

Summary of Life Insurance Business in Japan (Fiscal 2003)

1. Organizational Structure

The Life Insurance Association of Japan (LIAJ) represents all life insurance companies operating in Japan. During fiscal 2003, the number of member companies increased to 40 from the previous year of 42.

Also, the number of agents, the mainstay of distribution channels, began to fall after peaking at 440,000 in 1990, and decreased to around 270,000 in 2003. Meanwhile, given the further deregulation of sales of individual annuity by banks started from October 2002, the number of employees of agencies dramatically increased. Currently, the members of LIAJ consist of 33 stock companies, 7 mutual companies. In 1960, there were only 4 stock companies registered as members. This recent increase in the number of member stock companies is mainly attributed to the enforcement of the Revised Insurance Business Law in April 1996, which approved the non life insurance companies' entry into life insurance market by a subsidiary stock company, and the conversion of a mutual insurance company into a stock insurance company.

Table 1. Organizational Structure

Fiscal Year	Number of Member Companies	Agent, Agency		
		Agent (thousand)	Agency (thousand)	No. of Employees of Agencies (thousand)
1960	20(4)	160	-	-
1970	20(4)	318	-	-
1980	22(6)	306	-	-
1990	30(14)	444	-	-
1999	47(32)	336	187	204
2000	47(33)	315	182	232
2001	44(32)	302	145	296
2002	42(34)	284	139	693
2003	40(33)	268	130	714

(Notes) The numbers in brackets are the number of stock companies in member companies

2. Balance Sheet

At the end of 2003, the amount of assets held by member life insurers increased by 2.5 % from the previous year to ¥184 trillion (or roughly \$1744 billion), increased for the first time in three years. Because new businesses were written at the same levels at which business were cancelled or lapsed, liabilities showed a slight decline of 7.3%. While liability reserves slightly increased by 0.7 % from the previous year due to the recovery of stock market, as a result, there was 303 billion yen (or roughly ¥ 2.8 billion) buildup in price fluctuation reserves. The capital increased by 62.1 % to ¥ 9 trillion (or roughly \$85 billion).

YEN/US Dollar=¥105.64 (as of the end of March 2004) is applied to translation into dollar-denominated prices.

Table 2. Balance Sheet

(billion ¥)

Fiscal Year	Assets		Liabilities			Capital
	Total	% of Nominal GDP	Total	Liability Reserves	Price Fluctuation Reserves	Total
1960	752	4.5	710	628	0	41
1970	5,854	7.8	5,567	5,070	0	287
1980	26,257	10.7	24,689	22,019	-	1,568
1990	131,618	29.7	126,595	118,032	-	3,655
1999	190,032	37.0	185,610	168,103	707	4,422
2000	191,730	37.6	185,673	166,857	783	6,057
2001	184,370	36.6	177,299	161,221	603	7,071
2002	179,831	36.1	174,276	159,649	467	5,554
2003	184,329	36.8	161,484	160,714	770	9,003
G.R. (%)	2.5	0.7	- 7.3	0.7	303	62.1

3. Asset Distribution

At the end of 2003, assets held by life insurers amounted to \$184 trillion (or roughly \$1741 billion), Securities, the largest component of assets, amounted to ¥ 120.457 trillion (or roughly \$ 1140 billion), which accounted for 65 percent of total assets.

Loans were the second largest component, and amounted to ¥41.720 trillion (or roughly \$394 billion), which accounted for 23 percent of total assets.

With the regard to securities holdings, the percentage of domestic stock accounted for 11.6 percent, and exceeded corporate bonds of 10.2 percent. As interest rate remained low, insurers have invested their assets in various foreign securities, the percentage of foreign securities holdings was a record high of 18.3 percent. Reflecting weak corporate demand for funds, loans decreased to 22.6 percent, which was a further decline from the previous year.

Table 3. Asset Distribution

(billion ¥, %)

Fiscal Year	Total Assets	Securities							
		Total	Government Bonds	Corporate Bonds	Stocks	Total	Foreign Securities		
							Government Bonds	Corporate Bonds	Stocks
1960	752	185	0.2	10	171				
1970	5,854	1,274	33	85	1,145	0.2			
1980	26,257	7,976	604	1,422	4,520	668	426	173	28
1990	131,618	58,887	4,961	5,257	28,916	17,199	6,470	4,960	3,763
1999	190,032	104,993	29,767	15,329	28,434	22,032	8,030	7,475	4,614
2000	191,730	110,414	31,779	17,819	29,467	21,910	6,519	8,530	4,135
2001	184,370	111,020	32,832	17,926	24,707	26,419	7,308	12,287	3,635
2002	179,831	110,494	34,809	19,217	17,228	28,965	8,609	14,317	2,682
2003	184,329	120,457 <65.3>	35,524 <19.3>	18,877 <10.2>	21,362 <11.6>	33,789 <18.3>	11,936 <6.5>	15,467 <8.4>	2,787 <1.5>

Figure shown in < > is a ratio to aggregate assets

(Continued from above table)

Fiscal Year	Total	Loans		Cash Reserves + Call Loans	Real Estates
		Policy Loans	Financial Loans		
1960	463	56		19	75
1970	3,928	393		94	516
1980	15,685	1,117		660	1,647
1990	49,894	3,219		8,161	7,186
1999	54,761	4,848	49,913	11,671	9,150
2000	49,997	4,844	45,152	10,257	8,158
2001	47,056	4,691	42,364	6,303	8,081
2002	44,468	4,559	39,908	5,388	7,593
2003	41,720 <22.6>	4,356 <2.4>	37,364 <20.3>	4,926 <2.7>	7,682 <4.2>

< Reference > (billion ¥, %)

Fiscal Year	Loans Abroad
1960	
1970	
1980	524
1990	6,345
1999	4,398
2000	4,085
2001	4,220
2002	3,668
2003	3,331 <1.8>

4 . Distribution of Life Insurers' Revenues and Expenditures

(1) Premium Income

Thanks to the good sales of individual insurance, premium income for fiscal 2003 increased by 1.8 percent from the previous year to ¥25.9608 trillion (or roughly \$245 billion).

Table 4. Premium Income

(billion

¥、 %)

Fiscal Year	Total of Premium Income	Individual Insurance	Individual Annuity	Group Insurance	Group Annuity	Reinsurance
1960	255	242	0.0	12	-	-
1970	1,800	1,589	26	84	98	-
1980	8,226	6,596	66	694	814	6
1990	27,320	16,648	1,601	1,368	7,177	150
1999	27,607	16,675	2,134	1,375	6,912	128
2000	26,940	16,164	2,172	1,372	6,839	41
2001	26,185	15,671	2,135	1,356	6,631	31
2002	25,511	15,722	3,022	1,318	5,135	21
2003	25,960	14,867	4,638	1,296	4,870	16
G.R. (%)	1.8	- 5.4	53.5	- 1.7	- 5.2	- 23.8

(2) Life Insurers' Expenditures

Life insurers' payment under life insurance policies increased by 2.5 % from the previous year to ¥24.2445 trillion (or roughly \$229 billion). The result is attributed to the increase in repayment by 11.1 percent to ¥ 1 trillion (or roughly \$9 billion) even though the benefit payment decreased by 28.9 percent to ¥ 3.6 trillion (or roughly \$34 billion). Reflecting the cost-cutting efforts by every life insurer, operating expenses were ¥3.5706 trillion yen (or roughly \$33 billion), which is a decrease by 0.7 percent from a year ago.

Table 5. Expenditures

(billion ¥、 %)

Fiscal Year	Total	Payments under Life Insurance Contracts etc.			Addition to Reserves	Operating Expense
		Benefit Payment	Annuity Payments	Repayments		
1960	48	35	-	12	-	81
1970	572	351	4	214	-	465
1980	3,293	2,446		843	2,846	1,954
1990	12,785	8,462	277	3,999	13,149	4,202
1999	28,826	14,639	1,198	12,647	2,615	3,795
2000	25,051	12,622	1,274	10,885	2,551	3,809
2001	28,492	12,949	1,386	14,017	1,634	3,756
2002	23,648	12,478	1,470	9,339	2,297	3,595
2003	24,244	8,876	1,581	10,380	3,652	3,570
G.R. (%)	2.5	- 28.9	7.6	11.1	58.3	- 0.7

(3) Basic Profit

Despite harsh environment for sales and investing activities, the basic profit of life insurers slightly increased from the previous year to ¥ 2.1916 trillion yen (roughly \$20 billion) This is mainly attributed to companies' effort to curtail business expenditures.

Table 6. Basic Profit (billion ¥)

Fiscal Year	Basic Profit
1999	
2000	2,237
2001	2,259
2002	2,151
2003	2,191

5. Sales

(1) New Business and Business in Force

Because of continued shift in consumers' needs to medical and nursing insurance products from sizable life insurance products, new business written for individuals decreased by 4.8 percent in terms of number, or 16.0 percent in terms of amount. Accordingly, business in force at the end of fiscal 2003 (sum of individual insurance, individual annuity, group insurance) declined by 3.9 percent to ¥1609.2730 trillion (or roughly \$15233 billion).

Individual insurance, group insurance, and group annuity except for individual annuity declined from the previous year.

Table 7. Growth of New Business

Fiscal Year	New Business				
	Individual Insurance		Individual Annuity		Group Insurance
	Number (million)	Amount (billion ¥)	Number (thousand)	Amount (billion ¥)	Amount (billion ¥)
1960	6.5	1,913	1	(0.1)	134
1970	9.8	19,151	76	(11)	4,154
1980	12.1	80,020	168	(76)	6,938
1990	16.6	207,535	2,167	13,076	23,175
1999	12.4	134,278	815	3,215	8,951
2000	12.4	133,559	886	3,605	7,054
2001	14.1	128,098	511	1,910	16,603
2002	13.8	120,712	750	3,408	14,189
2003	13.1	101,381	1,113	5,199	13,797
G.R. (%)	- 4.8	- 16.0	48.4	52.6	- 2.8

(Note) For individual insurance and individual annuity, number includes ones after conversion, and amount includes net increase from conversion. As to amount of individual annuity, figures from 1960 through 1980 represent annual amount, and after 1990, figures show accumulated capital.

Table 8. Growth of Business in Force

Fiscal Year	Business in Force					Business in Force (Group Annuity)	
	Total Amount (billion ¥)	Individual Insurance	Individual Annuity	Group Insurance		Amount (billion ¥)	Number of Groups (thousand)
		Amount (billion ¥)	Amount (billion ¥)	Amount (billion ¥)	Number of Groups (thousand)		
1960	6,996	6,002	(0.1)	994	-	-	-
1970	78,262	60,674	(32)	17,556	-	222	-
1980	572,487	384,331	(160)	187,996	-	3,292	-
1990	1,605,337	1,092,117	41,790	471,430	-	31,439	-
1999	1,859,880	1,364,751	77,873	417,256	104	46,145	95
2000	1,802,073	1,311,992	74,096	415,985	93	44,807	90
2001	1,734,211	1,255,623	69,593	408,995	83	40,395	84
2002	1,675,181	1,210,245	68,276	396,658	73	37,360	74
2003	1,609,273	1,152,648	69,563	387,060	66	34,937	65
G.R. (%)	- 3.9	- 4.8	1.9	- 2.4	- 10.3	- 6.5	- 11.2

(Note) For Individual Annuity, figures from 1960 through 1980 represent annual amount, which is not included in total, and figures from 1990 represent the sum total of amount of accumulated capital before the start of annuity payments and amount of liability reserves of after the start of annuity payments.

(2) Business in Force and National Economy

Business in force per household and per person was ¥32.66 million (or roughly \$ 0.30 million), 12.69 million (or roughly \$0.12 million), respectively.

Table 9. Size of Business in Force

Fiscal Year	Business in Force / National Income (%)	Business in Force / Households (10 thousand ¥)	Business in Force / Population (10 thousand ¥)
1999	487	3,973	1,478
2000	473	3,800	1,429
2001	467	3,612	1,373
2002	452	3,444	1,315
2003	434	3,266	1,269

(Note) 1. Business in force represent total amount of policies in individual insurance, individual annuity and group insurance.

(3) Percentage of Types of Policies Written

Whole life-with-term insurance, the mainstay of individual life insurance accounted for some 45 percent of total business in force. Meanwhile, in terms of amount of new business written during fiscal 2003, the percentage of whole life-with-term insurance fell to 21 percent, whereas term insurance accounted for 26 percent. Adjustable interest rate funding whole life insurance accounted for 19 percent, which indicated that wider range of insurance policies had been purchased.

Table 10. Individual Insurance by Type (2003)

	Business in Force		New Business	
	Number (%)	Amount (%)	Number (%)	Amount (%)
Whole Life	11.8	7.7	11.4	5.5
Whole Life-with-Term	18.2	44.7	6.7	20.7
Adjustable Interest Rate Funding Whole Life	4.8	10.1	9.5	18.5
Term	11.8	13.1	16.7	25.8
Endowment	10.1	3.1	5.1	2.1
Endowment-with-Term	3.1	2.4	0.6	1.0
Variable	0.1	0.0	0.0	0.0
Others	40.1	18.9	50.0	26.4

6. Summary of Portfolio Investment

(1) Investment Income

As for the investment environment for fiscal 2003, despite the Bank of Japan's super-low interest rates policy and uncertainty of country's economic outlook, the rising stock prices by approximately 47 percent, and some other factors contributed to the increase in investment income and dividends by 11.5 percent from the previous year to ¥ 6.2925 trillion (or roughly \$ 59 billion), offsetting the decrease in profit for interest and dividend resulting from lowering interest rate.

(2) Investment Expenses

In fiscal 2003, the investment expenses decreased by 63.6 percent from the previous year to ¥ 1.6940 trillion yen (or roughly \$16 billion) since the devaluation losses on securities, mainly on stock, dropped sharply by 97.1 percent,

Table 11. Asset Management

(billion ¥)

Fiscal Year	End of Fiscal Year		Working Assets Income			Asset Management Cost		
	Nikkei 225 Average (¥)	Yen-to-Dollar Rate (¥)	Total	Interests and Dividends	Profit on Sales of Securities	Total	Losses on Sales of Securities	Devaluation Losses on Securities
1960	1,116	360	69	55	12	2	0	0.5
1970	2,523	360	447	408	32	88	3	7
1980	6,556	249.7	1,818	1,785	-	113	43	40
1990	29,980	157.6	11,304	7,041	3,653	3,550	1,964	1,125
1999	20,337	106.15	10,151	5,185	4,057	5,543	2,987	1,199
2000	12,999	123.90	5,873	4,347	1,347	2,597	730	446
2001	11,024	133.25	5,736	4,105	1,326	4,195	831	1,561
2002	7,972	120.20	5,644	3,970	1,283	4,660	909	1,877
2003	11,715	105.64	6,292	3,943	897	1,694	671	55
G.R. (%)	47	14.56 appreciation of yen	11.5	- 0.7	- 30.1	-63.6	- 26.2	- 97.1

(Note) Figure of Nikkei 225 Average and YEN/DOLLAR Rate are as of the end of March.

(3) Income on Invested Assets Held in the General Account

Despite low interest rate, rising stock prices contributed to reducing devaluation losses, and investment yield on assets held in the general account increased 0.79 points from the previous year to 1.94 percent.

Table 12. Yield on Working Assets in General Account

Fiscal Year	Total (%)	Yield on Working Assets in General Account		
		Bond (%)	Stock (%)	Foreign Securities (%)
1960	8.74	-	-	-
1970	7.94	-	8.30	-
1980	7.56	8.08	3.94	11.05
1990	6.42	5.08	10.26	6.44
1999	2.31	2.63	6.23	- 2.69
2000	2.15	2.58	2.44	2.46
2001	1.31	2.38	- 5.14	4.51
2002	1.15	2.60	- 9.58	4.12
2003	1.94	1.70	0.84	2.76
G.R. (%)	0.79	- 0.9	10.42	- 1.36

(Note) Yield on working assets in general account= (working assets income-asset management cost + appraisal profit*)/ average daily balance of working assets in general account × 100 (%)

Appraisal profit referred to here is set forth in Section 112 of the Insurance Business Law.