

Summary of Life Insurance Business in Japan

(Fiscal 2005)

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 2005 (end of March 2006)¹, the number of LIAJ member companies stood at thirty-eight, a decrease of one company from the previous fiscal year.

With regard to distribution channels, tied sales agents have long been the linchpin of the life insurance sales activities in Japan. However, after peaking at approximately 440 thousand in 1990, the number of agents continued to shrink, and in 2005 fell slightly below 260 thousand. Meanwhile, the number of sales representatives at agencies has been on the rise since it sharply swelled more than twofold in 2002, when Japanese banks started selling individual annuity products subsequently to the partial lifting of the ban on bancassurance 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.

The removal of the prohibition on the reciprocal entry between two insurance sectors paved the way for non-life insurance companies to newly join the life insurance market through establishing a subsidiary stock company (or vice versa) as well. And the gradual penetration of foreign life insurance companies in the Japanese market was also another important factor for the increase in the number of stock companies.

Table 1. Industry Overview

Fiscal Year	LIAJ Member Companies	Number of Sales Force (in thousands)		
		Tied Agents	Agencies	Sales Reps at Agencies
1960	20 (4) ^a	160	-	-
1970	20 (4)	318	-	-
1980	22 (6)	306	-	-
1990	30 (14)	444	-	-
2001	44 (32)	302	145	296
2002	42 (34)	284	139	693
2003	40 (33)	268	130	713
2004	39 (33)	263	124	721
2005	38 (32)	259	122	747

^a Numbers in parentheses are those of stock companies.

¹ Hereinafter “Fiscal” or FY refer to a fiscal year beginning on the 1st day of April of the calendar year and ending on the 31st day of March of the next year.

B. Balance Sheet

At the end of FY2005, the assets held by all member life insurers in Japan amounted to about Y209 trillion (or roughly \$1.787 trillion)², an increase of 9.6 percent from the previous fiscal year.

Liabilities expanded by 7.1 percent as a result of the buildup of liability reserves (up 5.8 percent) as well as other reserves and other liabilities. Following the recovery of stock prices in particular, price fluctuation reserves were built up substantially, adding Y204.2 billion (\$1.7 billion) to the prior year's Y1,007 billion.

The total capital held by all member life insurers has surpassed Y15 trillion (\$131 billion), a spectacular increase of 53.7 percent from the previous period.

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

Fiscal Year	Assets		Liabilities			Capital
	Total	Nominal GDP(%)	Total ^b	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
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
2005	209,879	41.5	194,387	175,388	1,211	15,491
Growth	9.6%	3.6 percentage points	7.1%	5.8%	20.3%	53.7%

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

² Hereinafter Yen-based figures in the report are in principle round off, and dollar-based figures in parentheses represent approximate values converted using the Yen/US dollar currency rate at Y117.40 as of the end of March 2006.

³ As fractional figures in the tables are round off in terms of amount and round down in terms of percentage, rounding errors may be observed.

C. Asset Distribution

Securities constitute the core component of the life insurers' total assets, accounting for about 72 percent at Y150 trillion (\$1,284 billion) out of overall assets of Y209 trillion (\$1,787 billion). Loans, also a major component of the assets, further continue to fall short of the previous fiscal year in value, accounting for 17.5 percent at Y36 trillion (\$312 billion), which reflects mainly weak corporate demand for funds.

With regard to securities holdings, the share of domestic stocks in the total assets (14.7 percent) has been steadily on an upward trend, in contrast to the share of corporate bonds (8.7 percent) which has been shrinking slightly in recent years. As the domestic interest rate still remained very low, insurers have been continuing global asset diversification and the portion of foreign securities holdings occupied a relatively large share in FY2005 with 18.8 percent.

Table 3. Asset Distribution

(Y billion)

Fiscal Year	Total Assets ^c	Total ^c	Securities						
			Domestic Securities			Subtotal ^c	Foreign Securities		
			JGB ^d	Corporate Bonds	Stocks		GB ^d	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
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
2005	209,879	150,815	44,783	18,335	30,931	39,396	10,408	19,560	3,615
(%)		<71.9> ^e	<21.3>	<8.7>	<14.7>	<18.8>	<5.0>	<9.3>	<1.7>

(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
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
2005	36,728	4,027	32,700	5,484	6,834
(%)	<17.5>	<1.9>	<15.6>	<2.6>	<3.3>

<Reference> (Y billion)

Fiscal Year	Loans Abroad
1960	-
1970	-
1980	524
1990	6,345
2001	4,220
2002	3,668
2003	3,331
2004	2,587
2005	2,670
(%)	<1.3>

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

^d "JGB" and "GB" stand for Japanese government bonds and government bonds respectively.

^e Figures in angle brackets are the percentage of each asset to the total assets.

D. Distribution of Life Insurers' Revenues and Expenditures

1. Premium Income

Owing mainly to the continuing brisk sales of individual annuity products, premium income for FY2005 grew by 4.9 percent year-on-year to Y28.332 trillion (\$241 billion).

Table 4. Total Premium Income (Y 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
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
2005	28,332	15,072	7,584	1,264	4,151	14
GR(%) ⁵	4.9	1.3	20.5	-0.8	-3.4	16.0

2. Payments

The amount paid by life insurers in connection to life insurance business reduced by 3.8 percent to Y20.536 trillion (\$174 billion) in FY2005 because of a decrease in repayments including surrender value. While life insurers pursue efforts for increased efficiency, operating expenses slightly grew to Y3.667 trillion (\$31 billion) as a result of an increase in acquisition cost for new business.

Table 5. Total Payments (Y billion)

Fiscal Year	Total Payments 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
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
2005	20,536	10,222	1,767	7,551	9,149	3,667
GR(%)	-3.8	0.3	6.5	-12.2	59.0	2.8

3. Basic Profit⁶

Despite the still tough environment for sales and investment activities, the basic profit, which is a basic indicator of a life insurer's earning capacity during the period, demonstrated steady growth in FY2005 to Y2.668 trillion (\$22 billion). An increase in operating profit played a key role for the continuing rise.

Table 6. Basic Profit (Y billion)

Fiscal Year	Basic Profit
2001	2,259
2002	2,151
2003	2,191
2004	2,462
2005	2,668

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

⁵ Hereinafter "GR" stands for growth rates from the previous fiscal year.

⁶ Basic profit = operating profit - capital gain and loss (the sum of profit and loss on sales of securities + profit and loss from valuation of securities + exchange gain and loss, etc.) - nonrecurrent profit and loss (profits and losses from reinsurance, contingency reserves, etc.)

E. Sales

1. New Business and Business in Force⁷

Because of the continuing shift in consumers' demands toward products highlighting especially medical and nursing-care benefits away from products with sizable death protection, new business written for individuals was down from fiscal 2004 both in terms of number (by 3.1 percent) and amount (by 11.4 percent).

Accordingly, the business in force (the sum of individual insurance, individual annuity and group insurance) at the end of FY2005 shrank slightly by 2.4 percent to Y1,531 trillion (\$13,045 billion) from the previous year. The business in force of individual insurance, group insurance, and group annuity also continued to decline, while individual annuity keeps enjoying stable growth.

Table 7. New Business

(Number: in thousands, Amount: Y billion)

Fiscal Year	New Business				
	Individual Insurance ^f		Individual Annuity ^f		Group Insurance
	Number	Amount	Number	Amount	Amount
1960	6,568	1,913	1	(0.1) ^g	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
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
2005	12,208	80,753	1,547	8,621	7,796
GR(%)	-3.1	-11.4	13.0	15.5	-23.3

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

^g 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 thousands, Amount: Y billion)

Fiscal Year	Business in Force						
	Total Amount (excluding Group Annuity)	Individual Insurance	Individual Annuity	Group Insurance		Group Annuity	
		Amount	Amount	Number	Amount	Number	Amount
1960	6,996 ^h	6,002	(0.1) ^h	-	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 ⁱ	-	471,430	-	31,439
2001	1,734,211	1,255,623	69,593	83	408,995	84	40,395
2002	1,675,181	1,210,245	68,276	73	396,658	74	37,360
2003	1,609,273	1,152,648	69,563	66	387,060	65	34,937
2004	1,568,662	1,112,170	74,109	66	382,382	59	32,666
2005	1,531,582	1,070,570	80,416	64	380,595	51	32,744
GR(%)	-2.4	-3.7	8.5	-2.8	-0.5	-12.4	0.2

^h From 1960 through 1980, the figures of the individual annuity in parentheses represent the annual amount (not the accumulated amount) and are excluded from the total amount.

ⁱ 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.

⁷ The "New Business" represents the total of newly acquired insurance contracts and "Business in Force" represents the total amount of individual insurance, individual annuity and group insurance policies in force.

2. Business in Force and the Domestic Economy

The amount of business in force per household and per person slightly inched down to Y30.39 million (\$0.25 million) and to Y12.07 million (\$0.10 million), respectively in FY2005.

Table 9. Scale of Business in Force in the Domestic Economy (Y million)

Fiscal Year	Percentage of National Income (%)	Per Household ^k	Per Capita ^k
2001	481 ^j	36.12	13.73
2002	471	34.44	13.15
2003	449	32.66	12.69
2004	435	31.47	12.36
2005	417	30.39	12.07

^j From 2001 through 2004, due to a change in data resources, the figures for "Percentage of National Income," which had been presented in our past reports, are now replaced with updated ones accordingly.

^k The data on the number of households and on national population are taken from the "Basic Resident Registers FY2005" issued by 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, with the share of the business in force still accounting for approximately 36 percent in terms of amount.

However, as for the share of new business written during FY2005, the amount of Whole Life with Term Insurance slightly shrunk to around 13 percent. The amounts of new business of Adjustable Interest Rate Funding Whole Life Insurance slightly fell short of 18 percent and Term Insurance approached at 30 percent. These shifts suggest the changing preference of customers for diversifying types of insurance products.

Table 10. Individual Insurance Share by Type (FY2005) (%)

Type of Policies	Business in Force		New Business	
	Number	Amount	Number	Amount
Whole Life	12.9	8.5	13.5	7.1
Whole Life with Term	15.0	36.4	4.3	13.2
Adjustable Interest Rate Funding Whole Life	6.2	13.0	8.2	17.8
Term	11.6	15.1	14.6	29.7
Endowment	8.2	2.8	4.8	2.3
Endowment with Term	2.3	1.9	0.4	0.7
Variable	1.1	0.8	0.8	0.5
Others	42.7	21.5	53.4	28.7

F. Summary of Portfolio Investment

1. Investment Income

The investment climate in FY2005 was epitomized by clear signs of recovery of Japanese economy and significant upgrades in stock prices amid the ongoing super-low interest rate policy of the Bank of Japan. These factors pushed up significantly the amount of payments for interests and dividends mainly for securities. Meanwhile, investment income surged spectacularly by 50.4 percent from the previous year to Y8.185 trillion (\$69 billion), due to a rise in gain on the sales of securities and the asset investment profit in the special accounts.

2. Investment Expenses

In FY2005 investment expenses diminished by 5.3 percent to Y1.246 trillion (\$10 billion), since loss on the sales of securities, those of stocks in particular, were curtailed from a year earlier.

Table 11. Asset Management

(Y billion)

Fiscal Year	Working Assets Incomes			Asset Management Costs			Reference (Yen)	
	Total ¹	Interests and Dividends	Profit on Sales of Securities	Total ¹	Loss on Sales of Securities	Devaluation Loss on Securities	Nikkei 225 Average	Yen-to-Dollar Rate
1960	69	55	12	2	0	0.5	1,116	360
1970	447	408	32	88	3	7	2,523	360
1980	1,818	1,785	-	113	43	40	6,556	249.7
1990	11,304	7,041	3,653	3,550	1,964	1,125	29,980	157.6
2001	5,736	4,105	1,326	4,195	831	1,561	11,024	133.25
2002	5,644	3,970	1,283	4,660	909	1,877	7,972	120.20
2003	6,292	3,943	897	1,694	671	55	11,715	105.64
2004	5,441	4,005	736	1,316	451	63	11,668	106.97
2005	8,185	4,262	766	1,246	408	26	17,059	117.40
Growth	50.4%	6.4%	4.0%	-5.3%	-9.6%	-58.7%	5,391	10.43 (depreciation of Yen)

¹ The total amount of working assets income includes other relevant income and the total of asset management costs includes other relevant costs.

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 0.27 percentage points to 2.42 percent in FY2005 from the previous year, owing mainly to a substantial increase in the working asset income and a large decrease in the asset management costs.

Table 12. Yields on Working Assets in General Account (%)

Fiscal Year	Total ^m	Yields on Working Assets in the General Account ⁿ		
		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
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
2005	2.42	1.53	4.68	3.96
Growth (in percentage points)	0.27	-0.03	0.93	0.93

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

ⁿ 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.