Japan's Life Insurance Companies Continue to Face an Adverse Climate

- Analysis of the first half term of FY 98 -

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In FY 98 the operating climate for Japan's life insurance companies continues to be bleak. The amount of new contracts and polices in forth of the four major types of insurance (individual insurance, individual annuity, group insurance and group annuity) continue to decline following the trend in FY 97.

The return on asset management of the life insurance firms showed a decline, and the value of assets deteriorated badly due to the fall in stock prices. In addition, there is no decrease in the cost of dealing with negative spread of assets and liabilities and bad debts. From next fiscal year, the prompt corrective action measures will be put in place in line with the solvency margin rate. Thus, from the second half, the life insurers will have to hurry to improve their equity capital (net worth).

1. Signs of a change in market share

1) A drop in amount of policies in forth of individual insurance

In FY 97, Japan's life insurance sector experienced a decrease in amount of policies in forth of individual insurance for the first time in postwar years. In the first half of FY 98, amount of policies in forth continued to decline and dropped by 1.6% compared to the end of March. This showed the life insurance market continued to shrink.

The contracts in forth of the major 16 domestic life insurance companies, with the exception of Fukoku (up by 0.4%), showed a drop. Among the leaders, we can see that the decrease trends are intensifying. (Table 1)

In addition to the sluggish state of new contracts (policies), the backdrop to the decrease in amount of policies in forth also involves an increase in cancellations and lapses of contracts due to many people reviewing their present policies and the continuing maturity peak of lump-sum endowment insurance policies sold in large amount during the bubble economy period. Although there are some cases of a decrease in cancellations and lapses with individual company, this is due to the reversion to normalcy of the sharp increase in contract cancellations, which occurred last fiscal year. The cancellation and lapse rate of individual insurance stands at an average of 4.7% for the 16 major life insurers, a persistently high level.

The prolonged economic recession is having a major effect on this decrease in contracts in forth. There is a close correlation between the growth of contracted coverage of individual insurance and growth in real-term wages. The sluggish growth in household income and the fear of future unemployment is resulting in people refraining from taking out new life insurance policies, an area where there is a high participation level in Japan, and a trend towards a reevaluation of, or cut back in, existing policies. (Figure 1)

Of the 15 life insurance firms offering new policies, only Dai-Hyaku was able to achieve an increase in new contracts. This was due to the buoyant sales of a new discount product called "non-smoker insurance" launched in FY 98. Although the overall market shows a tendency to shrink, this indicates that innovative development of new products can generate new demand.

Table 1 The amount of plicies in forth, new policies and cancellation and lapse of individual insurances and individual annuities (First half FY 98)

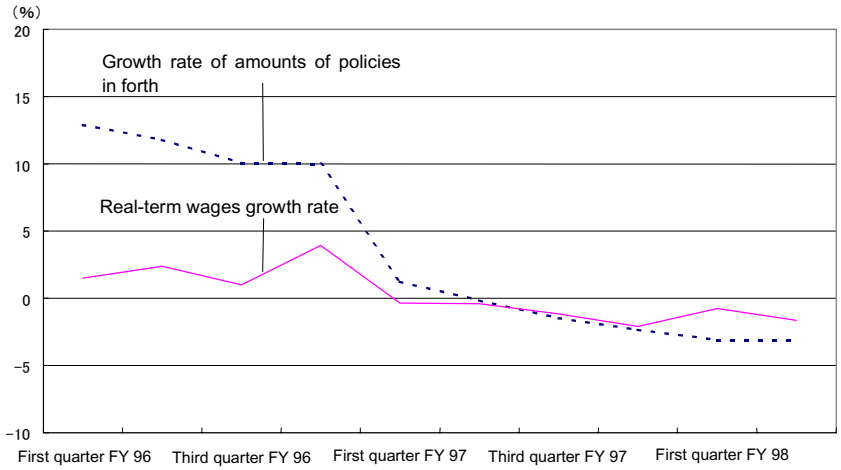
Unit: 100 million yen/%

	Individual insurance				Individual annuities		Individual insurance/individual annuities				
							Amount of new contracts		Amount of cancellations and lapses		Cancell-ations and lapses rate
		change vs end-March	end-Sept. 97 to end-March 98 change	end-March 97 to end-Sept. 97 change		change vs end-March		change vs same period in previous year		change vs same period in previous year	
Nippon	3,311,085	-2.2	-1.4	0.1	167,094	-1.1	120,920	-32.3	154,069	7.7	4.3
Daiichi	2,353,573	-1.6	-1.0	-0.5	76,910	-1.3	101,319	-13.5	107,890	2.7	4.4
Sumitomo	2,151,418	-1.4	-2.1	-0.1	117,037	-1.2	107,195	-11.5	103,883	7.5	4.5
Meiji	1,312,266	-2.3	-1.6	-0.4	86,797	-1.6	52,323	-26.6	66,226	8.0	4.6
Asahi	875,379	-2.8	-2.7	-1.3	78,548	-3.5	33,593	-23.4	41,709	1.4	4.2
Mitsui	732,132	-2.9	-2.7	-1.5	27,925	0.6	30,893	-22.9	39,729	-1.0	5.1
Yasuda	754,049	-1.5	-2.3	-0.2	48,359	-1.4	40,379	-10.4	40,182	6.5	4.9
Taiyo	103,340	-1.1	-0.9	0.8	48,068	2.8	9,303	-14.5	4,662	-3.6	3.1
Daido	378,353	-0.8	0.1	1.3	11,911	-1.6	21,584	-15.0	20,237	13.7	5.1
Kyoei	459,243	-2.5	-4.4	-1.2	17,352	1.0	25,018	-18.0	28,679	-0.6	5.9
Chiyoda	374,012	-4.6	-8.0	-4.5	17,542	-2.2	18,101	-17.1	30,289	-17.7	7.4
Fukoku	335,899	0.4	0.6	1.5	25,407	-1.1	16,926	-11.2	11,202	6.0	3.1
Nippon Dantai	128,486	-2.9	-3.1	-1.3	30,532	-5.5	7,035	-24.7	9,550	-19.8	5.8
Toho	177,366	-9.1	-11.7	-5.5	19,681	-5.0	-	-	18,613	8.7	8.6
Daihyaku	194,180	-3.6	-7.5	-2.7	14,168	-2.3	14,777	5.9	20,751	10.9	9.6
Tokyo	65,536	-3.4	-4.0	-1.7	6,429	-7.3	3,253	-28.3	4,821	-5.1	6.4
Total	13,706,317	-2.1	-2.1	-0.6	793,760	-1.5	602,619	-	702,492	-	4.7

Note: Cancellations and lapses rate is calculated using the following formula
Cancellations and lapses rate = Cancellations and lapses amount/Amount of contracts in forth at beginning of FY

Source: Based on materials supplied by individual comopanies

Figure 1 Correlation between amount of policies in forth of individual insurance and real-term wages growth rate



Note: Growth rates of policies in forth and real-term wages are both over same period in previous year
Source: The Life Insurance Associationof Japan/Nomura Research Institute

2) Increased selectivity by group pension funds

In the first half of FY 98, the amount of contracts in forth of group annuities fell by 122.5 billion yen for all life insurance firms in Japan. This is a decrease of 0.24% over the end of March. During the term the amount of new contracts decreased heavily by 47.6% over the same period in the previous year. Seen on the total of the major 16 life insurance firms, the amount of contracts in forth was almost unchanged. However, continuing on from last fiscal year, this term 6 firms again achieved increases in amount of contracts in forth. (Table 2)

The gap separating the various firms is widening and there is a separation into two poles, one with firms achieving new contracts amidst an adverse climate and one pole where firms continue to lose contracts. On the other hand, amount of contracts in forth in the special account increased of 1,315.7 billion yen (total for 16 firms), while the same in general account decreased by 1,319.3 billion yen.

The continuing low level of the assumed rate of interest on the general account of 2.5% caused a shift in pension funds from the general account to the special account which involves risks but may give a high return. Almost all of the companies, which are experiencing a fall in overall amounts of policies in forth of group annuities, are not able to make up for the fall in the general account with the increase in the special account.

The pension funds that have flowed out from life insurance firms are flowing into investment advisory firms and trust banks. The outstanding amount of corporate pension funds held by the life insurance firms peaked in FY 95, and subsequently has continued to decline. Due, in part, to the deregulation movement, in recent years there has been a marked increase in the appearance of investment advisory firms, and these firms have increase their outstanding funds held in custody by about 5 trillion yen from FY 95 to FY 97. (Figure 2)

Amidst these circumstances, in October the major life insurance firms announced a drop in the assumed rate of interest on the general account of group pension from April 1999. In 1996, all the firms cut their rates by 2%(from 4.5% to 2.5%). However, from next fiscal year, the assumed rate of interest on the general account of group annuities will show differences among the various companies, for the first time ever. The major 7 firms and 2 of the medium-standing firms will cut the rate from the current 2.5% to 1.5%. The other two will cut their rate to 1.75%. Five firms will maintain the 2.5% rate.

These differences in the assumed rate of interest show the different approaches of firms to group annuity products. By cutting the assumed rate of interest, the major firms will achieve a contraction in negative spread, and based on their management performance, they will seek to promote a flow of funds from the general account to the special account. The approach of the medium-standing life insurance firms is basically split in two directions. One approach is to keep the cut in assumed rate of interest less than that of the major firms as their financial situation is relatively sound and they can withstand a certain amount of negative (back) spread. However, the firms, which seek to put a brake on the outflow of group annuity funds, left the assumed rate of interest unchanged. Although it all depends on fund management performance, the firms, which have not changed their assumed rate of interest, are expected to face a greater delay in eliminating the burden of negative spread.

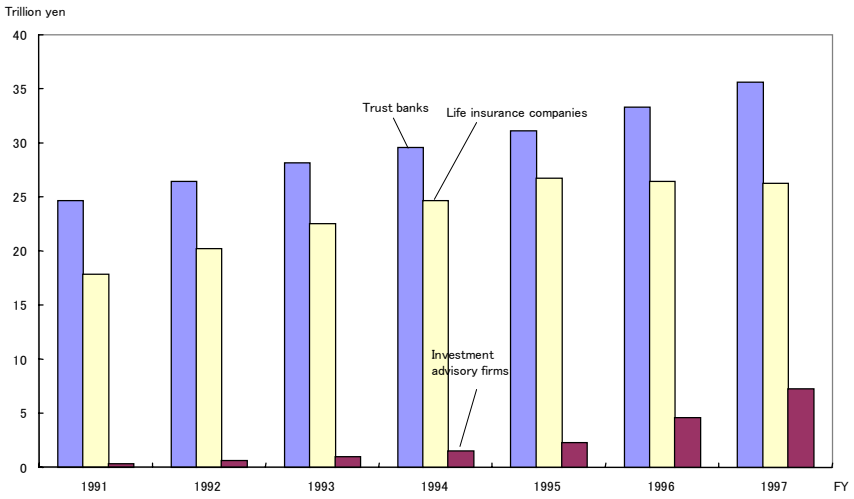
Table 2 Group insurance and group annuities (End of September 1998)

Unit: 100 million yen/%

	Group insurance		Group annuity					
		change vs end-March		change vs end-March	change in value vs end-March	Of which, general account	Of which, special account	Assumed rate of interest on the general account from April 1999
Nippon	618,964	1.7	110,817	2.5	2,745	-3,025	5,770	1.5
Daiichi	466,152	0.9	82,566	1.5	1,188	-2,820	4,008	1.5
Sumitomo	385,632	-1.3	55,591	-1.1	-644	-2,064	1,420	1.5
Meiji	453,294	3.2	54,837	-1.6	-882	-1,816	934	1.5
Asahi	232,874	-0.7	31,909	-2.0	-655	-931	276	1.5
Mitsui	263,810	-6.0	37,539	3.5	1,265	713	552	1.5
Yasuda	646,660	0.9	37,867	1.2	434	132	302	1.5
Taiyo	93,815	2.7	7,391	-0.7	-55	-109	54	1.75
Daido	119,071	-3.1	24,845	3.0	726	604	122	2.5
Kyoei	153,216	-1.2	6,500	-3.4	-231	-242	11	1.5
Chiyoda	158,401	-2.2	14,204	-12.2	-1,971	-1,520	-451	1.5
Fukoku	108,801	-0.5	16,990	3.1	512	403	109	1.75
Nippon Dantai	180,484	-5.7	11,469	-6.5	-803	-810	7	2.5
Toho	31,982	-71.4	3,045	-19.8	-751	-717	-34	2.5
Daihyaku	52,999	-7.9	3,149	-15.6	-580	-636	56	2.5
Tokyo	73,356	-7.3	2,978	-10.1	-334	-357	23	2.5
Total	4,039,511	-2.4	501,697	-0.0	-36	-13,193	13,157	-

Source: Based on materials supplied by individual comopanies

Figure 2　Amount of corporate pension funds consignment by institution



Note:　Corporate pension funds are made up of employees pension funds and tax qualified pension plans
Source:　Trust Companies Association of Japan

2.　Cash outflow and deterioration in profit

1) A deterioration in the balance of insurance premiums and claims, sluggish growth of total assets

The premium incomes of the entire life insurance sector decreased by 57.5 billion yen, a 0.8% drop compared to the same period in the previous year under the influence of decrease in amount of policies in forth in the first half of FY 98.　The premium incomes for 16 firms decreased by 2.7%, worsen to the previous year's drop of 1%. (Table 3).　Some firm which have seen a fall in amount of contracts in forth in both individual insurance and group annuities saw a drop of over 4% in the premium incomes.

The rapid outflow of funds due to the cancellation of contracts of group annuities has tapered off.　However, as previously mentioned, the peak period for maturity of lump-sum endowment insurance policies continues unabated, sold in large amount during the economic bubble, and so the claims including refund payments due to cancellation of contracts has showed only a very slight decrease.

Thus, looking at insurance cash flow balance ratio (payments of claims divided by insurance premium incomes), 9 firms exceeded 100 (this indicates that the cash of the companies are flowing out).　Compared to the same period in the previous year, there were 8 firms with over 100, as far as the balance is concerned, an adverse situation continues to prevail.

The deterioration in the balance of insurance cash flow is directly related to revenues.　In addition, it is also connect to a drop in the quality of assets and the asset management efficiency.

That is to say, in order to draw on liability reserves to respond to the need to matured policies, cancellations and lapses in insurance policies, it is necessary to sell prime assets. As a result, the percentage of bad assets increases. In addition, as the firms have to have large amount of funds earmarked for the claims on hand, it becomes difficult to achieve efficient asset management.

Table 3 Insurance Cash Flow Balance (First half FY 98)

Unit: 100 million yen/%

	Premium income		Claim and other paid				Insurance cash flow balance ratio	
					Refunds on cancellation			
		change vs same period in previous year		change vs same period in previous year		change vs same period in previous year		change in number vs same period in previous year
Nippon	28,844	-1.7	25,140	5.0	5,619	-10.3	87.2	5.6
Daiichi	19,979	3.1	17,729	6.5	3,826	-17.2	88.7	2.9
Sumitomo	16,569	-0.0	17,230	7.0	3,517	-4.2	104.0	6.8
Meiji	11,813	-4.0	12,570	13.3	2,367	13.5	106.4	16.2
Asahi	8,021	-4.2	8,867	1.7	1,849	-17.4	110.5	6.4
Mitsui	8,656	-4.3	7,382	-0.7	1,768	-23.4	85.3	3.1
Yasuda	7,978	3.5	6,978	8.2	1,472	-10.8	87.5	3.8
Taiyo	6,342	2.8	6,244	-3.4	1,086	-12.2	98.5	-6.3
Daido	5,943	8.4	4,123	-7.1	992	-12.6	69.4	-11.6
Kyoei	3,608	-8.9	4,660	-9.3	1,198	-32.9	129.2	-0.5
Chiyoda	3,003	-29.1	5,628	-12.3	1,583	-30.3	187.4	36.0
Fukoku	3,736	5.0	2,848	-0.8	554	-27.9	76.2	-4.4
Nippon Dantai	2,835	-10.3	3,700	-18.3	946	-48.7	130.5	-12.8
Toho	1,477	-43.7	3,540	-40.4	868	-71.2	239.6	13.1
Daihyaku	1,785	-22.0	3,082	-16.0	669	-60.7	172.7	12.3
Tokyo	822	-3.0	1,462	-0.0	404	-16.9	177.8	5.3
Total	131,410	-2.7	131,183	-0.1	28,717	-22.6	99.8	2.6

Note: The insurance cash flow balance ratio is calculated using the following formula.
Insurance cash flow balance ratio = Claim and other paid/premium income
Source: Based on materials supplied by individual comopanies

2) A decrease in net operational profits

In the first half of FY 98, only 4 firms of the major 16 life insurance firms increased the current account balance outstanding over the same period in the previous year. The other firms show a double-digit drop. (Table 4)

Since the current account balance outstanding includes temporary costs such as profit/loss on sale of securities and depreciation of bad debts, we cannot get a clear picture of the extent of loading profits, mortality gains and interest surplus which are fundamental profit sources for life insurance firms. It is also unclear as to what extent loading profits and mortality gains are covering negative spread. In order to gain an understanding of how much revenues the insurance business per se is earning, it is necessary to see net operating profits which is calculated by subtracting from the current account balance outstanding temporary profit/loss such as sale of securities, write-off and depreciation of bad loans. Many of the firms show a drop in the figures over the same period in the previous year.

Among these firms, the net operating profit of four firms (Taiyo, Chiyoda, Toho, and Tokyo) showed deficit, that is to say the negative spread could not be covered by the loading

profit and mortality gains, and had to be covered by using profits gained from the sale of securities. In the other hand, the firms which showed a positive on the net operating profit but showed temporary losses could not only cover negative spread with loading profit and mortality gains but also afford to sell off stock with a latent loss value and depreciate bad debts.

In the future, to what extent it will become necessary to post profits from the sale of securities will depend on the performance of net operating profits. However, for the time being, there is no likelihood of a rapid improvement in the asset management environment. According to the announcements of the life insurance firms, the negative spread amount is expected to remain more or less unchanged. Consequently, if the firms wish to continue to write off bad debts and continue to pay dividends to members, there will be no change in relying on profits from the sale of securities.

Table 4 Current account balance outstanding and net operating profits (First half FY 98)

Unit: 100 million yen/%

	Current account balance outstanding			* Net operating profits		* Temporary profit/loss		Negative spread amount		Net amount transfer to special reserve for claim write-off
		change in value vs same period in previous year	change vs same period in previous year		change in value vs same period in previous year		change in value vs same period in previous year	As of end of March 1998	As of end of March 1999	
Nippon	4,102	563	15.9	3,111	-20	991	583	3,300	Increase	346
Daiichi	1,789	-199	-10.0	n.a.	n.a.	n.a.	n.a.	2,100	Flat	n.a.
Sumitomo	2,797	-428	-13.3	1,651	-434	1,147	5	2,200	Increase	155
Meiji	1,194	-270	-18.4	1,149	-278	45	8	1,300	n.a.	334
Asahi	701	-103	-12.9	n.a.	n.a.	n.a.	n.a.	1,100	1,000	n.a.
Mitsui	365	-700	-65.7	403	n.a.	-38	n.a.	834	700	448
Yasuda	1,084	-254	-19.0	1,151	n.a.	-68	n.a.	670	600	264
Taiyo	222	-117	-34.6	-45	-106	267	-11	860	Flat	206
Daido	66	-239	-78.5	701	n.a.	-636	n.a.	99	Flat	45
Kyoei	112	-64	-36.2	111	-77	1	13	700	Flat	152
Chiyoda	163	-194	-54.2	-406	-688	569	494	410	350	-408
Fukoku	579	179	44.6	345	-56	234	235	300	260	43
Nippon Dantai	156	24	18.0	317	225	-162	-201	110	Flat or increase	153
Toho	32	-53	-62.3	-61	-55	93	2	500	400	30
Daihyaku	66	-126	-65.8	156	-76	-91	-50	250	Flat	94
Tokyo	47	11	29.3	-35	-22	82	33	130	120	14
Total	13,476	-1,970	-12.8	n.a.	n.a.	n.a.	n.a.	14,863	n.a.	1,878

Note1: Net operating profits and temporary profit/loss are calculated using the following formula.
Net operating profits = current account balance outstanding - temporary profit/loss
Temporary profit/loss = profit/loss on sales of securities (profit on sale of securities - loss on sale of securities - the evaluation loss on the securities) - Net amount transferred to special reserve for claim write-off - amount transfer to designated overseas bond reserve accounts (- depreciation of loans made - amount transferred to the contingency fund reserve)
In this report, when calculating temporary profit/loss, we do not take into account the write-off of loans and the amount transferred to the contingency fund reserve.

Note 2: As of FY 99 the amount of negative spread is based on the estimates made by individual firms.

Source: Based on materials supplied by individual comopanies

3. A dulling in the growth rate of assets and trends in distribution of assets

1) Growth of assets is curbed by the outflow of contracts

The revenues of life insurance firms are sluggish and claims and expenditures costs are running at high levels and the growth rate of total assets during first half FY1998 for all life insurance firms remain low level 1.7%. The figure for the 16 main firms was 1.1% and the amount of funds was about 2 trillion yen. (Table 5)

The 6 medium-standing life insurance firms showed a drop in total assets. Moreover, excluding (Table 8 change in value vs end-March(2)) the effects of the fund raised which are swelling the balance sheet such as repo transactions and banker's acceptance liabilities, and of increases and decreases in debts to non-policyholders such as subordinated loans and foundation funds, some of the major firms are showing real-term decreases in assets. The total real-term increase in total assets of the 16 firms is only 570 billion yen.

Table 5 Increase/Decrease in Total Assets (End of September 1998)

Unit: 100 million yen/%

	Total assets			
		change vs end-March	change in value vs end-March(1)	change in value vs end-March(2)
Nippon	432,188	2.4	10,091	5,187
Daiichi	295,254	3.0	8,558	4,383
Sumitomo	241,196	1.7	4,038	1,035
Meiji	171,609	0.7	1,154	n.a.
Asahi	122,395	0.5	635	-703
Mitsui	110,126	1.0	1,111	1,149
Yasuda	95,861	1.2	1,112	1,112
Taiyo	69,039	1.1	782	695
Daido	54,550	2.0	1,086	662
Kyoei	51,347	-2.1	-1,111	-1,111
Chiyoda	46,353	-7.8	-3,930	-3,503
Fukoku	44,236	2.8	1,210	1,210
Nippon Dantai	36,489	-0.3	-94	-94
Toho	28,047	-6.6	-1,968	-1,968
Daihyaku	25,844	-6.4	-1,780	-1,780
Tokyo	12,601	-5.2	-687	-617
Total	1,837,135	1.1	20,207	5,657

Note 1: The change in value vs end-March(2) is the sum of subtracting the effects of receipt on collateral involved in repo transactions, customers' liability for acceptances and guarantees, subordinated loans and not yet depreciated foundation funds from increase/decrease amount (1) of total assets.

Note 2: The change in value vs end-March(2) of Nippon Daitai including an increase in capital of 20 billion yen carried out in the first half.

Source: Based on materials supplied by individual comopanies

2) An increase in overseas investment

There is an increase in the percentage of cash savings and call loans in total assets compared to the same period in the previous year for the 16 major life insurance firms at the end of September 1998(Table 6). This is to increase the funds on hand with the objective of responding to the need to claim paid and refund for cancellations. The percentage of loans fell by 1.1% because of the effects of the liquidity of the loans with the objective of writing of bad debts and generating profits. The percentage of bonds in total assets increased by 0.5% over the same period in the previous year and there was a marked movement underway in which the firms sold off government bonds and switched over to corporate bonds and local government bonds with higher yield rates. Domestic stocks were actively sold due to the fall in stock prices.

In the first half of FY 98, attention was fixed on the fact that life insurance firms had greatly increased the percentage of their holdings of foreign denominated assets. During the period, the yen depreciated, and the total of foreign denominated asset for the 16 major life insurance firms increased by 3,471.5 billion yen compared to the previous year, and the total stood at 15 trillion yen.

However, although the firms all hoped for a depreciation of the yen, things went the other way and the yen rose. As of the end of September 1998, the rate was 135 yen to the US dollar, and by the beginning of October, the yen had appreciated by about 20 yen. Subsequently, the yen moved within the range of about 120. Thus, a simple calculation shows that the yen price of the foreign denominated assets fell by about 15%. When we consider that these firms are hedging their exchange risks and the degree of hedge ratio varies from firm to firm, depending on how the exchange rate moves, this could lead to anxiety being felt over exchange rate losses.

Table 6 Assets on the General Account (End of September 1998)

Unit: 100 million yen/%

	Cash savings and call loans			Loans			Bonds								
										Government bonds			Others		
	Share	change vs same period in previous year	change in value vs end-March	Share	change vs same period in previous year	change in value vs end-March	Share	change vs same period in previous year	change in value vs end-March	Share	change vs same period in previous year	change in value vs end-March	Share	change vs same period in previous year	change in value vs end-March
Nippon	5.5	1.2	2,507	35.8	-1.1	-2,517	23.8	0.4	-160	13.3	-0.3	-2,442	10.5	0.7	2,282
Daiichi	6.3	2.3	44	29.3	-2.1	-3,487	24.3	0.4	2,246	12.0	-1.1	28	12.3	1.5	2.219
Sumitomo	6.1	-2.1	-3,393	29.2	-0.9	-500	28.9	0.5	-450	18.5	-3.7	-6,307	10.4	4.2	5,857
Meiji	2.9	0.2	-2,290	38.8	0.4	-94	22.0	0.7	450	12.4	-0.7	568	9.7	1.4	-118
Asahi	7.2	0.5	-784	36.1	-0.1	-1,415	18.8	3.2	673	13.1	0.6	-1,446	5.7	2.6	2,119
Mitsui	10.9	2.9	831	36.1	-4.2	-1,917	12.2	0.9	63	7.7	0.5	51	4.4	0.4	12
Yasuda	4.8	3.1	2,024	39.6	-0.7	-98	14.1	-0.6	-1,217	8.0	-1.7	-1,896	6.1	1.0	679
Taiyo	7.4	-2.3	-921	39.8	-0.2	-393	26.7	2.4	1,761	10.1	-0.9	-1,419	16.6	3.4	3,180
Daido	7.3	1.5	259	25.3	-1.8	-152	44.7	0.2	347	10.7	-1.7	-526	34.0	1.8	874
Kyoei	13.4	6.1	-4,527	40.3	0.0	-228	13.7	-8.5	-1,884	7.7	-4.5	-503	6.0	-3.9	-1,381
Chiyoda	6.0	1.8	-2,001	45.9	-0.1	-2,998	6.8	-3.6	-207	5.3	-4.7	-708	1.5	1.1	501
Fukoku	5.7	-2.1	-3,242	34.4	-1.1	-26	29.8	7.9	4,838	19.0	11.2	5,061	10.8	-3.3	-223
Nippon Dantai	9.6	4.4	-927	35.2	-3.2	-747	10.4	1.4	-1,441	6.8	0.7	-1,349	3.6	0.8	-93
Toho	5.5	-0.8	-1,486	38.7	4.6	-1,573	4.2	-8.3	-980	1.7	-1.9	-876	2.5	-6.4	-104
Daihyaku	6.8	4.9	-605	36.3	-3.6	-1,417	10.7	-6.2	-74	10.1	-4.3	69	0.6	-1.9	-143
Tokyo	3.7	-0.2	-733	33.3	0.2	-280	9.1	-1.0	15	6.6	-1.0	283	2.5	-0.0	-267
Total	6.3	1.0	-15,244	34.6	-1.1	-17,841	22.1	0.5	3,982	12.2	-0.9	-11,412	9.9	1.4	15,393

	Stock			Foreign securities			Total of assets on the general account					
							* Foreign denominated assets					
	Share	change vs same period in previous year	change in value vs end-March	Share	change vs same period in previous year	change in value vs end-March	Share	change vs same period in previous year	Hedge ratio	change in value vs end-March		change in value vs end-March
Nippon	16.0	-1.7	-325	10.2	1.6	5,832	8.6	2.1	18.5	5,942	403,296	4,563
Daiichi	17.9	-0.9	-920	9.9	0.6	4,152	8.1	1.1	44.9	4,351	277,153	4,636
Sumitomo	13.7	-0.8	-308	8.4	1.0	4,154	4.4	0.0	89.8	3,632	228,794	2,719
Meiji	19.0	-1.0	-179	5.9	0.3	995	5.7	0.8	6.1	1,257	162,615	354
Asahi	18.3	-3.8	-685	9.8	0.5	1,309	9.6	0.5	16.8	1,324	115,198	442
Mitsui	15.5	-2.7	-516	15.8	6.4	2,361	15.2	5.9	93.9	2,440	98,654	727
Yasuda	12.0	-4.4	-1,363	14.5	1.5	38	12.7	1.8	29.3	1,414	91,452	694
Taiyo	9.4	-1.9	-462	8.6	2.7	1,520	5.9	2.9	45.3	1,676	68,270	720
Daido	5.2	-2.4	-785	8.5	1.7	986	8.1	2.6	0.0	1,197	51,598	1,007
Kyoei	6.5	0.0	10	13.9	-0.0	4,211	12.1	-0.9	85.5	3,946	51,156	-1,115
Chiyoda	17.8	1.1	-540	10.9	2.1	2,353	9.6	1.6	55.5	2,126	44,818	-3,454
Fukoku	11.3	-1.7	33	7.4	-1.4	206	5.0	-1.0	3.7	277	42,793	1,103
Nippon Dantai	10.0	1.0	11	25.6	-3.9	2,767	20.2	-5.3	148.8	2,778	36,339	-97
Toho	13.2	2.1	36	18.8	2.0	1,578	17.6	1.9	10.8	1,599	27,846	-1,931
Daihyaku	17.4	1.2	-147	13.2	1.7	21	10.2	-0.2	13.6	468	25,550	-1,821
Tokyo	19.8	1.2	-102	17.6	-1.1	343	12.4	-2.1	8.6	288	12,401	-703
Total	15.1	-1.4	-6,241	10.5	1.1	32,825	8.7	1.1	44.0	34,715	1,737,932	7,843

Note: The hedge ratio is calculated using the following formula.
Hedge ratio = (foreign currency forward contract writings + currency put option holdings) / foreign denominated asset amount

Source: Based on materials supplied by individual comopanies

3) Decrease in latent profit of assets and an increase in latent loss

In the first half of FY 98, stock prices fell heavily, and this has had an adverse effect on the assets of the life insurance firms. While the 8 of the major 16 firms were able to maintain latent profit in their securities holdings, only three firms (Nippon, Taiyo and Daido) had latent profit in stocks, and overall there was a drop in latent profit. (Table 7) The six firms have lowered the stock price level where their stock holding would show zero latent profit compared to the end of FY 97, restructuring the stock portfolios.

In addition, attention is focused on the increase in the latent loss of other securities held mainly by the medium-standing life insurance firms. The latent profit on land holdings has decreased further compared to the end of March due to selling to generate profits and the fall in land prices. Thus, there is an overall fall in the latent profit of assets and anxiety is felt over the drop in the solvency margin ratios due to a fall in the net worth (capital-asset rate).

Table 7 Latent profit of securities(General account at end of September 1998)

Unit: 100 million yen/%

	The latent profit/loss of securities													Latent profit of land			
				Stock		Zero latent profit stock price level		Bonds		Foreign securities		Others		End of September 1998		End of March 1998	
		change in value vs end-March	vs total asset ratio		change in value vs end-March	September 1998	March 1998		change in value vs end-March		change in value vs end-March		change in value vs end-March	Posted price	Land inheritance tax evaluation	Posted price	Land inheritance tax evaluation
Nippon	28,279	-10,780	6.5	11.658	-13,665	11,300	11,800	9,386	3,680	7,289	-769	-69	-23	4,000	-	4,257	-
Daiichi	4,616	-7,312	1.6	-885	-9,132	13,600	13,700	3,981	1,722	1,560	100	-70	-30	819	-	749	-
Sumitomo	455	-1,990	0.2	-4,658	-5,064	15,800	16,300	4,799	3,005	318	69	-4	0	-1,129	-	-954	-
Meiji	2,581	-7,446	1.5	-1,192	-7,423	13,800	13,800	2,462	828	1,312	-852	-1	1	615	-	1,238	-
Asahi	-1,844	-2,506	-1.5	-3,713	-3,936	16,200	15,800	1,523	1,341	349	91	-3	-2	2,800	-	2,800	1,950
Mitsui	-100	-1,937	-0.1	-1,821	-2,473	15,200	15,200	658	420	1,062	116	0	0	-310	-	-226	-
Yasuda	-213	-1,832	-0.2	-1,744	-2,375	latter 15,000	latter 15,000	542	369	990	175	-0	-1	410	-	682	-
Taiyo	1,452	-2,523	2.1	111	-2,731	13,100	11,500	1,158	235	292	-17	-109	-10	-20	-	-	-180
Daido	2,210	402	4.1	360	-42	11,700	14,700	1,516	392	333	50	0	0	209	-	-	54
Kyoei	-1,533	-457	-3.0	-1,110	-543	latter 18,000	latter 18,000	179	141	154	129	-757	-183	-	159	-	220
Chiyoda	-2,043	-861	-4.4	-2,077	-996	18,300	latter 18,000	98	64	100	88	-164	-17	-217	-	-220	-
Fukoku	188	-626	0.4	-539	-1,285	14,400	14,000	964	723	34	3	-271	-68	-	789	-	814
Nippon Dantai	564	138	1.5	-80	-325	13,600	14,900	186	141	584	324	-125	-1	-	-200	-	-170
Toho	-784	-287	-2.7	-653	-365	18,500	18,700	26	22	71	67	-192	-11	400	-	400	-
Daihyaku	-1,794	-684	-6.9	-1,563	-642	19,200	18,900	31	16	7	-20	-268	-38	38	-	-	-50
Tokyo	-634	-321	-5.0	-665	-348	18,300	18,000	31	22	67	12	-66	-7	556	-	597	-
Total	31,436	-39,020	1.7	-8,572	-51,344	-	-	27,541	13,121	14,522	-433	-2,099	-389	-	-	-	-

Source: Based on materials supplied by individual comopanies

4) Effect of Failures of Financial Institutions

The life insurance firms face a major increase in bad debts (risk management loans), due to the failure in September of the Long-Term Credit Bank the lending to its non-bank subsidiaries became bad debts, and the subordinated loans extended to Yamaichi Securities also became bad debt. The total amount of bad debt for the 16 major firms increased by 76.9 billion yen compared the end of March. (Table 8)

The largest increase in bad debt came from the loans to the failed institutions amounting to an increase of 138.5 billion yen. The total outstanding balance of this for the 16 major firms stands at 569.9 billion yen. In response to this, they increased the special reserve for claim write-off to over 45 billion yen and sold some of the bad debt to foreign financial institutions.

Table 8 Risk Management Loans [Bad Debt] (End of September 1998)

Unit: 100 million yen/%

	Total risk management loans [bad debt]												Reserve ratio (1)		Reserve ratio (2)	
					Loans to bankrupt customers		Nonaccrual loans		Loans in arrears for over 3-month		Loans with eased lending conditions					
		As a percentage of general loans	As a percentage of total assets	change in value vs end-March		change in value vs end-March		change in value vs end-March)		change in value vs end-March		change in value vs end-March		change vs end-March		change vs end-March
Nippon	1,987	1.5	0.5	102	698	59	546	11	323	11	418	20	113.9	-0.9	64.8	-0.4
Daiichi	2,200	3.0	0.7	504	918	404	494	9	424	96	365	-4	116.8	-26.2	67.1	-12.4
Sumitomo	1,821	3.1	0.8	-132	187	-43	176	-40	79	-110	1,377	61	210.7	27.6	88.4	9.7
Meiji	1,054	1.8	0.6	364	339	262	162	3	269	89	285	13	139.8	7.8	72.2	10.3
Asahi	970	2.6	0.8	-140	282	-152	262	-1	221	41	205	-26	132.9	6.4	72.6	0.6
Mitsui	1,398	4.2	1.3	88	567	49	331	-61	238	99	261	2	118.3	-0.6	68.0	-2.4
Yasuda	574	1.6	0.6	203	285	113	171	112	52	-10	66	-9	122.4	-5.4	76.9	4.7
Taiyo	955	3.8	1.4	102	242	119	33	0	99	2	581	-18	74.5	15.0	33.6	9.0
Daido	522	4.1	1.0	-81	233	24	141	-56	43	4	105	-53	105.8	-6.9	63.6	-2.4
Kyoei	706	3.6	1.4	296	493	285	75	-22	58	-10	80	42	96.0	-14.4	60.6	-6.7
Chiyoda	1,953	9.8	4.2	-474	388	26	1,136	-93	172	-222	256	-184	70.8	-19.5	44.1	-8.2
Fukoku	390	2.8	0.9	5	116	21	112	42	21	-35	140	-24	112.3	8.7	62.3	10.5
Nippon Dantai	649	5.2	1.8	155	285	132	60	-7	59	33	245	-1	115.2	15.8	61.8	11.6
Toho	1,164	11.6	4.2	-109	324	92	149	-114	320	2	370	-88	33.5	-11.1	16.5	-5.2
Daihyaku	700	8.0	2.7	-143	211	-34	201	-134	117	78	172	-51	90.0	-13.1	50.0	-10.8
Tokyo	217	5.6	1.7	29	132	30	67	21	8	-7	11	-15	95.6	-10.5	64.1	-2.5
Total	17,260	3.1	0.9	769	5,699	1,385	4,116	-329	2,504	62	4,936	-336	110.8	-3.0	60.8	-0.1

Note: The reserve ratio is calculated using the following formula
Reserve ratio (1) = special reserve for claim write-off /{(bad debt of failed institute + Overdue loans + 1/2 of overdue loans for 3 months or more + 1/2 of Loans for which the conditions have been relaxed) x 0.7}
Reserve ratio (2) = special reserve for claim write-off /total of risk management loans

Source: Based on materials supplied by individual comopanies

4. Objectives facing Japan's Life Insurance Firms

1) Boosting asset management ability

As we have seen here, for Japan's life insurance firms a boosting of their asset management ability is an important objective. Among the major and medium-standing life insurance firms, some firms are trying to improve the efficiency of their asset management operations by spinning off the management divisions as separate firms and by moving staff and assets to affiliated investment advisory firms. As Japan's financial Big Bang goes into full-scale operation, a movement has emerged to engage in tie-ups among groups or with foreign financial institutions to respond to the development and sale of investment trusts and also to respond to the defined-contribution pension plan (Japan's version of 401(k) pension system) expected to be introduced in Japan. This is in view of the intensification of competition in the asset management sector, which includes firms such as investment advisory firms and investment trust management firms. (Table 9)

On January 17, 1999, Taiyo Life Insurance and Daido Life Insurance agreed to enter into a comprehensive operational alliance with the objective of creating a single life insurance group utilizing a holding company. In this way, there is a movement towards alliances being formed among domestic life insurance companies.

Table 9 The engagement of life insurance firms in a boosting of asset management ability and a response to the financial Big Bang

Tie-ups related to investment trusts and defined-contribution pension plans

Firm	Tie-up partner	Details
Nippon	Deutsche Bank	Foundation of joint asset management firms in Europe Sales of investment trusts in Japan and Europe
	Putnam (US)	Entrustment of asset management in US Development and sale of investment trust products
Dai-ichi	Industrial Bank of Japan	Sale of investment trusts developed by affiliated investment advisory firm Development of financial products Merger with affiliated investment advisory firm Coordination in the area of loan financing
	Capital Group	Sale of investment trusts
	Delaware International	Sale of investment trusts
Sumitomo	Sumitomo Group	Research on defined-contribution pension plans Electronic financial trading operations, etc.
	Nissho Iwai/Toyo Securities	Product development related to overseas financial products
	Taiheiyo Securities	Conversion of Taiheiyo Investment Trust to subsidiary
Meiji	Mitsubishi Group	Foundation of joint investment trust evaluation firm Development and sale of financial products Research on defined-contribution pension plans
	Deutsche Dresdner	Merger of investment trust subsidiaries in Japan Research on defined-contribution pension plans
Yasuda	Fuyo Group	Research on defined-contribution pension plans
	Paine Webber	Foundation of joint venture investment trust firm Operation of defined-contribution pension plans
Taiyo/Daido		Research on defined-contribution pension plans Development and sale of financial products Utilization of investment advisory firms
Chiyoda	Indo-Sues Investment Advisory	Entrustment of asset management

Source: Nomura Research Institute

2) A rapid response is needed to prompt corrective action measures

From next fiscal year, prompt corrective action measures will be introduced with the objective of early detection of a life insurance firm whose operations are no longer sound and expedite improvements in its operations as well as reducing the effects of a failure of such a life insurance firm[1].

As of the end of September 1998, stock prices had fallen massively and the solvency margin rate of the life insurance firms is though to have fallen compared to the end of the previous fiscal year.

Assuming the denominator(total amount of risk) of solvency margin ratio is the same amount in the first half of FY 98 as it was in the end of FY 97, by subtracting the stock latent profit which decreased in the first half of FY 98 from the numerator, we get the solvency margin ratio. It is assumed that the solvency margin ratio of some firm will fall by about 100 points to 270 points. The major life insurance firms have been heavily affected by the fall in stock prices, because they are maintaining a high solvency margin ratio due to massive stock latent profits.

In view of this decrease in latent profit of stocks and the introduction of the prompt corrective action measures, the life insurance firms are engaged in measure to improve their net worth by raising foundation funds and subordinated loans or by increasing capital. (Table 14)

In July 1998, Daiichi procured foundation funds amounting to 150 billion yen and Meiji raised 60 billion yen. Mitsui and Tokyo raised subordinated loans (Mitsui 50 billion yen and Tokyo14 billion yen). In September, Nippon Dantai which takes the form of a joint-stock company raised 20 billion yen through a third party share allocation. Several firms are planning to engage in fund raising through subordinated loans or capital increases. In addition, the alliance negotiations between Daihyaku Life Insurance and ManuLife Financial, the largest insurance firm in Canada, a move that became known in October, are thought to be aimed at the early normalization measures. Dai-Hyaku Life Insurance will raise several 55 billions of yen through the sale of its goodwill. This will depend on trends in stock prices, interest rates and exchange rates, however it is expected that there will be a rush to procure funds on the part of life insurance firms with low net worth levels.

1 See Takeshi Inoue “Prompt Corrective Action Program Applied to Japanese Life Insurer”, Nomura Research Institute, Summer 1999.