

# 1. Overview of the Life Insurance Business in Japan in Fiscal 2007

## a) New Business including Converted Contracts

The number of contracts of new business for individual insurance has been in a downtrend after peaking in fiscal 1993 due to a significant decrease in the amount of death benefit products and the shrinking market size stemming from declining birth rate and aging population. The aftermath of the inappropriate handling of claims also affected the number of contracts of new business for individual insurance, and recorded 96.8 percent year-on-year\* in fiscal 2007. The amount of new business continued to decline to Y58,649 billion (86.3 percent y/y).

Following privatization and corporate division of former Japan Post (Corporation), JAPAN POST INSURANCE Co., Ltd. started its business operation in October 2007. Including JAPAN POST INSURANCE, the number and the amount of new business for individual insurance amounted to 11.31 million and Y60,284 billion respectively.

The number of contracts of new business for individual annuity had been in an upward trend since fiscal 2002, however this year the number and the amount for individual annuity decreased from the previous year to 1.45 million and Y8,023 billion (90.0 percent y/y) respectively. (Including JAPAN POST INSURANCE, the number and amount stood at 1.51 million and Y8,240 billion respectively.)

The new business written for group insurance has been in a downtrend since the traditional group term insurance was switched to general welfare group term insurance in fiscal 1997. This year the amount continued to slide down to Y5,046 billion (92.4 percent y/y).

**Table-1 New Business**

(Number: in ten thousands; Amount: Y billion)

Fiscal Year	New Business				
	Individual Insurance <sup>a</sup>		Individual Annuity <sup>a</sup>		Group Insurance
	Number	Amount	Number	Amount <sup>b</sup>	Amount
2003	1,316	101,381	111	5,199	13,797
2004	1,259	91,159	136	7,467	10,165
2005	1,220	80,753	154	8,621	7,796
2006	1,107	67,991	157	8,915	5,462
2007A	1,072	58,649	145	8,023	5,046
YY (%)	96.8	86.3	92.3	90.0	92.4
2007B	1,131	60,284	151	8,240	5,046

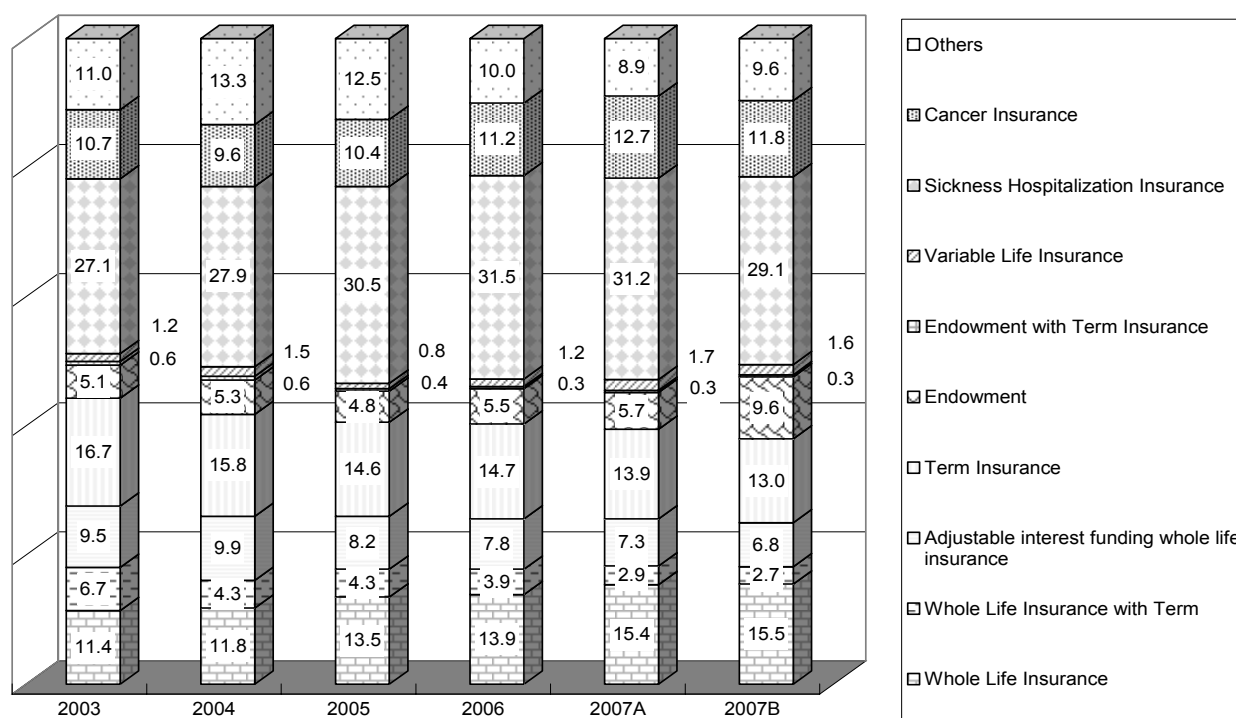
a. The number of contracts of both individual insurance and individual annuity includes converted contracts. Accordingly, the amount of the contracts of individual insurance and individual annuity reflects the net increase arising from the conversion.

b. The amount of individual annuity shows the accumulated capital for annuity at the commencement of annuity payments.

Hereinafter, unless otherwise noted, 2007A indicates the figures excluding JAPAN POST INSURANCE and 2007B indicates the figures including JAPAN POST INSURANCE.

\*YY (%) is the percentage of 2007A divided by 2006.

Figure: Percentage Distribution of Individual Insurance by Type (Number of New Business)



**b) Business in Force**

The amount of individual insurance business in force decreased from the previous year to Y979, 437 billion (95.4 percent y/y), which marked below Y1, 000 trillion level for the first time since fiscal 1989. (Including JAPAN POST INSURANCE, the amount was Y981, 064 billion.)

The number of individual annuity business in force, after hitting a record high at 15.02 million in fiscal 1995, had dwindled until it finally turned to rise at the end of fiscal 2003, owing to a slight improvement in cancellations and lapsed policies, as well as solid performance in over-the-counter sales by banks. This year it continued to expand. The amount of individual annuity business in force showed the same trend and increased to Y87, 927 billion (102.4 percent y/y). (Including JAPAN POST INSURANCE, the amount was Y88, 143 billion.)

The group insurance business in force has been in a downtrend since fiscal 1997 (Y423, 326 billion). The number of the insured (after the name identification process) decreased to 41.92 million (98.3 percent y/y), but the amount in force slightly rose to Y374, 216 billion this year (100.4 percent y/y).

Table-2 Business in Force

(Amount: Y billion)

Fiscal Year	Individual Insurance	Individual Annuity	Group Insurance	Group Annuity
	Amount	Amount <sup>c</sup>	Amount	Amount
2003	1,152,648	69,563	387,060	34,937
2004	1,112,170	74,109	382,382	32,666
2005	1,070,570	80,416	380,595	32,744
2006	1,026,335	85,863	372,704	33,117
2007A	979,437	87,927	374,216	32,314
Y/Y (%)	95.4	102.4	100.4	97.6
2007B	981,064	88,143	374,216	32,314

c. The figures of the individual annuity 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.

## c) Revenues and Expenditures

## (1) Premium Income

Total premium income fell short of the previous year and recorded Y27, 023 billion (97.3 percent y/y). (Including JAPAN POST INSURANCE, the amount was Y30, 909 billion.) As shown below, the amounts decreased in individual insurance (Y14, 947 billion, 99.4 percent y/y), individual annuity (Y6, 577 billion, 89.6 percent y/y) and group insurance (Y1, 195 billion, 95.4 percent y/y), while slightly increased in group annuity (Y4, 060 billion, 104.6 percent y/y).

Table-3 Breakdown of Premium Income by Product

(Amount: Y billion; %)

Fiscal Year	Total Premium Income <sup>a</sup>	Individual Insurance	Individual Annuity	Group Insurance	Group Annuity	Reinsurance
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
2006	27,766	15,039	7,340	1,252	3,883	14
2007A	27,023	14,947	6,577	1,195	4,060	15
Y/Y (%)	97.3	99.4	89.6	95.4	104.6	107.1
2007B	30,909	15,383	6,769	1,195	4,060	3,274

a. The amount of total premium income includes other premium income.

## (2) Payments

The total amount paid by all member companies under life insurance contracts in fiscal 2007 was more than Y20 trillion, increased by 6.2 percent from the previous year. The payments in insurance money, benefits, and annuity were Y6, 194 billion (108.2 percent y/y), Y3, 930 billion (105.0 percent y/y), Y2, 106 billion (110.0 percent y/y), respectively. As for provision for reserves, however, significantly declined to 41.1 percent y/y. Operating expenses amounted to Y3, 750 billion, almost the same as the previous year.

Table-4 Breakdown of Payments

(Amount: Y billion; %)

Fiscal Year	Total Payments	Payments under Life Insurance Contracts				Provision for Reserves	Operating Expenses
		Insurance Money	Benefits	Annuity	Repayments		
2003	24,244	7,295	4,221	1,581	10,380	3,652	3,570
2004	21,336	6,341	3,846	1,659	8,605	5,756	3,567
2005	20,536	6,543	3,678	1,767	7,551	9,149	3,667
2006	18,972	5,727	3,742	1,914	6,612	8,663	3,714
2007A	20,141	6,194	3,930	2,106	7,034	3,563	3,750
Y/Y (%)	106.2	108.2	105.0	110.0	106.4	41.1	101.0
2007B	26,291	12,342	3,930	2,107	7,035	3,563	4,017

**d) Balance Sheet**

The assets held by all member life insurers in Japan as of the end of fiscal 2007 amounted to Y213, 899 billion, a decrease of 2.9 percent from the previous year. Liabilities slightly increased by 0.1 percent as a result of the buildup of liability reserves and other reserves, with an increase of liability reserves by 1.6 percent. Net assets shrank to Y10, 938 billion, down by 37.2%.

**Table-5 Balance Sheet of Member Companies as a Whole**

(Amount: Y billion)

Fiscal Year	Assets		Liabilities			Capital
	Total	Nominal GDP (%)	Total <sup>a</sup>	Liability Reserves	Price Fluctuation Reserves	Total
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
2006	220,217	43.7	202,804	183,891	1,352	17,412 <sup>b</sup>
2007A	213,899	41.5	202,960	186,856	1,459	10,938 <sup>b</sup>
Y/Y (%)	97.1	-	100.1	101.6	107.9	62.8
2007B	326,423	63.3	314,580	291,591	2,018	11,843 <sup>b</sup>

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

b. Due to a change in accounting standards, the figures represent the amount of "net assets".

**e) Ordinary Profit and Basic Profit**

The ordinary profit (after subtraction of ordinary expenses from ordinary revenue) of member companies shrank to Y1, 332 billion (75.9 percent y/y) due to net capital loss and net nonrecurring loss.

The basic profit of member companies, which represent profitability of life insurance business for the fiscal year, decreased to Y2, 555 billion (88.3 percent y/y) from the previous year due to diminution of premium and other incomes, a lower return on asset management and increases in insurance and other payments.

**Table-6 Ordinary Profit and Basic Profit**

(Amount: Y billion)

Fiscal Year	Ordinary Profit	Basic Profit
2003	1,509	2,191
2004	1,593	2,462
2005	1,822	2,668
2006	1,754	2,893
2007A	1,332	2,555
Y/Y (%)	75.9	88.3
2007B	1,344	2,822

\* Basic profit = ordinary profit - capital gain/loss - nonrecurring income/loss

## f) Asset Distribution

At the end of fiscal 2007, total assets of the life insurers shrank to Y213, 899 billion (97.1 percent y/y) from the previous year. (Including JAPAN POST INSURANCE, the amount was Y326, 423 billion.) The amount of total securities, which had been in an upward trend until the previous year, fell to Y155, 300 billion (95.7 percent y/y) this year. (Including JAPAN POST INSURANCE, the amount stood at Y240, 869 billion.)

Among items of securities, JGB comes in first with Y49,727 billion, followed by foreign securities (Y41, 585 billion), domestic stocks (Y23, 921 billion), and corporate bonds (Y19, 462 billion).

Table-7 Breakdown of Assets

(Amount: Y billion; %)

Fiscal Year	Total Assets <sup>a</sup>	Total <sup>a</sup>	Securities						
			Domestic Securities			Subtotal <sup>a</sup>	Foreign Securities		
			JGB <sup>b</sup>	Corporate Bonds	Stocks		GB <sup>b</sup>	Corporate Bonds	Stocks
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
2006	220,217	162,197	48,733	19,146	32,367	41,435	9,831	21,153	4,462
2007A	213,899	155,300	49,727	19,462	23,921	41,585	9,118	22,157	4,385
Y/Y (%)	97.1	95.7	102.0	101.7	73.9	100.4	92.7	104.7	98.3
2007B	326,423	240,869	118,687	29,849	23,921	44,095	11,322	22,461	4,385

(Continued)

Fiscal Year	Sub Total	Loans		Cash Reserves + Call Loans	Real Estates
		Policy Loans	Financial Loans		
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
2006	35,077	3,897	31,179	5,656	6,671
2007A	34,179	3,787	30,391	4,759	6,592
Y/Y (%)	97.4	97.2	97.5	84.1	98.8
2007B	54,101	3,787	50,313	7,628	6,594

a. Total assets, total securities and subtotal of the foreign securities include other assets, other securities and other foreign securities respectively.

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

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### Reference:

(Amount: Y billion)

Fiscal Year	Loans Abroad	Fiscal Year	Investment Yield on Assets in General Accounts (%)
2003	3,331	2003	1.94
2004	2,587	2004	2.15
2005	2,670	2005	2.42
2006	2,624	2006	2.45
2007A	2,764	2007A	1.90
2007B	2,764	2007B	1.30

### g) Number of Member Companies and Sales Force

The number of the LIAJ member companies, all life insurers operating in Japan, stood at forty-one as of the end of March 2008.

With regard to distribution channels, tied sales agents have long been the linchpin of life insurance sales activities in Japan. However, after peaking at approximately 440 thousand in 1990, the number of agents continued to decline, and in 2006 it fell to slightly below 250 thousand. Meanwhile, the number of sales representatives at agencies has been rising sharply since Japanese banks started selling individual annuity products subsequently to the partial lifting of the ban on bancassurance in October 2002.

The number of stock companies has been increasing significantly from the 1960s when 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. In addition, 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-8 Number of Member Companies and Agents/Agencies**

Fiscal Year	Member Companies <sup>a</sup>	Number of Sales Force (in thousands)		
		Tied Agents	Agencies	Sales Reps at Agencies
2003	40 (33)	268	130	713
2004	39 (33)	263	124	721
2005	38 (32)	259	122	747
2006	38 (32)	248	115	776
2007B	41 (34)	245	108	912

a. Numbers in parentheses are those of stock companies.

### Reference: Member Companies with Foreign Participation (as of 31 March 2008)

Domestic Companies with Foreign Capital			Branch Offices of Foreign Companies
AIG Edison Life	Crédit Agricole Life	Manulife Life	ALICO Japan
AIG STAR LIFE	Gibraltar Life	MassMutual Life	American Family Life
AXA Life	Hartford Life	PCA Life	CARDIF Assurance Vie
AXA Financial	ING Life	Prudential Life	Zurich Life

Allianz Life Insurance Japan Ltd. joined the LIAJ in April 2008. As of December 2008, the number of foreign companies is 17.