

Life Insurance Distribution System in Japanese Market

----Series 4: Deregulation Period from the mid-1980s to present----

After the Plaza Accord in 1985, Japanese economy fell into a recession due to the rapid appreciation of the yen. A series of financial and monetary easing policies had been taken aiming at stimulating the growth of domestic market, namely to encourage households to consume and to spur corporates to conduct more investments. As a part of those policies, the interest rates were gradually liberalized. Meanwhile, the real estate and securities investments especially in equities became significantly active from the mid-1980s as the progress in the deregulations of financial and capital markets, and Japanese economy entered into a so-called asset-inflated growth period.

To respond to these changes in the business environment, a revolutionary new insurance product, variable insurance, in which the value of the policy is linked with the investment performance of insurance company, was introduced into the Japanese market in October 1986 after approved by the regulatory authorities. Moreover, the single-payment type of endowment insurance product in which the assumed interest rate tended to be set at a relatively high level became tremendously popular. However, insurance companies are exposed to the competition not only from the same industry but also from other financial institutions since then. This means that a comprehensive financial knowledge will be preferred when conducting insurance solicitation activities.

In fact, both the industry association and the individual companies have engaged in improving the financial knowledge of sales agents. For instance, the Life Insurance Association of Japan (LIAJ) immediately started a qualifying examination program relating to variable insurance solicitations when such products became legitimated in 1986. Two years later, LIAJ also started the Financial Advisor Certification Examination. Then in 1992, LIAJ started another two qualifying examinations for Life Consultant (LC) and Senior Life Consultant (SLC) respectively. About one year later, a Total Life Consultant Certification Examination (TLC) was started as well.

On the other hand, insurance companies had been utilizing social media advertising sales agent, especially the female sales agent. Most of advertisements regarding sales agent during this period promoted an energetic, intelligent and courteous image of female insurance sales agent. It seemed that all those efforts had been paid off to some degree. During the bubble economy period, the turnover rates

of sales agents had been improved, and both the number of registered sales agent and active sales agent were in an upward trend.

However, the life insurance industry was significantly damaged as the severe economic conditions continued following the collapse of bubble economy in the early 1990s. The number of new policies and the total value of policies in force had been following a downward trend from the mid-1990s to the mid-2000s. As countermeasures against the economic recession, the government promoted a further financial liberalization. Regarding the insurance industry, as a major part of relaxation of regulations, the Insurance Business Act was revised in 1995 and became effective on April 1, 1996.



With respect to the life insurance distribution system, the main points of the Amended Insurance Business Act can be summarized as follows. Firstly, cross entry between life insurance business and non-life insurance business through subsidiaries in respective business fields has been permitted. As a result, in 1996, eleven non-life insurance companies entered into the life insurance market by establishing a subsidiary company. It is notable that the major distribution channels adopted by those newcomers are agency channels.

Secondly, the restrictions on the insurance policy design and the price setting have been relaxed by shifting from the authorization system to the registration system. This suggests that as a means of competition, the product differentiation including policy design and/or price becomes available. Thirdly, the entry into the third sector by the subsidiaries of life insurance companies and non-life insurance companies are permitted. This means the business handled by the insurance company will become more diversified, and therefore the sales agent with comprehensive financial knowledge will be more desirable for the insurance solicitation activities.

Moreover, the Amended Insurance Business Act allows insurance companies to utilize brokerage distribution system for insurance solicitations. Also, the financial institutions such as securities companies and banks are allowed to conduct insurance solicitations by the Amended Act. In fact, the deregulation for securities companies was promoted in December 1998, while that for banks was implemented in phases during the period from April 2001 to December 2007.

Furthermore, as the progress in IT technology, the internet has become a new sales channel for all types of insurance products. In addition, two life insurance companies specializing in online direct sales, namely *AXA Direct Life Japan* and *LIFENET Insurance Company*, were established in April and May 2008, respectively.

In the meantime, some notable issues which undermine the creditability of insurance industry occurred as the progress of the liberalization. The first issue is the bankruptcy of life insurance companies. During the period from 1997 to 2001, seven domestic life insurance companies including Chiyoda Life which has a long history and used to be one of the Big Five companies in the prewar period went bankrupt. Although the causes of those bankruptcies were various, their emergence was an enormous shock for the interested parties especially the policyholders if considering the fact that there had been no insurance companies going bankrupt in the post-war period which was assured by a so-called convoy system in which the government provides every possible help and support to prevent insurance companies from the bankruptcies.

Another issue is the frequent occurrence of improper claims payments such as payment leakage and non-payment from 2005 on. This issue can be largely attributed to the product diversification of insurance companies as the progress of

liberalization. In particular, products provided by insurance companies have become increasingly diverse and more complex after the Amend Act allows insurance companies to gain competitive advantages through strategic pricing and product differentiation. Also, the approval of cross entry between the life and non-life insurance sectors, and the entry into the third sector has undoubtedly facilitated the diversity and complexity of insurance products



The Improper Claims Payments during 2001-2010 Reached 113.6 billion JPY. Source: Asahi Shimbun, Dec 17, 2011.

as well. Under such circumstances, the education and training of human resources especially the sales force has become an urgent issue. Nevertheless, the insurance companies seemed to have lagged in responding to it.

On the other hand, the public insurance systems such as pension, health and medical care have been confronted with a serious situation where the Japanese

economy is still in recession, and no significant improvements have been observed in the problems of declining birth rate and aging population. Under these circumstances, the needs for private pension, medical care and nursing care insurance products have increased rapidly in recent years.

This suggests that the consumer needs will become more diverse in future and subsequently more comprehensive service in insurance sales activities and claim payments will be required. In other words, the face-to-face type of insurance sales may still be most desirable and preferred by customers despite the fact the number of traditional direct sales agents has continuously decreased, whereas the number of sales employees from the individual and corporate agencies has increased greatly.

However, the distribution channels for life insurance business have been highly diversified, and a slight upward trend has been observed in the new acquisition policies by the nontraditional sales channels such as online direct sales. Therefore, as a traditional type of insurance sales, the face-to-face channels are required to continue the revolution aiming to meet the diversifying consumer needs and the challenges from other emerging channels.

The End.

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