conditions call for insurers to put increased focus on liability risks, clearly communicate such risks to stakeholders, and seek opportunities that help build corporate value.
- In short, life insurers need to identify which risks offer the opportunity to build corporate value or are necessary to carry out operations.
- In Part 2, we look at individual life insurance, examining trends over the past decade in the number and the face value of new and in-force policies and annualized insurance premiums, by insurance product and policyholder age.

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## II. Life Insurance Market Trends

### 1. Overall policy trends

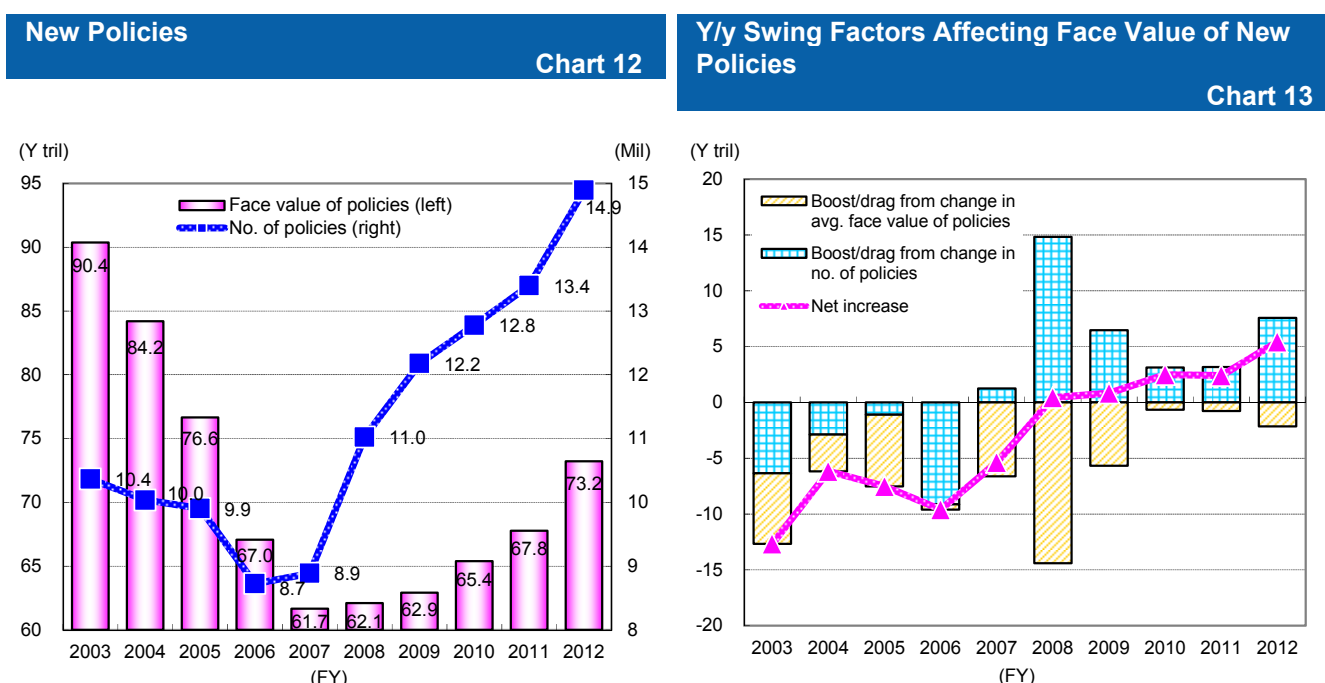
In recent years, the overall market for individual insurance (excl. annuities) has trended toward smaller and simpler products. The number of policies written has increased, while the average face value of policies (death benefit per policy) has declined. Growing demand for third-sector insurance such as medical/cancer insurance and a shift from large packages to combinations of simple insurance policies have boosted the number of policies, but also led to a decline in the average face value due to sluggish sales of life insurance offering death benefits.

#### (1) New policies<sup>1</sup>

The number of new individual insurance policies trended downward until FY06, but started rising in FY07. In FY12, the number of new policies was up 43.7% from the FY03 level (Chart 12).

The number of new policies fell from 10.36 million in FY03 to 8.72 million in FY06, partly because of the issue of insurers' non-payment or late payment of insurance claims. However, the number of new policies began recovering in FY07, and advanced 24.1% y/y to 11.02 million in FY08. Y/y growth continued for a further five straight years.

The rise owed largely to Japan Post Insurance<sup>2</sup> joining The Life Insurance Association of Japan. Japan Post Insurance policies contributed to the net increase. Japan Post Insurance also steadily gained new policies, while medical/cancer insurance and whole-life insurance continued to perform strongly. The latest survey (FY12) showed a sharp 11.2% y/y rise to 14.89 million new policies driven by strong sales of single-premium whole-life policies through banks and a marked change in product offerings at some companies (selling riders as separate products).



Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

<sup>1</sup> New policy figures do not include increases from policy conversions for either the number or value of policies.

<sup>2</sup> Japan Post Insurance was founded in September 2006 as Kamפו in preparation for the spin-off of the former Japan Post's life insurance unit. It adopted the current name in October 2007. Japan Post Insurance is included in life insurance statistics for FY07 onward.

The face value of new policies, though down 19.0% from the FY03 level in FY12, rose y/y every year from FY08. The average face value declined over the same period, while the number of new policies turned sharply up in FY08. Thereafter, the average face value contracted, and the number of new policies steadily climbed (Chart 13).

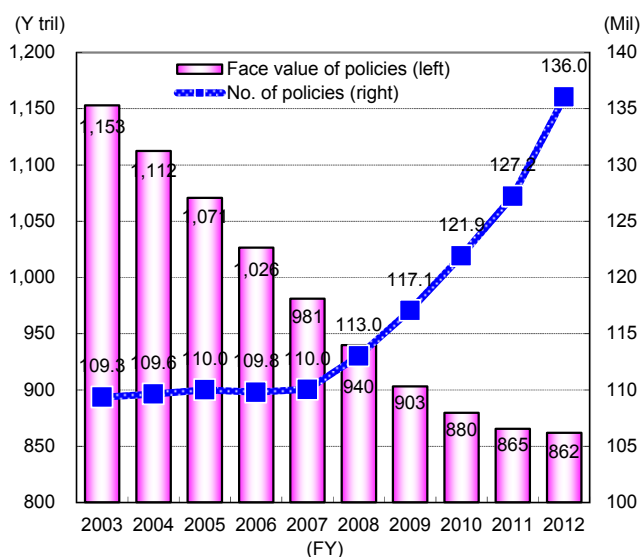
The ongoing contraction in average face value reveals a shift to low-value products in new policies written. By replacing existing policies, low value new policies have also likely led to a decline in the average face value of in-force business.

**(2) Policies in force**

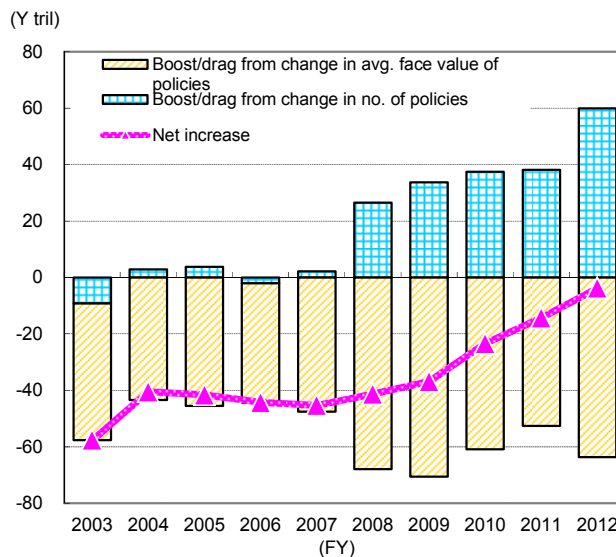
The number of policies in force was basically flat from FY03 through FY07, before rising for five straight years from FY08 on brisk sales of new policies (Chart 14). Over the past decade, medical/cancer policies have grown the most, followed by whole-life insurance. The face value of in-force business has continuously declined over the same period as a marked expansion of medical insurance coverage checked death insurance coverage. The face value of in-force business increased for whole-life policies and term policies, but not enough to offset a decline in whole-life policies with term riders.

The average face value of policies in force fell between FY03 and FY12, with the decline outpacing the rise in the number of policies in force. Recently however, sharp growth in the number of policies has offset the decline in average face value and stemmed the decline in the face value of in-force business (Chart 15). The Life Insurance Association of Japan reported the face value of policies in force was down 0.1% y/y to Y859 trillion as of end-November 2013, suggesting that the downtrend has stopped.

**Policies in Force** **Chart 14**



**Y/y Swing Factors Affecting Face Value of Policies in Force** **Chart 15**



Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

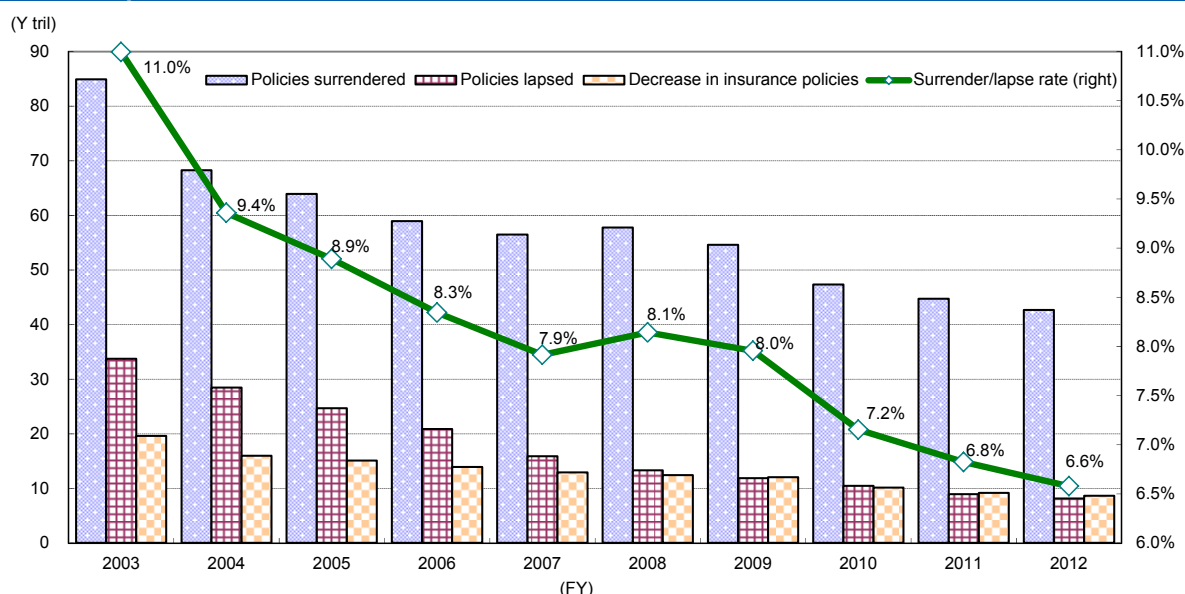
**(3) Policies surrendered/lapsed**

The policy surrender/lapse rate fell from 11.0% in FY03 to 6.6% in FY12 (Chart 16). The non-payment of benefits issue that engulfed the insurance sector from 2005 had little impact on policy surrenders/lapses. Surrendered/lapsed policies slightly increased at times, but steadily declined overall.

A decline in the surrender/lapse rate can significantly affect earnings. The early surrender of a policy results in significantly lower premium income than initially estimated. This could cause loadings to fail to cover expenses, eliminating expense savings.

Surrender/Lapse of Policies in Force

Chart 16



Note: Surrender/lapse rate = (surrendered/lapsed policies + decrease in insurance policies – reinstated policies – increase in insurance policies) / insurance policies at beginning of FY.

Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

## 2. Policies, by product and policyholder age group

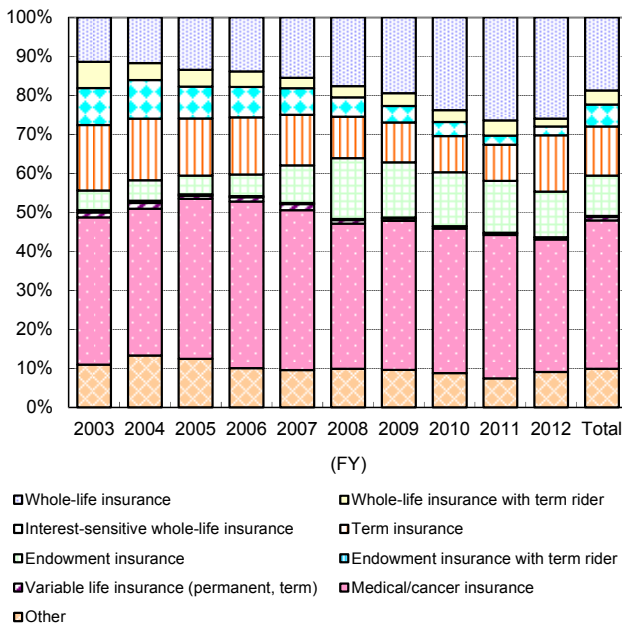
### (1) Life insurance policy trends by product (new policies)

Roughly 112.16 million new policies were written over the decade spanning FY03–12. As shown in Chart 17, most were medical/cancer insurance (38.0% of all policies), followed by whole-life insurance (18.8%), term insurance (12.6%), and endowment insurance (10.3%). In FY12, interest-sensitive whole-life insurance and whole-life insurance with a term rider accounted for only 5.6% and 3.6%, respectively, of new policies, and their new policy numbers were down 65.3% and 58.5%, respectively, from FY03.

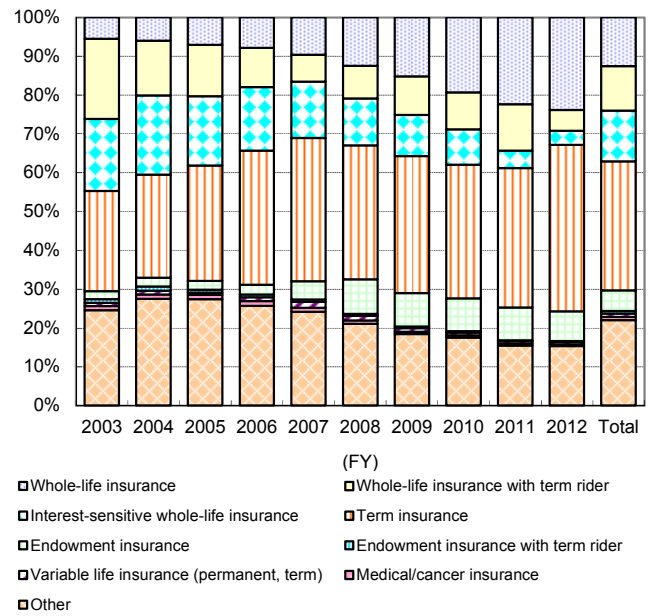
Thus, whole-life insurance with a term rider declined while separate whole-life insurance and term insurance grew. We think separate products gained popularity as policyholders sought better value products and the household mix changed. The prolonged low-interest rate environment apparently drove a decline in interest-sensitive whole-life insurance. The rise in the number of endowment policies likely owed to the entry of Japan Post Insurance into the private insurance market in FY07.

The face value of new policies over the decade spanning FY03–12 amounted to Y711.231 trillion (Chart 18). Term insurance accounted for most of this (33.2%), followed by other insurance (22.8%), interest-sensitive whole-life insurance (13.1%), whole-life insurance (12.6%), and whole-life insurance with a term rider (11.4%). Medical/cancer insurance, which accounted for more new policies than any other type in terms of the number of policies (38%), accounted for only 0.8% of the face value of new policies. Term insurance and whole-life insurance gained prominence. The face value of these policies decreased at times but generally rose. The face value of interest-sensitive whole-life insurance and term insurance plunged, falling 79.0% and 84.3%, respectively, between FY03 and FY12. In FY12, these policies each accounted for fewer than 10% of the total number of new policies, but just over 10% of the face value of new policies (charts 17, 18).

Share of No. of New Policies, by Type  
Chart 17



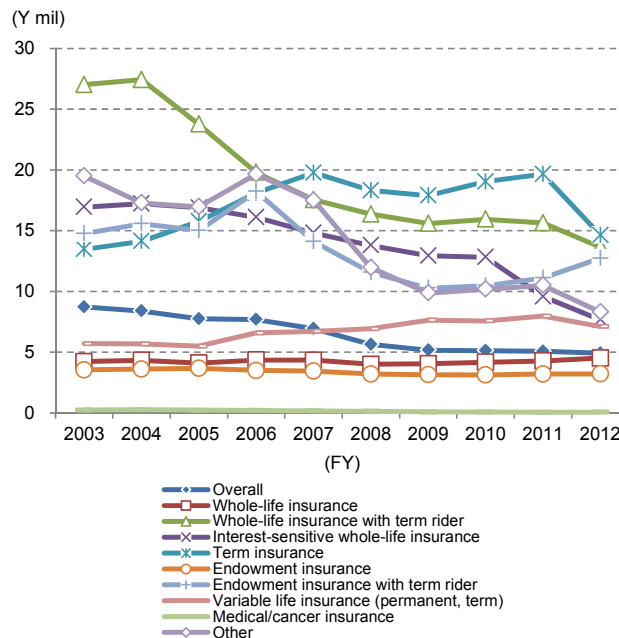
Share of Face Value of New Policies, by Type  
Chart 18



Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

The average face value of new term insurance policies has fluctuated over the past five years, but has not dropped below the FY03 level (Chart 19). The average face value of whole-life policies has risen over the past few years, with no obvious sign of a trend toward smaller policies. Such a trend was evident for interest-sensitive whole-life policies and whole-life policies with term riders, the average face values of which fell.

Average Face Value of New Policies  
Chart 19



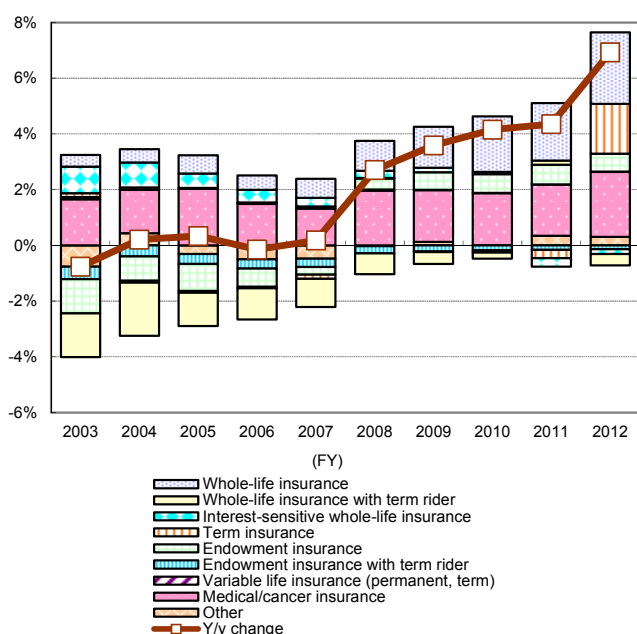
Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

## (2) Life insurance policies in force, by type

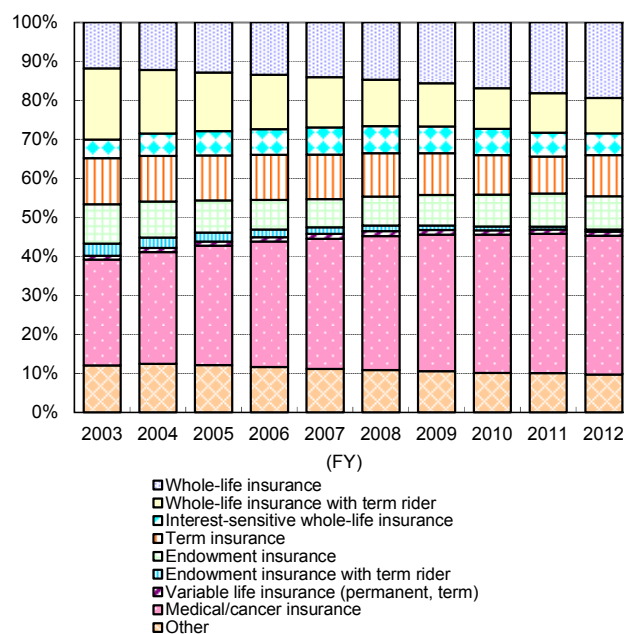
The number of individual policies in force grew 24.4% from 109.34 million in FY03 to 135.99 million in FY12 (Chart 14). Medical/cancer insurance made the greatest contribution to the increase (17.1 points), followed by whole-life insurance (12.3 points). Whole-life insurance with a term rider and endowment insurance with a term rider were a drag on growth, with negative contributions of 7.0 points and 2.4 points, respectively (Chart 20).

The proportion of medical/cancer insurance rose from 27.1% in FY03 to 35.5% in FY12 and whole-life insurance rose from 11.8% to 19.4%, while the proportion of whole-life insurance with a term rider plunged from 18.2% to 9.0% and endowment insurance with a term rider contracted from 3.1% to 0.6% (charts 20, 21). Growth in demand for medical insurance and a shift from packaged insurance to basic insurance was evident.

**Contribution to Y/y Change in No. of Policies in Force, by Type**  
Chart 20



**Share of No. of Policies in Force, by Type**  
Chart 21



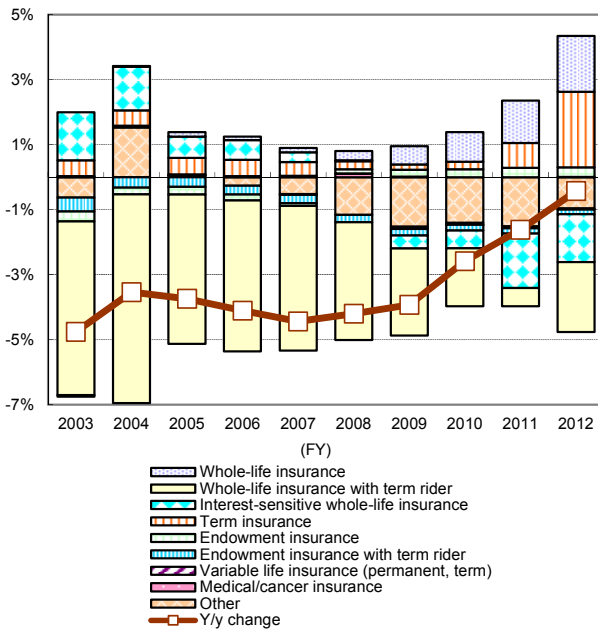
Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

The face value of policies in force demonstrated the same shift from large packages to simple policies (charts 22, 23). The proportion of whole-life insurance with a term rider halved from a considerable 44.7% in FY03 to 22.6% in FY12, while whole-life insurance rose from 7.7% to 15.8% and term insurance rose from 13.1% to 23.7%. Whole-life insurance with a term rider exerted a 27.8-point drag over the decade, while whole-life insurance and term insurance contributed a positive 4.1 points and 4.6 points, respectively. The share of medical/cancer insurance, which constituted a high proportion of the number of policies in force, was almost flat, slightly up from 0.7% in FY03 to 0.8% in FY12.

The average face value of term policies in force rose until FY12, when it declined. The average face value of endowment insurance and endowment insurance with a term rider was flat or rose slightly. Overall, the average face value of policies in force is declining, suggesting small policies are replacing large ones (Chart 24).

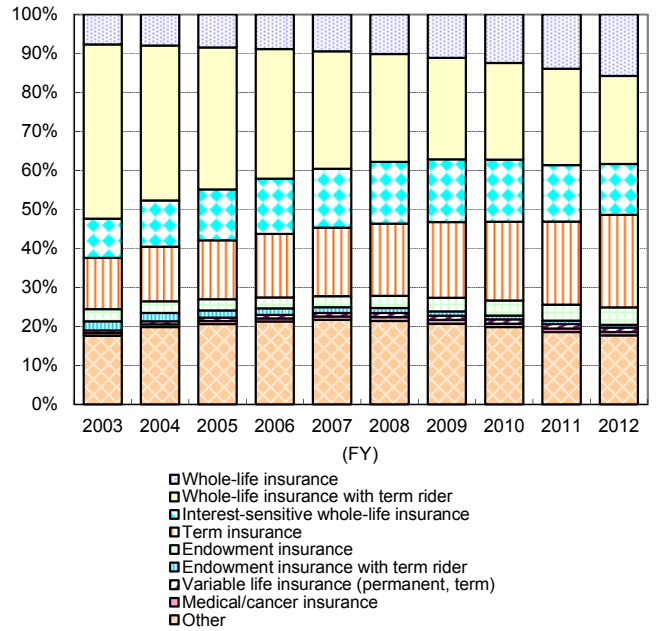
Contribution to Y/y Change in Face Value of Policies in Force, by Type

Chart 22



Share of Face Value of Policies in Force, by Type

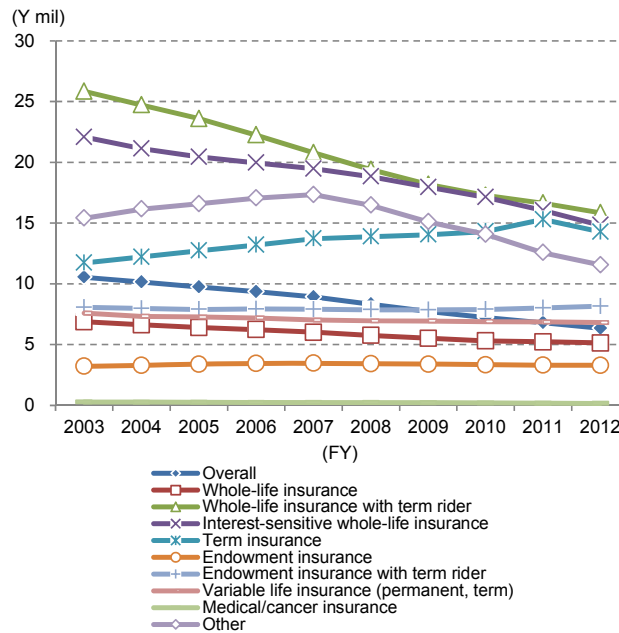
Chart 23



Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

Average Face Value of Policies in Force

Chart 24



Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

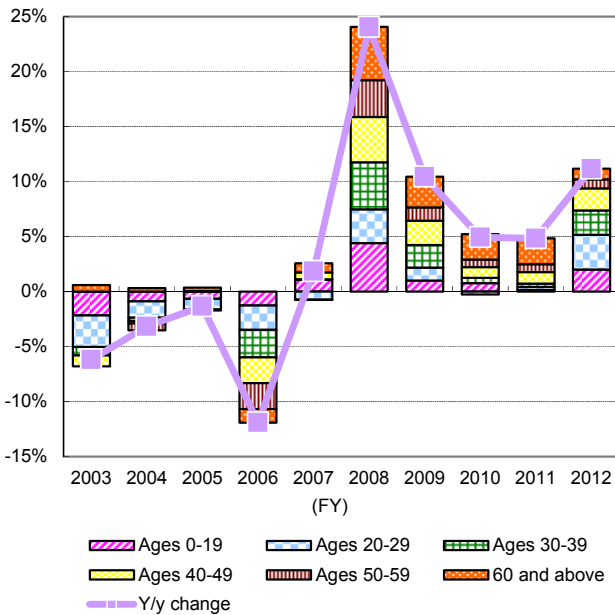
### (3) Policy trends by policyholder age

People in middle age or older, particularly those aged at least 60 years, comprise a rising proportion of those taking out new policies, in terms of both the number and face value of policies (charts 25–28). The proportion of the number of new policies taken out by people 60 years or older rose from 8.9% in FY03 to 16.9% in FY12, while the proportion taken out by those 29 years or younger fell from 39.4% to 32.2%. The proportion of the face value of new policies taken out by people 60 years or older rose from 2.6% to 10.4%, while that of those 29 years or younger fell from 43.9% to 29%.



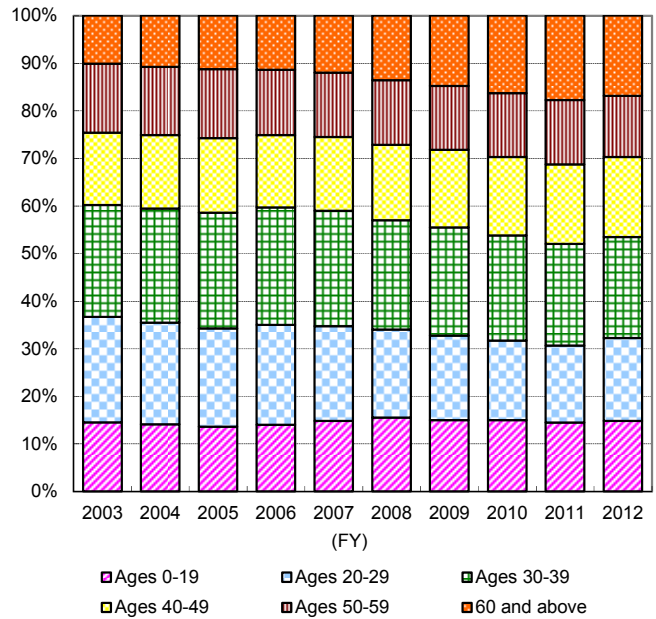
**Contribution to Y/y Change in No. of New Policies, by Policyholder Age**

**Chart 25**



**Share of New Policies, by Policyholder Age**

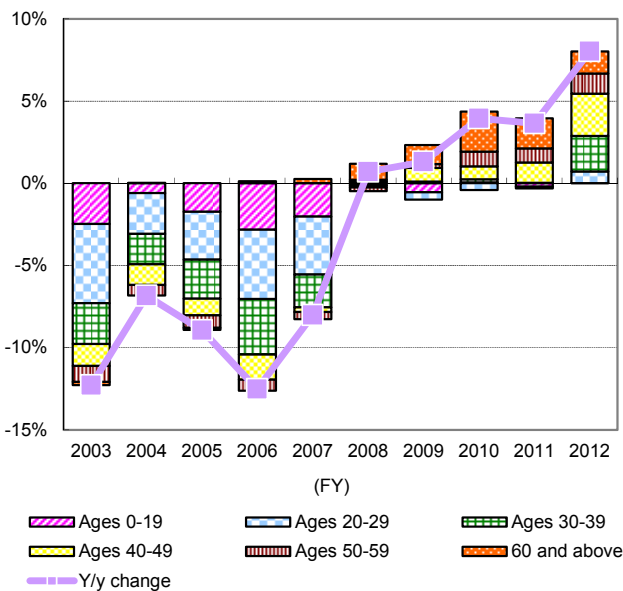
**Chart 26**



Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

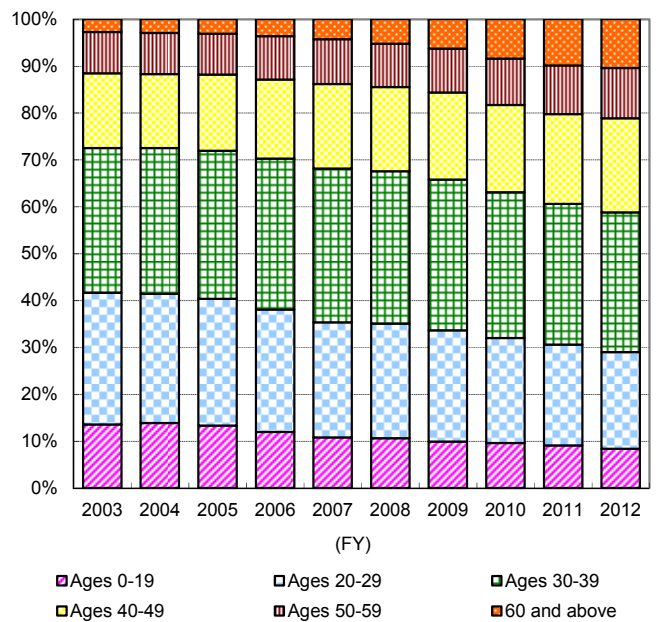
**Contribution to Y/y Change in Face Value of New Policies, by Policyholder Age**

**Chart 27**



**Share of Face Value of New Policies, by Policyholder Age**

**Chart 28**



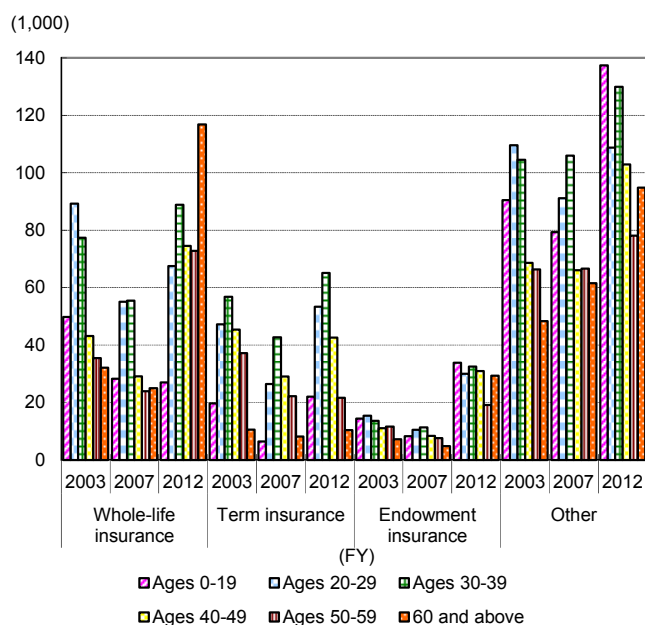
Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

Charts 29 and 30 show each policyholder age group's share of the number and face value of policies in the four broad types of individual insurance: whole-life, term, endowment, and other insurance. The proportion of whole-life policyholders aged 60 or over is particularly large and increased significantly between FY03 and FY12, rising from 9.5% to 26.1% (up 264.7% over the decade) in terms of the number of policies, and from 1.9% to 23.1% (up 484.8%) in terms of face value. The proportion of whole-life policyholders aged 29 years or younger declined from 40.2% to 21.1% (down 45.8%) in terms of the number of policies, and from 47.9% to 23.6% (down 79.1%) in terms of face value. The

impact of the expected increase of elderly people in the population mix has gradually started emerging in the life insurance market.

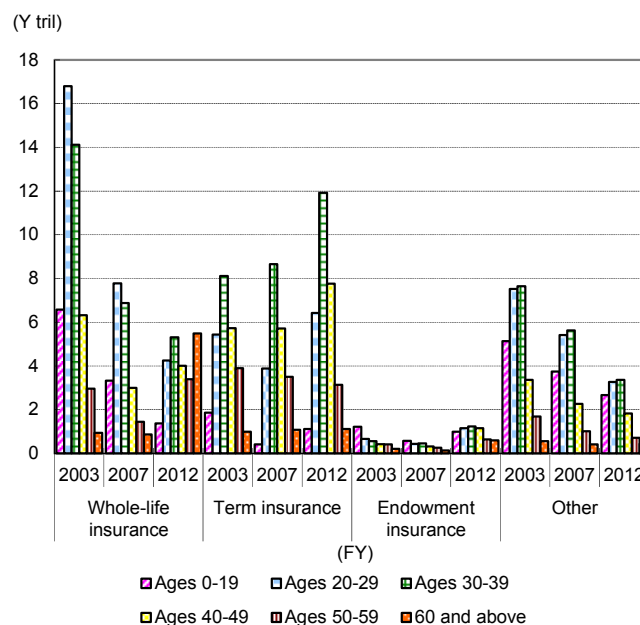
**No. of New Policies, by Type and Policyholder Age**

**Chart 29**



**Face Value of New Policies, by Type and Policyholder Age**

**Chart 30**



Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.

### 3. Annualized insurance premiums

The face value of individual new and in-force business discussed above is the total of death benefits only. It includes no other benefits. Third-sector insurance, which covers medical, nursing, and other risks policyholders face while alive, provides no, or only small, death benefits. Third-sector policies are underrepresented in the tallies of policy value. Annualized insurance premiums<sup>3</sup> are therefore widely used to supplement policy face value data (death benefits).

In recent years, the major difference between policy face value and annualized insurance premiums has been a sustained decline in the face value of policies in force in contrast with a sustained rise in annualized premiums. The high share of third-sector insurance in the number of policies is reflected in annualized premiums<sup>4</sup>.

Annualized premiums for new third-sector policies<sup>5</sup> are steady at around Y500 billion and just under 20% of all insurance policies (incl. individual annuities; Chart 31). While this suggests relative stability, growth slowed in FY08, and turned to contraction in FY12.

Third-sector insurance accounts for just over 20% of the annualized premiums of policies in force and has exceeded Y5 trillion since FY10 (Chart 32). However, growth peaked in FY11, and slowed in FY12.

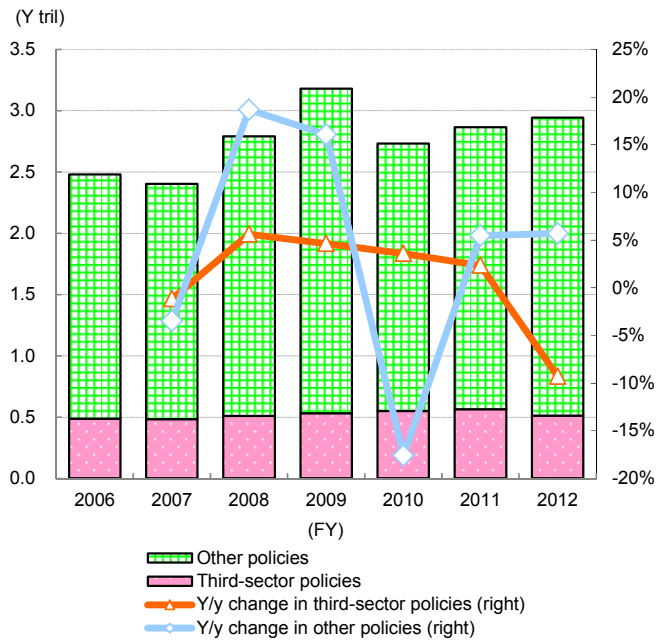
<sup>3</sup> Annualized premiums represent a single annual premium to standardize monthly, annual, or single-payment premiums.

<sup>4</sup> In this report, policy face value includes only individual insurance, not individual annuities. However, annualized insurance premiums include both individual insurance and individual annuities. This accounts for some of the difference between policy face value and annualized insurance premiums.

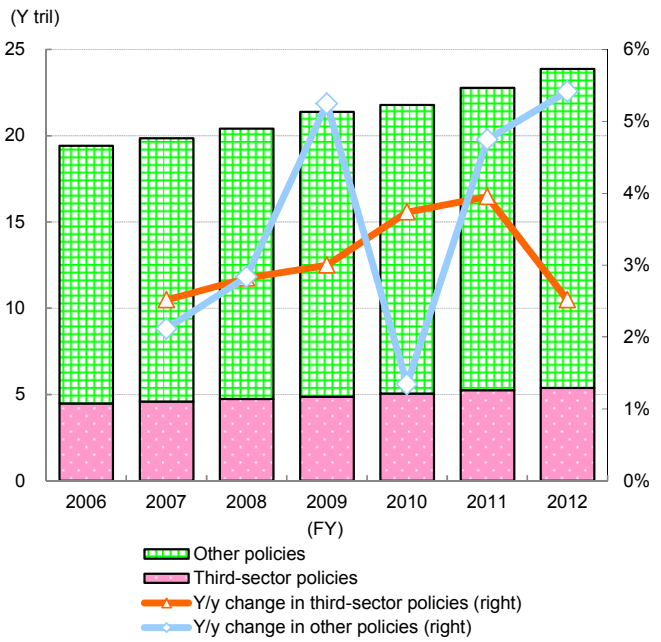
<sup>5</sup> Annualized premiums for new third-sector policies include net increase from policy conversions as well as new policies.

Third-sector insurance remains prominent in terms of annualized insurance premiums, but signs of sluggish growth have emerged in recent years.

**Annualized Premiums of New Policies**  
Chart 31



**Annualized Premiums of Policies in Force**  
Chart 32



Note: "Other" insurance includes whole-life, term, and endowment insurance as well as individual annuities.

Source: The Life Insurance Association of Japan, *Summary of Life Insurance Business*; compiled by DIR.