Japan's Life Insurance Companies
-A Look at FY98 Results-

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The poor business climate for Japan's life insurers continued into fiscal 1998 with a lack of investment opportunities and few new policy subscribers. On top of which on June 4th 1999, 6 days before it was to announce its annual results, Toho Mutual Life Insurance Co. filed for bankruptcy under the advisement of its accountants.

This was proof that the fundamental problems afflicting Japan's life insurers were still unsolved since the bankruptcy of Nissan Mutual Life Insurance Co. in 1997. With the introduction of the Prompt Corrective Action set of measures in the current fiscal year and expectations that at last something serious was going to be done to tackle the insurers' problems, it has become even more important to examine the true state of Japan's life insurance companies.

1. Accelerating decline in new insurance policies

A dearth of new policy subscriptions, previously a problem afflicting a limited number of medium-size insurers, seems to be now spreading to the majors. In FY98 Japan's biggest life insurer, Nippon Life Insurance Co., experienced the largest decline in the number of new individual insurance policy subscriptions. Out of the top 15 life insurers only one, Fukoku Life, actually saw its number of individual policy subscribers rise in FY98, while the rate of decline suffered by the major insurers overall was well above that of FY97.

New individual policies were down on the previous year for every company except Daido Mutual and Daihyaku Mutual, who introduced new low premium health insurance and non-smoker insurance policy products.

Table 1 Individual Insurance and Individual Annuities

(Units:100 million yen, %)

	Individual Insurance							Individual Annuities							Cancellation / Lapse Ratio
	Outstanding Value of Contracts			Value of New Contracts		New Contracts (including net increase in policy transfers)		Outstanding Value of Contracts			Value of New Contracts		New Contracts (including net increase in policy transfers)		
		% y-y chg, FY98	% y-y chg, FY97		% y-y chg, FY98		% y-y chg, FY98		% y-y chg, FY98	% y-y chg, FY97		% y-y chg, FY98		% y-y chg, FY98	
Nippon Life	3,206,022	-5.3	-1.3	199,752	-24.7	226,044	-29.0	167,800	-0.7	-0.9	14,626	-5.8	14,448	-4.6	8.7
Daiichi Mutual	2,309,700	-3.4	-1.5	145,624	-8.6	200,749	-11.3	78,016	0.1	-1.6	6,609	18.8	6,098	22.9	8.6
Sumitomo Life	2,092,486	-4.1	-2.2	154,508	-5.6	192,205	-10.3	119,178	0.6	-1.0	9,951	7.0	9,946	12.1	9.1
Meiji Life	1,274,826	-5.1	-1.9	77,801	-19.9	99,300	-22.8	86,951	-1.5	-0.6	4,666	-19.2	4,691	-18.8	9.1
Asahi Mutual	846,681	-6.0	-3.9	50,090	-13.6	63,792	-19.6	77,000	-5.4	-6.8	3,164	5.2	2,105	-2.9	8.3
Mitsui Mutual	709,054	-6.0	-4.2	47,771	-20.5	59,811	-19.4	28,553	2.8	3.7	3,803	-2.6	3,772	-2.2	9.8
Yasuda Mutual	735,646	-3.9	-2.5	54,077	-5.4	71,037	-9.0	48,798	-0.5	-3.2	4,119	23.9	4,127	24.7	9.7
Taiyo Mutual	101,867	-2.5	-0.1	13,398	-18.8	13,398	-18.8	49,423	5.7	1.0	5,171	52.8	5,171	52.8	6.1
Daido Mutual	381,052	-0.1	1.4	46,630	1.7	47,052	1.3	11,786	-2.6	-2.5	680	-8.2	680	-8.4	9.9
Kyoei Life	445,927	-5.4	-5.5	43,448	-8.1	48,227	-10.8	17,834	3.8	-2.4	1,993	38.8	1,990	38.7	11.4
Chiyoda Mutual	356,895	-9.0	-12.1	30,752	-7.4	33,598	-12.6	17,538	-2.2	-14.6	2,371	25.8	2,332	27.1	13.5
Fukoku Mutual	336,766	0.7	2.1	25,549	-2.6	33,265	-5.3	25,795	0.5	-1.2	1,822	17.7	1,822	17.7	6.1
Nippon Dantai	128,210	-3.1	-4.3	13,987	-14.3	14,917	-10.9	29,148	-9.8	-14.0	816	-8.2	-72	-108.9	10.8
Toho Mutual	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Daihyaku Mutual	182,340	-9.5	-10.0	22,256	15.1	24,750	3.8	13,767	-5.1	-8.3	1,782	-2.9	1,782	-1.2	17.9
Tokyo Mutual	63,698	-6.1	-5.6	5,756	-16.4	6,829	-20.9	5,771	-16.8	-16.3	132	-8.3	104	-9.6	12.7
TOTAL	**13,171,170**	**-4.6**	**-2.5**	**931,399**	**-13.1**	**1,134,974**	**-16.5**	**777,358**	**-1.0**	**-2.8**	**61,705**	**5.9**	**58,996**	**5.8**	**9.2**

Note: Cancellation / Lapse Ratio = (Value of cancellations and lapses of individual policies and individual annuities) / (Value (outstanding balance) of individual insurance and individual annuity policies) x 100

Source: Compiled by Nomura Research Institute from company-supplied data

Furthermore the value of new policies, including transferals[1], underwent an even greater decline. Transferals are a potent sales device in a market such as Japan where the take-up of insurance products is very high, but these figures indicate such previously popular sales methods are no longer effective.

Comparing rates of policy cancellations and lapses among the insurers, typically those companies rumored to be having problems are high, indicating to us a certain amount of reverse-selection via cancellations of old policies and lapsing of new ones.

The value of group pensions held has also fallen sharply on the previous year. Presumably a major factor in this decline was the lowering of guaranteed yields by 10 out of the 15 life insurers at the end of last year. The insurers are battling to stem this outflow from their general accounts by switching them to special accounts or to the advisory services of group companies. Some companies, such as Mitsui Mutual and Daido Life, are even actively strengthening the pension side of their business via group investment advisory firms. In their FY98 results, Mitsui Mutual announced that they had switched ¥650 billion worth of assets from their special accounts to allied investment advisory firms.

The only companies where increases in value of assets held in special accounts more than offset the fall in their general accounts are Nippon Life, Dai-ichi Mutual and Yasuda Mutual,

1 A transferal is where an existing policy is cancelled and replaced with a new policy. The policy reserve (accumulated premiums) of the existing policy is carried over to the new policy.

which points to the declining competitiveness of life insurers as a whole for company pension funds. Expansion of both special account and assets held in its investment advisory firm, however, have more than made up for the general account shortfall at Mitsui Mutual.

As a result over the past 2 years the number of insurers who have lost group pension assets equivalent to some 10% of total assets has risen to 1 in 3, making it no longer possible to ignore the effect this flight of pension assets is having on insurer's portfolios.

Table 2 Group Insurance / Group Annuities

(Units:100 million yen, %)

	Group Insurance			Group Annuities											
	Outstanding Value of Contracts			Outstanding No. of Contracts											Guaranteed Yield
									General Account			Special Account			
		% y-y chg, FY98	% y-y chg, FY97		% y-y chg, FY98	% y-y chg, FY97	Value y-y chg, FY98	Value y-y chg, FY97		Value y-y chg, FY98	Value y-y chg, FY97		Value y-y chg, FY98	Value y-y chg, FY97	
Nippon Life	617,332	1.4	-38.2	110,028	1.8	5.9	1,956	6,045	78,300	-9,107	-911	31,728	11,063	6,956	1.5
Daiichi Mutual	463,137	0.2	-33.4	81,417	0.0	3.0	39	2,375	59,828	-8,208	-1,842	21,589	8,247	4,217	1.5
Sumitomo Life	377,448	-3.4	-35.6	53,734	-4.4	-1.6	-2,501	-935	39,559	-6,689	-2,528	14,175	4,188	1,593	1.5
Meiji Life	455,678	3.8	-35.6	54,264	-2.6	4.9	-1,455	2,599	45,368	-3,801	1,619	8,896	2,346	980	1.5
Asahi Mutual	231,244	-1.4	-33.3	30,554	-6.2	-0.4	-2,010	-147	23,567	-2,709	-1,150	6,987	699	1,003	1.5
Mitsui Mutual	265,395	-5.4	-26.9	30,372	-16.3	5.1	-5,902	1,768	25,420	-1,512	-961	4,952	-4,390	2,729	1.5
Yasuda Mutual	657,180	2.6	-3.5	37,910	1.3	6.3	477	2,233	33,014	-578	1,227	4,896	1,055	1,006	1.5
Taiyo Mutual	96,897	6.0	-16.4	7,395	-0.7	6.3	-51	438	6,616	-280	652	779	229	-214	1.75
Daido Mutual	115,709	-5.8	-31.8	24,249	0.5	3.7	130	854	22,829	1,156	505	1,420	-1,026	349	2.5
Kyoei Life	152,150	-1.9	-20.0	6,134	-8.9	-28.2	-597	-2,645	6,046	-564	-2,032	88	-33	-613	1.5
Chiyoda Mutual	153,664	-5.1	-29.3	12,200	-24.6	-31.4	-3,975	-7,398	11,130	-3,267	-5,978	1,070	-708	-1,420	1.5
Fukoku Mutual	109,306	-0.1	-12.6	17,136	4.0	8.8	658	1,339	15,487	410	1,118	1,649	248	221	1.75
Nippon Dantai	167,814	-12.3	-12.3	11,169	-9.0	-16.6	-1,103	-2,440	11,074	-1,101	-2,428	95	-2	-12	2.5
Toho Mutual	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.5
Daihyaku Mutual	51,309	-10.9	-34.9	2,540	-31.9	-47.7	-1,189	-3,402	2,351	-1,259	-2,368	189	70	-1,034	*2.5
Tokyo Mutual	71,112	-10.1	13.4	3,122	-5.7	-32.0	-190	-1,559	2,916	-265	-1,140	206	75	-419	2.5
TOTAL	**3,985,375**	**-1.0**	**-28.2**	**482,224**	**-3.2**	**-0.2**	**-15,713**	**-875**	**383,505**	**-37,774**	**-16,218**	**98,719**	**22,061**	**15,343**	**-**

Note: Mitsui Mutual and Daido Mutual transferred some group annuity assets to group investment advisory companies during FY98. Over the same period the outstanding value of pension funds held by Mitsui Global Asset Management rose by ¥730.3 billion.

Source: Compiled by Nomura Research Institute from company-supplied data

2. Ailing Cash Balances and Declining Net Operating Profits

Total premium income for the 15 top insurers declined 6.6% due to a combination of weak growth in new policies and policy cancellations. The value of insurance pay-outs however, apart from falling at a limited number of mid-size firms, remained high, and the number of companies with insurance pay-out ratios (insurance pay-outs divided by premium income) topping 100% rose on the previous year to 10 out of the 15. Investment income also fell at 14 insurers (except for Mitsui Mutual) due to the maturity of assets yielding high returns and the fall in long-term yields. A key element now is the large gaps appearing in relative investment returns between the insurers. One factor presumably is the differing rates of asset disposal, though there has also been a significant impact on some companies who have stopped posting interest receivable on non-performing loans and posting capital gains in the current fiscal year. Fears are that this constant decline in income returns will worsen the problem of "negative spreads" (the difference between investment returns and guaranteed yields paid out to policyholders).

Due partly to three of the top insurers (Sumitomo Life, Asahi Mutual and Mitsui Mutual) starting to value their equity holdings at cost, there has been an overall 20% year-on-year reduction in the value of equity holdings across all 15 insurers. Due to the fall in share prices at the end of the previous fiscal year and the appreciation of the yen[2], charges to expenses at companies who have adopted lower-of-cost-or-market accounting or invested in foreign securities, or proceeded with the depreciation of non-performing loans, have increased. The investment balance (asset returns minus related charge-offs) was positive for all insurers except Daihyaku Life, who boosted its finances with funds from the sale of marketing rights (and other items)[3] to the Canadian life insurer Manulife. However, there are several companies where including valuation losses on these equity holdings would push their balance of investment into negative figures, a testament to the severe state of their portfolios.

Table 3 Premium Income vs. Pay-outs

(Units:100 million yen, %)

	Premium Income		Insurance Pay-outs		Returned money on cancellations / other returns		Pay-out Ratio (Balance)	
		% y-on-y chg		% y-on-y chg		% y-on-y chg		y-on-y chg
Nippon Life	58,216	-7.2	52,732	6.5	18,452	7.5	90.6	11.6
Daiichi Mutual	39,892	-0.6	36,931	6.6	12,431	4.0	92.6	6.2
Sumitomo Life	33,278	-2.5	35,056	2.2	12,171	2.2	105.3	4.9
Meiji Life	25,255	-8.0	25,489	9.0	9,067	12.2	100.9	15.8
Asahi Mutual	15,828	-7.5	17,902	1.0	6,210	2.6	113.1	9.5
Mitsui Mutual	15,745	-10.8	21,652	33.9	12,041	81.9	137.5	46.0
Yasuda Mutual	15,222	-10.5	13,492	1.1	4,326	-5.1	88.6	10.1
Taiyo Mutual	12,346	-7.1	13,098	-0.3	2,500	-15.9	106.1	7.2
Daido Mutual	11,914	2.1	9,690	12.9	3,865	43.3	81.3	7.8
Kyoei Life	6,846	-8.3	9,320	-27.1	3,172	-54.6	136.1	-35.1
Chiyoda Mutual	5,984	-23.3	11,263	-42.1	6,012	-52.7	188.2	-61.3
Fukoku Mutual	7,280	-8.7	5,765	0.8	1,681	-12.0	79.2	7.4
Nippon Dantai	5,862	-11.1	6,732	-39.2	3,243	-56.0	114.8	-53.1
Toho Mutual	-	-	-	-	-	-	-	-
Daihyaku Mutual	3,528	-19.2	6,984	-35.2	3,053	-56.4	197.9	-48.9
Tokyo Mutual	2,070	-1.3	2,879	-37.8	1,612	-50.8	139.1	-81.6
TOTAL	**259,264**	**-6.6**	**268,984**	**-2.3**	**99,837**	**-10.3**	**103.7**	**4.5**

Note: Mitsui Mutual transferred ¥650 billion special account contracts to Mitui Global Asset Management. If this is excluded, its %age growth in insurance pay-outs would be –6.3%, and insurance pay-out balance ratio would be 96.2%

Source: Compiled by Nomura Research Institute from company-supplied data

All insurers also posted positive recurring profits, except for Daihyaku Life. Calculating net operating profits based on the recurring profits and other company announced figures indicates the existence of a high proportion of savings-type products, and also that net

2 The Nikkei stock average was down ¥691 year-on-year at end March 1999. The yen rate against the US dollar was around ¥140 during the first half of fiscal 1998 when many insurers were aggressively investing abroad, whereas at the end of the fiscal year it had fallen to ¥120.

3 ¥53.4 billion from the sale of marketing rights, ¥40 billion from debt reinsurance

operating profits at firms with high average guaranteed yields are shrinking. Net operating profits declined at 10 firms, while now 6 firms have over a 50% negative spread ratio (c.f. Table 5). Despite past high-yield insurance products coming up to maturity, the minus spread "Gyakuzaya"(difference of investment returns against guaranteed yields) at most of the insurers is still on a rising trend, or at least flat. While there are many companies who tout their intention to no longer rely on hidden profits, for the time being at least it seems they will have to.

Table 4　Balance on Investment Portfolio

(Units:100 million yen, %)

	Return on Investment Portfolio				Portfolio Expenses								Balance on Portfolio	Equity valuation method		Extraordinary Losses
			Dividend / Coupon income				Loss on sale of securities		Valuation loss on securities		Non-performing asset provisions / write-offs					
		% y-on-y chg		% y-on-y chg		y-on-y		% y-on-y chg		% y-on-y chg		% y-on-y chg			Valuation loss on equities	
Nippon Life	18,672	-3.2	14,053	-1.4	11,669	2.7	5,078	3,495	1,405	-4,448	1,844	1,280	7,003	Cost or market method	0	1,838
Daiichi Mutual	11,030	-15.0	8,468	-4.1	6,352	-28.0	2,117	1,115	1,909	-3,984	523	400	4,678	Cost or market method	-84	1,317
Sumitomo Life	10,537	-18.3	6,383	-5.8	3,738	-56.9	2,103	515	170	-4,267	98	-1,116	6,800	Cost method	-1,798	2,968
Meiji Life	6,581	-4.5	4,981	-1.8	3,326	-25.0	657	266	901	-1,739	362	251	3,255	Cost or market method	-43	1,361
Asahi Mutual	5,424	-27.5	3,310	-8.1	2,392	-56.4	1,156	756	134	-4,057	672	346	3,031	Cost method	-1,653	408
Mitsui Mutual	5,961	2.1	3,104	0.1	3,815	0.2	2,209	1,546	324	-1,738	745	372	2,146	Cost method	-696	629
Yasuda Mutual	4,593	-17.5	2,893	-2.7	2,968	-26.7	1,112	665	983	-2,138	270	177	1,624	Cost or market method	-24	112
Taiyo Mutual	3,483	11.1	2,040	-4.0	1,342	34.1	414	269	332	-234	356	270	2,142	Cost or market method	-0	30
Daido Mutual	2,768	6.0	1,882	-1.0	1,480	32.5	405	247	520	26	107	35	1,288	Cost or market method	-26	109
Kyoei Life	1,981	-22.1	1,348	-17.4	954	-0.4	538	8	31	26	112	57	1,028	Cost method	-709	27
Chiyoda Mutual	2,430	-23.1	1,209	-23.5	1,627	-5.8	625	101	71	50	741	-217	803	Cost method	-1,335	229
Fukoku Mutual	1,881	-7.8	1,185	-7.5	959	-20.7	187	-55	338	-454	89	73	922	Cost or market method	-30	114
Nippon Dantai	2,193	-10.1	1,066	-18.2	713	-31.3	334	235	206	-334	2	-126	1,481	Cost or market method	-25	428
Toho Mutual	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Daihyaku Mutual	1,129	-34.8	636	-34.4	1,150	49.3	355	-11	171	169	432	154	-21	Cost method	-1,043	348
Tokyo Mutual	649	-22.6	346	-18.0	252	-15.2	118	27	51	13	22	-72	397	Cost method	-552	36
TOTAL	**79,313**	**-11.3**	**52,905**	**-5.2**	**42,738**	**-21.9**	**17,408**	**9,179**	**7,546**	**-23,108**	**6,375**	**1,885**	**36,576**	**-**	**-8,020**	**9,953**

Note: Rough breakdown of extraordinary losses: Nippon Life (¥88 billion reserves on non-performing loans, ¥12 billion subsidies to subsidiaries and affiliates, ¥43.6 billion valuation loss on OTC equities), Dai-ichi Mutual (¥60.1 billion retirement allowance reserves, ¥24.6 billion valuation loss on OTC equities), Sumitomo Life (¥153.5 billion loss on subsidies to subsidiaries and affiliates), Meiji Mutual (¥54.5 billion valuation loss on equities by overseas branch), Asahi Mutual (¥16 billion price fluctuation reserves), Mitsui Mutual (¥19 billion loss on sale of non-performing loans), Chiyoda Mutual (¥10.6 billion loss on sale of non-performing loans), Daihyaku Mutual (¥14 billion loss on sale of non-performing loans)

Source: Compiled by Nomura Research Institute from company-supplied data

Table 5 Recurring and Net Operating Profits (estimated)

(Units:100 million yen, %)

	Recurring Profits			Pro-forma Extraordinary P/L		Pro-forma Net Operating Profits		Negative Spread Value		Negative Spread Ratio	Average Guaranteed Yield
		y-on-y chg	% y-on-y chg		y-on-y chg		y-on-y chg	FY97	FY98		
Nippon Life	1,991	-255	-11.4	-4,420	113	6,411	-368	3,300	3,600	36.0	4.1
Daiichi Mutual	1,133	805	245.0	-2,440	1,346	3,573	-541	2,100	2,400	40.2	4.1
Sumitomo Life	4,236	1,881	79.9	636	2,796	3,601	-915	2,200	2,300	39.0	4.1
Meiji Life	1,240	928	297.1	-668	1,459	1,909	-531	1,300	1,500	44.0	3.8
Asahi Mutual	1,032	849	463.2	-242	1,503	1,275	-654	1,100	1,300	50.5	4.1
Mitsui Mutual	433	305	239.6	-1,014	582	1,447	-277	834	867	37.5	4.03
Yasuda Mutual	799	119	17.5	-1,211	571	2,010	-452	670	790	28.2	3.84
Taiyo Mutual	95	-263	-73.4	38	-83	57	-180	860	900	94.0	4.4
Daido Mutual	711	-137	-16.2	-431	-63	1,141	-74	99	121	9.6	3.57
Kyoei Life	210	-60	-22.3	-254	-440	464	379	700	700	60.1	4.3
Chiyoda Mutual	422	-35	-7.6	-528	-159	950	124	410	440	31.7	3.9
Fukoku Mutual	254	-12	-4.7	-98	335	352	-347	300	350	49.9	3.8
Nippon Dantai	613	371	153.6	433	280	180	91	110	250	58.2	4.0
Toho Mutual	-	-	-	0	-	-	-	500	-	-	-
Daihyaku Mutual	-387	-456	-664.4	-608	-517	221	62	250	350	61.3	4.4
Tokyo Mutual	60	45	284.2	53	-73	7	117	130	120	94.2	4.3
TOTAL	**12,842**	**4,085**	**46.6**	**-10,755**	**7,650**	**23,597**	**-3,566**	**14,363**	**15,988**	**40.4**	**4.05**

Note: Net Operating Profits = Recurring Profits – Extraordinary P/L
Extraordinary P/L = P/L on General Account Marketable Securities (Profit on sale of marketable securities – Loss on sale of marketable securities – Valuation loss on marketable securities) – Non-performing loan reserves – Loan write-offs – Growth in contingency reserves
Negative Spread Ratio = Negative Spread Value / (Negative Spread Value + Net Operating profits)

Source: Compiled by Nomura Research Institute from company-supplied data

3. Expansion of investment in foreign securities despite overall sluggish investment growth

Overall assets declined year-on-year at 7 out of the 15 life insurers in the year to March 1999. As of the current fiscal year many companies are adopting tax-allocation accounting or taking direct reductions[4] in non-performing loans, which is having a substantial impact on the level of assets held. If the effect of these and of increases in assets from quasi-debt capital procurement (including repo trades) are excluded, then the number of firms with negative asset growth increases to 9 out of the 15. In other words, over half of the life insurance companies were not able to increase investment holdings financed from pure insurance business.

During FY98 many insurers reduced the value of their general account portfolios, including loans, real estate, money trusts and equities, and disposed of non-performing loans, whereas many also continued to increase their holdings of foreign securities as they had the previous year. Direct reductions in the value of non-performing loans was an important

4 Where the value of non-performing loans not covered by insurance or collateral but where a 100% reserve has been set aside are directly reduced by the estimated non-collectable amount (and the reserve reduced at the same time).

factor in the around ¥3.9 trillion reduction in total loans held by the 15 insurers. While many firms increased their holdings of foreign securities and foreign-currency denominated assets in the first fiscal half while the yen was a cheap ¥140 to the US dollar, fears are that the fall in the dollar in the second half and the fall in the Euro at the start of the current fiscal year has left many companies holding substantial exchange losses, though this depends of course on the degree to which these assets have been hedged.

Table 6 Rise / Fall in Asset Value

(Units:100 million yen, %)

	Total Assets									
					(ref.) Negative / Positive effect on total assets					
		% y-on-y chg	Chg y-on-y (1)	Chg y-on-y (2)	Chg in collateral funds held against bond lending	Chg in Payment Acceptances	Chg in subordinated bonds	Chg in Undepreciated funds	Direct change in non-performing loans	Deferred tax assets
Nippon Life	426,823	1.1	4,726	6,843	-2,598	-19	0	-2,990	-1,164	4,654
Daiichi Mutual	297,414	3.7	10,717	3,297	4,145	-0	1,000	-230	-615	3,121
Sumitomo Life	241,653	1.9	4,494	-3,327	4,756	-38	1,700	-550	-19	1,896
Meiji Life	172,816	1.4	2,360	-2,184	2,727	-0	0	10	-179	1,987
Asahi Mutual	121,483	-0.2	-277	-1,709	50	-0	730	-300	-243	1,195
Mitsui Mutual	101,146	-7.2	-7,870	-6,459	-2,063	-0	500	-102	-684	939
Yasuda Mutual	97,451	2.9	2,702	612	310	0	1,000	-161	-199	1,139
Taiyo Mutual	69,694	2.1	1,437	445	-439	0	850	0	-256	837
Daido Mutual	54,826	2.5	1,362	1,581	-2	0	0	-68	-149	0
Kyoei Life	50,803	-3.2	-1,655	n.a.	0	-0	80	528	n.a.	272
Chiyoda Mutual	43,599	-13.3	-6,684	-6,250	-270	-88	596	-50	-1,044	423
Fukoku Mutual	44,687	3.9	1,661	1,162	0	0	325	0	-194	368
Nippon Dantai	36,574	0.0	-10	-1,098	713	0	40	222	0	113
Toho Mutual	-	-	-	-	0	0	0	-100	0	0
Daihyaku Mutual	24,671	-10.7	-2,953	-3,293	0	0	200	0	-110	250
Tokyo Mutual	12,399	-6.7	-889	-930	-98	0	140	0	0	0
TOTAL	**1,796,037**	**0.5**	**9,123**	**-13,846**	**7,230**	**-70**	**7,161**	**-3,691**	**-4,856**	**17,194**

Notes:1. Chg y-on-y (2) = Change (in total assets) (1) excluding collateral funds on bond lending, 0payment acceptances, subordinated bonds, changes in undepreciated funds and direct changes in non-performing loans
2. Mitsui Mutual transferred ¥650 billion in special account contracts to Mitsui Global Asset Management
3. Kyoei Life has not disclosed figures on direct change in non-performing loans. It also took ¥40 billion in debt reinsurance, and raised ¥27 billion in capital.
4. Nippon Dantai increased capital by ¥20 billion.
5. Daihyaku Mutual took ¥40 billion in debt reinsurance and raised ¥53.4 billion in transfer of operating rights.

Source: Compiled by Nomura Research Institute from company-supplied data

4. Hidden Profits / Loss on Assets

As explained previously, hidden (unrealized) gains on foreign-denominated assets have fallen across the board, and 9 out of the 15 insurers are now holding unrealized losses on these holdings. As a result of which, the number of companies with hidden losses on their total portfolio of marketable securities increased by 2 over the previous year to 6. As regards foreign securities however, there are many cases where the companies have not disclosed market value of holdings, so the actual valuation loss is probably higher than announced figures indicate. Table 9 shows self-assessment valuations of marketable securities for which market value has not been disclosed. We suspect that some companies are not sufficiently accounting for market value, especially as regards foreign securities.

Hidden gains on real-estate have also shrunk drastically, leaving 6 of the 15 now holding unrealized losses. It would be perhaps true to say that real-estate holdings, like equities, are now a class of asset unlikely to provide any hidden profits. Against this, as seen in Table 7 before, the effect of overall asset reduction has been that the relative share of real-estate holdings against total assets has actually increased. We are concerned therefore of the greater risk now posed by a fall in real-estate value.

Table 7 General Account Portfolios

(Units:100 million yen, %)

	Cash / Call Loans			Loans			Corporate Bonds									Money trusts		
										Govt. Bonds			Other					
	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y
Nippon Life	3.7	-1.2	-5,207	35.7	-1.1	-6,616	23.9	-0.2	-2,397	14.4	0.3	377	9.5	-0.5	-2,774	1.0	-0.2	-757
Daiichi Mutual	6.2	-0.2	-490	29.1	-2.0	-4,611	26.3	2.4	7,138	13.2	0.9	2,898	13.1	1.4	4,240	0.6	-1.2	-3,353
Sumitomo Life	6.9	-0.8	-1,862	29.6	-0.2	-302	28.6	-0.8	-1,687	17.8	-3.7	-8,240	10.8	2.9	6,553	0.2	-1.6	-3,521
Meiji Life	7.2	2.9	4,650	37.0	-1.9	-3,016	23.1	1.3	2,105	14.6	2.6	4,183	8.5	-1.3	-2,078	1.1	-1.5	-2,471
Asahi Mutual	10.0	2.1	2,295	37.3	-0.2	-572	18.7	0.4	286	13.3	-1.1	-1,338	5.3	1.5	1,624	0.9	-0.9	-1,060
Mitsui Mutual	14.9	4.7	4,126	34.3	-4.0	-5,094	13.6	1.4	889	9.2	1.5	1,149	4.3	-0.1	-260	0.8	-1.6	-1,578
Yasuda Mutual	4.3	1.7	1,593	37.9	-2.2	-1,412	14.0	-1.6	-1,221	8.5	-1.6	-1,329	5.4	0.0	108	6.5	-0.1	14
Taiyo Mutual	5.1	-3.7	-2,449	36.8	-3.9	-2,222	32.6	8.3	5,981	18.5	6.2	4,433	14.1	2.0	1,548	1.6	-0.6	-381
Daido Mutual	8.6	1.7	1,083	23.3	-2.8	-867	44.6	-0.3	894	13.8	1.8	1,243	30.8	-2.2	-348	3.7	0.7	438
Kyoei Life	14.8	-7.0	-3,913	37.3	-2.6	-1,966	17.5	0.5	-2	10.2	1.7	731	7.3	-1.2	-733	2.0	0.2	84
Chiyoda Mutual	8.5	-1.2	-1,083	41.2	-7.6	-6,122	7.1	0.4	-246	6.8	0.4	-230	0.3	0.0	-16	0.5	-0.7	-348
Fukoku Mutual	7.7	-5.9	-2,346	33.7	-1.7	-244	24.4	5.4	2,601	12.5	5.2	2,327	11.9	0.3	273	4.6	-0.8	-260
Nippon Dantai	8.8	-3.3	-1,190	31.1	-6.1	-2,237	14.9	0.5	188	10.7	0.2	83	4.1	0.3	104	1.9	-0.2	-77
Toho Mutual	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Daihyaku Mutual	8.9	0.3	-193	31.7	-7.4	-2,979	9.5	-0.7	-491	9.2	0.1	-251	0.3	-0.8	-240	4.3	1.5	284
Tokyo Mutual	6.6	-2.5	-389	31.4	-2.3	-605	8.7	0.2	-55	6.8	2.8	295	1.9	-2.5	-350	1.5	-0.9	-132
TOTAL	**6.9**	**-0.3**	**-5,375**	**33.7**	**-2.0**	**-38,864**	**23.3**	**1.0**	**13,983**	**13.6**	**0.5**	**6,332**	**9.7**	**0.5**	**7,651**	**1.4**	**-0.8**	**-13,118**

	Real Estate			Equities			Foreign Securities			Other marketable securities			Total Assets held in General Account				
													Asset in foreign currency				
	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y	Share	Share chg	Chg y-on-y		Chg y-on-y
Nippon Life	5.6	-0.0	-371	15.2	-1.0	-4,943	10.6	1.8	6,571	0.3	-0.1	-320	9.6	2.3	8,694	392,575	-6,158
Daiichi Mutual	6.6	-0.2	-426	16.7	-1.8	-4,571	9.7	1.1	3,327	0.5	0.5	1,463	7.6	1.0	2,896	275,099	2,583
Sumitomo Life	6.1	0.0	55	13.6	-0.4	-855	7.5	0.9	2,025	2.3	0.8	1,750	2.5	-0.4	-878	226,389	314
Meiji Life	6.0	-0.1	-144	18.2	-1.0	-1,556	4.2	-1.1	-1,715	0.2	-0.0	-17	3.6	-1.3	-2,075	162,352	91
Asahi Mutual	4.9	0.0	-12	16.5	-2.5	-3,047	5.9	-2.8	-3,259	2.2	2.1	2,387	5.5	-3.0	-3,508	113,826	-930
Mitsui Mutual	5.4	-0.4	-538	15.9	-0.3	-805	12.1	-1.4	-1,778	0.4	0.3	315	11.0	-1.8	-2,180	94,550	-3,377
Yasuda Mutual	5.0	-0.1	-50	12.3	-1.3	-1,018	14.9	0.3	521	0.2	0.2	144	12.2	1.0	1,103	92,281	1,523
Taiyo Mutual	3.5	0.0	48	8.0	-2.2	-1,371	8.0	1.6	1,165	2.1	0.0	47	4.6	1.2	849	68,750	1,201
Daido Mutual	3.7	-0.1	54	6.1	-0.8	-249	6.9	0.2	267	1.1	1.0	545	5.6	-0.3	4	52,994	2,403
Kyoei Life	2.9	0.2	55	6.0	-0.4	-310	14.2	8.6	4,265	3.7	0.1	-1	12.4	8.1	4,050	50,654	-1,617
Chiyoda Mutual	7.7	0.9	-10	18.7	1.1	-598	11.3	6.1	2,274	0.6	-0.0	-59	9.1	4.6	1,688	42,313	-5,959
Fukoku Mutual	3.6	0.0	71	10.6	-1.0	-259	6.6	-0.5	-99	1.5	0.3	126	3.7	-0.7	-254	43,099	1,409
Nippon Dantai	2.9	0.0	1	8.8	-1.2	-428	26.7	8.7	3,183	1.4	0.1	22	22.8	10.4	3,770	36,429	-7
Toho Mutual	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-	-
Daihyaku Mutual	6.9	0.7	-11	17.4	0.6	-347	15.4	3.1	398	2.2	-0.2	-125	11.6	3.7	673	24,362	-3,009
Tokyo Mutual	8.5	0.6	-5	20.5	0.9	-80	18.3	4.3	392	1.4	0.2	7	13.4	3.8	372	12,144	-960
TOTAL	**5.5**	**-0.0**	**-1,283**	**14.5**	**-1.1**	**-20,437**	**9.7**	**1.1**	**17,536**	**1.0**	**0.4**	**6,281**	**7.6**	**1.0**	**15,205**	**1,687,817**	**-12,494**

Source: Compiled by Nomura Research Institute from company-supplied data

Several insurers have however revised their portfolio strategy on equity holdings, and despite a fall in the *Nikkei* share index over the term, 9 out of the 15 have increased unrealized profits on share holdings. According to announced figures, the share index level ("break-even level") at which the insurers make a loss on share holdings has fallen for 10 out of the 15 life insurers.

11 firms show reductions in non-performing loans due to the effect of direct reductions, as explained previously. If the effect of direct reductions is excluded however, only the 6 companies who have been writing these off as extraordinary losses have actually obtained reductions in non-performing loans.

Table 8 Hidden profits / losses on marketable securities and real-estate

(Units:100 million yen, %)

	Hidden Profit / Loss on Marketable Securities													Hidden Profit on Real Estate			
				Equities		Share Index break-even level		Bonds		Foreign Securities		Other		end March 1999		end March 1998	
		Amount Change	Relative to total assets		Amount Change	Mar.'99	Mar.'98		Amount Change		Amount Change		Amount Change	Official Land Price	Road Tax Price	Official Land Price	Road Tax Price
Nippon Life	40,188	1,129	9.4	30,243	4,920	10,500	11,800	5,272	-434	4,659	-3,399	1	47	2,827		4,257	-
Daiichi Mutual	13,320	1,393	4.5	10,787	2,540	12,800	13,700	2,226	-33	315	-1,145	-10	30	-566		749	-
Sumitomo Life	2,231	-215	0.9	1,518	1,112	15,100	16,300	750	-1,044	-19	-268	-19	-15	-1,624		-954	-
Meiji Life	10,002	-26	5.8	7,266	1,036	12,100	13,800	1,652	18	1,084	-1,080	-0	1	585		1,238	-
Asahi Mutual	-843	-1,505	-0.7	127	-95	15,700	15,800	-234	-417	-735	-994	-0	0	2,230		2,800	1,950
Mitsui Mutual	675	-1,161	0.7	903	251	14,800	15,200	32	-206	-260	-1,206	0	0	-268		-226	-
Yasuda Mutual	1,576	-44	1.6	1,329	699	14,200	*15,000	212	38	34	-781	1	1	108		682	-
Taiyo Mutual	2,649	-1,326	3.8	1,934	-908	11,600	11,500	532	-391	188	-121	-5	95	-25		-	-180
Daido Mutual	1,750	-58	3.2	748	347	12,700	14,700	956	-168	46	-237	0	0	75		-	54
Kyoei Life	-1,230	-154	-2.4	-586	-20	*18,000	*18,000	43	4	-103	-128	-584	-10	307		-	220
Chiyoda Mutual	-1,411	-228	-3.2	-1,122	-41	18,000	*18,000	-28	-61	-173	-185	-88	59	-66		-220	-
Fukoku Mutual	927	113	2.1	877	131	13,300	14,000	300	59	-1	-32	-249	-45		1,112	-	814
Nippon Dantai	-478	-904	-1.3	309	64	14,300	14,900	-65	-110	-607	-867	-114	10	-120		-	-170
Toho Mutual	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Daihyaku Mutual	-1,297	-187	-5.3	-965	-44	19,500	18,900	-1	-16	-167	-194	-164	66	44		-	-50
Tokyo Mutual	-714	-401	-5.8	-468	-150	18,800	18,000	-53	-61	-135	-189	-59	0	787		597	-
TOTAL	**67,345**	**-3,573**	**3.7**	**52,903**	**9,842**	**-**	**-**	**11,593**	**-2,823**	**4,126**	**-10,826**	**-1,291**	**238**				

Note: ＊ (ex) later of 15,000
Source: Compiled by Nomura Research Institute from company-supplied data

Table 9 Value of marketable securities with non-disclosed market value and own valuation

(Units:100 million yen, %)

	Domestic Bonds			Domestic Equities			Foreign Securities								Other		
							Bonds				Equities						
		Y-on-y chg	Self-assessed P/L		Y-on-y chg	Self-assessed P/L		Relative to total assets	Y-on-y chg	Self-assessed P/L		Relative to total assets	Y-on-y chg	Self-assessed P/L		Y-on-y chg	Self-assessed P/L
Nippon Life	14,955	-1,103	1,285	1,499	21	0	3,103	0.7	212	91	3,877	0.9	837	-223	859	-793	3
Daiichi Mutual	17,855	-749	1,509	1,223	-55	0	5,045	1.7	-75	140	5,078	1.7	-239	-88	992	-793	4
Sumitomo Life	10,369	2,304	190	826	-129	-25	6,470	2.7	267	-36	3,450	1.4	1,186	-555	5,349	1,471	-2
Meiji Life	8,741	1,420	247	1,291	478	0	943	0.5	156	36	1,515	0.9	12	-183	966	20	1
Asahi Mutual	11,327	8,390	37	276	-43	0	637	0.5	7	13	457	0.4	-319	-78	89	16	0
Mitsui Mutual	932	-73	12	441	-69	0	504	0.5	-640	0	1,211	1.2	262	-41	386	279	0
Yasuda Mutual	975	486	14	575	22	0	1,515	1.6	0	0	424	0.4	-803	-37	173	142	0
Taiyo Mutual	4,207	652	142	58	-11	0	645	0.9	51	-1	663	1.0	593	-66	1,000	536	0
Daido Mutual	10,041	1,458	652	126	23	0	241	0.4	-91	7	382	0.7	300	6	150	121	0
Kyoei Life	944	411	-5	38	-7	0	2,305	4.5	980	12	572	1.1	-11	-149	132	-102	0
Chiyoda Mutual	211	-19	3	101	-11	0	955	2.2	538	-18	723	1.7	0	-182	657	209	0
Fukoku Mutual	2,498	357	64	60	-16	0	1,920	4.3	99	77	83	0.2	-72	-39	440	74	0
Nippon Dantai	2,570	126	-1	35	-8	0	2,366	6.5	332	-146	1,553	4.2	442	-126	28	-1	0
Toho Mutual	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Daihyaku Mutual	541	213	2	144	66	0	768	3.1	-564	1	666	2.7	310	-175	322	-314	0
Tokyo Mutual	0	-73	0	62	-2	0	-	-	-	-	84	0.7	-7	-20	302	63	0
TOTAL	**86,165**	**13,801**	**4,151**	**6,755**	**259**	**-25**	**27,415**	**1.5**	**1,272**	**174**	**20,739**	**1.2**	**2,492**	**-1,955**	**11,845**	**928**	**6**

Note: Self-assessed P/L estimated by companies for marketable securities where possible
Source: Compiled by Nomura Research Institute from company-supplied data

Starting with FY98 results all life insurance companies are obliged under the Financial Revitalization Law to announce the results of a self-assessment of assets. These show that the total of “loans to bankrupt and reorganizing borrowers or similar credit” plus “loans in danger of default” were 2.7 times the value of “loans to bankrupt companies” and “loans in arrears” as defined in the Loan Risk Management classification system. Presumably this difference is due to whether the accounting standards used adopt a borrower-centric view or a loan-centric view, or whether interest receivable is accounted for or not. Anyway, it seems undeniable that the previous accounting standards allowed these non-performing loans to be dressed up in a favorable light.

Moreover as from FY98, results include consolidated data, which boosted “loans at risk” by over ¥20 billion in the case of some companies as against parent-only figures. In future we expect some companies to be burdened with disposal of non-performing loans originating in subsidiaries and affiliates.

5. Solvency margin ratio and Balance of Assets vs. Liabilities

In April 1999 the Prompt Corrective Action[5] set of measures were introduced, prescribing correction orders or suspension of business activities for life insurance companies whose solvency margins had fallen below 200% or whose asset to liability ratio was negative (effective excess liabilities). As at end March 1999 all 15 life insurers were above the 200% solvency margin ratio level below which these measures could be invoked.

Table 10 Non-performing Loans

(Units:100 million yen, %)

	Loans under risk administration				Asset Assessment according to the Financial Revitalization Law				Subtotal			Reserve Ratio
		Ratio to general loans	Ratio to total assets	Chg y-on-y		Ration to risk assets	Loans to bankrupt and reorganizing borrowers and similar credit	Risk credit		Difference on loans to bankrupt borrowers and loans in arrears	Doubtful borrowers in administration	
Nippon Life	2,721	2.2	0.6	1,994	3,204	1.2	801	2,188	2,989	1,211	215	89.7
Daiichi Mutual	1,573	2.2	0.5	491	1,704	1.1	317	921	1,237	931	467	45.0
Sumitomo Life	956	1.6	0.4	-979	1,061	1.1	94	389	483	427	578	75.8
Meiji Life	837	1.5	0.5	324	871	1.0	65	515	580	558	291	84.4
Asahi Mutual	1,221	3.2	1.0	327	1,472	1.2	245	1,075	1,320	1,131	152	58.8
Mitsui Mutual	969	3.2	1.0	330	1,177	1.2	132	772	904	654	273	60.2
Yasuda Mutual	242	0.7	0.2	61	319	1.3	95	202	297	277	22	95.4
Taiyo Mutual	805	3.4	1.2	190	815	1.0	135	11	146	57	670	30.3
Daido Mutual	300	2.5	0.5	-154	359	1.2	68	155	224	171	135	53.5
Kyoei Life	642	3.5	1.3	232	713	1.1	414	222	636	242	77	57.1
Chiyoda Mutual	1,104	6.6	2.5	-350	1,301	1.2	818	298	1,116	429	185	23.8
Fukoku Mutual	328	2.4	0.7	136	338	1.0	37	86	123	88	215	30.0
Nippon Dantai	382	3.5	1.0	-112	433	1.1	167	98	266	164	167	48.4
Toho Mutual	-	-	-	-	-	-	-	-	-	-	-	-
Daihyaku Mutual	522	7.3	2.1	-212	693	1.3	241	441	682	593	11	60.5
Tokyo Mutual	107	3.0	0.9	-81	107	1.0	51	35	85	15	22	46.7
TOTAL	**12,708**	**2.4**	**0.7**	**2,196**	**14,566**	**1.1**	**3,679**	**7,408**	**11,087**	**6,946**	**3,479**	**61.7**

Notes 1. Y-on-y change figures based on loan amounts prior to deducting "loans of seriously doubtful collection" (Kyoei Life did not disclose these figures)

2. Reserve Ratio3. %age of loans backed by collateral and guarantees as follows: Daiichi 74.7% (Financial Revitalization Law), Taiyo 118.5% (Risk Management Loans), Daido 100.1% (Risk Management Loans), Chiyoda 84.6% (Financial Revitalizaton Law)

Source: Compiled by Nomura Research Institute from company-supplied data

A closer examination of the solvency margin itself reveals however that some companies are relying to a large part on subordinated debt and unrealized profits (Table 11). Some among these are reliant on the contribution of subordinated debt for up to 50% of their solvency margin. This tactic is effective perhaps in achieving a high solvency margin ratio, but for credit rating agency evaluations for example, this method of dressing up debt as capital is particularly frowned upon. Therefore, in order to strengthen their real credit worthiness these companies will have to make much more use of price fluctuation reserves and contingency reserves and other reserve funds, as well as retained profits such as ?????? (or ???? reserves).

The same applies to the balance of assets against liabilities (excess liabilities), for which subordinated debt cannot be included as equity capital. According to disclosed figures almost all the life insurers have assets in excess of liabilities (c.f. Figure 1), but cases such as Nissan Mutual and Toho Mutual, whose huge overstatement of asset worth was eventually brought out into the open, have left very little faith in the methods used to arrive at these disclosed figures. We can therefore assume that the small value of excess assets when set against total assets indicates a precarious situation where many firms could easily fall into excess liabilities. There is now an urgent need for a strengthening of equity capital by the life insurance companies.

Conclusion

Conditions for Japan's life insurers are becoming ever more severe: the spread between interest income and the guaranteed returns to policyholders is growing wider as Japan continues to endure low interest rates; mortality and loading profits are falling due to a net decline in policy contracts held; and asset price deflation is reducing the hidden gains on investment portfolios.

Table 11 Breakdown of Solvency-Margin

(Units:100 million yen, %)

	Solvency Margin-ratio		Subordinated Loan Balance			Undepreciated funds balance			Equities unrealized P/L (*)		Real-estate unrealized P/L (*)		Not including quasi-debt capital and unrealized profits (unrealized losses are subtracted)	
		Y-on-y chg (% points)		Chg y-on-y	Share of solvency margin ratio		Chg y-on-y	Share of solvency margin ratio		Share of solvency margin ratio		Share of solvency margin ratio	Solvency Margin	Solvency Margin-ratio
Nippon Life	849.9	-90.0	0	0	0.0	0	-1,990	0.0	27,219	48.4	2,403	4.3	26,596	402.1
Daiichi Mutual	662.1	30.0	1,000	1,000	3.5	0	-230	0.0	9,708	33.6	-566	-2.0	18,181	416.7
Sumitomo Life	589.5	63.3	3,950	1,700	20.7	1,140	-250	6.0	1,366	7.2	-1,624	-8.5	14,231	440.1
Meiji Life	706.1	-13.8	0	0	0.0	600	404	3.3	6,540	35.7	497	2.7	10,705	412.1
Asahi Mutual	688.8	34.0	2,730	730	20.6	190	-100	1.4	114	0.9	1,896	14.3	8,296	432.0
Mitsui Mutual	519.6	28.0	1,450	500	20.6	238	-34	3.4	813	11.5	-268	-3.8	4,543	335.1
Yasuda Mutual	727.2	79.1	1,000	1,000	10.1	0	-73	0.0	1,196	12.1	92	0.9	7,575	558.5
Taiyo Mutual	869.1	-3.9	850	850	10.0	0	0	0.0	1,741	20.5	-25	-0.3	5,906	605.9
Daido Mutual	998.0	-18.8	0	0	0.0	136	-68	2.1	673	10.6	63	1.0	5,453	860.3
Kyoei Life	343.2	42.5	455	80	19.2	0	0	0.0	-586	-24.7	261	11.0	1,655	239.6
Chiyoda Mutual	396.1	81.9	1,371	596	46.7	400	-50	13.6	-1,122	-38.2	-66	-2.2	1,163	157.0
Fukoku Mutual	820.6	98.2	325	325	7.1	0	0	0.0	789	17.2	945	20.6	2,525	452.0
Nippon Dantai	377.5	68.9	240	40	13.1	0	0	0.0	278	15.2	-120	-6.6	1,431	295.4
Toho Mutual	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Daihyaku Mutual	304.6	10.0	580	200	52.0	190	0	17.0	-965	-86.5	37	3.4	308	84.1
Tokyo Mutual	478.7	47.1	400	140	33.3	140	0	11.7	-468	-39.0	669	55.7	-9	-3.5
TOTAL	**694.2**	**649.2**	**14,351**	**7,161**	**7.9**	**3,034**	**-2,481**	**1.7**	**47,298**	**26.1**	**4,195**	**2.3**	**112,600**	**430.7**

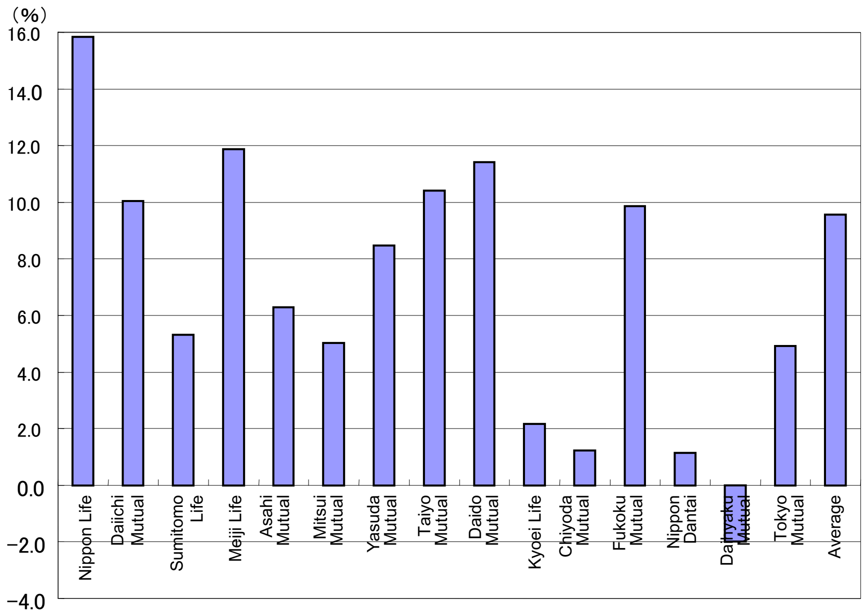
Note: Equities Unrealized P/L = Unrealized Profits x 90%, Unrealized Loss x 100%; Real-estate Unrealized P/L = Unrealized profits x 85%, Unrealized loss x 100%

Source: Compiled by Nomura Research Institute from company-supplied data

The failure of Toho Life raises questions regarding the safety net available for life insurers, and whether it should be strengthened. Currently this "safety net" consists of the Life Insurance Policyholders Protection Corporation (Policyholders Protection Corp.) established in December 1998, and the Prompt Corrective Action measures that rely on the solvency margin ratio indicator of financial health. The former is basically a *post-facto* compensatory system for the administration of failed institutions, and the latter a set of measures to prevent such institutions failing.

The funds available to the Policyholders Protection Corp. would not be sufficient to put up with another failure, however, according to some critics. They are calling out for extra measures to be introduced, such as reductions in the guaranteed returns promised to existing policyholders prior to an institution being allowed to fail (the Life Insurance Association), or for a fresh injection of public funds. Up to now the regulatory authorities have not been inclined to agree. Firstly they argue that a reduction in guaranteed returns once a firm's solvency margin has gone below 200% may instead work to increase the likelihood of failure. Secondly, they stress the enormity of the funds required, and that an injection of public funds would only serve to bolster policy reserves and the secondary losses in near future.

Figure 1 Balance of Assets to Liabilities (Estimated)



Note: 1. Balance of Assets to Liabilities is calculated according to the following formula: (Assets + Unrealized P/L on Marketable Securities + Unrealized P/L on derivatives + Unrealized P/L on Money Trusts + Unrealized P/L on Real-Estate) – (Liabilities – Price Fluctuation Reserves – Contingency Reserves – Excess on policy cancellation returns – Unallocated policy dividend reserves)

2. Unrealized P/L on Marketable Securities based on calculations of theoretical value used by each company
3. Excess on policy cancellation returns are an estimated 2% of policy reserves
4. Unallocated portion of Dividend Reserves is estimated at 70% of the difference between Dividend Surplus and Dividend Reserves as at end March 1998

Source: Compiled by Nomura Research Institute from company-supplied data

However, since the effect the plight of the life insurance industry is having on the Japanese economy is likely to grow worse, there is a pressing need for new legal measures to be implemented based on the ??? & Financial Revitalization Laws designed for the banking system. People obviously should have the same right to receive payment protection for life insurance / individual annuities as they do for funds on deposit. The difference being, however, that while the latter right is based on the potential instability of the whole financial system from a chain of large bank failures, in the case of the former this "too big to fail" argument is never applied.

In other words, the accepted wisdom up to now has been that as the life insurance system does not contain such a systemic risk of a chain of failures, there is no need for it to have the same safety net provisions.

Therefore, in order to justify the establishment of a public payment protection system or a further injection of public funds for the life insurance industry, first there needs to be a clear identification of circumstances where a system of public guarantees is required.

Without such an examination the simple injection of public funds would not be able to avoid being widely criticized as "a bail-out of the life insurance industry," even more so than was the case with the banking system. The perception is that the insurance industry poses no systemic risk. Even if it were emphasized that the public funds were not being used just to aid troubled life insurers, but also to protect policyholder funds, it would still be unable to avoid being criticized for the apparent inequity of protecting policyholders at troubled institutions only. In the end, the question of the use of public funds would most likely be turned again into a political issue. Since there has been a history of troubled debate over the viability of using public funds to bail out the banking sector (for example, the debate since the *jusen* crisis and up to the enactment of the Financial Revitalization Law), it is highly likely that an injection of public funds would be done in a similar fashion without any hard and fast guidelines.

In consideration of which, the strengthening of the safety net should take the form of a strengthening of the current Policyholders Protection Corp., according to a principle of using the minimum amount of funds possible. The first in line of responsibility for providing funds to bail out failing life insurers should be the life insurance industry itself, then the "employees" (policyholders) of the failing institution, and only finally should the discussion turn to the merits of using public funds.

This means the first priority is how to instill a sense of self-responsibility into the life insurers. Essentially, they should be operating according to principles of transparency and market discipline. Due to their mutual status however "stakeholders" in life insurance companies are not able to influence management in the same way as for joint-stock companies. Which seems to indicate that even though they are mutual companies, improvements in management supervisory functions as per stock companies are a real necessity, such as the appointment of external directors, strengthening the role of auditors and actuaries, and establishing proper representative meetings. In terms of consolidation / restructuring of the industry as a whole, the "demutualization" of the life insurers is an attractive option as it would make raising funds easier and would free them up to pursue business according to their own dictates. Currently Japan's life insurers need to shift away from a mutual company structure and start placing greater importance on establishing a relationship with their stake-holders.

If the post-Big Bang Japanese financial system is to realign itself along the principles of self-responsibility and open market competition, then reform of the life insurance system is, along with the banking system, now entering a decisive phase.