

Summary of Life Insurance Business in Japan

(Fiscal 2004)

A. Industry Overview

The Life Insurance Association of Japan (LIAJ) is a trade association of which the membership is made up of all life insurance companies operating in Japan. As of the end of fiscal 2004 (the end of March 2005), the number of LIAJ member companies was 39, a decrease of one company from the previous fiscal year.

With regard to distribution channels, although sales agents have long been the linchpin of the life insurance sales activities in Japan, they continue to fall in number, to around 260 thousand in 2004, after peaking at approximately 440 thousand in 1990. Meanwhile, the number of agency employees has been on the rise since its growth in 2002, when Japanese banks started selling individual annuity products in October of the same year.

The number of stock companies has almost doubled over the past decade, contrasting starkly to the 1960s where only four stock companies were registered with the LIAJ. This surge can be mainly attributed to the drastic revision to the Insurance Business Law (IBL), which came into effect in April 1996.

As the revised IBL included the introduction of a demutualization scheme which allows a mutual insurance company to be converted into a stock insurance company, it prompted several existing mutual companies to demutualize. Also the removal of the ban on the reciprocal entry between two insurance sectors paved the way for non-life insurance companies to newly join the life insurance market by means of establishing a subsidiary stock company (or vice versa). With the gradual participation of foreign life insurance companies as another factor, all the above changes have contributed to the increase in the number of stock companies¹.

Table 1. Industry Overview

Fiscal Year	LIAJ Member Companies	Sales Agents/Agencies (in thousand)		
		Agents	Agencies	Agency Employees
1960	20 (4) ^a	160	-	-
1970	20 (4)	318	-	-
1980	22 (6)	306	-	-
1990	30 (14)	444	-	-
2000	47 (33)	315	182	232
2001	44 (32)	302	145	296
2002	42 (34)	284	139	693
2003	40 (33)	268	130	713
2004	39 (33)	263	124	721

^a Numbers in parentheses are those of stock companies.

¹ As of 1 October 2005, the Association has a total membership of 38 companies, comprised of 32 stock companies and 6 mutual companies.

B. Balance Sheet

At the end of fiscal 2004, the assets held by all life insurers operating in Japan amounted to ¥191 trillion (or roughly \$1.79 trillion)², an increase of 3.9 percent from the previous fiscal year.

Liabilities expanded by 3.5 percent as a result of the buildup of liability reserves (a 3.1 percent increase), other reserves and other liabilities. Following the recovery of stock prices in particular, price fluctuation reserves were built up substantially, adding ¥236.8 billion (\$2.2 billion) to the prior year's ¥770 billion (\$7.2 billion) and topping ¥1 trillion (\$9.41 billion).

The total capital held by all member life insurers has surpassed ¥10 trillion (\$94 billion) with a significant increase of 12.0 percent from the previous fiscal year.

Table 2. Balance Sheet of Member Companies as a Whole³ (billion ¥)

Fiscal Year	Assets		Liabilities			Capital
	Total	Nominal GDP(%)	Total ^a	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	127,939	118,032	-	3,679
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	36.7	175,326	160,714	770	9,003
2004	191,523	37.9	181,442	165,705	1,007	10,080
G.R.(%) ^b	3.9	1.2 points	3.5	3.1	30.7	12.0

^a The total amount of liabilities includes other liabilities not shown in the above table.

^b Hereinafter G.R. stands for growth rates from the previous fiscal year.

² The Yen/US Dollar currency rate at ¥106.97 (as of the end of March 2005) is applied to the translation of the dollar-based figures. Hereinafter all dollar-based figures in parentheses represent approximate values converted using this rate.

³ Rounding errors may be observed wherever percentages or total amounts are summed up.

C. Asset Distribution

Securities constitute the core component of the life insurers' total assets, accounting for about 69 percent at ¥131,834.7 billion (\$1,232 billion) out of overall assets of ¥191 trillion (\$1,790 billion). Loans, the second major component which account for 20 percent at ¥38.3573 trillion (\$358 billion), continue to fall short of the previous fiscal year in value, reflecting mainly weak corporate demand for funds.

With regard to securities holdings, the share of domestic stocks in the total assets (11.5 percent) has been on an upward trend, in contrast to the share of corporate bonds (9.5 percent) which has been shrinking slightly in recent years. As the domestic interest rate remains very low, insurers have been continuing global asset diversification and raised the portion of foreign securities holdings, which marked the largest share in fiscal 2004 with 19.1 percent, since industry-wide statistics began.

Table 3. Asset Distribution

(billion ¥, %)

Fiscal Year	Total Assets ^a	Total ^a	Securities						
			Domestic Securities			Subtotal ^a	Foreign Securities		
			JGB ^b	Corporate Bonds	Stocks		GB ^b	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
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	35,524	18,877	21,362	33,789	11,936	15,467	2,787
2004	191,523	131,834	41,931	18,275	22,070	36,534	10,736	18,156	2,930
		<68.8> ^c	<21.9>	<9.5>	<11.5>	<19.1>	<5.6>	<9.5>	<1.5>

(Continued from the 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
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	4,356	37,364	4,926	7,598
2004	38,357	4,168	34,188	4,335	7,332
	<20.0>	<2.2>	<17.9>	<2.3>	<3.8>

<Reference> (billion ¥, %)

Fiscal Year	Loans Abroad
1960	-
1970	-
1980	524
1990	6,345
2000	4,085
2001	4,220
2002	3,668
2003	3,331
2004	2,587
	<1.4>

^a The amount of total assets, total securities and subtotal of the foreign securities include other assets, securities and foreign securities respectively.

^b JGB and GB stand for Japanese government bonds and government bonds respectively.

^c Figures in angle brackets are the proportion of each asset to the total assets.

D. Distribution of Life Insurers' Revenues and Expenditures

1. Premium Income

Thanks mainly to the continuing brisk sales of individual annuity products, premium income for fiscal 2004 grew by 4.1 percent year-on-year to ¥27.022 trillion (\$252 billion).

Table 4. Total Premium Income (billion ¥, %)

Fiscal Year	Total Premium Income ⁴	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
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
2004	27,022	14,885	6,294	1,274	4,297	12
G.R.(%)	4.1	0.1	35.7	-1.7	-11.8	-25.0

2. Payments

The amount of life insurers' payment for insurance claims significantly reduced by 12.0 percent to ¥21.336 trillion (\$199 billion) in fiscal 2004. Although the total amount of payments for annuity and for reinsurance grew by 8.3 percent to ¥0.19 trillion (\$1.7 billion), a considerable decrease was confirmed in the total amount of payment for benefits and repayments, by 14.2 percent to ¥3.1 trillion (\$28.9 billion). As a result of the life insurers' persistent efforts for increased efficiency, operating expenses were held down at ¥3.567 trillion (\$33 billion), almost the same amount as in the previous year.

Table 5. Total Payments (billion ¥, %)

Fiscal Year	Total ⁴	Payments under Life Insurance Contracts			Addition to Reserves	Operating Expenses
		Benefits	Annuity	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
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	11,517	1,581	10,380	3,652	3,570
2004	21,336	10,188	1,659	8,605	5,756	3,567
G.R.(%)	-12.0	-11.5	4.9	-17.1	57.6	-0.1

3. Basic Profit

Despite the harsh environment for sales and investment activities, the basic profit, an indicator of a life insurer's basic earning capacity, demonstrated significant growth in fiscal 2004 to ¥2.462 trillion (\$23 billion) compared to the previous year. An increase in operating profit played a key role in this upturn.

Table 6. Basic Profit (billion ¥)

Fiscal Year	Basic Profit
2000	2,237
2001	2,259
2002	2,151
2003	2,191
2004	2,462

⁴ The total amount of Table 4 and Table 5 includes other premium income and other payments respectively.

E. Sales

1. New Business and Business in Force

Because of the continuing shift in consumers' demand to products highlighting especially medical and nursing benefits away from products with sizable death protection, new business written for individuals was down from fiscal 2003 both in terms of number (by 4.4 percent) and in terms of amount (by 10.1 percent).

Accordingly, the business in force (the sum of individual insurance, individual annuity and group insurance) at the end of fiscal 2004 shrank slightly by 2.5 percent to ¥1,568.662 trillion (\$14,664 billion) from the previous year. The business in force of individual insurance, group insurance, and group annuity also declined, while individual annuity continues to enjoy robust growth.

Table 7. New Business (Number: in thousand, Amount: in billion Yen)

Fiscal Year	New Business				
	Individual Insurance ^a		Individual Annuity ^a		Group Insurance
	Number	Amount	Number	Amount	Amount
1960	6,568	1,913	1	(0.1) ^b	134
1970	9,807	19,151	76	(11)	4,154
1980	12,135	80,020	168	(76)	6,938
1990	16,686	207,535	2,167	13,076	23,175
2000	12,430	133,559	886	3,605	7,054
2001	14,109	128,098	511	1,910	16,603
2002	13,830	120,712	750	3,408	14,189
2003	13,166	101,381	1,113	5,199	13,797
2004	12,592	91,159	1,369	7,467	10,165
G.R.(%)	-4.4	-10.1	22.9	43.6	-26.3

^a The number of contracts of both individual insurance and individual annuity includes converted contracts. The amount of the contracts of individual insurance and individual annuity reflects the net increase arising from the conversion accordingly.

^b As regards the amount of individual annuity, the figures in parentheses from 1960 through 1980 represent the annual annuity amount, and from 1990 onward, the amount shows the accumulated capital for annuity at the commencement of annuity payments.

Table 8. Business in Force (Number: in thousand, Amount: in billion Yen)

Fiscal Year	Business in Force						
	Total Amount (excluding Group Annuity)	Individual Insurance	Individual Annuity	Group Insurance		Group Annuity	
		Amount	Amount	Amount	Number	Amount	Number
1960	6,996	6,002	(0.1) ^a	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 ^b	471,430	-	31,439	-
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
2004	1,568,662	1,112,170	74,109	382,382	66	32,666	59
G.R. (%)	-2.5	-4.4	6.5	-1.2	-1.2	-6.5	-10.4

^a The figures of the individual annuity from 1960 through 1980 in parentheses represent the annual amount (not the accumulated amount) and are excluded from the total amount which is shown in *italics*.

^b The figures of the individual annuity from 1990 onward represent the sum of the accumulated capital at the commencement of annuity payments and the amount of liability reserves after the commencement of annuity payments.

2. Business in Force and the Domestic Economy

The amount of business in force per household and per person shrank slightly to ¥31.47 million (\$0.29 million) and to ¥12.36 million (\$0.12 million), respectively.

Table 9. Scale of Business in Force^a in the Domestic Economy

Fiscal Year	As a Percentage of National Income (%)	Per Household ^b (million ¥)	Per Capita ^c (million ¥)
2000	473	38.00	14.29
2001	467	36.12	13.73
2002	452	34.44	13.15
2003	434	32.66	12.69
2004	429	31.47	12.36

^a The "Business in force" represents the total amount of individual insurance, individual annuity and group insurance policies.

^b The number of households is based on the "Population Summary of the Basic Resident Registers" from the Japan Geographic Data Center (JGDC).

^c The data on population are taken from the Statistics Bureau of the Ministry of Internal Affairs and Communications (MIC).

3. Percentage of the Types of Policies

The whole life-with-term insurance has been the mainstay of individual life insurance sales, accounting for nearly 40 percent of the total business in force in terms of amount. However, in terms of the amount of new business written during fiscal 2004, its share plunged to 14 percent, whereas adjustable interest rate funding whole life insurance and term insurance products remain relatively firm with rising shares of approximately 20 percent and 27 percent respectively. These shifts suggest the preference of customers for diversifying types of insurance products.

Table 10. Individual Insurance Share by Type (Fiscal 2004) (%)

	Business in Force		New Business	
	Number	Amount	Number	Amount
Whole Life	12.3	8.0	11.8	6.1
Whole Life-with-Term	16.3	39.7	4.3	14.0
Adjustable Interest Rate Funding Whole Life	5.7	11.8	9.9	20.4
Term	11.7	14.0	15.8	26.6
Endowment	9.2	3.0	5.3	2.3
Endowment-with-Term	2.7	2.1	0.6	1.1
Variable	1.0	0.7	1.4	0.9
Others	41.1	20.7	50.9	28.6

F. Summary of Portfolio Investment

1. Investment Income

The investment climate in fiscal 2004 was epitomized by the continuing super-low interest rate policy of the Bank of Japan and general uncertainty about the country's economic prospects which are opaque and continue to fluctuate. The rallying trend of Japanese stock prices, which have remained almost within the same price range of the year before when a surge took place, pushed up the amount of payments for interests and dividends, with the lowering interest rate as another factor. However, investment income shrank by 13.5 percent from the previous year to ¥5.441 trillion (\$50 billion), due to a sharp drop in gain on the sales of securities and the asset investment profit in the special accounts.

2. Investment Expenses

In fiscal 2004, investment expenses largely diminished by 22.3 percent to ¥1.316 trillion (\$12 billion), since losses on the sales of securities, those of stocks in particular, were curtailed sharply by 32.7 percent from a year earlier.

Table 11. Asset Management

Fiscal Year	End of Fiscal Year (¥) ^a		Working Assets Income (billion ¥)			Asset Management Costs (billion ¥)		
	Nikkei 225 Average	Yen-to-Dollar Rate	Total ^b	Interests and Dividends	Profit on Sales of Securities	Total ^b	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
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
2004	11,668	106.97	5,441	4,005	736	1,316	451	63
G.R.(%)	-47 Yen	1.33 depreciation of Yen	-13.5	1.6	-17.9	-22.3	-32.7	15.9

^a Figures of Nikkei 225 Average and Yen/Dollar rate are as of the end of each fiscal year (the end of March).

^b The total amount of working assets income and asset management cost include other income and other costs respectively.

3. Income on Invested Assets Held in the General Account

Despite the ongoing tendency of extremely low interest rates, the investment yield on assets held in the general account rose slightly by 0.21 points to 2.15 percent in fiscal 2004 from the previous year, owing mainly to a substantial decrease in asset management costs and a large increase in the currency gain.

Table 12. Yields on Working Assets in General Account

Fiscal Year	Total ^a	Yields on Working Assets in the General Account ^b (%)		
		Bonds	Stocks	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
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
2004	2.15	1.56	3.75	3.03
Growth (point)	0.21	-0.14	2.91	0.27

^a The total amount of the yields on working assets includes the yields on other assets not shown in the table.

^b Yield on working assets in general account = (Working assets income - Asset management cost + Appraisal profit*) / Average daily balance of working assets in the general account x 100 (%).

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