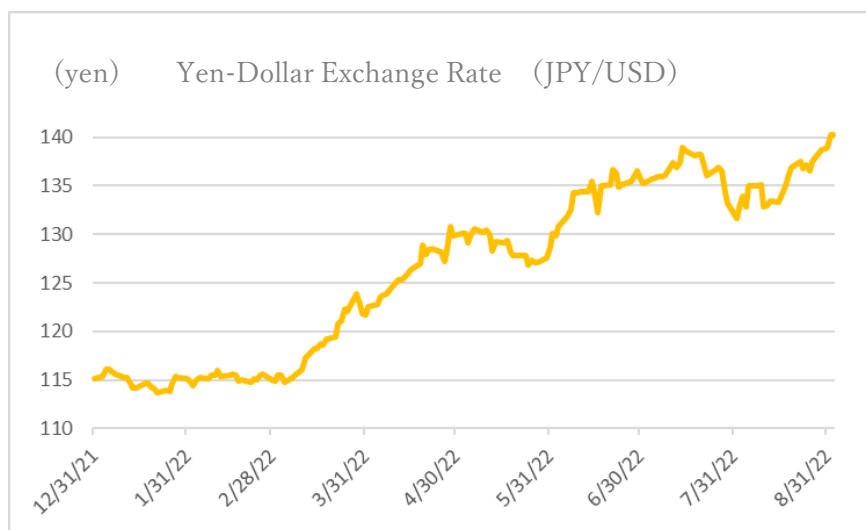


## Exchange Rate and Life Insurance Companies

Japanese yen has been rapidly depreciating. As of September 1, 2022, it fell to 140-yen level against the US dollar. This is its lowest level in 24 years, and it has fallen more than 20% since the beginning of this year. The primary cause is said to be the interest rate gap between Japan and the U.S. The governmental decision that the U.S. is trying to put inflation under control by raising interest rates whereas Japan maintains its easy monetary policy prompts investors to sell yen and buy dollars.



No one knows whether the yen will continue to weaken; however, there is no doubt that the impact on the Japanese economy, which relies heavily on imports for fuels such as crude oil, electronic devices such as semiconductors, and food, will be significant. Not only companies but also individuals and households will be hit hard. Rising prices of gasoline, daily necessities and groceries will bring a great impact on the Japanese economy centered on consumer spending.

On the other hand, the depreciation of the yen works positively on export companies and the tourism industry in Japan. As for the tourism, although there are still some entry restrictions imposed due to the COVID-19 pandemic, the weakening of the yen will be a tailwind for the Japanese government, which aims to build Japan as a tourism nation, to attract inbound travelers. In fact, overseas travelers visiting Japan must feel prices are quite cheap. Souvenir shop clerks calling in Japanese travelers by yelling “Come and look! Cheap!” in Japanese---this used to be a familiar scene back in the days when we traveled abroad; however, this time it would take place in Japan with the reversed position.

When it comes to Japanese life insurance companies and the exchange rate, it recalls about the news that life insurance companies recorded a huge exchange loss on foreign bond investments made a sensational headline because of the abrupt appreciation of the yen from the mid-1980s onward. There's more to the story on this. The companies made up for the loss with the gain on stock transactions since the stock prices back then continued to rise amid the bubble economy. Japanese life insurance companies aggressively invested overseas with their ample funds and drew attention as institutional investors. It was all around the time when Japanese life insurance companies were called *The Seiho* and increased their presence in the foreign financial market.

Another related matter to the foreign exchange rate, there is foreign currency-denominated insurance products which didn't exist in the life insurance industry of the 1900s but today. In foreign currency denominated insurance, insurance contracts are made in foreign currencies instead of the yen. Among those foreign currencies are mainly the US dollar, euro, and Australian dollar. In principle, premiums are paid in foreign currencies such as the US or Australian dollars and euros, and any payouts including insurance money and surrender value are also made in respective foreign currency. Main products include foreign currency denominated individual annuity insurance, foreign currency denominated whole life insurance and foreign currency denominated endowment.

Japan's low interest rate is the driver behind the sales of foreign currency denominated insurance products. Life insurance companies have increased the number of sales by developing foreign currency denominated products with a higher expected return rate to attract customers because they are unable to develop any attractive yen denominated products with this current low interest situation.

However, the increase in the number of complaints related to foreign currency denominated products is getting problem. According to the Life Insurance Association of Japan, the numbers of complaints against the new business for foreign currency denominated life insurance or individual annuity products sold through independent agencies such as banks are as follows.

					(Number of Complaints)		
FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
922	1,239	1,665	1,888	2,543	2,822	1,866	1,375

(Source) The Life Insurance Association of Japan Website

Many customers complain that they were not explained about the exchange risk or the possibility of a loss of principal. Values of any payouts, insurance money or surrender value, obviously fluctuate with a currency exchange rate, when policyholders received them in yen. Since the policyholders are the ones who take the exchange risk, it is important for them to understand it before signing a contract for such foreign currency denominated products. The elderly particularly need special attention to understand the exchange risk and other important matters. When Japanese life insurance companies sell the products with the market risks such as the exchange risk to the elderly, from the perspective of preventing trouble, they take special measures such that their family members who are 69 years and younger should be present with them or schedule the meeting multiple times. Each company makes endeavors to provide better services to the elderly.

With the sharp depreciation of the yen as it is happening today, it is not hard for life insurance companies to predict a surge in the number of surrendering policies because of the increase in the surrender value converted into the yen; however, is it actually influence the policyholders' behavior toward the policy surrender? Is their behavior different from that of owners of other financial instruments such as foreign currency investment trust? Although no official data on them is disclosed at this moment, the result might be interesting.