



OLIS 2010 Spring

Overview of Life Insurance Business

June 17, 2010

Oriental Life Insurance Cultural Development Center

Ichiro Kimura



I. Trends in Life Insurance Business



1. Scale of the Industry

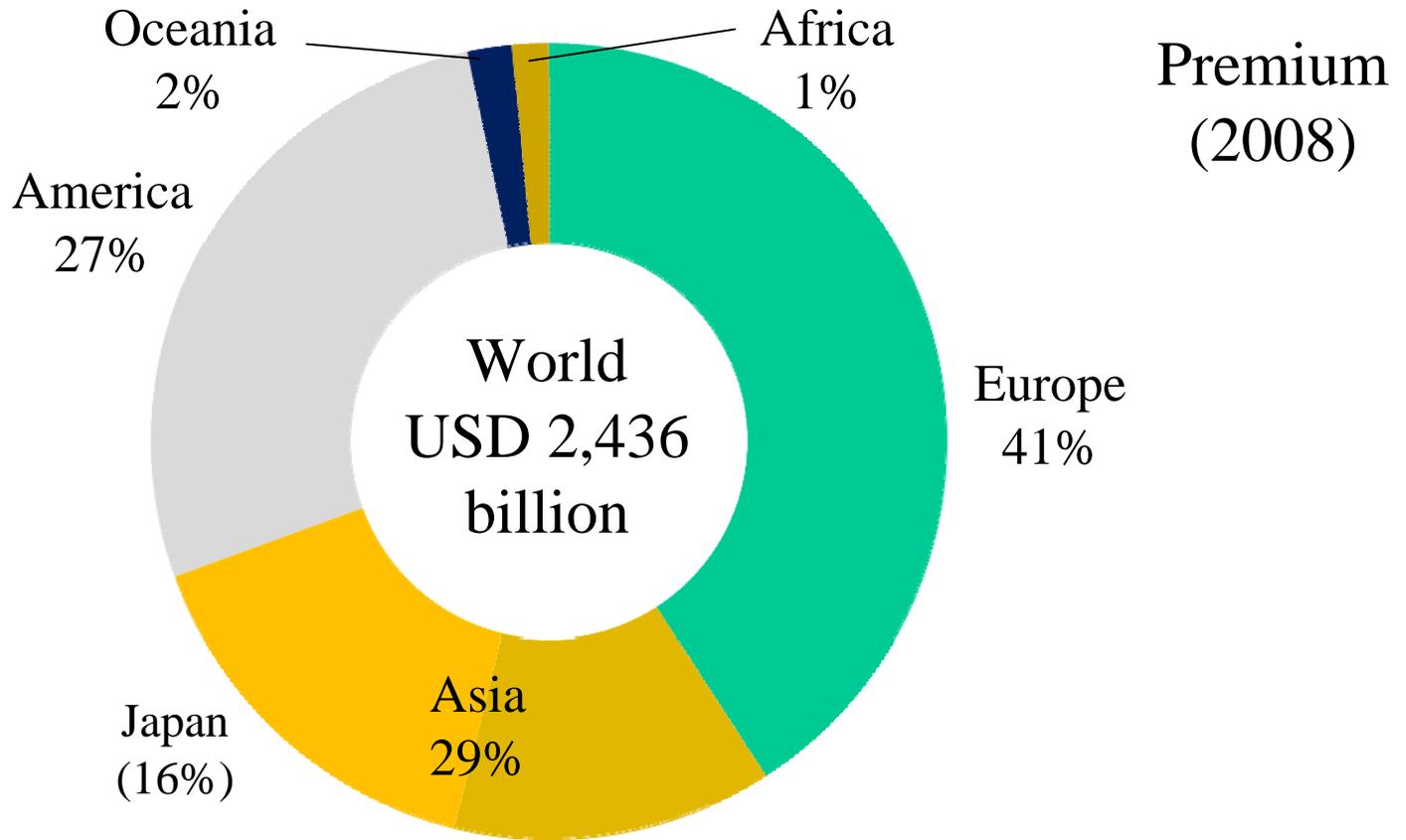
Scale of the Industry

As of March 31, 2009

Business in force	¥1,315 trillion (\$13.38 trillion)
Premiums	¥34 trillion (\$346 billion)
Assets	¥311 trillion (\$3.16 trillion)

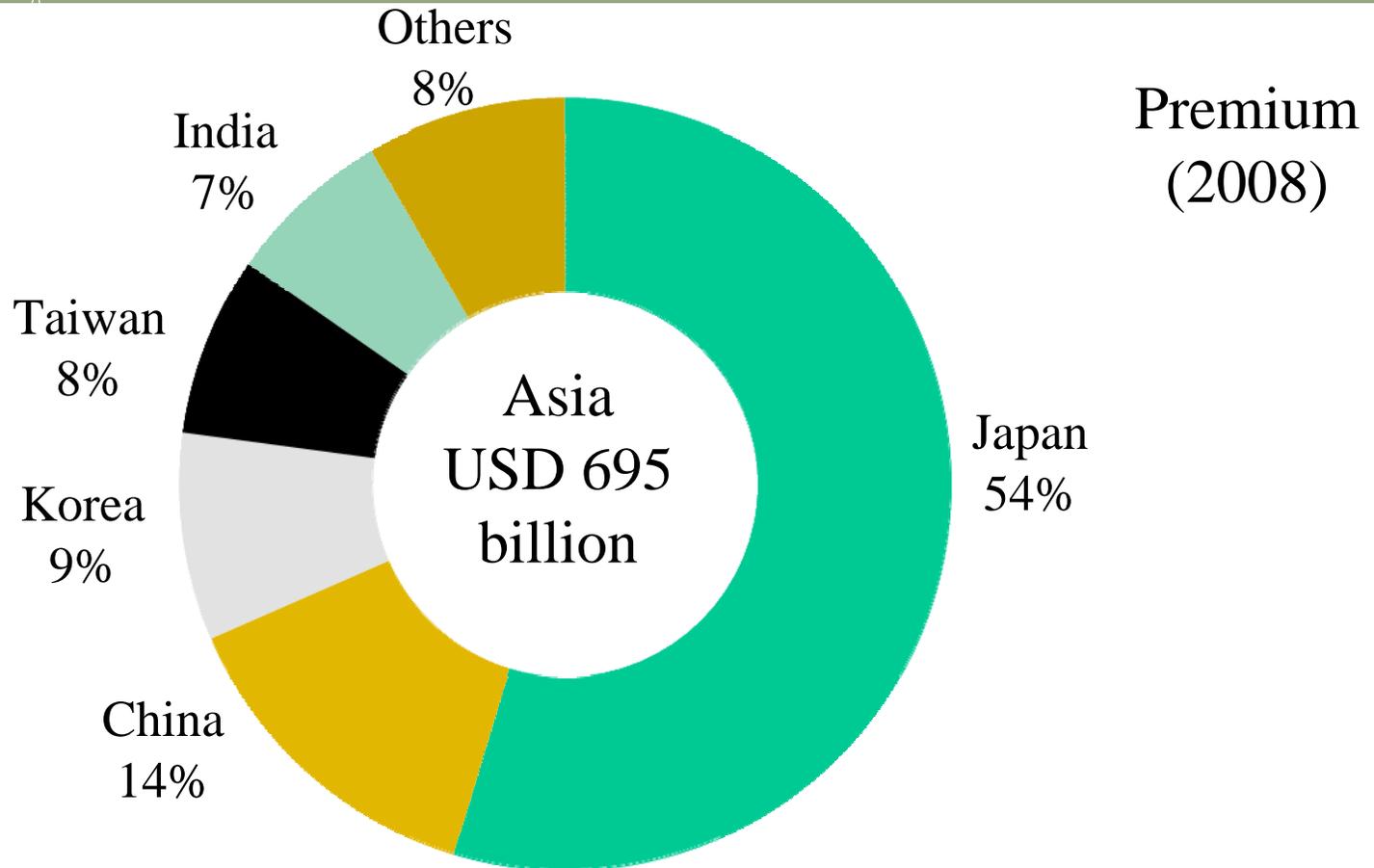
Source: LIAJ

Share in the World



Source: Swiss Re "Sigma"

Share in Asia



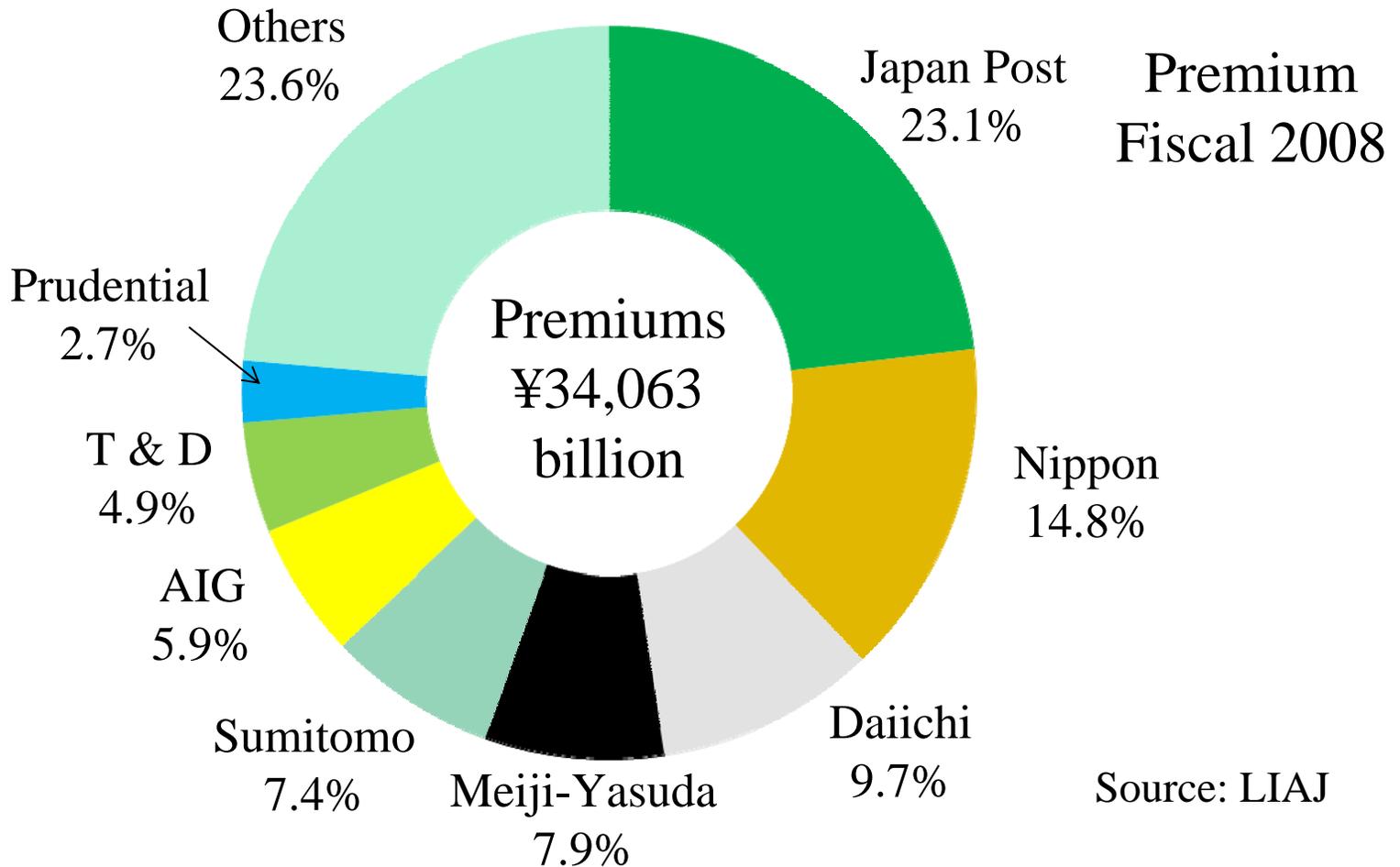
Source: Swiss Re "Sigma"

Number of Companies

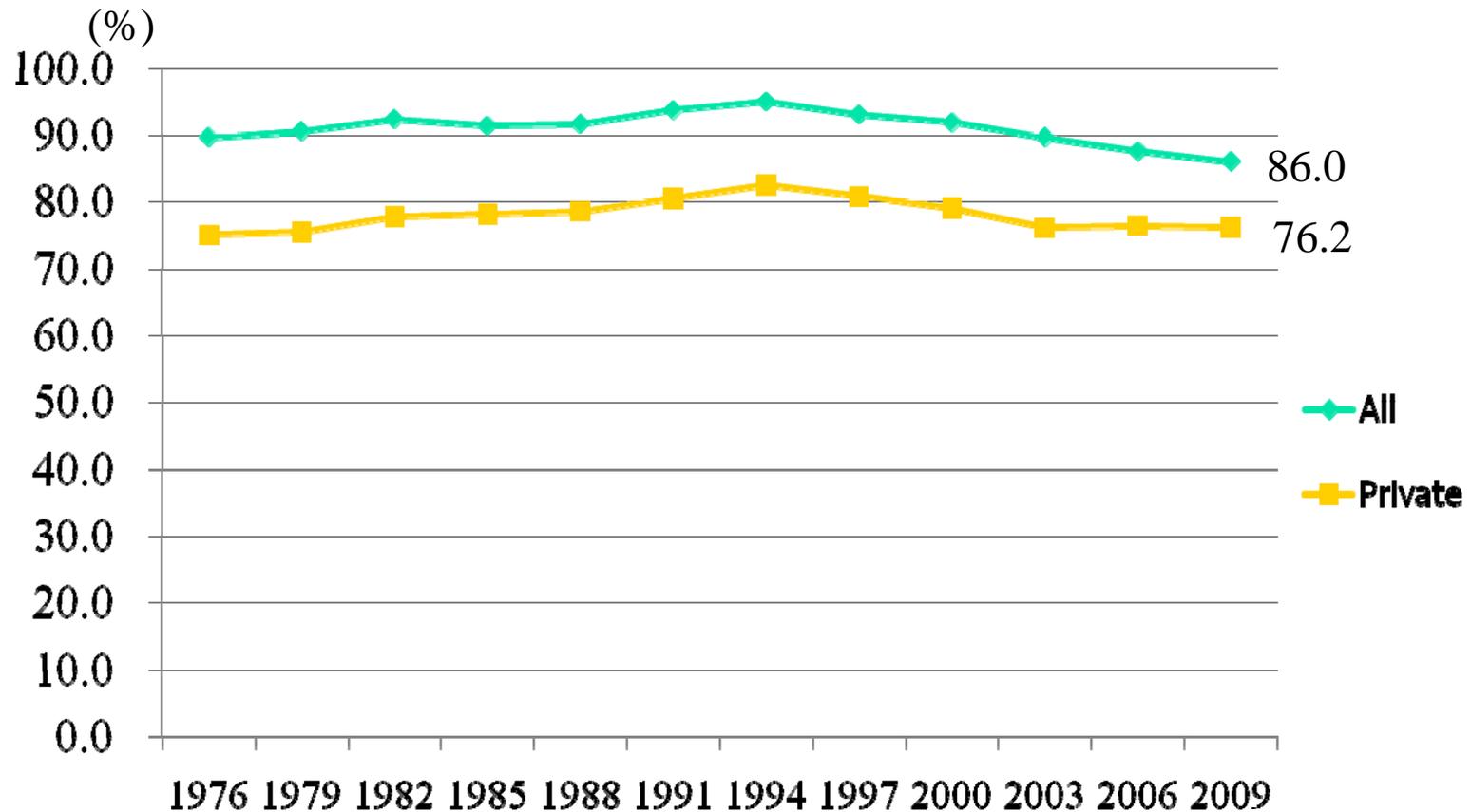
Domestic Companies	20
Foreign Companies	14
Life Subsidiaries of Nonlife Companies	9
Foreign Branches	4
Total	47

(April 2010)

Market Share of Major Companies

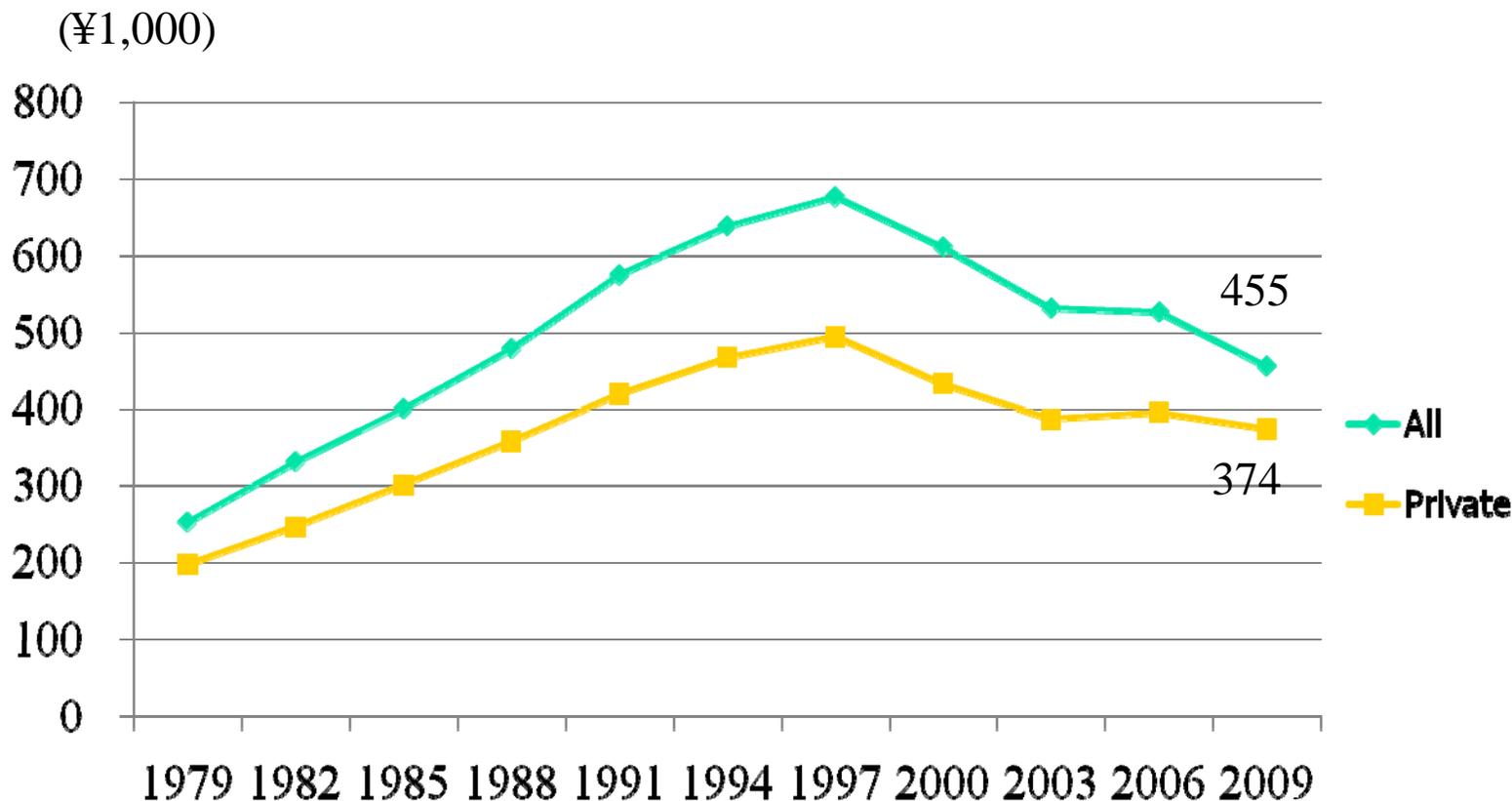


Proportion of Insured Households



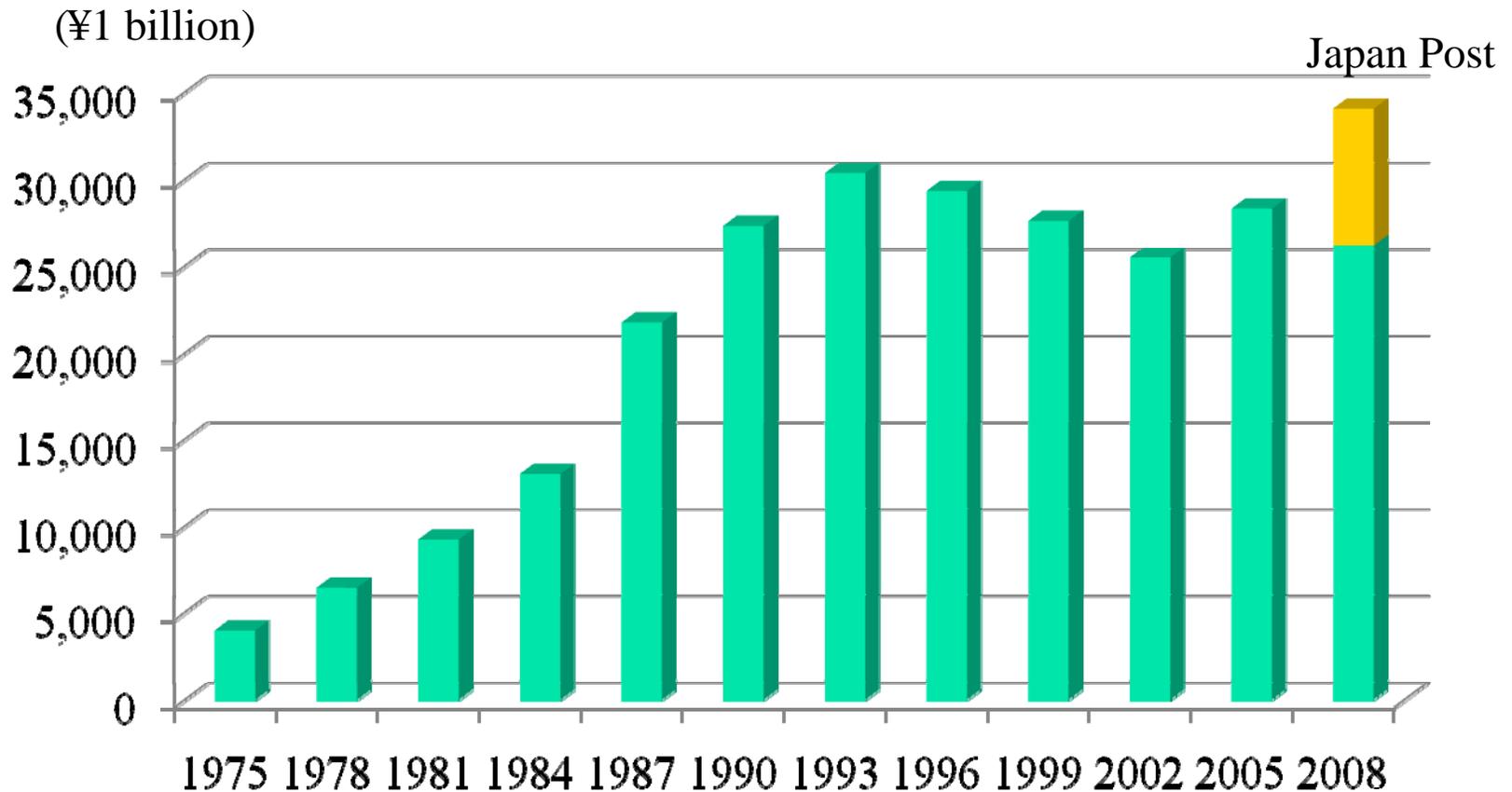
Source: JILI

Trends in Premiums Paid by Households



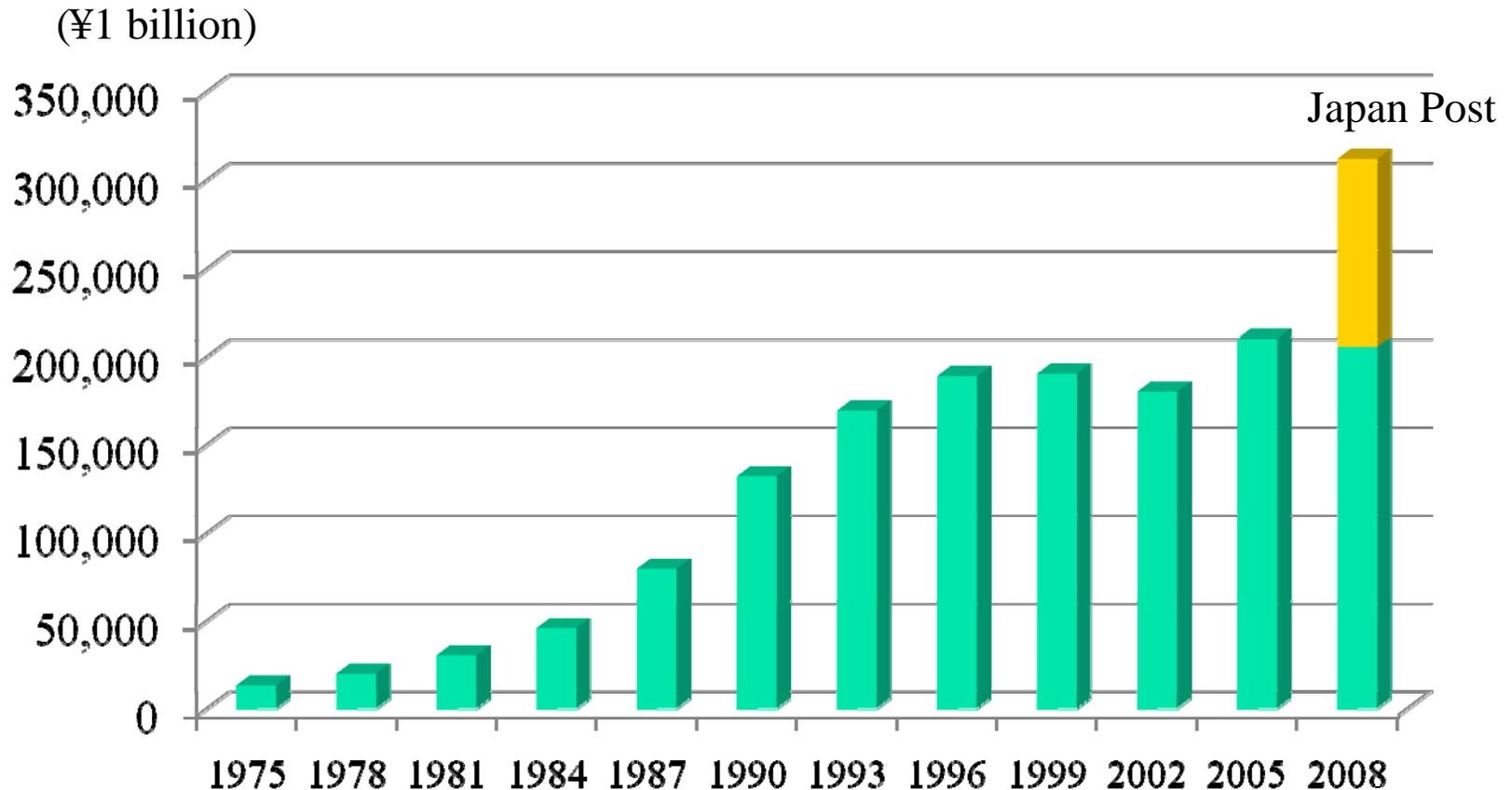
Source: JILI

Trends in Premiums



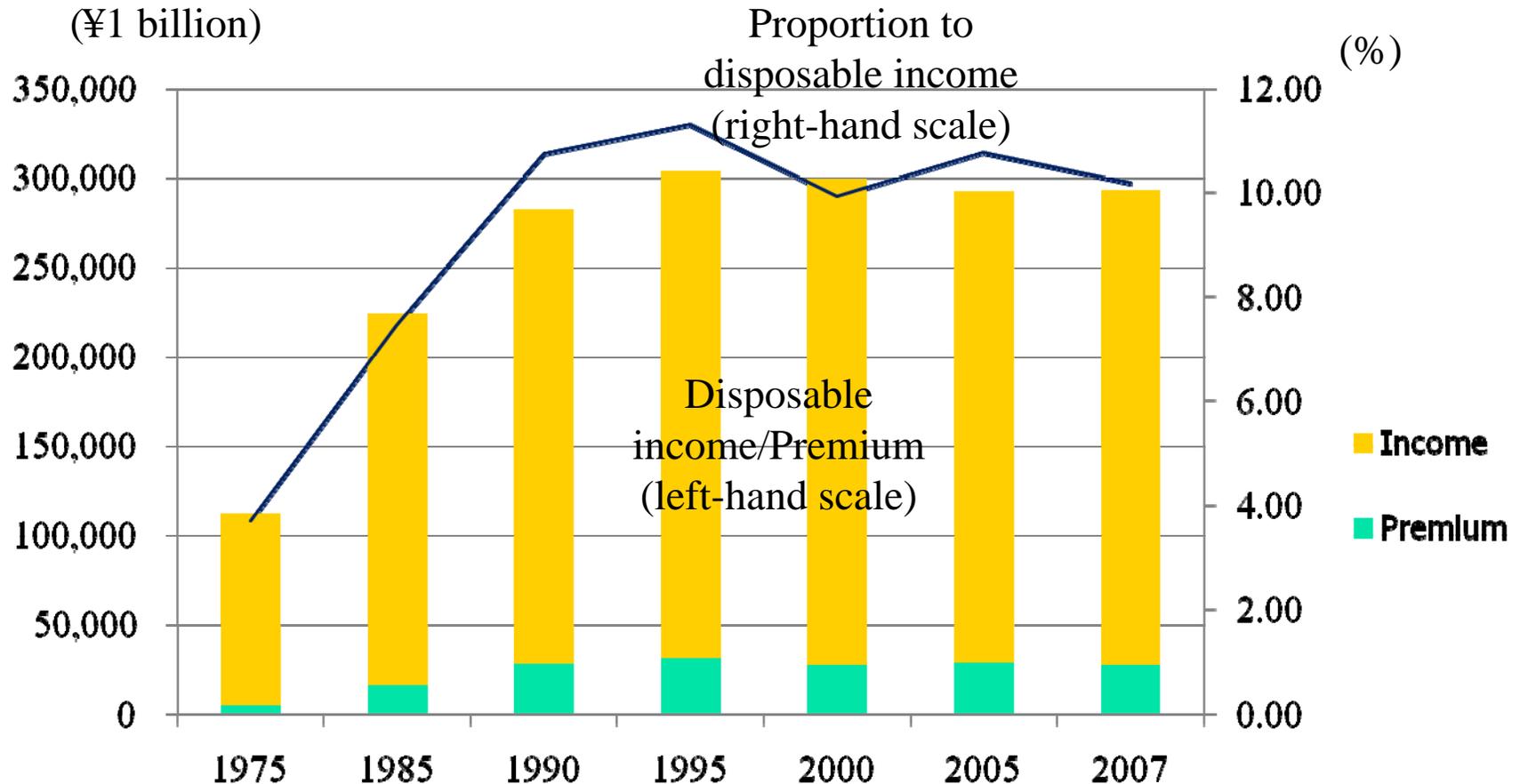
Source: LIAJ

Trends in Assets



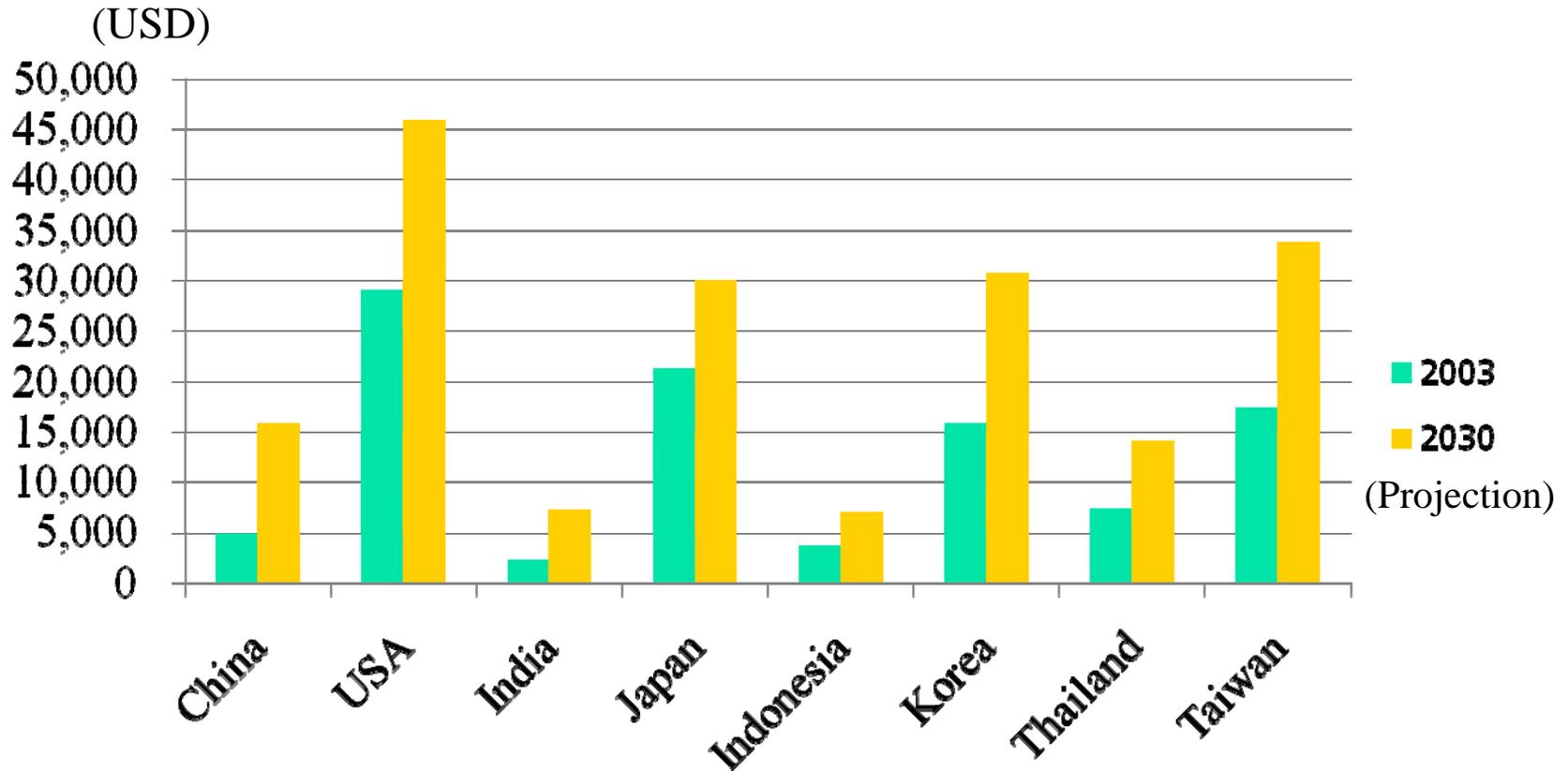
Source: LIAJ

Premiums and Proportion to Disposable Income



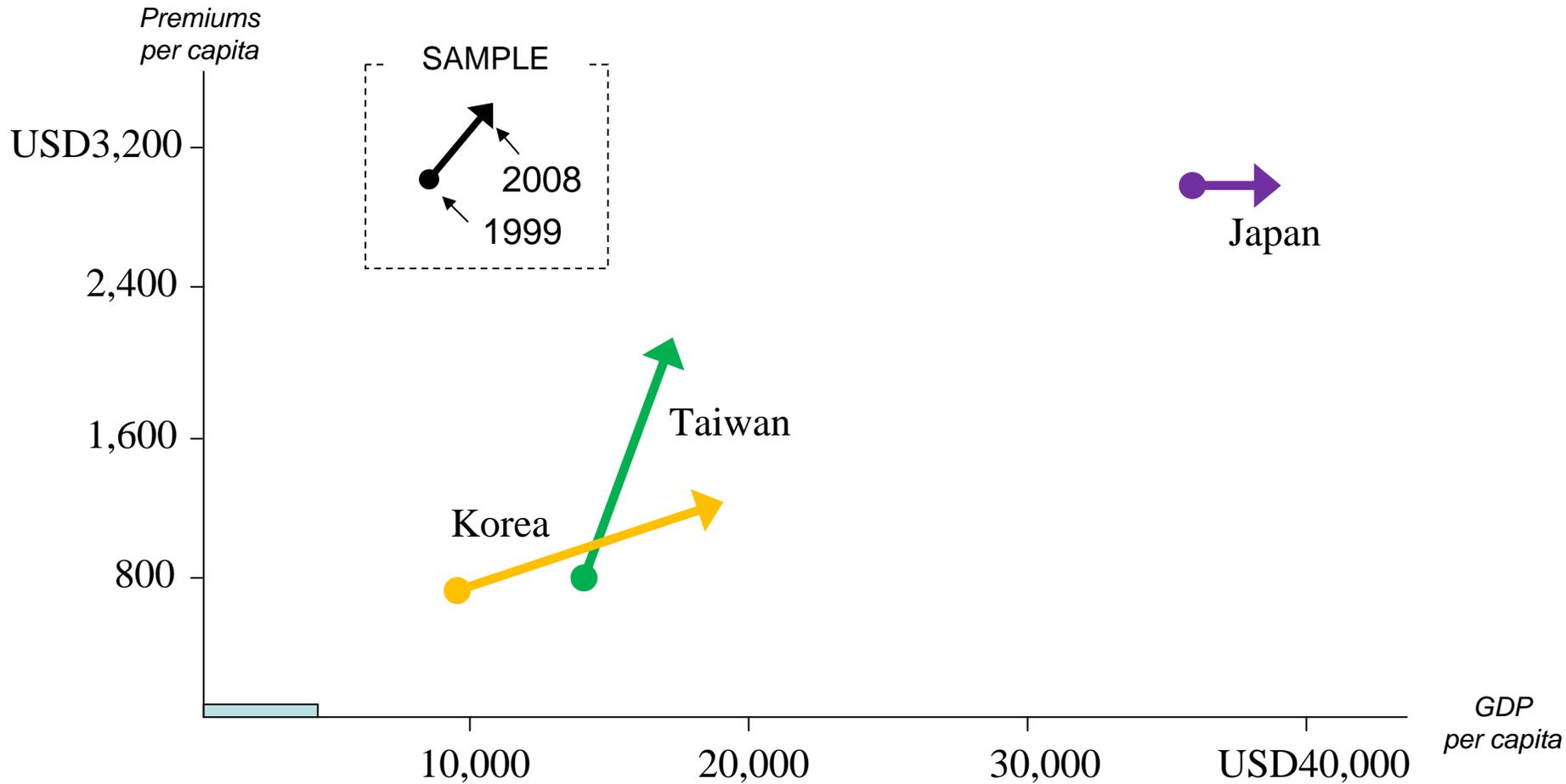
Source: LIAJ

Projection of GDP per Capita



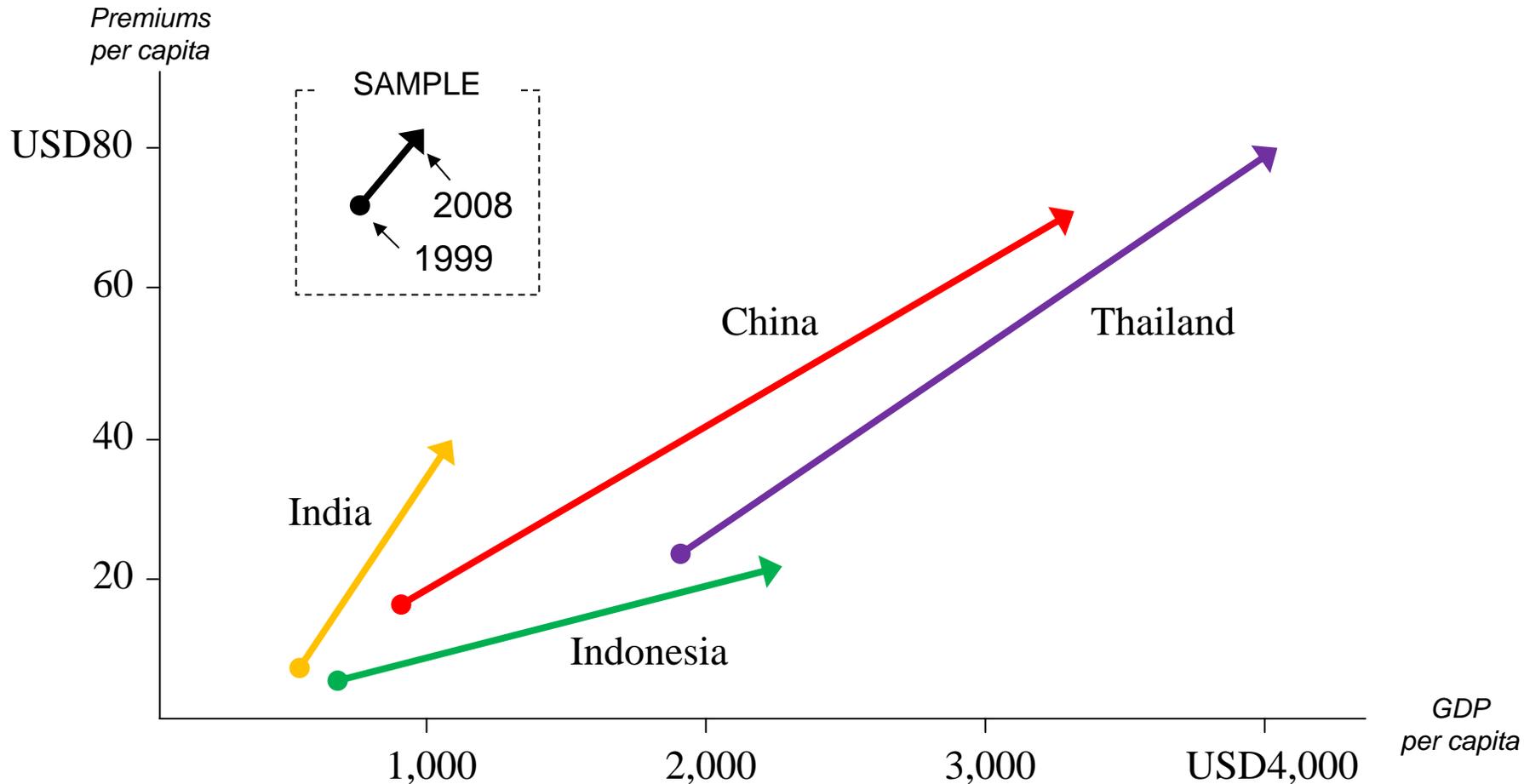
Source: Maddison, A.

Correlation between GDP per Capita and Premiums per Capita (1999-2008)



Source: Swiss Re "Sigma"

Correlation between GDP per Capita and Premiums per Capita (1999-2008)



Source: Swiss Re "Sigma"



2. Products and Distribution Channels

Trends in Major Products

1946

Endowment

1960

Endowment with term rider, Accident rider

1970

Endowment with multiple term rider

1980

Whole-life with term rider, Single-premium endowment, VLI

1990

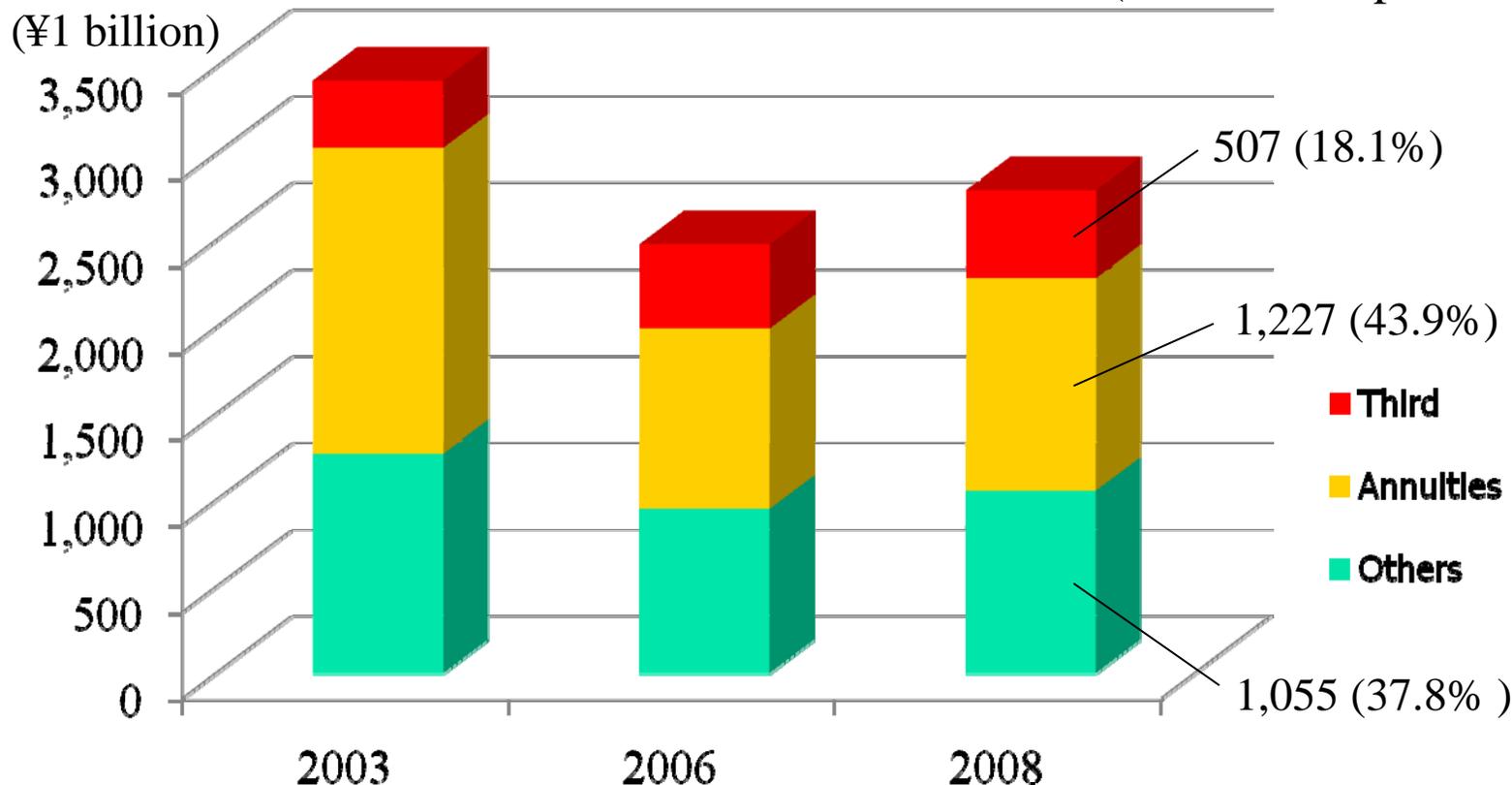
Medical insurance, LNB

2000

Variable annuities, Differentiation of medical insurance

New Business by Type of Individual Insurance Product

(Annualized premium)



Source: "Insurance"

Diversification of Distribution Channels

- Sales agents are still major means of distribution
- Development of nontraditional channels

In December 2007, the product for bancassurance was fully deregulated.

Rise in agencies, DM, Internet, etc.

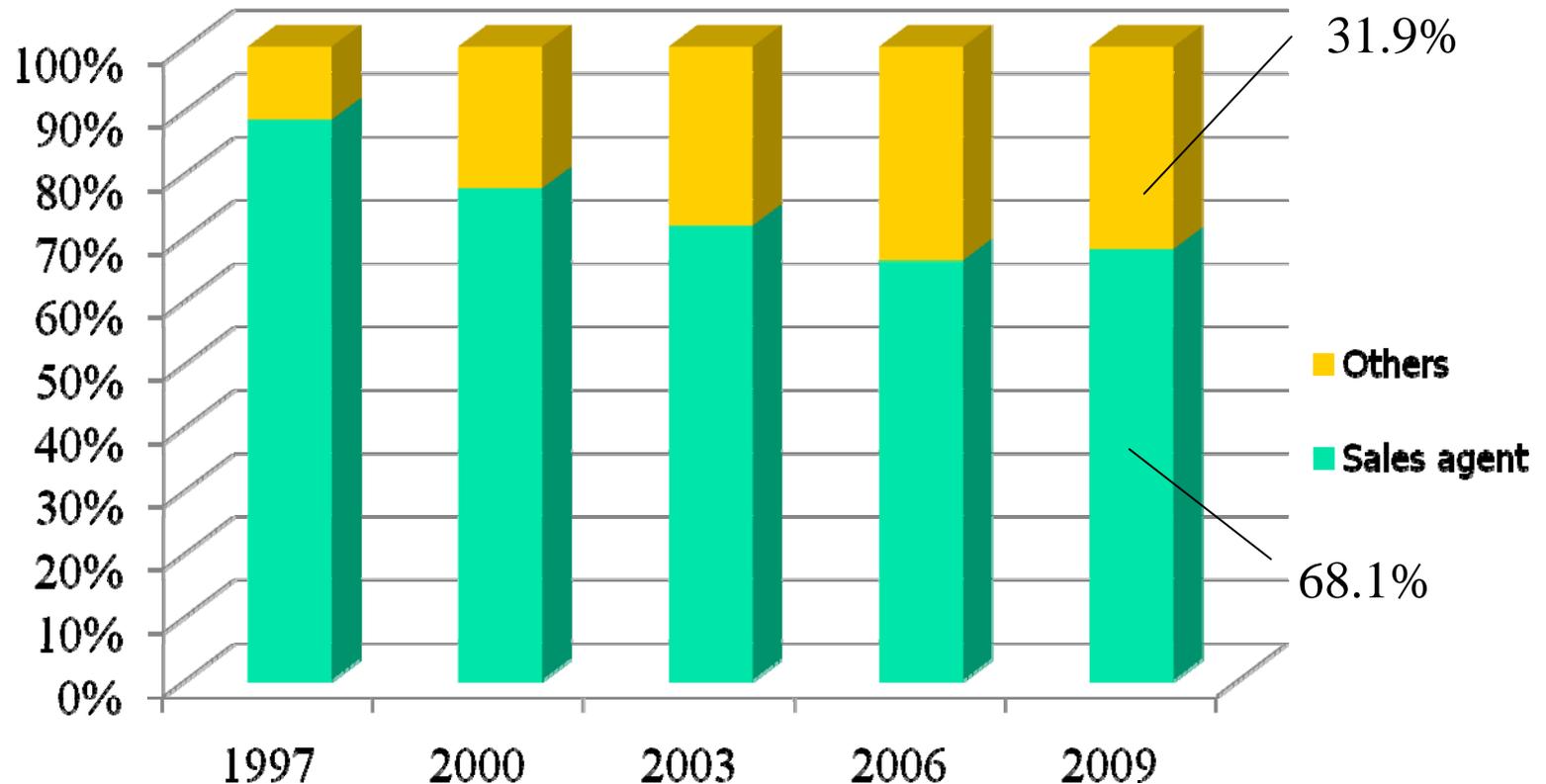
Diversification of Distribution Channels

Question: How did you take out a life policy? (%)

	1997	2000	2003	2006	2009
Sales agent	88.5	77.6	71.8	66.3	68.1
DM	0.6	3.3	5.7	9.1	8.7
Life company's counter	1.6	2.9	2.7	2.1	1.9
Bank	1.2	1.3	1.7	3.3	2.6
Agency	4.0	8.8	6.7	7.0	6.4
Others	4.1	6.1	11.4	12.2	12.3

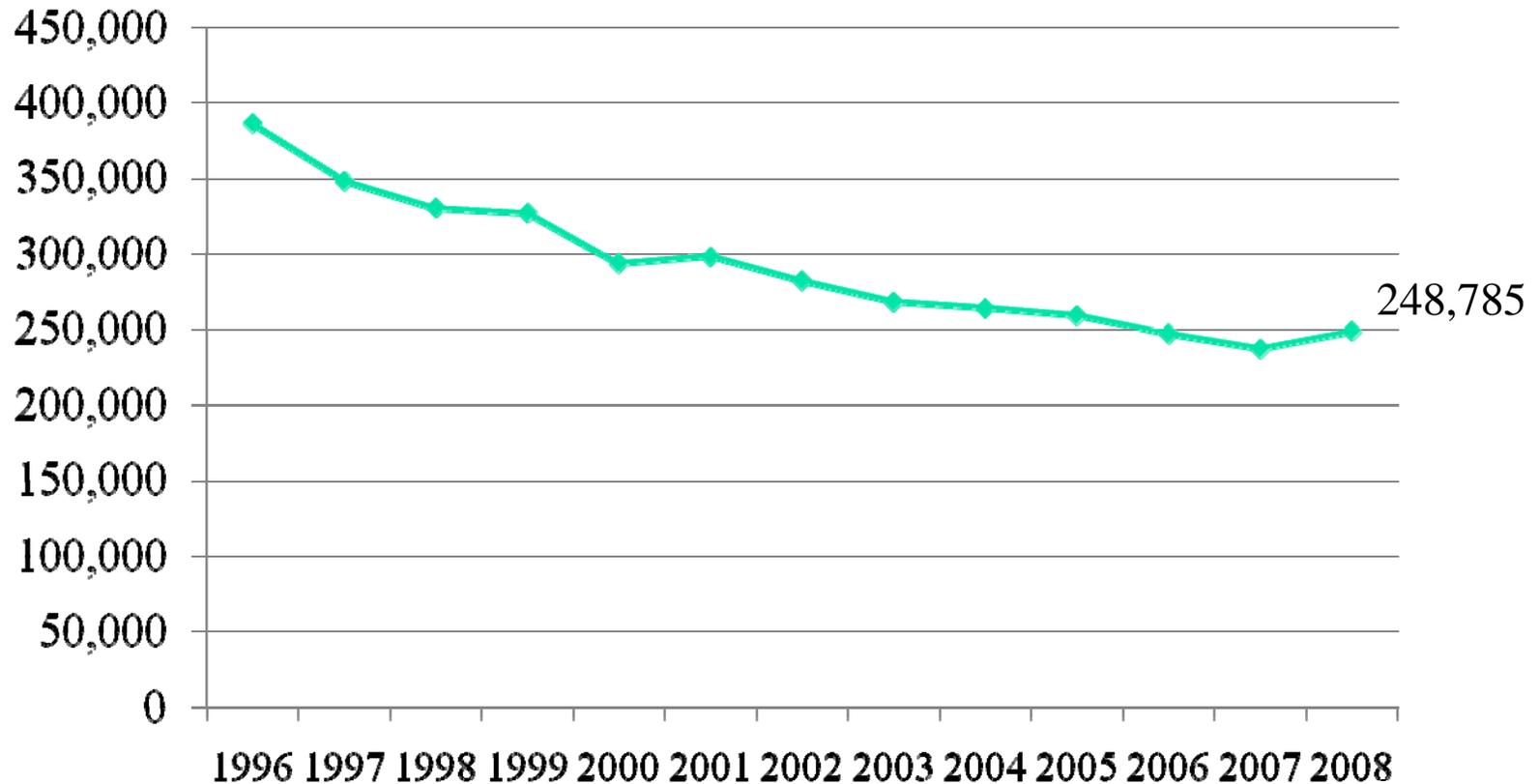
Source: JILI

Diversification of Distribution Channels



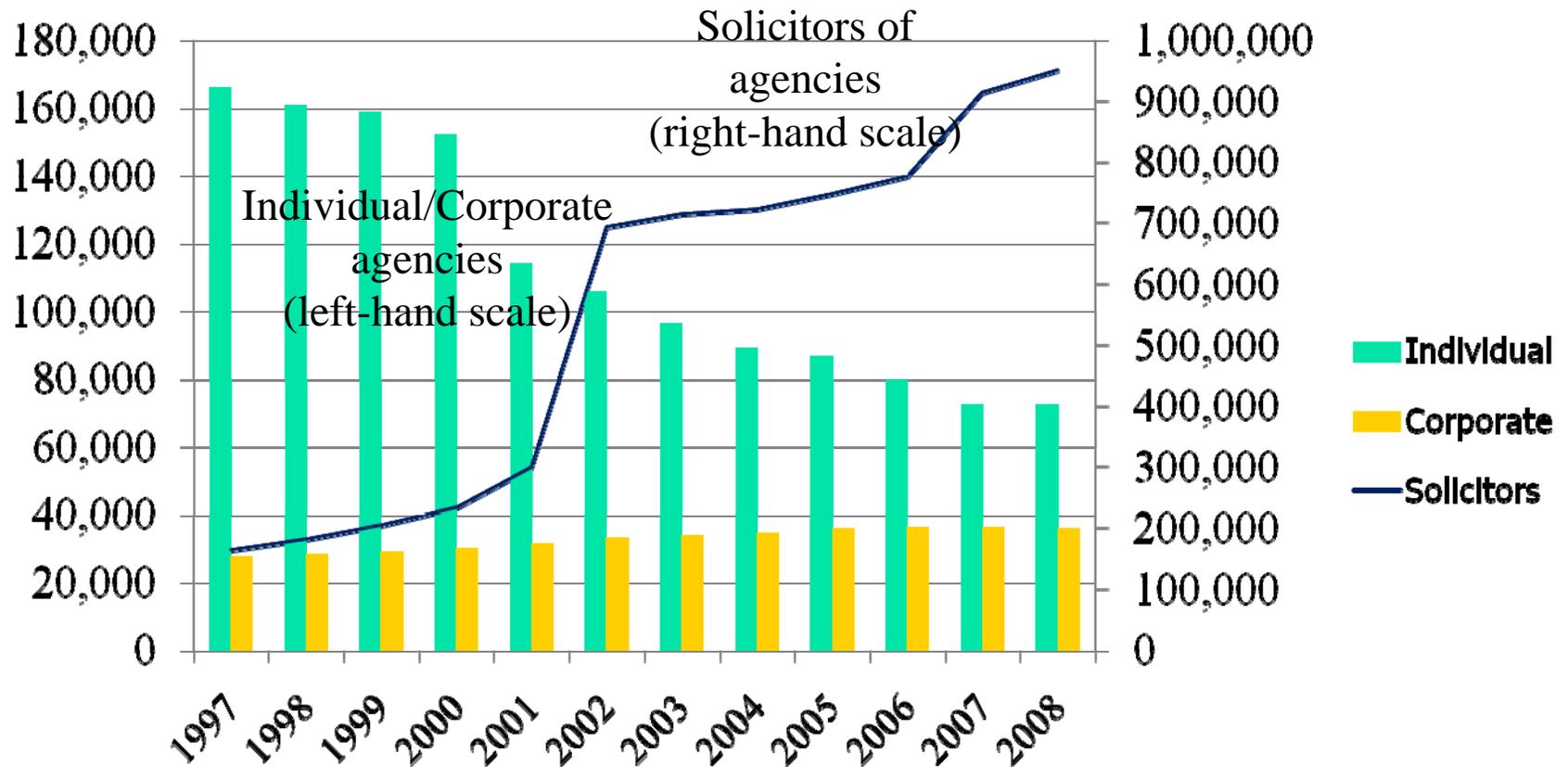
Source: JILI

Trends in Number of Agents



Source: LIAJ

Trends in Number of Agencies



Source: LIAJ

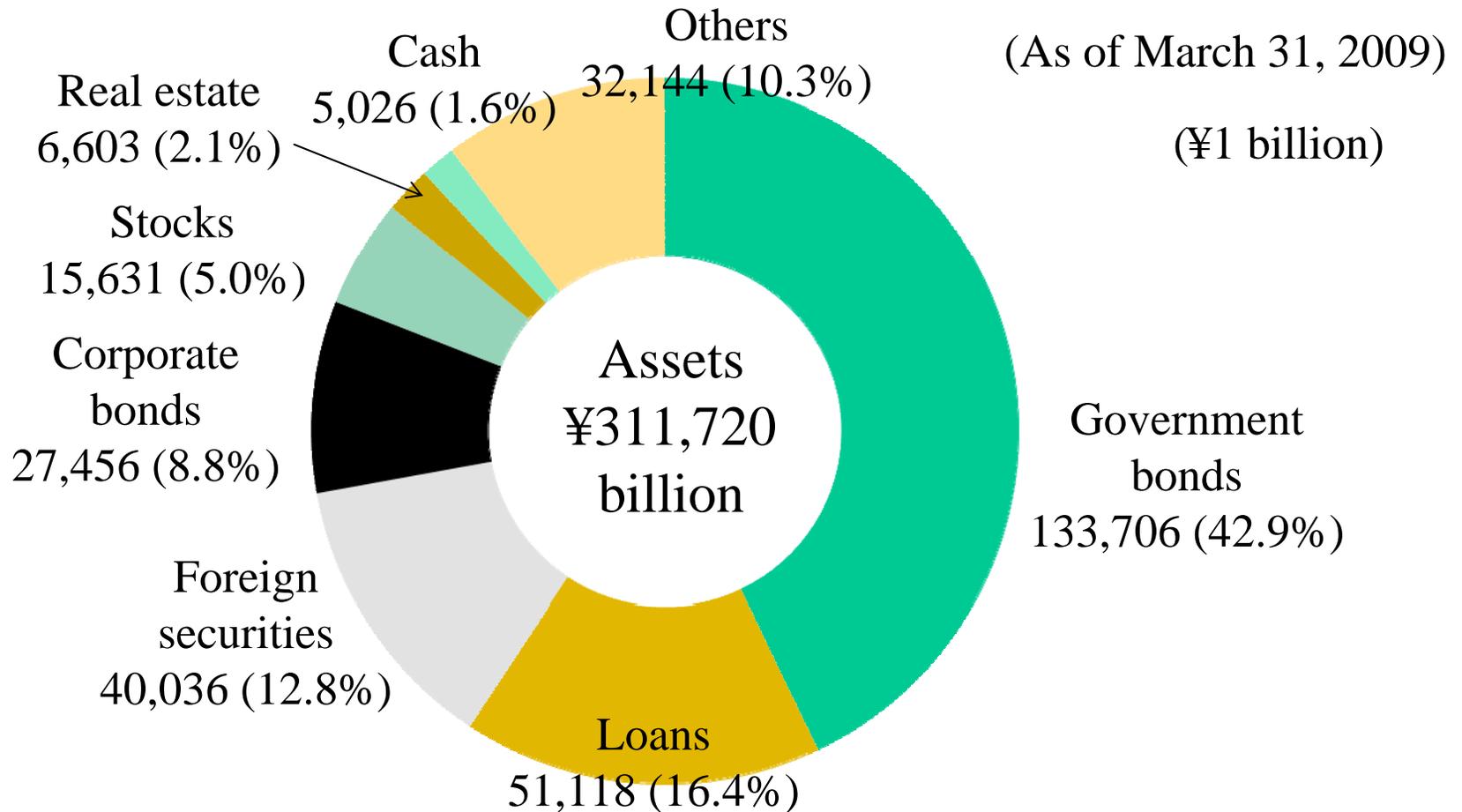
Patterns of Sales/Channel Strategy

- Traditional domestic companies
Participating policies, medical insurance/annuities, sales agents are major means of distribution
- Companies with foreign capital
Product differentiation, DM, TV commercial
- Life insurance subsidiaries of nonlife companies
Agency channel
- Productive field agents
- Sales on the Web site



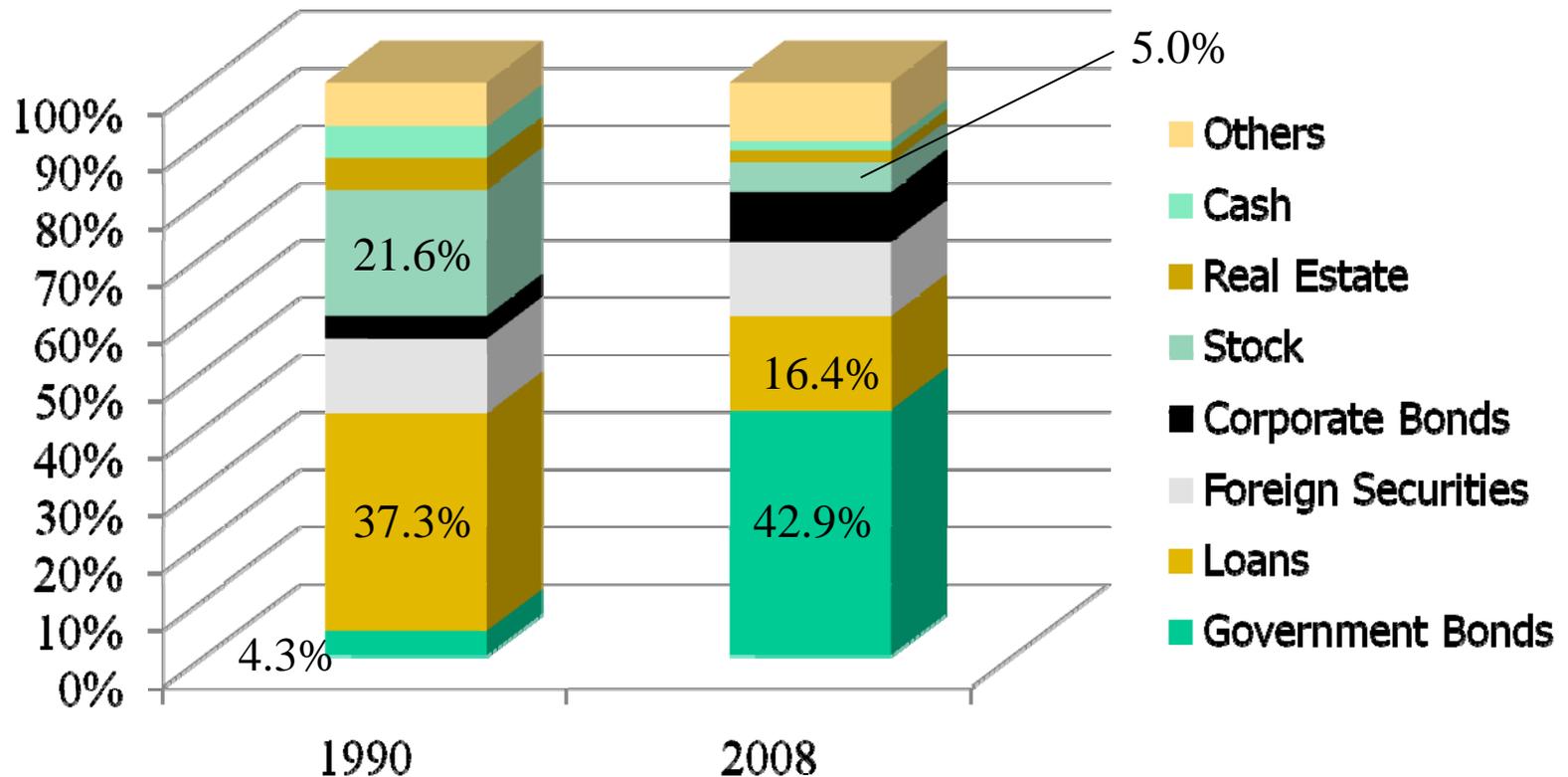
3. Investment

Asset Distribution



Source: LIAJ

Changes in Asset Distribution



Source: LIAJ

Restrictions on Investment

Provisions in the Insurance Business Law

- Types of investments

Securities, real estate, loans, deposits, etc.

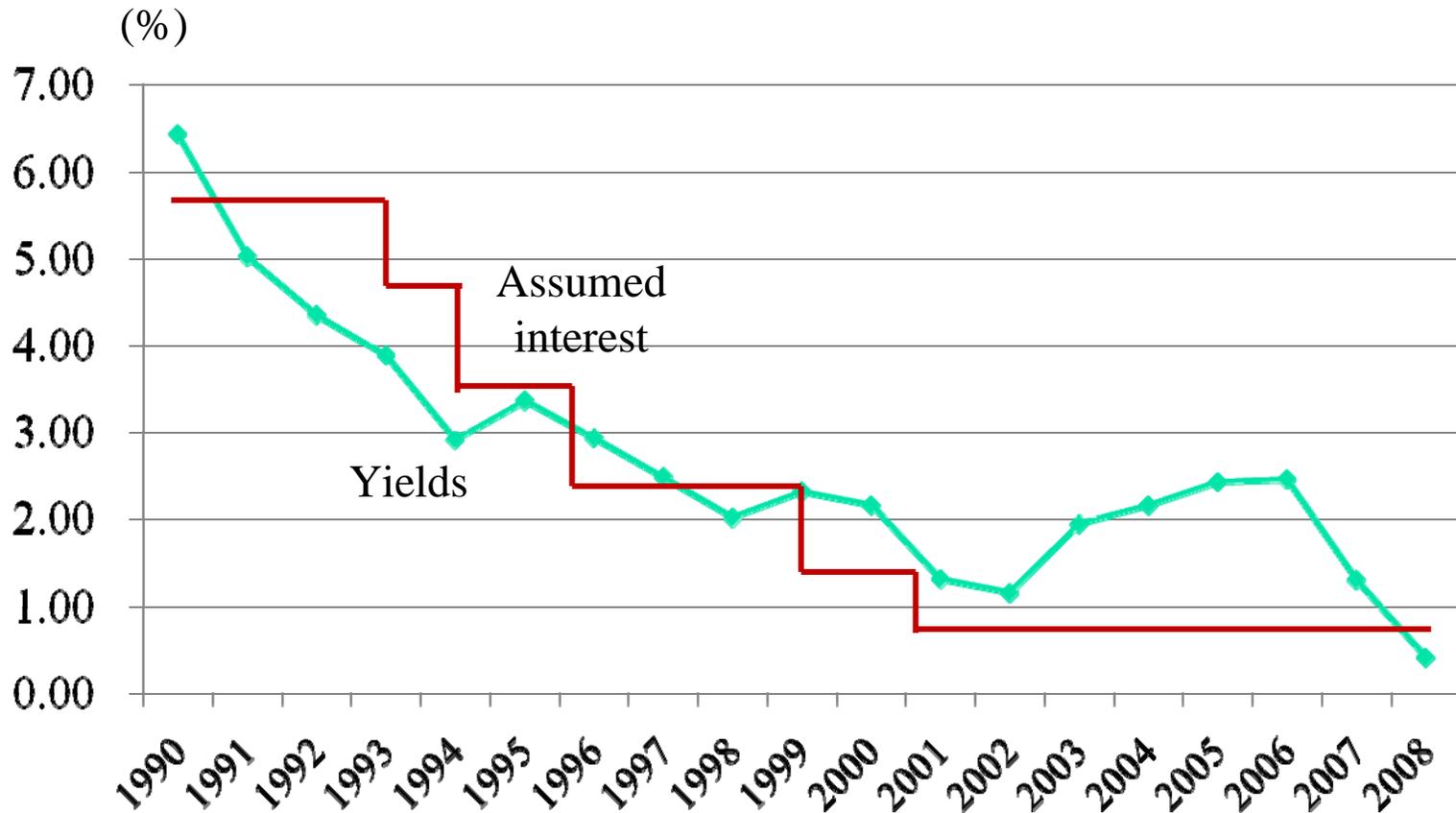
- Maximum proportion to total assets

Domestic stocks 30%

Real estate 20%

Assets denominated in foreign currency 30%

Trends in Yields



Source: LIAJ

Balance Sheet

Balance Sheet as of March 31, 2009 (¥1 billion)

Assets			Liabilities and Net Assets		
Cash and Deposits	5,026	1.6%	Liability Reserves	291,133	93.4%
Call Loans, Money Trust, etc.	9,933	3.2%	Outstanding Claims	(2,385)	(0.8%)
Securities	230,208	73.8%	Policy Reserves	(283,105)	(90.8%)
Government Bonds	(123,890)	(39.8%)	Dividend Reserves	(5,642)	(1.8%)
Local Government Bonds	(9,816)	(3.1%)	Other Liabilities	13,942	4.5%
Corporate Bonds	(27,456)	(8.8%)	Total Liabilities	305,075	97.9%
Stock	(15,631)	(5.0%)	Funds or Capital	2,756	0.9%
Foreign Securities	(40,036)	(12.8%)	Accumulated Redeemed Funds	1,601	0.5%
Other Securities	(13,376)	(4.3%)	Capital Surplus	1,477	0.5%
Loans	51,118	16.4%	Retained Earnings	779	0.3%
Policy Loans	(3,700)	(1.2%)	Total Shareholders' Equity	7,212	2.3%
Financial Loans	(47,417)	(15.2%)	Total Valuation Adjustment	-568	-0.2%
Real Estate, etc.	6,718	2.2%	Total Net Assets	6,645	2.1%
Other Assets	8,717	2.8%	Total Liabilities and Net Assets	311,720	100.0%
Total Assets	311,720	100.0%			

Source: LIAJ

Profit and Loss Statement

Profit and Loss Statement Apr/1/2008 – Mar/31/2009 (¥1 billion)

Ordinary Revenues	54,370	100%
Premium Income and Others	35,210	64.8%
Investment Income	7,549	13.9%
Other Ordinary Income	11,611	21.3%
Ordinary Expenses	55,157	100%
Insurance Benefits Paid	35,817	65.0%
Deaths and Other Claims	(19,966)	(36.1%)
Annuities	(2,351)	(4.3%)
Hospital and Other Benefits	(4,064)	(7.4%)
Surrenders	(6,495)	(11.8%)
Refund to Policyholders	(1,246)	(2.3%)
Reinsurance Premiums	(1,695)	(3.1%)
Provision for Liability Reserves	2,450	4.4%
Investment Expenses	10,708	19.4%
Operating Expenses	4,324	7.8%
Other Ordinary Expenses	1,858	3.4%
Ordinary Profit	-787	

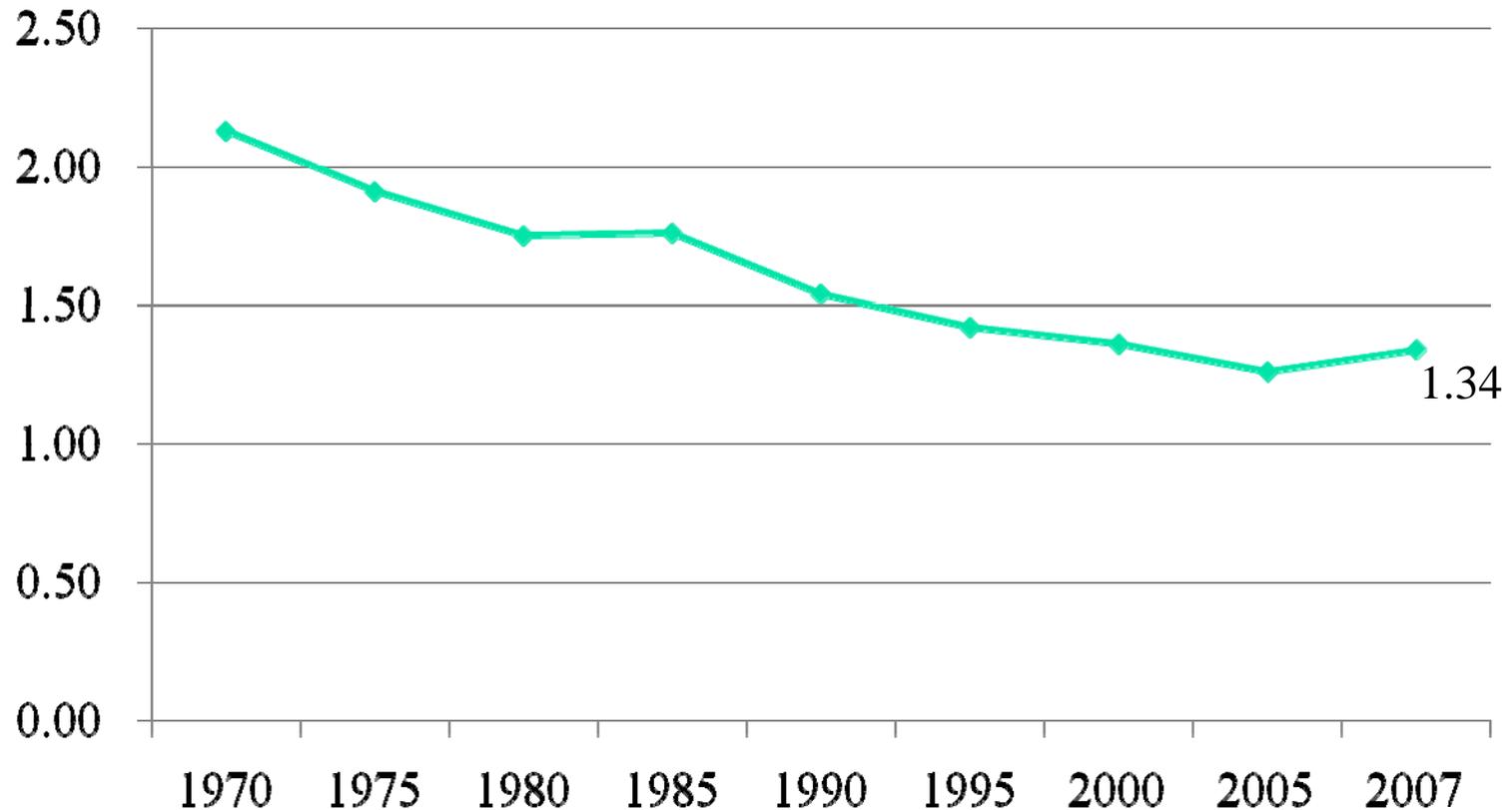
Extraordinary Gain	886
Extraordinary Loss	116
Provision for Policyholders' Dividend	371
Net Surplus before Taxes	-388
Net Surplus	-487

Source: LIAJ



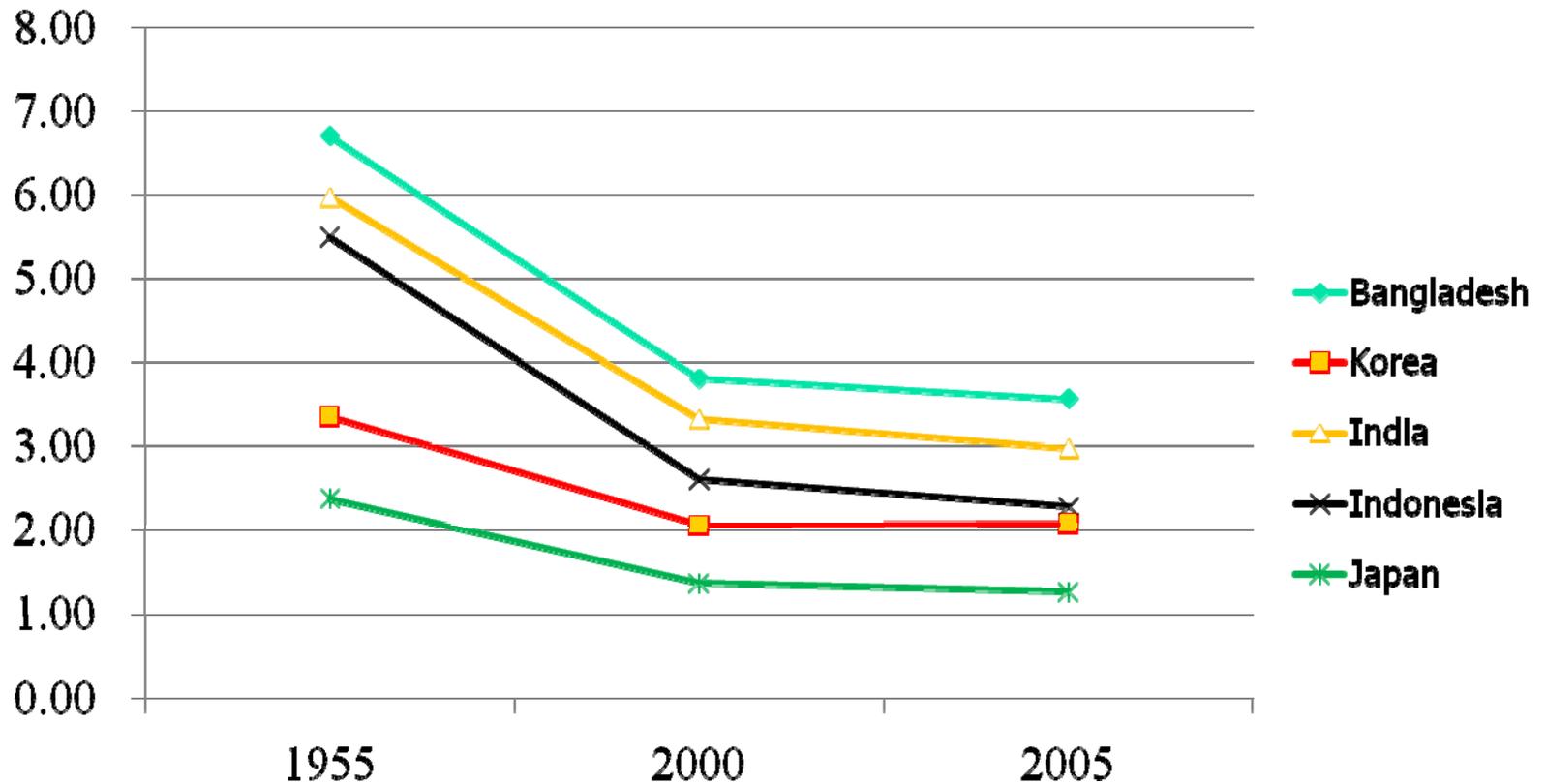
II. Environmental Changes

Trends in Total Fertility Rate (TFR)



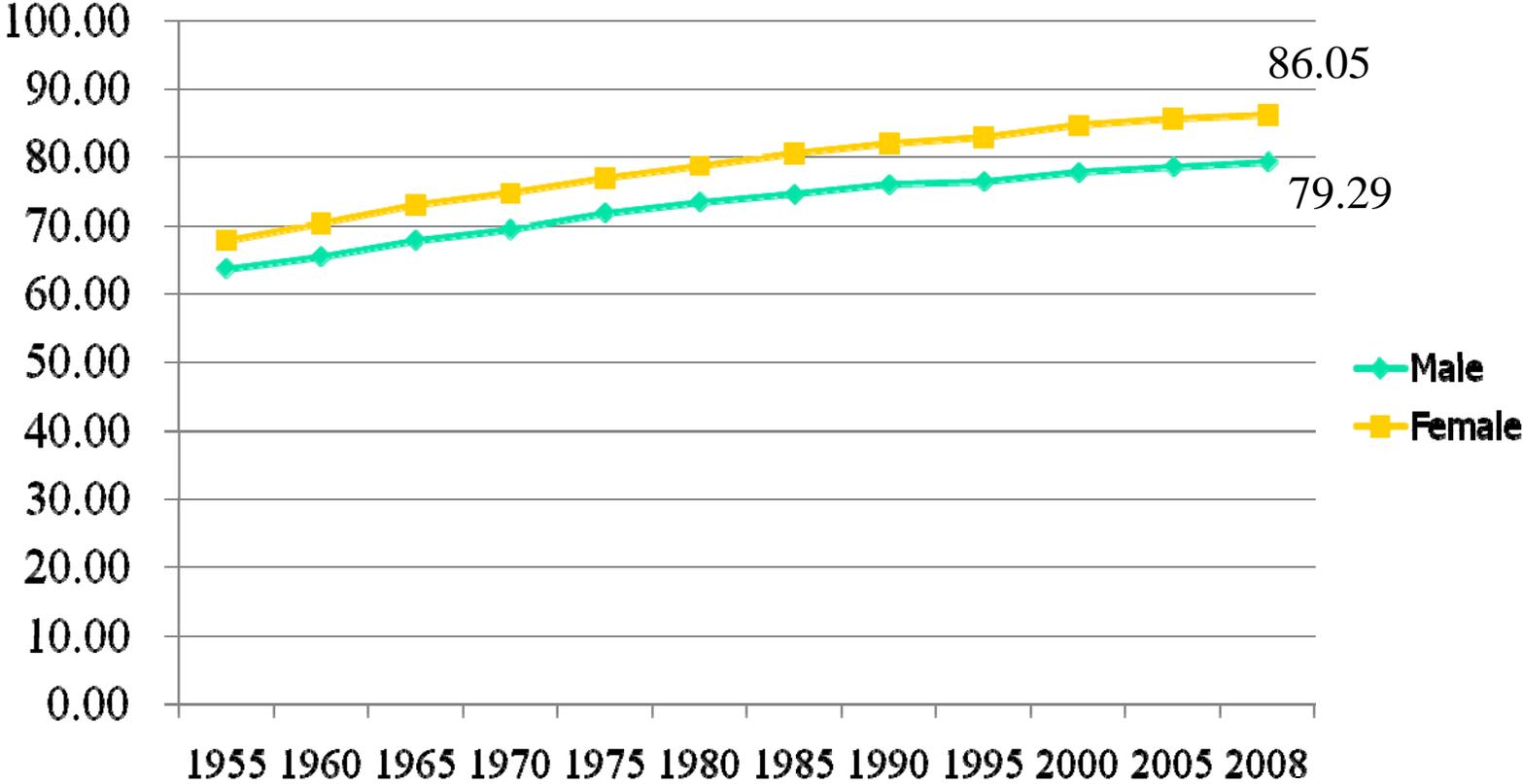
Source: National Institute of Population and Social Security Research

TFR in Asian Countries



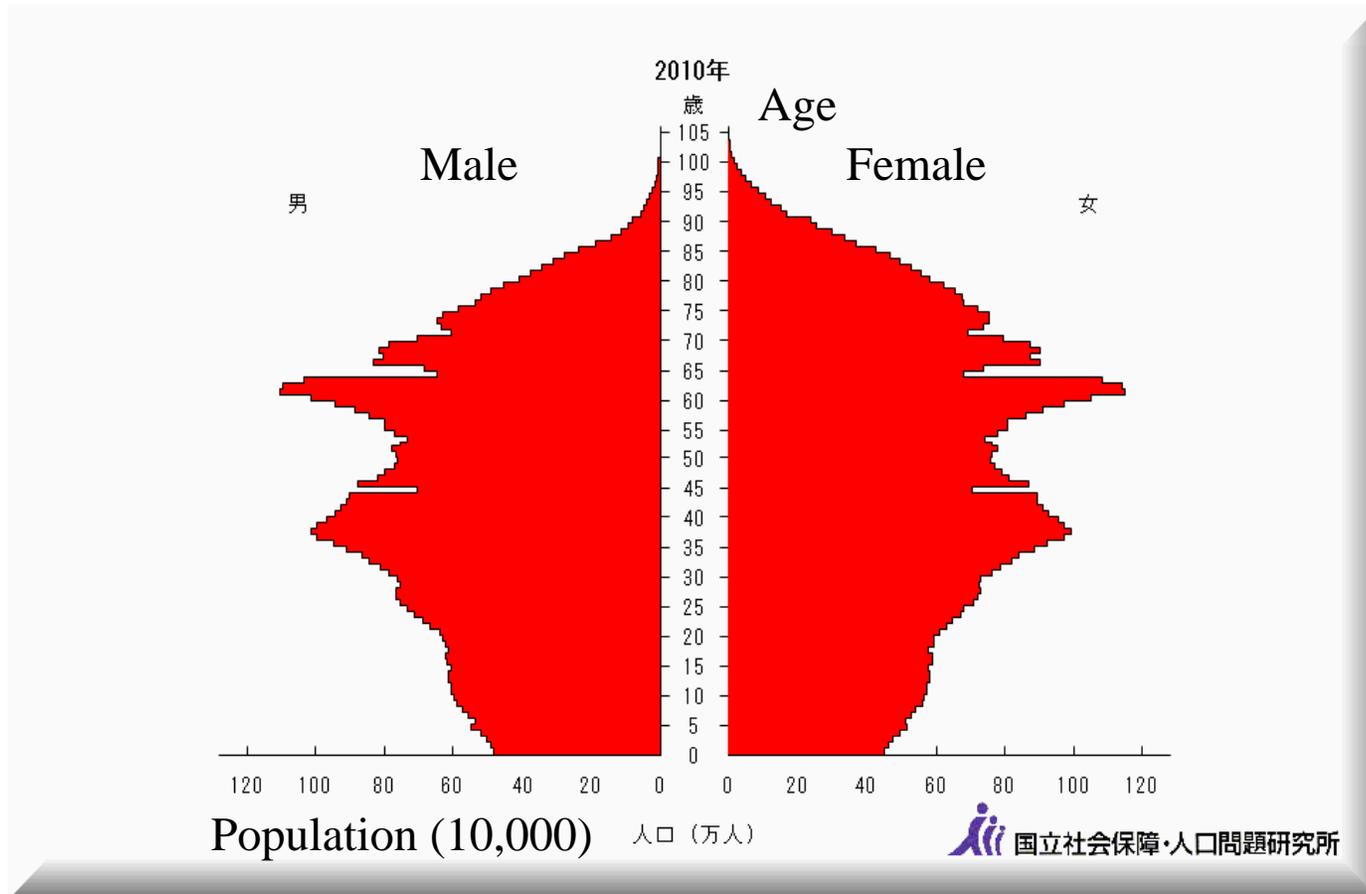
Source: WHO

Trends in Life Expectancy



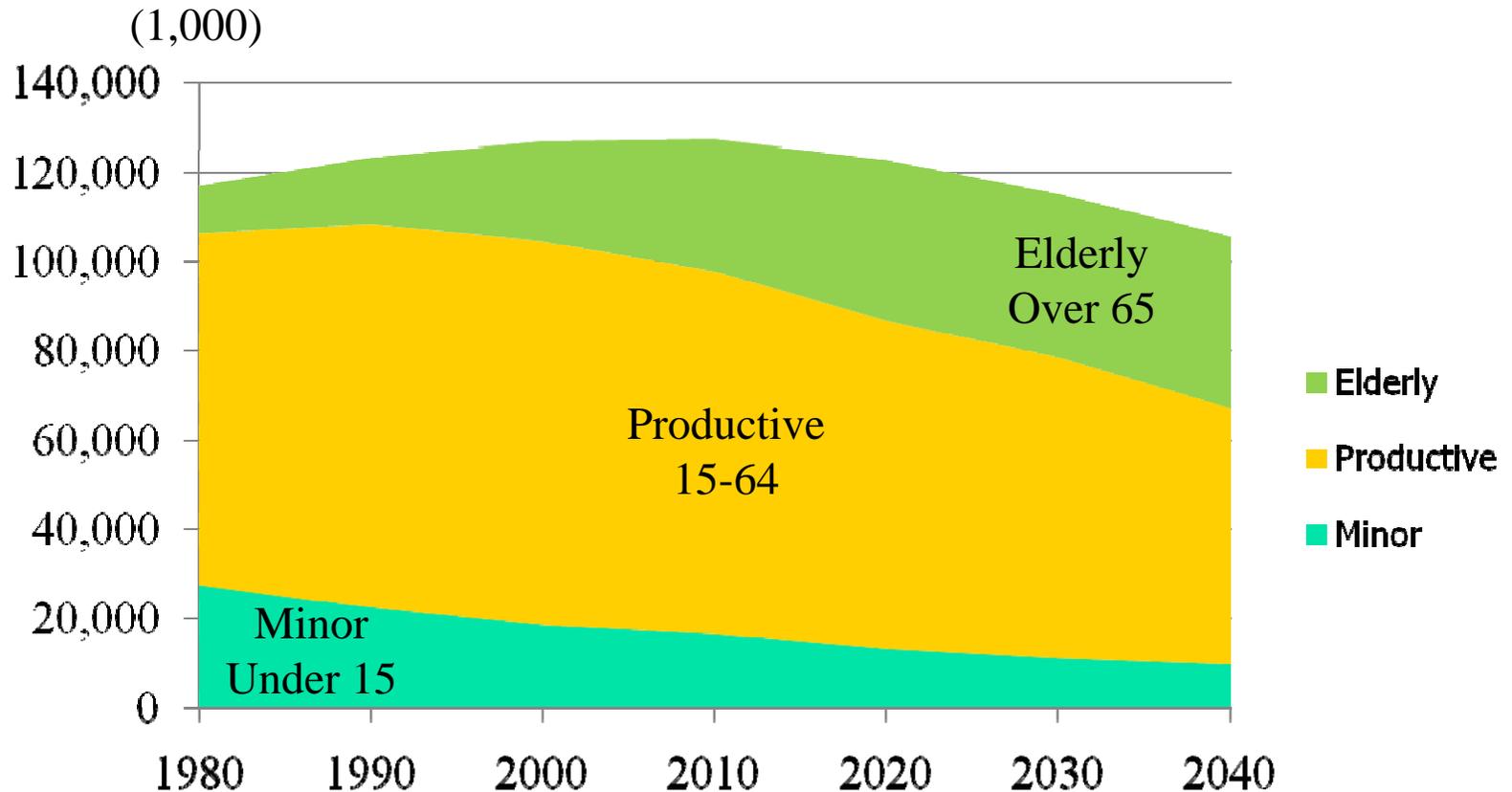
Source: MHLW “Abridged Life Table”

Population Pyramid



Source: National Institute of Population and
Social Security Research

Population by Age Group



Source: National Institute of Population and Social Security Research

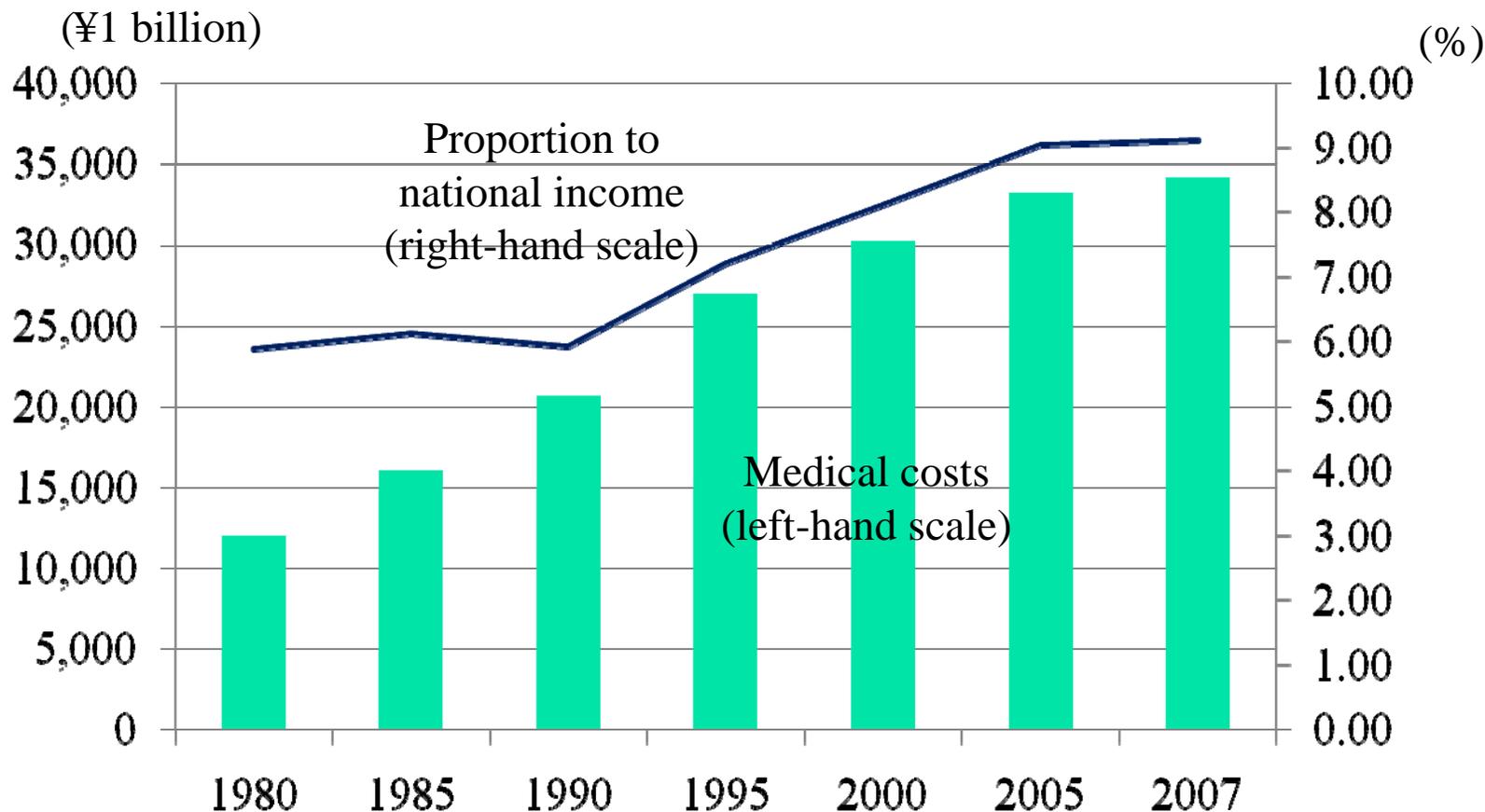
Fewer Children and Aging Population

- Drop in TFR
- Aging population
Common to advanced countries
- Decrease in working-age population (15-64)
Decline in protection-oriented products
- Shift to medical insurance/annuities

Outlines of Public Medical Insurance System

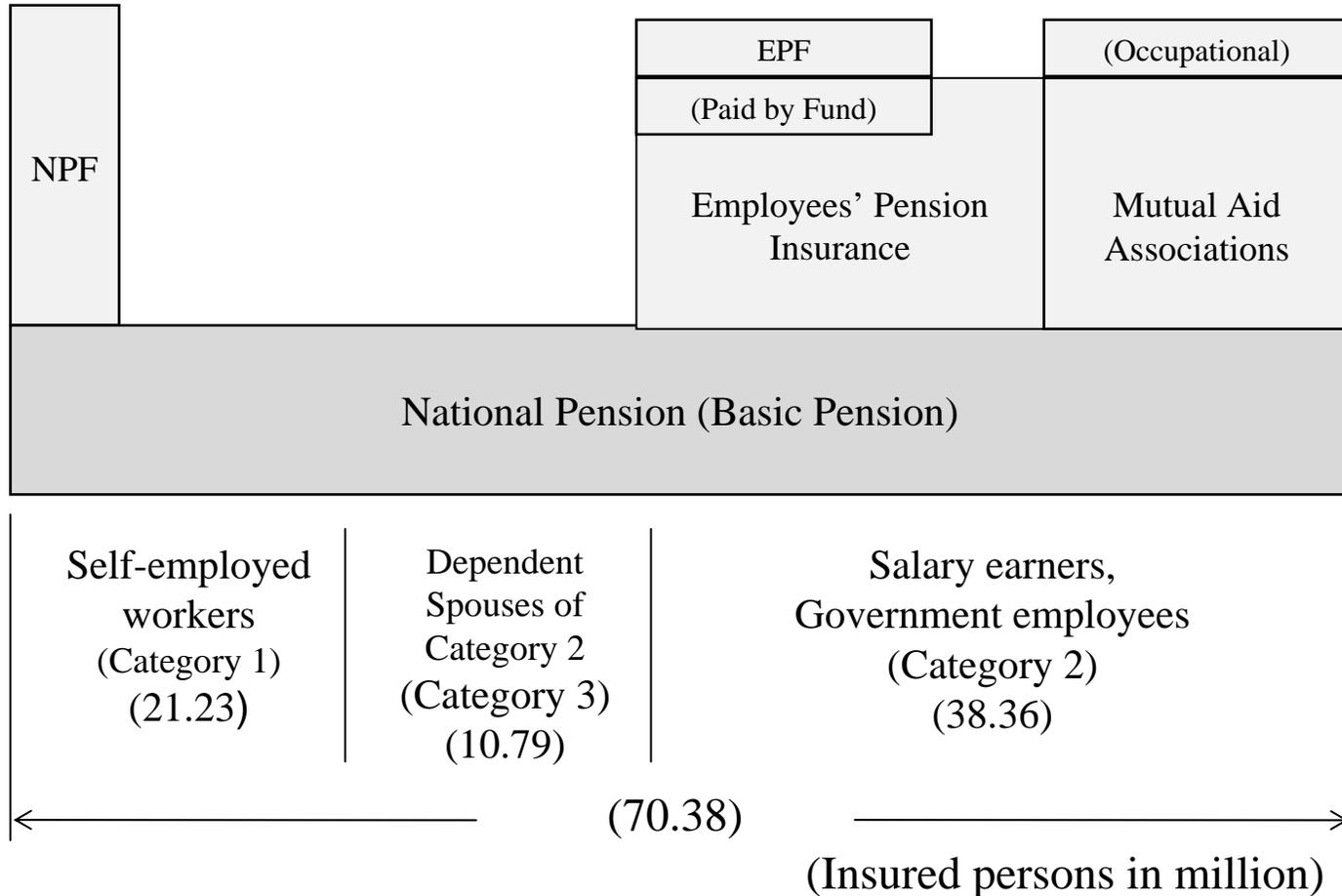
- Universal Medical Care Insurance
- Medical Care Insurance System
 - Medical insurance
 - Employees' Health Insurance (EHI)
 - Seamen's Insurance
 - Mutual Aid Associations (MAA)
 - National Health Insurance (NHI)
 - Medical Care for Retirees
 - Medical Care for the Elderly (75 and over)

Medical Costs and Their Proportion to National Income



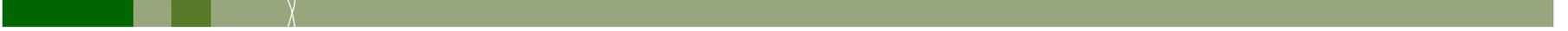
Source: MHLW

Structure of Public Pension Plan



Rising Costs of Social Security Benefits

- Rising costs for the elderly is a major contributor to the overall uptrend in national social security benefit expenditures.



III. Major Events in the Industry

Mutual Entry of Life and Nonlife Companies

- In 1996 after the revision of the Insurance Business Law, life insurance subsidiaries of nonlife insurance companies launched their operations and vice versa.

Failure of Small/Medium Life Companies

- Life companies suffered heavy losses resulting from negative interest spreads during the 1990s.
- Successive failures of 7 small/medium life companies (1997 – 2001)
- Introduction of Solvency Margin Ratio (1997) and Early Warning Measures (1999)
- Failure of Yamato Life (2008)

Failure of Small/Medium Life Companies

	Month/Year	Excessive Debt	PPC Fund	V Cut	Reliever
Nissan Life	Apr 1997	¥302.9 b	¥200 b	0%	Aoba Life
Toho Life	Jun 1999	¥650 b	¥366.3 b	10%	GE Edison
Daihyaku Life	May 2000	¥317.7 b	¥145 b	10%	Manulife
Taisho Life	Aug 2000	¥36.5 b	¥26.7 b	10%	Azami Life
Chiyoda Life	Oct 2000	¥595 b	-	10%	AIG
Kyoei Life	Oct 2000	¥689.5 b	-	8%	Prudential
Tokyo Life	Mar 2001	¥73.1 b	-	0%	T & D
Yamato Life	Oct 2008	¥64.3 b	¥27.8 b	10%	Gibraltar

Debacle of Unpaid Claims

- In February 2005, Meiji-Yasuda Life's unfair nonpayment was revealed.
- In February 2007, the FSA ordered all the companies (38 companies) to conduct researches.
- In December 2007, the FSA made public the results of researches. The number of unpaid claims and total benefits amounted to 1,350,000 and ¥97.3 billion respectively.
- Partly attributable to complexity of medical products and oversight of other claimable benefits.

Trends in Bancassurance

- Deregulation on the products for bancassurance

April 2001 Bancassurance started

October 2002 Individual annuities

December 2005 Single-premium whole-life, Single-premium endowment, endowment with premium-payment period of 10 years or less

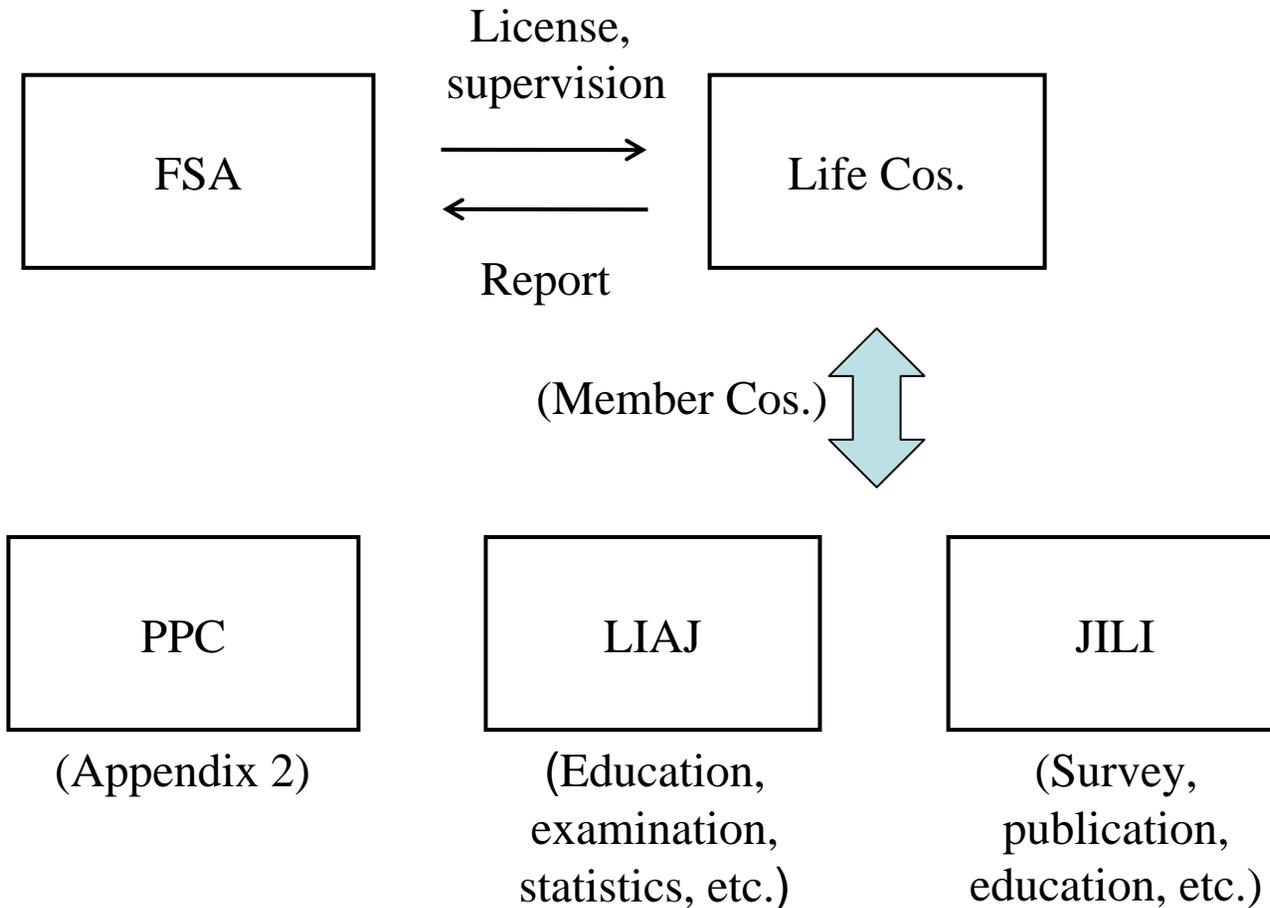
December 2007 Full deregulation

- After 2002 the sales of individual annuities boosted bancassurance.
- Guarantee of minimum funds of variable annuities.

Slump of Variable Annuity Sales

- After the fall in 2008, the sales of variable annuities slumped under the financial crisis.
- In 2009, Hartford and other insurers stopped the sales of variable annuities.

(Appendix 1) Organization Related to Life Insurance Business



(Appendix 2)

Policyholders Protection Corporation (PPC)

- An organization to protect policyholders in case of failure of an insurer.
- In December 1998, life and nonlife insurance industries each established the PPC.
- The PPC provides financial aid for a reliever company. (Financial resources are contributions by insurers.)
- If no prospective reliever company, the PPC undertakes existing policies by establishing an administration company.