The Life Insurance Industry at a Turning Point

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Japan's life insurance companies again registered very poor performance during the fiscal year to March 1998 as they did a year before. This is the result of anxiety regarding the financial system, as symbolized by the bankruptcy of Nissan Life Insurance and the failures of some major financial institutions toward the end of 1997, as well as the nation's deteriorating economic health and the lackluster stock prices. The poor developments during the last fiscal year indicate that Japan's life insurance market is now at a major turning point.

1. Shrinking Insurance Market

1) Decreasing Balance of All Insurance Products

During fiscal 1997 the amount of personal insurance policies in force held by all life insurance companies in Japan posted negative growth for the first time after World War II. In fiscal 1996, the total amounts of personal annuity, group insurance and group annuity in force with life insurance companies already registered negative growth and the increase rate of the number of personal insurance policies also went below zero. The decrease in the outstanding value of personal insurance policies has led to the negative growth of all major insurance products in force handled by life insurance companies. (Table 1)

It has been noted for some years that Japan's life insurance market has matured as the subscription rate for households exceeded 90% in the late 1970s. Nevertheless, life insurers endeavored to secure growth by requesting policyholders to increase the amounts of their existing insurance in response to their rising income, developing new insurance products such as various riders and expanding into new areas such as the "third areas" (home care, medical care, etc.) and group annuity. In the 1990's, however, the prolonged economic stagnation has slowed down personal income growth and forced business corporations to cut their spending on annuity and welfare benefits, slowly eroding the growth of the life insurance market.

Many special reports and analyses of Japan's life insurance carried by newspapers and journals since the collapse of Nissan Life Insurance have aroused general interest in life insurance. As it is often called an "hoken-taikoku", Japan is in an excessively insured state because its amounts covered per capita and for its economic scale (national income) are far greater than other major countries.[1] The failure of an insurance company prompted many policyholders to reexamine their contracts.

According to a questionnaire survey by the Japan Institute of Life Insurance announced in November 1997 found that the insurance subscription rates were down in all household categories (household heads, housewives and children).[2] (Fig. 1)

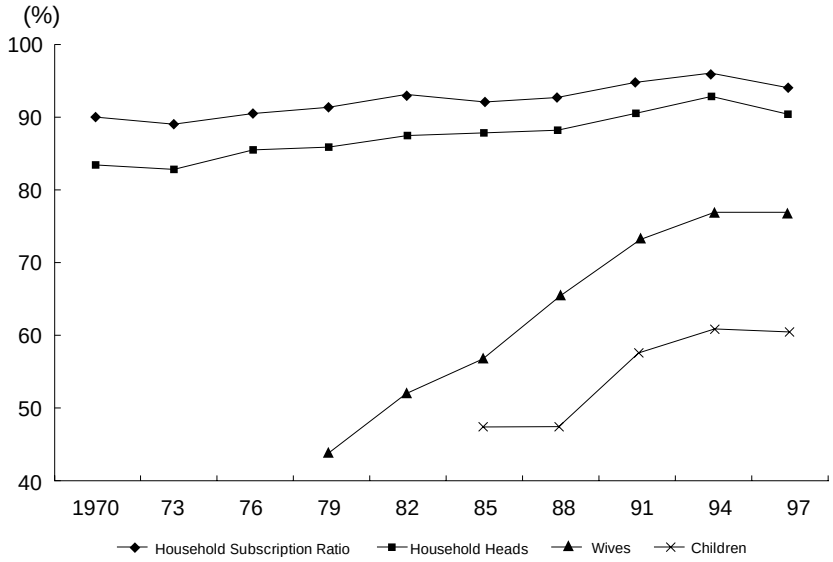
Table 1. Policies in Force and Total Assets Held by Japan's Life Insurance Industry

(Unit: Million contracts, trillion yen, %)

	Individual Insurance				Individual Annuity				Group Insurance		Group Annuity			Total Assets		
	Number of Policies	Y-Y Change in %	Amounts of Policies	Y-Y Change in %	Number of Policies	Y-Y Change in %	Amounts of Policies	Y-Y Change in %	Amounts of Policies	Y-Y Change in %	Amounts of Policies	Y-Y Change in Yen	Y-Y Change in %	Amounts	Y-Y Change in Yen	Y-Y Change in %
89	116	4.3	992	13.3	5.8	26.8	31	32.7	418	14.5	25	6.2	32.7	117	19.4	19.8
90	118	1.9	1,092	10.1	7.5	29.5	42	34.5	471	12.7	31	6.3	25.3	132	14.3	12.2
91	120	1.7	1,215	11.3	9.2	22.8	53	27.3	519	10.2	38	6.5	20.6	143	11.6	8.8
92	123	2.4	1,311	7.9	11.0	19.5	65	23.1	542	4.4	44	6.1	16.2	156	12.8	8.9
91	126	2.7	1,381	5.4	12.9	16.7	77	18.2	563	3.8	50	6.4	14.6	169	13.1	8.4
94	129	2.0	1,434	3.8	13.7	6.4	81	5.1	582	3.5	55	4.7	9.4	178	8.8	5.2
95	131	1.5	1,496	2.4	15.0	9.8	88	8.7	596	2.3	57	2.0	3.6	187	9.5	5.4
96	130	-0.5	1,496	1.8	14.7	-2.1	87	-1.4	592	-0.7	52	-5.5	-9.7	189	1.2	0.6
97	124	-4.4	1,463	-2.2	14.3	-2.8	83	-5.1	423	-28.5	51	-1.0	-1.9	190	1.5	0.8

Source: The Life Insurance Association of Japan

Figure 1. Subscription Rates



Source: the Japan Institute of Life Insurance

2) Increasing Consumer Selectivity in Choosing Insurance Companies

Policyholders have been more selective when choosing insurance companies in recent years. Table 2 shows the amounts of policies held by 16 major Japanese life insurance companies as of the end of March 1998. All companies suffered substantial decreases in group insurance contracts due to reexamination of the characteristics of their products,[3] while personal insurance, personal annuity and group annuity show greater discrepancies between major companies and mid-standing companies, and between the companies which have healthy financial position with ample latent profit

1 Japan's per capita average amounts insured were ¥16.6 million and the ratio of amounts of policies to national income was 561% as of 1994, compared with America's ¥4.58 million and 194%, France's ¥2.86 million and 141% and Germany's ¥1.96 million and 101%, respectively.

2 The survey is carried out every three years.

and those which do not.[4]

In fiscal 1997 there were substantial outflows especially of group annuity contracts (assets) as there were in the previous year. This has caused great discrepancies in business performance among companies. In the case of the bankruptcy of Nissan Insurance, measures were taken to slash surrender values by 15% at most for pre-maturity cancellation, and such measures were also applied to the special account which is a divisible account. These measures partly explain why asset outflows occurred not only in general accounts but also in special accounts of the companies with less healthy financial positions (such as smaller hidden profit).

Table 2. Policies in Force with Major Life Insurance Companies by Type of Contracts

(Unit: 100 millions yen, %)

	Individual Insurance		Individual Annuity		Group Insurance		Group Annuity				
								Changes in Yen			Y-Y
		Y-Y Change in %		Y-Y Change in %		Y-Y Change in %			of which General Account	of which Special Account	Change in %
Nippon	3,385,117	-1.3	169,030	-0.9	608,831	-38.2	108,072	6,045	-911	6,956	5.9
Daiichi	2,391,333	-1.5	77,944	-1.6	461,986	-33.4	81,378	2,375	-1,842	4,217	3.0
Sumitomo	2,180,885	-2.2	118,446	-1.0	390,613	-35.6	56,235	-935	-2,528	1,593	-1.6
Meiji	1,343,516	-1.9	88,248	-0.6	439,144	-35.6	55,719	2,599	1,619	980	4.9
Asahi	900,378	-3.9	81,437	-6.8	234,409	-33.3	32,564	-147	-1,150	1,003	-0.4
Mitsui	754,104	-4.2	27,771	3.7	280,617	-26.9	36,274	1,768	-961	2,729	5.1
Yasuda	765,463	-2.5	49,041	-3.2	640,708	-3.5	37,433	2,233	1,227	1,006	6.3
Taiyo	104,481	-0.1	46,779	1.0	91,391	-16.4	7,446	438	652	-214	6.3
Daido	381,298	1.4	12,101	-2.5	122,822	-31.8	24,119	854	505	349	3.7
Kyoei	471,241	-5.5	17,179	-2.4	155,121	-20.0	6,731	-2,645	-2,032	-613	-28.2
Chiyoda	391,985	-12.1	17,928	-14.6	161,969	-29.3	16,175	-7,398	-5,978	-1,420	-31.4
Fukoku	334,560	2.1	25,677	-1.2	109,366	-12.6	16,478	1,339	1,118	221	8.8
Nippon Dantai	132,346	-4.3	32,318	-14.0	191,423	-12.3	12,272	-2,440	-2,428	-12	-16.6
Toho	195,129	-16.6	20,714	-25.6	111,678	-18.8	3,796	-8,219	-7,392	-827	-68.4
Daihyaku	201,491	-10.0	14,502	-8.3	57,569	-34.9	3,729	-3,402	-2,368	-1,034	-47.7
Tokyo	67,827	-5.6	6,935	-16.3	79,109	-13.4	3,312	-1,559	-1,140	-419	-32.0
TOTAL	14,001,154	-2.7	806,060	-3.6	4,136,756	-27.9	501,733	-9,094	-23,610	14,516	-1.8

Source: Data from above-listed companies

The decrease in the amounts of policies held is naturally affecting the financial balance in the forms of a declining premium income and an increasing payment of proceeds, surrender values and other payments. The decrease in premium income was caused by the before-mentioned reexamination of the characteristics of group insurance and the backlash against the shift in group annuity assets from general account to special account in fiscal 1996.[5] However, excluding these factors, the growth rate become smaller for most life insurance companies. (Table 3) This shows that the relatively large drop in premium income of personal insurance as the major area is driving the insurance market into a more serious situation.

Payment of proceeds and other payments decreased in fiscal 1997 in big companies in

3 Group A insurance, in which the company makes a contract with its employees as the insured, posed a problem because the claim paid were not entirely paid to the bereaved family members of the insured (employees), with part being paid to the company. As a result, there has been a reexamination of characteristics so that the bereaved family can receive the claim in entirety.

4 For selection of insurance companies in the areas of personal insurance and group annuity, see "Japan's Life Insurance Companies -A Look at FY97 First-half Results-" by Takeshi Inoue in the 1998 Spring Issue of the *Capital Research Journal*, p.49.

reaction to massive cancellation of group annuity assets during fiscal 1996, while it increased massively in most medium and small insurance companies due to the continued outflows of group annuity assets.

Table 3. Premium Income versus Proceeds and Other Payments by Major Life Insurance Companies

(Unit: 100 millions yen, %)

	(1)Premium Income		Excluding Group Insurance and Annuity		(2)Proceeds and Other Payment		(2)/(1)
		Y-Y Change in %		Y-Y Change in %		Y-Y Change in %	
Nippon	62,746	6.5	42,710	4.1	49,535	-3.0	78.9
Daiichi	40,115	3.3	27,028	2.0	34,651	-5.9	86.4
Sumitomo	34,129	-0.5	25,519	-0.3	34,292	-1.3	100.5
Meiji	27,462	9.0	16,693	1.1	23,374	-10.0	85.1
Asahi	17,114	-0.1	11,631	-2.0	17,732	-15.8	103.6
Mitsui	17,658	11.3	9,748	-1.5	16,167	-7.5	91.6
Yasuda	17,003	13.3	8,383	-1.3	13,347	-9.2	78.5
Taiyo	13,288	3.8	11,049	-2.9	13,141	15.0	98.9
Daido	11,669	5.6	7,268	3.7	8,586	-18.1	73.6
Kyoei	7,466	-8.2	5,747	-6.7	12,781	47.4	171.2
Chiyoda	7,801	-9.3	4,307	-14.9	19,469	28.7	249.6
Fukoku	7,971	-7.1	4.378	1.1	5,720	-6.6	71.8
Nippon Dantai	6,595	-1.5	3,740	-5.4	11,078	55.3	168.0
Toho	4,699	-21.4	3,464	-20.8	21,599	96.2	459.7
Daihyaku	4,367	-12.7	3,416	-10.1	10,779	55.1	246.8
Tokyo	2,098	-0.7	1,060	-10.3	4,628	67.8	220.6
TOTAL	282,184	2.9	186,142	-0.5	296,881	5.4	105.2

Source: Data from above-listed companies

Naturally total assets have decreased noticeably for the companies which have paid large amounts of proceeds and other payments relative to their premium income. Compared with other financial institutions, life insurance companies raise small amounts of funds on the market, and they receive premiums monthly from policyholders.

Therefore they encounter few problems of liquidity crisis, or credit crunch caused by the inability to raise short-term funds. However, in the event where as much as 10% of total assets decreases, their assets should have some degree of liquidity, and it is feared that this is likely to affect the yield on assets.

Asset increases for the 16 major insurers amounted to ¥1.3 trillion. However, this amount would decline to minus ¥0.6 trillion if the portion bloated on the balance sheet through customers' liabilities for acceptances and guarantees and receipt on collateral involved in repo transactions[6] are excluded. The figure would further drop to minus ¥1.7 trillion if debts to those other than policyholders, such as subordinated loans and funds (the portion remaining to be redeemed) are excluded. This suggests that asset growth in the life insurance business is now negative. (Table 4)

5 For the sake of procedure, surrender values are paid once and then are treated as premium income.

6 As lent bonds remain on the balance sheet in repo transactions of bonds, assets and debts increase by the amount of received collateral money.

Table 4. Changes in Total Assets of Major Life Insurance Companies

(Unit: 100 millions yen, %)

	Total Assets		Change in Value (1)	Change in Value (2)	Change in Value (3)
		Change in %			
Nippon	422,097	5.4	21,714	14,669	13,169
Daiichi	288,697	2.3	6,372	5,327	5,327
Sumitomo	237,159	1.4	3,258	258	-2,992
Meiji	170,456	2.0	3,364	3,856	3,856
Asahi	121,760	1.3	1,620	1,017	-983
Mitsui	109,015	6.8	6,930	1,645	695
Yasuda	94,749	2.6	2,414	2,363	2,363
Taiyo	68,257	1.8	1,222	1,252	1,252
Daido	53,464	5.7	2,872	2,554	2,554
Kyoei	52,458	-8.4	-4,792	-4,792	-5,167
Chiyoda	50,283	-13.5	-7,880	-10,249	-11,524
Fukoku	43,026	4.2	1,742	1,742	1,742
Nippon Dantai	36,584	-9.6	-3,889	-3,889	-4,089
Toho	30,014	-33.4	-15,081	-15,081	-15,181
Daihyaku	27,624	-16.8	-5,562	-5,562	-6,132
Tokyo	13,287	-9.5	-1,398	-1,398	-1,798
TOTAL	1,816,928	0.7	12,906	-6,288	-16,908

Note 1: Changes in Value (2) represent the amount of change in assets minus customers' liabilities for acceptances and guarantees and receipt on collateral involved in repo transactions.
Note 2: Changes in Value (3) represent the amount of Changes in Value (2) minus the effects of those raised through funds and subordinated loans.

Source: Data from above-listed companies

2. Collapse of the Concerted Investment Practice

1) Unevenness in Asset Portfolios and Investment Yields

The investment environment in fiscal 1997 was affected by stock prices plunged, domestic interest rates dropped and the yen weakened because of worsening economic health. The outstanding amount of stocks of all life insurance companies was down due in part to appraisal loss. Lower interest rates prompted a shift from government bonds to other bonds which are lower in liquidity but higher in yields.

The outstanding balance of government bonds held by the 16 major life insurers declined by ¥1.5 trillion, while their investments in other public bonds increased by ¥1.8 trillion.

Many insurers increased their investments in foreign currency-denominated assets through mid-1997 due to the weaker yen and stronger US dollar and the expanding spread between domestic and external interest rates. Toward the end of March 1998, however, they sold their holdings in order to secure profit. The percentage of foreign currency-denominated assets in portfolios ranges from a few percentages to over 10%. The spread is also noticeable among hedges put by the companies using derivatives such as futures exchange contracts and currency options. It is important to see the situation of hedging transactions to learn at what exchange risks the companies take to make investment. (Table 5)

Recently, there is also major unevenness not only in foreign currency-denominated assets but also in the percentages of investments in other assets. Until a while ago, there was little differences in investment among big and medium-standing life insurers. However, after the bursting of the

bubble economy, some companies were quicker to start reexamining their asset portfolios and slash the outstanding amounts of stocks and foreign securities. This has created a significant discrepancy in their asset composition.

After the traditional insurance market, including term policy, reached saturation, it has been perceived that life insurers' competitiveness depends on their investment capability as well as on their marketing ability. With this perception, life insurers have placed greater managerial focus on how to improve investment ability. Recently, asset portfolios are reflecting this effort to invest in their own original ways. (Fig. 2)

Table 5. Asset Management by Major Life Insurance Companies in Fiscal 1997 (General Account Assets)

(Unit: 100 million yen, %)

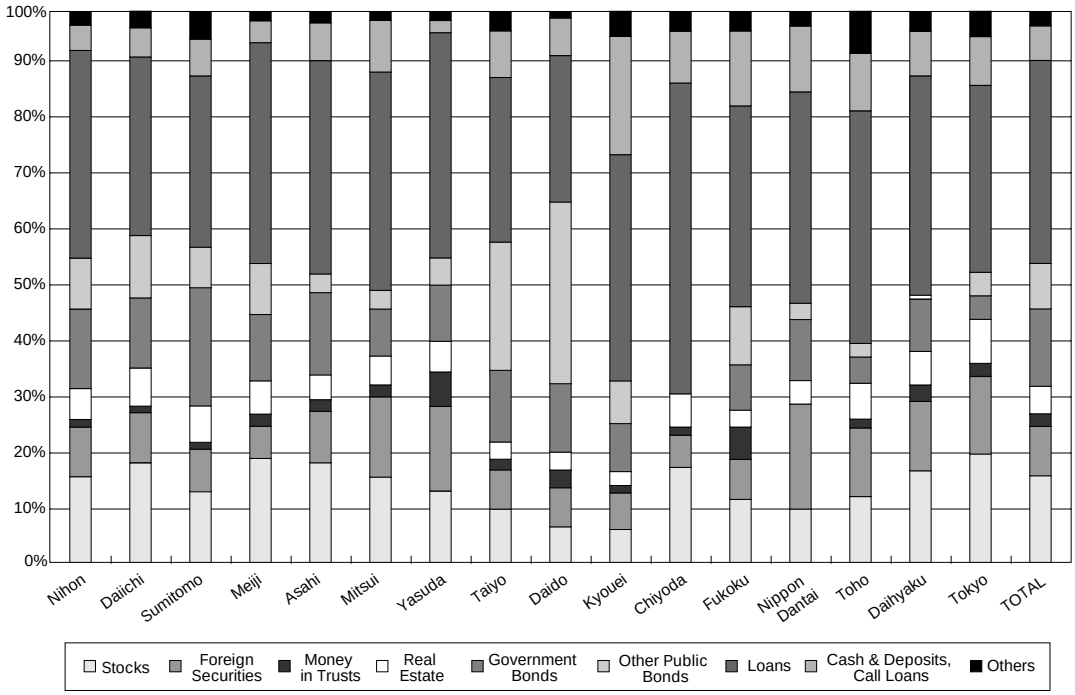
	Cash & Deposits/ Call Loans			Public Bonds									Loans		
							Government Bonds			Others					
	Share	Changes in Share	Changes in Value	Share	Changes in Share	Changes in Value	Share	Changes in Share	Changes in Value	Share	Changes in Share	Changes in Value	Share	Changes in Share	Changes in Value
Nippon	4.9	-0.0	680	24.1	1.7	10,367	14.1	1.3	7,009	10.0	0.5	3,358	36.9	-0.4	4,061
Daiichi	6.4	3.4	9,452	23.9	0.7	2,535	12.2	-1.1	-2,713	11.7	1.8	5,249	31.1	-2.1	-4,982
Sumitomo	7.7	2.0	4,556	29.4	-0.4	-407	21.5	-2.4	-4,961	7.8	1.8	4,247	29.7	-2.0	-4,087
Meiji	4.3	-1.1	-1,700	21.8	1.3	2,542	12.0	-2.0	-2,917	9.7	3.3	5,462	38.9	0.7	2,014
Asahi	7.9	2.1	2,436	18.3	0.1	238	14.4	-1.9	-2,087	3.9	2.0	2,325	37.4	0.4	692
Mitsui	10.1	4.6	4,779	12.2	-2.6	-1,873	7.7	-1.5	-1,050	4.5	-1.1	-823	38.3	-4.1	-2,214
Yasuda	2.6	-1.6	-1,373	15.6	-0.3	12	10.2	-1.0	-708	5.4	0.7	720	40.1	-0.8	-97
Taiyo	8.9	-1.3	-701	24.3	0.1	417	12.3	-0.7	-298	12.0	0.8	715	40.8	-0.6	184
Daido	6.9	0.5	396	44.9	0.2	1,263	12.0	-2.6	-938	32.9	2.8	2,201	26.1	-1.5	-59
Kyoei	21.8	13.5	6,709	17.0	-4.8	-3,415	8.5	-2.8	-1,929	8.5	-2.0	-1,486	39.9	-0.3	-1,797
Chiyoda	9.7	4.9	2,045	6.7	-3.5	-2,338	6.4	-3.5	-2,338	0.3	0.0	0	48.8	1.2	-2,451
Fukoku	13.6	4.7	2,095	19.0	0.1	340	7.4	2.4	1,064	11.6	-2.2	-725	35.4	-0.1	482
Nippon Dantai	12.1	4.8	1,481	14.3	2.3	376	10.5	3.2	872	3.8	-0.9	-496	37.2	-2.1	-2,273
Toho	10.1	5.5	995	7.2	-6.6	-3,933	4.5	-1.6	-1,325	2.7	-5.1	-2,608	41.4	6.0	-3,273
Daihyaku	8.6	4.0	875	10.3	-7.0	-2,687	9.1	-5.0	-2,010	1.1	-2.0	-678	39.1	-0.7	-1,988
Tokyo	9.0	1.8	164	8.5	-1.3	-262	4.1	-4.0	-607	4.4	2.8	345	33.7	-1.2	-495
TOTAL	7.2	1.9	32,889	22.0	0.2	3,176	12.9	-0.9	-14,936	9.0	1.0	17,808	35.8	-0.9	-16,283

	Stocks			Foreign Securities			Of which Foreign Currency -denominated Assets			Changes in Value			Total General Account Assets	
	Share	Changes in Share	Changes in Value	Share	Changes in Share	Changes in Value	Share	Changes in Share	Hedging Ratio	March 97 - September 97	September 97 - March 98	Total		Changes in Value
Nippon	16.2	-1.8	-4,394	8.8	0.3	2,609	7.2	0.9	13.8	1,249	3,120	4,369	398,733	15,265
Daiichi	18.5	-0.7	-1,369	8.6	-0.1	-188	6.6	-0.5	37.7	239	-1,329	-1,090	272,516	2,275
Sumitomo	14.0	-1.2	-2,499	6.7	-0.9	-1,902	2.9	-2.3	44.0	-1,499	-3,577	-5,076	226,075	1,716
Meiji	19.2	-1.1	-1,226	5.3	1.7	2,837	4.9	1.6	0.0	2,460	184	2,644	162,261	2,490
Asahi	19.0	-3.0	-3,302	8.7	-0.1	-21	8.5	-0.1	0.0	639	-701	-62	114,756	671
Mitsui	16.1	-3.2	-2,320	13.5	8.7	8,688	12.8	8.1	91.0	4,511	3,632	8,143	97,927	4,324
Yasuda	13.6	-3.1	-2,577	14.6	4.2	3,987	11.2	3.2	33.7	2,593	415	3,008	90,758	1,570
Taiyo	10.2	-1.1	-569	6.4	1.3	938	3.4	1.2	47.1	502	337	839	67,550	1,432
Daido	6.8	-1.5	-528	6.7	1.2	728	5.9	2.2	0.0	912	283	1,195	50,591	2,567
Kyoei	6.4	0.2	-131	5.6	-9.6	-5,625	4.3	-10.2	76.9	-1,016	-4,919	-5,935	52,271	-4,125
Chiyoda	17.6	0.6	-777	5.2	-2.4	-1,620	4.5	-2.4	50.7	586	-2,196	-1,610	48,272	-6,408
Fukoku	11.6	-1.6	-464	7.1	-2.0	-700	4.5	-1.1	2.4	212	-571	-359	41,690	1,528
Nippon Dantai	9.9	0.3	-259	18.0	-4.9	-2,655	12.5	-6.8	77.5	2,282	-5,528	-3,245	36,436	-3,875
Toho	12.3	0.8	-1,387	12.2	-3.1	-3,115	11.1	-2.6	72.1	434	-3,168	-2,729	29,777	-14,241
Daihyaku	16.8	1.6	-254	12.2	2.2	150	7.9	-1.5	48.5	206	-1,030	-824	21,371	-4,499
Tokyo	19.5	0.3	-143	14.0	-0.0	-143	9.5	-1.5	32.9	426	-736	-309	13,104	-972
TOTAL	15.6	-1.3	-22,200	8.7	0.2	3,966	6.7	-0.1	34.1	14,738	-15,779	-1,042	1,730,089	-281

Note: The ratio of hedging in foreign currency-denominated assets is calculated from short commitment in futures exchange contract transactions and long commitment of put options in currency-option transactions.

Source: Data from above-listed companies

Figure 2. Asset Portfolios (General Account) of Major Life Insurance Companies



Source: Data from above-listed companies

Life insurers' efforts to reinforce their fund management capabilities have eventually resulted in different investment yields. Table 6 shows investment yields for general account assets by category. In total general account, the yields average at 2.7%, which exceeds the assumed interest of 2.5% for group annuity in most companies, but is lower than total debt cost of about 4%. In terms of the yields on a market price basis considering hidden profit of securities, only three companies (Mitsui, Daido, Nippon Dantai) secure the projected level of interest for group annuity. Most companies cannot even secure the guaranteed interest for new contracts such as personal insurance (1.5%-1.75%).

In the area of individual assets, stock investment yield, especially market-price yield, has pushed down the investment yield for entire assets.

The difference in yields by company seems to reflect the impact of different stocks held. Fiscal 1997 witnessed an expanding spread of performances among stocks related to the financial sector, which account for a larger share in the portfolios of life insurers, partly because of the deepening uncertainty about the financial system. Moreover, this expanded spread of performances seems to have caused differences in yields among the companies. The high yields in the entire general account for some companies seem to reflect the fact that these companies have reduced the outstanding amount of stocks, shifted their investments to assets of higher yields and diversified their stocks held.

Table 6. Yields of Assets by Major Life Insurance Companies

(Unit: %)

	Cash & Deposits/ Call Loans	Money in Trust	Public Bonds		Stocks		Foreign Securities		Loans	Real Estates	Overseas Investment & Loans	Total General Accounts	
				Market-Price Basis		Market-Price Basis		Market-Price Basis					Market-Price Basis
Nippon	0.65	0.28	4.47	5.21	-3.74	-8.32	6.99	14.06	3.18	2.01	5.12	2.24	1.74
Daiichi	0.73	-1.49	4.15	4.25	-1.30	-8.30	6.42	6.29	3.51	0.75	5.38	2.45	0.84
Sumitomo	0.79	4.32	7.09	5.14	-5.88	-8.07	5.97	3.78	2.03	0.95	5.43	2.38	1.39
Meiji	0.92	2.96	3.48	3.65	-1.49	-14.31	15.06	21.41	3.14	1.40	6.95	2.66	0.52
Asahi	0.84	-3.26	5.74	5.72	-6.36	-13.25	7.41	13.98	3.15	2.60	7.47	1.54	0.49
Mitsui	0.63	7.95	4.23	4.15	-3.72	-4.30	7.49	12.92	2.65	0.58	7.64	2.18	2.61
Yasuda	0.54	4.34	5.73	4.72	-15.49	-19.37	14.61	14.04	3.59	1.63	11.81	1.99	1.03
Taiyo	0.66	1.21	4.78	4.54	0.37	-19.09	6.42	9.54	3.47	1.16	4.32	3.16	0.03
Daido	0.83	-0.44	4.45	4.38	-10.72	-12.89	8.24	12.08	2.65	1.32	6.77	2.50	2.49
Kyoei	0.87	1.96	2.44	2.56	7.14	-11.83	1.36	1.64	3.99	0.61	3.22	2.89	1.60
Chiyoda	0.62	4.17	7.53	7.57	5.22	-8.58	8.86	8.07	0.24	0.64	8.48	2.31	-0.05
Fukoku	0.65	-3.49	6.74	6.49	-7.09	-16.36	6.31	6.04	3.62	3.54	6.74	2.29	0.59
Nippon Dantai	1.01	-1.78	4.83	5.14	-0.07	-0.35	8.53	9.03	3.47	-0.60	7.43	3.96	4.12
Toho	0.61	-1.02	8.07	6.38	-1.53	-12.82	9.70	9.56	3.02	0.41	8.87	3.23	1.72
Daihyaku	0.61	5.50	3.16	2.43	4.48	-18.00	6.86	7.36	2.14	1.91	7.34	2.99	-0.49
Tokyo	0.37	-3.48	5.48	5.96	6.28	-6.60	9.71	12.76	1.96	1.70	9.52	3.84	1.05
TOTAL	0.71	1.11	5.15	4.89	-2.12	-11.40	8.12	10.16	2.86	1.29	7.03	2.66	1.23

Note 1: Yield on asset = (working asset income - asset management cost + appraisal profit by Article 112) / daily average balance of asset

Note 2: Yield on a market price basis = [working asset income - asset management cost + (latent profit at the end of March 1998 - latent profit at the end of March 1997) + appraisal profit by Article 112] / [daily average balance of asset + (latent profit at the end of March 1998 - latent profit at the end of March 1997)/2].

Source: Prepared by NRI from data of above-listed companies.

2) Impact of Increasing Appraisal Loss due to Lower Stock Prices

As stock prices continued to drop in fiscal 1997, life insurance companies and banks were allowed to choose to change the stock appraisal method from the "cost or market, whichever lower" basis to the cost basis.

Five out of the 16 major life insurers eventually adopted the cost basis, and their investment income turned negative (over the previous year) because there was no need to sell securities in order to make up for stock appraisal loss any longer. (Table 7) However, the fact is that, as their hidden profit of securities had dried up, all these companies seem to have had no room to generate gains. (Table 8)

These companies cite two reasons for their adoption of the cost basis: 1) to keep their income determination from being influenced by temporary market fluctuations because their stock investment often covers long periods, and 2) to dispose of bad debts by priority. Certainly it is advisable to preferentially dispose bad debts with higher loss probability because hidden loss of stocks may be eliminated when the market recovers. However, in the case of some stocks whose prices have plunged due to the worsening economic conditions or the deepening uncertainty of the financial system, no price recovery nor dividend payment can be expected. If the adoption of the cost basis delays the disposal of such stocks, their holders may end up by continuing to retain such low-return stocks.

Table 7. Investment Return and Cost of Major Life Insurance Companies

(Unit: 100 million yen, %)

	Stock Appraisal Standard (Cost or Market [C/M]; Cost)	Working Assets income				Asset Management Cost		Loss on Securities Sales		Loss of Securities Appraisal	Loans-related Cost	
			Y-Y Change in %	Of which Proceeds of Securities Sales	Changes in Value		Y-Y Change in %		Changes in Value			Changes in Value
Nippon	C/M	19,284	7.8	4,040	533	11,361	56.8	1,583	522	5,853	564	89
Daiichi	C/M	12,969	6.4	3,574	811	8,818	52.6	1,002	517	5,893	123	-419
Sumitomo	C/M	12,893	18.7	5,238	2,138	8,675	59.6	1,588	1,145	4,438	1,214	948
Meiji	C/M	6,889	-1.7	1,176	-448	4,438	31.3	391	298	2,639	112	-63
Asahi	C/M	7,483	20.9	3,268	1,030	5,481	61.8	400	204	4,191	326	152
Mitsui	C/M	5.837	9.5	1,682	-82	3,806	6.5	663	429	2,062	372	39
Yasuda	C/M	5.569	24.5	1,954	722	4,051	98.1	448	336	3,121	93	-23
Taiyo	C/M	3,136	23.6	928	687	1,001	103.0	145	138	567	86	-47
Daido	C/M	2,611	13.5	396	69	1,116	15.0	158	57	494	72	-37
Kyoei	Cost	2,545	-18.9	787	-515	958	-4.7	530	336	5	55	-25
Chiyoda	Cost	3,160	-0.6	1,284	-151	1,728	-16.7	524	271	21	958	613
Fukoku	C/M	2,041	20.9	637	416	1,209	98.2	241	205	792	16	-84
Nippon Dantai	C/M	2,441	0.4	927	124	1,037	-1.5	99	-181	540	128	-28
Toho	Cost	2,179	-11.0	831	-74	858	-22.8	493	335	13	191	139
Daihyaku	Cost	1,732	-7.8	593	-127	770	-21.1	366	251	2	278	216
Tokyo	Cost	838	-15.9	361	-68	298	-55.5	90	29	37	94	78
TOTAL		91,608	8.4	27,674	5,066	55,605	39.6	8,722	4,889	30,667	4,681	1,547

Note: “Loans-related cost” is the sum of "write-off of loans" and "brought into bad debt reserves".

Source: Data from the above-listed companies.

Table 8. Latent Profit of Securities held by Major Life Insurance Companies

(Unit: 100 million yen, %)

	Latent Profit or Loss of Securities				Stocks			Bonds			Foreign Securities			Others		
		Changes in Value	Latent Ratio	% in Total Assets		Changes in Value	Latent Ratio		Changes in Value	Latent Ratio		Changes in Value	Latent Ratio		Changes in Value	Latent Ratio
Nippon	39,059	-1,262	22.7	9.3	25.323	-5,492	40.0	5,722	954	7.1	8,058	3,289	28.6	-46	-14	-6.0
Daiichi	11,927	-4,272	10.9	4.2	8,247	-4,489	16.8	2,260	159	4.8	1,460	56	11.3	-40	2	-26.9
Sumitomo	2,445	-2,291	2.6	1.0	406	-803	1.3	1,794	-1,112	3.1	248	-373	4.0	-3	-2	-3.1
Meiji	10,027	-3,377	15.7	5.9	6,231	-5,395	17.3	1,634	116	7.1	2,164	903	38.7	-2	-1	-3.4
Asahi	663	-1,187	1.4	0.5	222	-1,864	1.0	182	7	1.0	258	671	3.0	-1	-0	-3.4
Mitsui	1,836	445	4.9	1.7	652	-132	4.3	238	1	2.2	946	576	8.5	0	0	0.0
Yasuda	1,620	-844	4.5	1.7	631	-768	5.3	174	-124	1.3	815	46	7.8	0	2	1.0
Taiyo	3,975	-2,085	16.4	5.8	2,842	-2,218	41.8	923	3	7.2	309	145	9.6	-100	-15	-7.1
Daido	1,808	40	8.8	3.4	402	-147	12.0	1,124	32	7.9	283	154	9.5	0	0	0.0
Kyoei	-1,076	-711	-7.5	-2.1	-566	-642	-17.3	39	13	0.5	26	20	3.3	-574	-102	-31.1
Chiyoda	-1,183	-1,232	-9.3	-2.4	-1,081	-1,194	-12.9	33	4	0.3	12	-34	1.2	-147	-9	-51.0
Fukoku	814	-687	7.0	1.9	746	-664	15.7	241	-5	4.2	31	-8	4.5	-203	-11	-44.2
Nippon Dantai	426	77	4.2	1.2	245	-11	6.9	45	13	1.6	260	69	7.6	-124	5	-26.4
Toho	-462	-600	-9.3	-1.5	-289	-496	-10.8	4	-73	0.7	4	-8	0.3	-180	-24	-37.6
Daihyaku	-1,110	-1,044	-12.8	-4.0	-921	-1,022	-20.4	15	-33	0.6	27	18	2.5	-230	-7	-36.0
Tokyo	-314	-378	-6.0	-2.4	-318	-324	-12.8	9	6	0.8	55	66	3.5	-59	3	-54.6
TOTAL	70,456	-19,410	10.4	3.9	42,772	-25,660	15.9	14,436	-39	4.6	14,955	5,591	15.1	-1,708	-173	-25.3

Source: Data from above-listed companies.

3) Ordinary Profit in Actual Deficit

All the 16 major companies posted positive figure in their final ordinary profit. In calculating ordinary profit, the companies adopting the cost basis benefit more than those adopting the cost or market basis because they do not have to include stock appraisal loss. All the 5 companies using the cost basis would have deficit ordinary profit if appraisal loss of stocks (net amounts of latent

profit and latent loss[7]) is excluded. If profit of securities sold to secure profit is deducted, only Daido would post positive ordinary profit. In short, without relying on profit of securities sold, ordinary profit of most life insurers would go into deficit, making it difficult to secure the resource for dividends payable to policyholders. Indeed, some major companies have had to secure the resource for dividends by posting appraisal profit from assets as special profit (appraisal profit by Article 112).[8]

Table 9. Ordinary Profit by Major Life Insurance Companies

(Unit: 100 million yen)

	Ordinary Profit (1)		Ordinary Profit (2)		Ordinary Profit (2)- Gain or Loss of Securities Sales		Extraordinary Profit				Extraordinary Loss	
									Of which Appraisal Profit by Article 112			
		Changes in Value		Changes in Value		Changes in Value		Changes in Value		Changes in Value		Changes in Value
Nippon	2,246	-2,670	2,246	-2,670	-211	-2,681	2,025	1,854	1,965	1,965	656	645
Daiichi	328	-3,106	328	-3,106	-2,244	-3,400	3,376	3,286	3,300	2,600	1,199	-256
Sumitomo	2,355	-682	2,355	-682	-1,295	-1,676	2,077	-2,945	1,800	-1,175	2,892	-2,622
Meiji	312	-1,763	312	-1,763	-473	-1,018	2,191	2,177	2,174	2,174	764	604
Asahi	183	-594	183	-594	-2,684	-1,419	1,250	1,181	139	-504	698	668
Mitsui	127	-228	127	-228	-891	282	878	-627	864	-640	200	119
Yasuda	679	-1,137	679	-1,137	-827	-1,522	551	540	540	540	92	-34
Taiyo	358	130	358	130	-425	-418	4	-0	-	-	83	48
Daido	848	-121	848	-121	610	-133	2	-5	-	-	101	-31
Kyoei	271	-115	-295	-680	-551	170	1	1	-	-	17	-16
Chiyoda	456	288	-603	-772	-1,363	-350	170	-107	-	-269	465	267
Fukoku	266	-148	266	-148	-129	-359	179	178	118	118	136	118
Nippon Dantai	242	93	242	93	-586	-212	139	-6	138	-6	16	-3
Toho	1	-66	-286	-354	-625	55	710	586	-	-89	459	395
Daihyaku	69	43	-849	-875	-1,076	-497	72	-74	-	-	86	77
Tokyo	16	-3	-257	-276	-528	-179	64	-28	-	-4	10	-7
TOTAL	9,260	-10,078	5,655	-13,181	-13,297	-13,358	13,688	6,011	11,039	4,709	7,876	-26

Note: "Ordinary Profit (1)" is on an announcement basis. "Ordinary Profit (2)" represents ordinary profit of the companies (which employ the cost basis as the stock appraisal standard) minus latent loss of stocks (net amounts of latent profit and latent loss).

Source: Data from above-listed companies.

3. Advances in Disclosure Underway

1) New Standard for Bad Loans

The statements of account for fiscal 1997 include some newly disclosed items. For one thing, the bad loan of life insurers is disclosed as that of banks under new criteria.[9] Until fiscal 1996, disclosure of bad debt was limited to four categories: 1) "loans to bankrupt customers" (uncollectible due to bankruptcies, etc.), 2) "nonaccrual loans" (over 6 months in arrears), 3) "restructured loans" (interests lowered below the official discount rates) and 4) "supported loans" (to which claims are waived with the approval of the tax authorities). The range of disclosure was extended in fiscal 1997. Specifically, categories 1) and 2) remain unchanged, while two other categories were changed to "loans in arrears for over 3 months" and "loans with eased lending conditions", respectively. The expanded scope of bad debts now covers claims with shorter periods of arrearage

7 Net amounts are used because when appraisal loss seems likely, profit must be ensured by selling securities.

8 Usually the Commercial Code does not permit to add up asset appraisal profit, but insurance companies are exceptionally allowed to add up appraisal gain of listed stocks (contingent on administrative approval).

9 The naming has been changed to "risk controlled debt", but in this report the former name is used.

and those offering certain concessions to debtors (interest reduction or exemption, grace for the payment of the principal, and waiving of claims).

By the new standard, the amount of bad debt held by the 16 major life insurers has increased by about 40% on average from that by the former standard. As for reserves to treat loss (special reserve for claim write-off), no companies hold reserves in the full amount of bad debt, and the average ratio of reserves is 60%. The companies with large amounts of bad debt are intent on building up reserves, but many of them are behind the others in disposing of bad debt.[10]

Some companies have announced the results of self-evaluation of their bad debt. The ratio of the amount (total of Class 2-4), including claims requiring cautious collection (Class 2), to the announced bad debt varies, ranging from over 2 fold to just under 1 fold. The fact that banks' ratio is 4 fold indicates broad differences in the criterion for self-assessment.

Table 10. Bad Loans by Major Life Insurance Companies

(Unit: 100 million yen, %)

	Total Bad Loans (new standard)										Special Reserve for Claim Write-off		Reserve Ratio (1)	Reserve Ratio (2)
		Ratio to General Loans	Ratio to Total Assets	Bad Loans by New Standard / Bad Loans by Former Standard (fold)	Loans to Bankrupt Customers	Changes in Value	Nonaccrual Loans	Changes in Value	Loans in Arrears for Over 3-month	Loans with Eased Lending Conditions		Changes in Value		
Nippon	1,885	1.4	0.4	1.47	639	412	535	-14	312	398	1,228	530	114.7	65.1
Daiichi	1,696	2.2	0.6	1.27	514	142	485	190	328	369	1,349	524	143.0	79.5
Sumitomo	1,953	3.3	0.8	1.32	230	-260	216	-152	189	1,316	1,536	774	183.1	78.6
Meiji	690	1.2	0.4	2.45	77	-32	159	-5	180	272	426	100	131.7	61.7
Asahi	1,110	2.8	0.9	1.34	434	265	263	86	180	231	799	539	126.5	72.0
Mitsui	1,310	3.7	1.2	1.35	518	-256	392	90	139	259	923	0	118.9	70.5
Yasuda	371	1.1	0.4	1.39	172	109	59	-2	62	75	268	98	127.8	72.2
Taiyo	853	3.3	1.2	1.18	123	106	33	2	97	599	210	83	59.5	24.6
Daido	603	4.7	1.1	1.24	209	43	197	-41	39	158	398	51	112.7	66.0
Kyoei	410	2.0	0.8	1.31	208	-27	96	32	68	38	276	90	110.4	67.3
Chiyoda	2,427	10.6	4.8	1.48	362	-60	1,229	-48	394	440	1,268	773	90.2	52.2
Fukoku	385	2.8	0.9	1.59	95	80	70	12	56	164	200	92	103.9	51.9
Nippon Dantai	494	3.8	1.4	1.69	166	-15	67	28	26	246	248	145	96.0	50.2
Toho	1,273	11.0	4.2	1.52	232	190	263	120	318	458	275	207	44.5	21.6
Daihyaku	843	8.3	3.1	1.19	245	64	335	-9	39	223	513	260	103.1	60.9
Tokyo	188	4.5	1.4	1.28	102	69	46	24	15	26	125	91	106.0	66.5
TOTAL	16,491	2.9	0.9	1.39	4,326	830	4,445	314	2,442	5,272	10,042	4,358	113.6	58.9

Note 1: Reserve ratio (1) = special reserve for claim write-off / [(loans to bankrupt customers + nonaccrual loans + loans in arrears for over 3 month divided by 2 + loans with eased lending conditions divided by 2) x 0.7]
Note 2: Reserve ratio (2) = special reserve for claim write-off / total bad loans.

Source: Data from above-listed companies.

On the other hand, in the future attention should be paid to subordinated loans held by life insurance companies in large amounts for financial institutions. Some subordinated loans are reaching maturity, and most life insurers reduced their outstanding amount last fiscal year. But the balance still amounts to about 10% of total assets for some companies. Any generalization of subordinated loans is difficult because the contracts have diverse contents. However, life insurers may have to bear an additional burden depending on how those loans are treated in dealing with insolvencies of financial institutions. It is said that some companies raise funds through subordinated loans in order to increase their equity capital, and that some of them are cross-holding subordinated loans with financial institutions. If the partner financial institutions of such deals go bankrupt, it is feared that there would be some adverse effects on both invested funds and fund raising.

Table 11. Subordinated Loans of Major Life Insurance Companies

(Unit: 100 million yen, %)

	Investment Outstanding Subordinated Loans				Outstanding Subordinated Loans Borrowed
		Changes in Value	Ratio to General Loans	Ratio to Total Assets	
Nippon	130197	-656	9.9	3.1	
Daiichi	9,516	313	12.4	3.3	
Sumitomo	7,483	-246	12.6	3.2	2,250
Meiji	10,380	-48	17.5	6.1	
Asahi	7,189	-151	18.3	5.9	2,000
Mitsui	4,685	-265	13.2	4.3	950
Yasuda	5,783	-90	16.4	6.1	
Taiyo	3,741	-15	14.5	5.5	
Daido	2,132	-60	16.5	4.0	
Kyoei	3,591	23	17.9	6.8	375
Chiyoda	3,940	125	17.2	7.8	775
Fukoku	1,799	-53	12.9	4.2	
Nippon Dantai	3,765	-211	28.7	10.3	200
Toho	2,388	-63	20.6	8.0	
Daihyaku	2,695	-35	26.6	9.8	380
Tokyo	1,025	-100	24.7	7.7	260
TOTAL	83,307	-2,156	14.5	4.6	7,190

Source: Data from above-listed companies.

2) Solvency Margin Ratio

Another noticeable item among newly disclosed items is life insurance companies' solvency margin ratio relative to their equity capital. The ratio is an indicator that shows the amount of surplus funds against the portion exceeding the expected risks (solvency margin). [11]

In the "early corrective measures" for insurance companies to be introduced in fiscal 1999, a 200% ratio is regarded as the point for intervention by the supervisory authorities. Among the 16 major life insurers, only Toho fails to reach this ratio.

There is a wide spread among the solvency margin ratios of life insurers, with some exceeding 1000%. Their solvency margin ratio levels do not directly reflect the appraisal of life insurance companies. However, solvency margin (equity capital in a broad sense), which is used as the nominator of the ratio, is indicative of how much potential a company retains in dealing with burdens such as bad debt and negative spread. Whether this solvency margin is large or small should determine how much funds out of profit can be appropriated for the payment of dividends.

10 As some bad debts are guaranteed, it is difficult to add up reserves for the sake of accounting. This explains why Taiyo's reserves are extremely small.

11 The predictable risks are basically reflected in premiums, and reserves for this portion are held in the form of policy reserves. Unpredictable risks, which comprise the denominator of the ratio, include insurance risk, expected interest rate risk, investment risk and management risk. Items that comprise the nominator (solvency margin) include equity capital, such as funds and stocks, various kinds of reserves, hidden profit of assets, such as land and stocks, future profit and subordinated loans.

Table 12. Solvency Margin Ratios of Major Life Insurance Companies

(Unit: 100 million yen, %) (Unit: 100 million yen)

	Solvency Margin	Risk Equivalent	Solvency Margin Ratio	Tier-1 Solvency Margin	Tier-1 Solvency Margin Ratio	Change in %	Latent Profit of Stocks (general account)	Latent Profit of Land (Note)	Subordinated Loans	Unamortized Funds	Brought into Dividend Reserve for Policyholders with Average 5-Year
Nippon	54,739	5,824	939.9	26,200	449.9	-52.1	25,323	1,447		1,990	2,528
Daiichi	26,315	4,163	632.1	16,832	404.3	-36.0	8,247	-996		230	1,831
Sumitomo	15,806	3,003	526.2	9,980	332.3	-36.8	406	-1,959	2,250	1,390	1,821
Meiji	18,518	2,572	720	11,206	435.6	-39.5	5,231	105		196	1,420
Asahi	12,210	1,865	654.8	7,238	388.2	-40.7	222	1,950	2,000	290	824
Mitsui	6,418	1,306	491.6	3,877	297.0	-39.6	652	-749	950	272	732
Yasuda	8,762	1,352	648.1	6,902	510.5	-21.2	631	130		73	1,109
Taiyo	7,906	906	873.0	5,215	575.8	-34.0	2,842	-180			134
Daido	5,717	562	1,016.8	4,664	829.4	-18.4	402	54		204	443
Kyoei	2,203	733	300.7	1,306	178.3	-40.7	-566	220	375		335
Chiyoda	2,615	832	314.2	1,107	133.0	-57.7	-1,081	-507	775	450	283
Fukoku	3,928	544	722.4	2,272	417.9	-42.1	746	814			293
Nippon Dantai	1,388	450	308.6	716	159.2	-48.4	245	-170	200		252
Toho	874	566	154.3	476	84.1	-45.5	-289	187		90	149
Daihyaku	906	308	295.0	248	80.6	-72.7	-921	-50	380	190	88
Tokyo	1,007	233	431.6	134	57.5	-86.7	-318	449	260	140	92
TOTAL	169,312	25,218.2	9,029.3	98,374	390.1	-41.9	41,772	743	7,190	5,515	12,330

Note 1: Tier-1 solvency margin = solvency margin - latent profit of stocks x 0.9 - latent profit of land x 0.85 - subordinated loans - unamortized funds - brought into dividend reserve for policyholders with average 5-year.
Note 2: If latent profit of stocks and land is negative, this is regarded as zero in calculating Tier-1 solvency margin.
Note 3: latent profit of land is on an road rating basis. For the company which announces the gain only on a posted price basis, the road rating based land price is calculated as valuing about 85% of the posted price.

Source: Data from above-listed companies.

In calculating banks' equity capital, the inclusion of complementary items is limited by grouping equity capital into basic items such as capital, capital reserve and profit reserve (Tier-1) and complementary items such as hidden profit on securities, subordinated loans and subordinated bonds (Tier-2). When calculating the complementary items, limits are imposed. This thinking is followed in calculating the solvency margin ratio of life insurance companies by restricting the inclusion of subordinated loans into equity capital. The solvency margin ratio publicly announced is provisionally calculated by excluding what is close to complementary item (as banks call them) [i.e. 1) gain from reappraisal of stocks, 2) gain from reappraisal of land, 3) future profit (brought into dividend reserve for policyholders with average 5-year service), 4) subordinated loan and 5) unamortized portion of funds] (provisionally called Tier-1 solvency margin ratio).

Then the ratio for the 16 companies declines by about 40% on average. (Table 12) Some companies rely heavily on complementary items, while other life insurers such as Nippon Life are actively amortizing funds and solidifying their on-balance equity capital as one of their operational targets.

The solvency margin ratio is basically an indicator of the operational durability of an insurance company against unpredictable contingencies. It is regarded as having something to do with rating which indicates the insurance company's ability to pay claim paid. Table 13 shows the relationship between the solvency margin ratio and rating. It is inferred that the rating institutions pay greater attention to the level of solvency margin in the case of lower-rated companies, and place greater emphasis on solvency margin excluding complementary items.

Table 13. Relationships between Solvency Margin Ratio and Rating

	Solvency Margin Ratio	S&P	Moody's
Daido	1,016.8	A+	A3
Nippon	939.9	AA	Aa3
Taiyo	873.0	A	A3
Fukoku	722.4		A3
Meiji	720.0	A+	A1
Asahi	654.8	BBB-	Baa3
Yasuda	648.1	A	A2
Daiichi	632.1	A	A1
Sumitomo	526.2	BBB	Baa1
Mitsui	491.6	BBB-	Baa2
Tokyo	431.6		B1
Chiyoda	314.2	B(pi)	B3
Nippon Dantai	308.6	B(pi)	
Kyoei	300.7	B(pi)	B3
Daihyaku	295.0		B3
Toho	154.3	B(pi)	Caa1
TOTAL	671.4		

	Tier-1 Solvency Margin Ratio	S&P	Moody's
Daido	829.4	A+	A3
Taiyo	575.8	A	A3
Yasuda	510.5	A	A2
Nippon	449.9	AA	Aa3
Meiji	435.6	A+	A1
Fukoku	417.9		A3
Daiichi	404.3	A	A1
Asahi	388.2	BBB-	Baa3
Sumitomo	332.3	BBB	Baa1
Mitsui	297.0	BBB-	Baa2
Kyoei	178.3	B(pi)	B3
Nippon Dantai	159.2	B(pi)	
Chiyoda	133.0	B(pi)	B3
Toho	84.1	B(pi)	Caa1
Daihyaku	80.6		B3
Tokyo	57.5		B1
TOTAL	390.1		

Note: Ratings with (pi) are based on public information.

Source: Data from above-listed companies, Moody's, S&P.

Concluding Remarks

With black clouds looming over the outlook for the life insurance market, the focus of competition will shift to market share, and the industry is expected to quickly move toward monopolization. Indeed, since the start of fiscal 1998, some big life insurers are introducing the consulting sales method, which is sustaining rapid growth of Sony Life and foreign insurance firms, in addition to conventional sales heavily dependent on female sales staff.

Medium and small life insurers will have to make a choice sooner or later between riding the wave of reorganization that is sweeping both the insurance and the financial sectors, and following their own original policies by developing their own products and market and improving their investment capabilities. This operational choice will include reorganization through, for instance, demutualization of mutual insurance companies.