Japan's Life Insurers Anxiously Await A Recovery in Confidence

- A Look at FY99 First Half Results and Latest Industry Developments -

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Japan's life insurance companies continue to suffer. Results for the first fiscal half showed that a strategy of heavy investment in foreign securities had backfired with the surge in the value of the yen, and this had continued to hold back much-needed reforms. Meanwhile a number of deals confirmed the trend to realignment in the life insurance industry, with Heiwa Life about to be bought out by Aetna of the U.S., Nippon Group Life bought out by the French insurer AXA and the announcement of the tie-up between Yasuda Mutual and Fukoku Mutual. This report will examine recent developments in the industry, particularly looking at first half results for FY99.

1. First Half Earnings Results

1) Lack of Confidence Afflicts Japan's Life Insurers

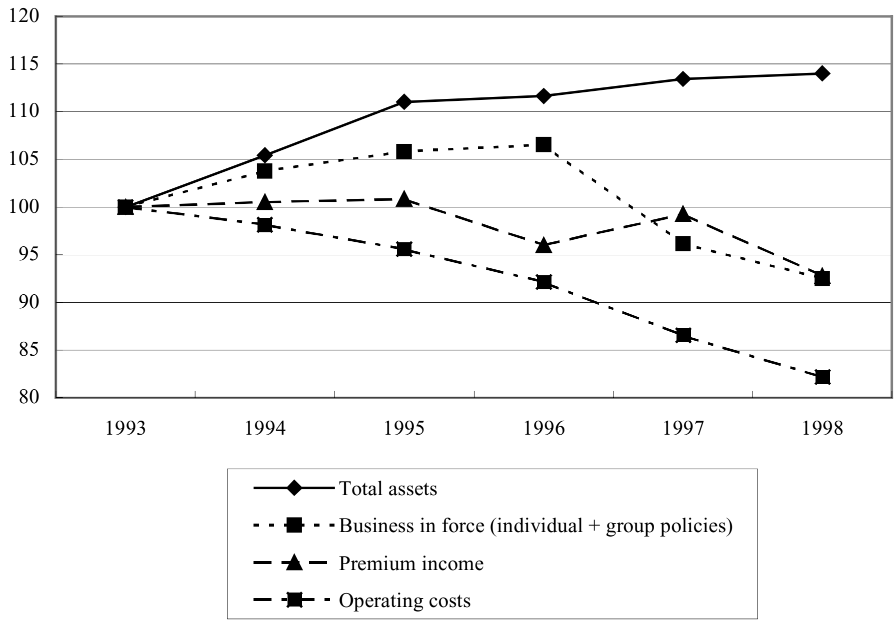
(1) Market contraction

In FY97, for the first time since the end of the war, the Japanese life insurance industry saw individual policy business in force actually decline. In FY98 the dearth in policy subscriptions, previously only afflicting a few mid-size insurers, spread to the majors (Figure 1), and these poor conditions continued through FY99.

According to the Life Insurance Association of Japan, total business in force in individual insurance among its 46 members at end September 1999 of ¥1,372.62 trillion represented a ¥20.6 trillion decline in the April ~ September period (a 3.4% year on year decline). Further, individual annuities in force fell around ¥1.8 trillion to ¥77.95 trillion, while group annuities in force declined around ¥2.2 trillion to ¥46.43 trillion.

This state of affairs was similarly reflected in declining income. Premium income fell 5% year on year, while poor investment opportunities due to extremely low interest rates meant interest and dividend income fell 9.5%. This was combined with accelerating numbers of people pulling their savings out of life insurance policies due to reductions in guaranteed rates of return, which lead to policy cancellation payouts increasing by 42%. This once again confirmed the severe dent in confidence the life insurance industry has sustained in terms of both individual and group insurance.

Figure 1 Main Indicators For The 15 Life Insurance Majors (excluding Toho Mutual) (1993=100)

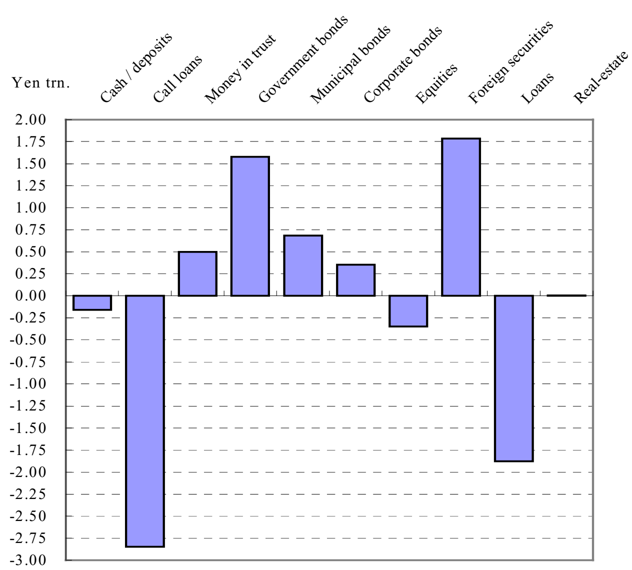


Source: NRI, from Life Insurance Statistics 1998-99 (Insurance Research Institute)

(2) Investment portfolios

The zero-interest rate policy of the Bank of Japan resulted in the insurers pulling some ¥2.8 trillion out of the call money market, while investment in foreign securities increased by ¥1.8 trillion aiming to take advantage of domestic – overseas interest rate differentials. Weak demand for loans coupled with the rising stock market resulted in many insurers reducing the amount of assets tied up in lending in favour of shares. The steep rise in the yen against the U.S. dollar however caught many insurers off guard, and left them with widening losses in foreign securities. With little other option the insurers therefore channeled ¥2.6 trillion towards Japanese government (central and municipal) and corporate bonds (Figure 2).

Figure 2 Major Investment Asset Types (Net Change April ~ September 1999)



Source: NRI, from figures published by the Life Insurance Association of Japan

2) Earnings Results

(1) 15 Life Insurance Majors (excluding Toho Mutual)

Individual life insurance and annuities (Table 1)

It appears that the value of individual policies in force held by Japan's major 15 life insurers suffered significantly from the insurance premium hike of April 1999 and the bankruptcy in June of Toho Mutual.

Fukoku Mutual was the only insurer to see the value of its individual life and annuity policies in force increase, though by a mere 0.5%. All the others experienced declines of varying amounts, Daihyaku Mutual the largest at 12.3%. In terms of attracting new policy subscriptions clear winners and losers were emerging among the majors, with Nippon Life (who introduced a new Nissei General Account) and Sumitomo (with its new cash-back system) marking growth over the previous year by introducing new products and services. Meiji Mutual, Asahi Mutual and Mitsui Mutual experienced a double-digit decline.

Table 1 Individual Life Insurance and Annuities

(Units: ¥ billion, %)

	Individual life insurance						Individual annuities						Individual life insurance / annuities						
	Policies in force		New policies		New policies (including net increase in		Policies in force		New policies		New policies (including net increase in policy		Policies in force		New policies		Cancellations / lapses		Cancel. &Lapse ratio
		%y-y		%y-y		%y-y		%y-y		%y-y		%y-y		%chg on 99/3		%y-y		%y-y	
Nippon	315,722	-4.6	10,212	2.5	13,074	13.3	16,496	-1.3	350	-37.7	340	-38.2	332,219	-1.5	13,414	10.9	14,006	-9.1	4.2
Dai-ichi	226,711	-3.7	6,770	-7.1	9,184	-7.4	7,569	-1.6	25	-89.2	9	-95.6	234,280	-1.9	9,194	-9.3	10,602	-1.7	4.4
Sumitomo	207,763	-3.4	7,940	-4.8	11,476	10.3	11,737	0.3	226	-33.4	208	-34.5	219,500	-0.8	11,684	9.0	10,143	-2.4	4.6
Meiji	123,725	-5.7	3,271	-18.7	4,097	-19.3	8,514	-1.9	98	-35.9	76	-50.7	132,238	-2.9	4,173	-20.2	6,419	-3.1	4.7
Asahi	82,324	-6.0	2,203	-13.3	2,934	-11.2	7,431	-5.4	83	-28.7	24	-58.0	89,755	-2.8	2,958	-12.0	3,693	-11.5	4.0
Mitsui	69,119	-5.6	2,052	-12.9	2,575	-12.0	2,836	1.6	120	-27.1	118	-27.9	71,955	-2.4	2,693	-12.8	3,307	-16.8	4.5
Yasuda	72,582	-3.7	2,845	-3.1	3,905	0.6	4,770	-1.4	90	-42.5	89	-43.4	77,351	-1.4	3,994	-1.1	3,841	-4.4	4.9
Taiyou	10,049	-2.8	620	-7.4	620	-7.4	5,043	4.9	262	0.1	262	0.1	15,092	-0.2	881	-5.3	495	6.3	3.3
Daido	37,983	0.4	2,329	9.9	2,365	11.3	1,156	-3.0	23	-31.0	23	-31.0	39,139	-0.4	2,388	10.6	2,017	-0.3	5.1
Kyoei	42,825	-6.7	1,912	-10.5	1,852	-23.7	1,736	0.1	48	-37.4	45	-40.3	44,562	-3.9	1,897	-24.2	2,936	2.4	6.3
Chiyoda	33,954	-9.2	1,524	-1.0	1,700	-0.6	1,641	-6.5	48	-53.2	46	-53.4	35,595	-4.9	1,746	-3.5	2,984	-1.5	8.0
Fukoku	33,901	0.9	1,246	0.1	1,715	5.0	2,530	-0.4	31	-47.1	31	-47.1	36,431	0.5	1,746	3.2	1,072	-4.3	3.0
Nip. Dantai	12,412	-3.4	493	-26.5	557	-20.9	2,704	-11.5	29	15.8	-35	-	15,116	-3.9	521	-25.9	1,013	6.0	6.4
Toho	-	-	-	-	-	-	-	-	-	-	-	-	—	—	-	-	-	-	-
Daihyaku	15,972	-17.7	-	-	-	-	1,218	-14.0	-	-	-	-	17,190	-12.3	-	-	2,279	22.4	11.6
Tokyo	6,193	-5.5	307	13.9	342	6.1	506	-21.4	4	-4.3	4	19.4	6,699	-3.6	345	6.2	481	-76.8	6.9
TOTAL	1,291,235	-4.6	43,724	-7.7	56,394	-2.8	75,886	-2.0	1,437	-39.2	1,239	-44.1	1,367,121	-2.0	57,633	-4.4	65,288	-6.4	4.7

Notes (1) Cancellation & Lapse Ratio = (Value of cancellations and lapses of individual policies and individual annuities) / (Value of individual policies / annuities in force at year end) x 100

(2) Daihyaku Mutual does not take on new policies since it transferred all new policy operations to Manulife – Century Life Insurance

Source: Company reports

Company reports While it might be tempting to interpret signs of recovery at Nippon Life as a sign that it is emerging as the clear market leader, we should however also remember that it saw new policies decline by 32.3% in the year to September 1998. Among mid-size insurers Daido Life and Fukoku have performed well, but Nippon Dantai Life and Kyoei Life both suffered sharp falls in individual business.

If we exclude those firms who experienced particular difficulties through the first half of FY99 then it seems that the numbers of cancellations and lapses are now returning to more reasonable levels. The overall total of 4.7% however is the same as the six-month period to September 1998, showing that confidence among Japan's public is still at a low ebb.

Group insurance and annuities (Table 2)

The trend in group insurance continues to be for business to be concentrated in the hands of the large insurers such as Nippon Life and Dai-ichi, while business continues to flow out of Sumitomo, Asahi and Mitsui as it did the previous year.

Table 2 Group Insurance & Annuities

(Units: Yen billion)

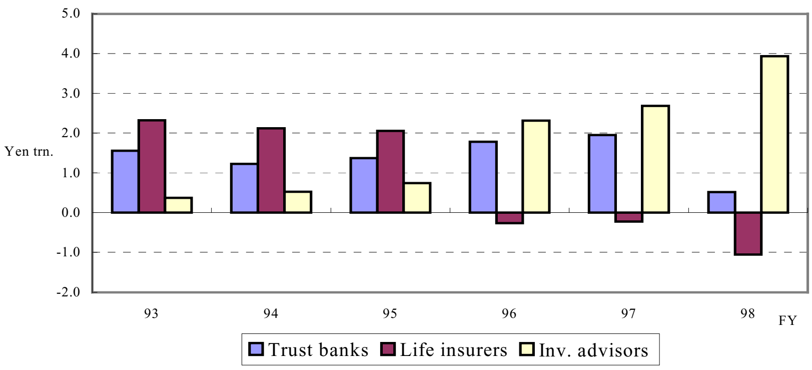
	Group insurance		Group annuities										Ref.
	Business in force		Business in force			General A/C		Special A/C		Adjusted balance of pension assets held (99/3)			
		Chg. vs. 99/3 (%)		Chg. vs. 99/3 (%)	Chg. vs. 99/3 (amt.)		Chg. vs. 99/3 (amt.)		Chg. vs. 99/3 (amt.)		Chg. vs. 99/3 (amt.)	of which held by group inv. advisory firm	of which held by group inv. advisory firm (99/9)
Nippon	63,157	2.3	10,954	-0.4	-49	7,268	-562	3,687	514	12,094	651	1,091	1,285
Dai-ichi	46,937	1.3	7,794	-4.3	-348	5,185	-798	2,609	450	8,799	249	657	756
Sumitomo	37,712	-0.1	5,020	-6.6	-353	3,446	-510	1,575	157	5,698	-117	324	543
Meiji	45,821	0.6	5,077	-6.4	-349	4,158	-379	919	30	5,793	86	366	533
Asahi	22,795	-1.4	2,520	-17.5	-536	2,018	-339	502	-197	3,242	-129	186	502
Mitsui	26,443	-0.4	2,832	-6.8	-205	2,316	-226	516	21	3,850	140	813	1,114
Yasuda	66,323	0.9	3,707	-2.2	-84	3,169	-133	539	49	3,916	89	124	176
Taiyou	9,938	2.6	752	1.6	12	658	-4	94	16	793	27	54	n/a
Daido	11,525	-0.4	2,488	2.6	63	2,328	45	160	18	2,619	207	194	n/a
Kyoei	14,827	-2.5	548	-10.6	-65	539	-66	10	1	614	-60	0	n/a
Chiyoda	14,417	-6.2	1,050	-13.9	-170	952	-161	99	-8	1,332	-317	112	n/a
Fukoku	11,020	0.8	1,769	3.2	56	1,597	48	172	8	1,724	71	11	n/a
Nip. Dantai	16,293	-2.9	1,095	-2.0	-22	1,086	-21	8	-1	1,117	-110	0	n/a
Toho	-	-	-	-	-	-	-	-	-	-	-	-	n/a
Daihyaku	2,236	-56.4	187	-26.5	-67	165	-70	21	2	278	-100	24	n/a
Tokyo	7,023	-1.2	311	-0.3	-1	286	-5	25	4	321	-10	-	n/a
TOTAL	396,468	-0.5	46,105	-4.4	-2,118	35,169	-3,181	10,935	1,063	52,188	678	3,956	n/a

Notes (1) Transfer of group annuity contracts: Asahi → Asahi Life AM (¥315.9 billion), Mitsui → Mitsui Global AM (¥300 billion)
(2) Adjusted balance of pension assets held figures are from "Pension Data" (6/Jul/98, 5/Jul/99).
Source: Company reports

The total value of group insurance in force dropped 4.4% on end March 1999 to ¥46.1 trillion, an outflow of around ¥2.1 trillion over the six month period. An important trend is however the increasing tendency of insurers to transfer insurance policies to affiliated investment advisory firms where the contract payment reflects directly the rate of return on assets, rather than using "ordinary account" policies which "guarantee" a certain rate of return. In the first fiscal half of FY99 Mitsui Mutual transferred around ¥300 billion's worth of policies to Mitsui Global Asset Management, and Asahi Mutual transferred ¥315.9 billion's worth to Asahi Life Asset Management.

How much of the outflow from life insurers is actually being transferred to group investment advisory firms? Adjusted (parent + group investment advisory firm) figures for outstanding pension assets at end FY98 indicate that while funds are shifting to those firms such as Nippon Life that have a good reputation for earning investment returns, the outflow is not necessarily being taken on by group affiliates. The figures indicate that the overall trend for pension money to leave life insurers and go to trust banks and investment advisory firms will continue as customers increasingly concentrate their business on institutions with a good track record (Figure 3).

Figure 3 Change in Value of Pension Assets under Management by Type of Institution



Source: Japan Rating and Investment Data, Inc. “Pension Data” (18 October 1999)

Insurance Cash Flow (Table 3)

Due to the poor state of the individual and group insurance policy markets as explained above, the major 15 insurers saw their policy premium income decline 7.4% year on year, higher than the 6.6% decline on end FY98. Only Daido Mutual, Fukoku Mutual and Tokyo Mutual saw their insurance premium revenue grow.

On the reverse side, the amount of claim payouts jumped dramatically. This was mainly caused by a 37.9% increase in policy cancellation payments due to general poor press and the collapse of Toho Mutual, plus the large number of lump sum payments made as endowment policies reached maturity.

However, considering that we should concentrate on premium income from individual insurance and annuities, the overall decline in premium revenue is not of such importance.

The investment cash flow balance ratio, calculated by dividing claims and other payouts by premium revenue, shows that the cash flow balance was in the red for 12 firms (Nippon Life, Daido Mutual and Fukoku Mutual only being in the black). Against the 10 firms in the red at end FY98 this shows that the overall outflow of funds is accelerating.

Table 3 Insurance Cash Flow

(Units: ¥ billion, %)

	Premium revenue		Claims and other payouts				Insurance cash flow balance ratio	
					Policy cancellations and other reimbursements			
		% y-y		% y-y		% y-y		% y-y
Nippon	2,828	-2.0	2,612	3.9	624	11.0	92.4	5.2
Dai-ichi	1,754	-12.2	1,962	10.7	523	36.8	111.9	23.1
Sumitomo	1,606	-3.1	1,866	8.3	470	33.6	116.2	12.2
Meiji	1,100	-6.9	1,428	13.6	275	16.0	129.8	23.4
Asahi	705	-12.2	1,240	39.8	586	217.2	175.9	65.4
Mitsui	652	-24.7	832	12.7	225	27.0	127.7	42.5
Yasuda	779	-2.3	814	16.6	211	43.3	104.4	17.0
Taiyou	588	-7.3	596	-4.6	100	-7.7	101.3	2.8
Daido	600	0.9	452	9.7	107	7.6	75.5	6.1
Kyoei	305	-15.5	499	7.0	159	32.4	163.6	34.4
Chiyoda	245	-18.5	523	-7.1	170	7.2	213.8	26.4
Fukoku	383	2.6	305	7.0	68	22.1	79.5	3.3
Nip. Dantai	275	-3.2	344	-7.1	128	35.2	125.1	-5.4
Toho		-	-	-	-	-		-
Daihyaku	132	-26.2	395	28.0	148	121.3	299.4	126.8
Tokyo	84	2.1	128	-12.6	47	15.6	152.2	-25.6
TOTAL	12,034	-7.4	13,993	9.6	3,839	37.9	116.3	116.3

Note: Asahi Life transferred ¥315.9 billion to its investment advisory affiliate. If this is factored in then the year on year change in claims and other payouts would be 5.2%, and the insurance cash flow balance ratio would be 131.5%.

Source: Company reports

Investment Balance (Table 4)

Many insurers made significant sell-offs in the stock market in order to maintain enough liquidity to cope with claim cancellations and lapses and the generally worsening cash flow situation. Added to the decline in loan business, previously a reliable source of income, and the general poor investment climate, the life insurers saw a sharp 11.2% drop in interest and dividend income over September 1998. In contrast they saw the value of their domestic stock portfolios rising as the Nikkei Stock Average climbed ¥2,000 to hit ¥17,605 at end September 1999. Profits on domestic stock holdings, the only performing investment for the insurers, enabled them to fill the accounting hole made by losses sustained on overseas securities holdings.

The main reason for rising investment losses however was the exchange rate: the value of the US dollar dropped sharply over the term from ¥120.55 to ¥106.95. This had a direct effect on the value of overseas assets denominated in foreign currencies, increasing the loss on foreign securities holdings.

Overall, this indicates a worrying trend. With declining profits from main-stay insurance business and unrealized losses on foreign securities, the insurers are being forced into an over-reliance on domestic stock prices.

Table 4　Investment Balance

(Units: ¥ billion)

	Gains on investment assets		Interest & dividend income		Realized gains on sales of securities		Unrealized gains on special A/C assets		Losses on investment assets		Realized losses on sales of securities		Unrealized losses on securities holdings		Unrealized losses on special A/C assets		Investment balance
		% y-y		% y-y		% y-y		% y-y		% y-y		% y-y		% y-y		% y-y	
Nippon	10,674	12.5	6,472	-10.3	3,445	1,480	587	482	4,139	46.1	2,640	2,013	0	0	394	-158	6,534
Dai-ichi	6,125	18.4	4,060	-4.1	1,543	831	316	257	3,256	90.8	1,757	1,503	0	0	45	-211	2,869
Sumitomo	4,754	-16.2	3,119	-7.7	1,199	-884	231	184	2,015	13.3	661	-120	497	497	188	-63	2,739
Meiji	3,211	0.1	2,258	-11.9	753	260	154	115	1,024	-5.4	592	477	0	0	19	-186	2,187
Asahi	2,813	11.1	1,269	-27.5	1,364	642	56	22	1,089	38.0	408	275	107	41	0	-213	1,724
Mitsui	3,608	40.0	1,351	-16.9	1,222	431	117	3	2,811	58.9	1,926	1,546	433	433	53	-391	797
Yasuda	2,364	-0.5	1,283	-11.6	869	293	94	72	984	-2.2	704	324	0	0	32	-68	1,379
Taiyou	1,458	-8.8	953	-9.8	374	-155	0.4	0	399	-12.1	268	215	0	-3	16	-13	1,059
Daido	1,205	-25.8	872	-9.1	121	-381	36	9	786	-48.0	216	167	366	-678	24	-127	419
Kyoei	1,060	18.3	571	-11.4	360	120	1	1	656	100.7	543	487	45	14	2	-2	404
Chiyoda	1,481	45.0	511	-17.3	846	499	19	14	1,002	73.1	494	329	9	-12	3	-11	479
Fukoku	856	-14.7	552	-10.5	226	-80	7	6	308	110.1	122	93	37	37	9	-1	548
Nip. Dantai	905	-17.2	451	-20.6	408	27	3	3	489	-22.8	239	214	44	-320	0	-10	415
Toho	-	-	-	-	-	—	-	—	-	-	-	-	-	-	-	-	-
Daihyaku	449	-21.1	264	-21.3	110	-81	8	6	453	25.3	369	182	0	0	1	-7	-4
Tokyo	270	-21.4	155	-13.6	73	-84	6	5	75	-33.8	27	-34	0	0	1	-3	195
TOTAL	41,231	5.2	24,141	-11.2	12,915	2,920	1,637	1,177	19,488	29.1	10,967	7,673	1,537	10	788	-1,463	21,743

Source:　Company earnings reports

Recurring And Net Operating Profits (Table 5)

Six firms posted growth in recurring profits on the previous year, while the others all posted two-digit decreases.　Though it is difficult to tell profitability precisely from first half earnings reports, our best estimates of net operating profits are as per Table 5.　We have also included 99/3 dividends to policyholders, for reference.

Table 5　Recurring and Net Operating Profits

(Units: ¥ billion)

	Recurring profits		Extraordinary profits			Extraordinary expenses							Net operating profits	Amount payable in dividends	Negative spread	
		Chg y-y (%)		Gains on securities sales (ordinary A/C)	Transfers from contingency reserves		Losses on securities sales (ordinary A/C)	Unrealized losses on securities holdings (ordinary A/C)	Loan loss reserves	Provisions for individual items(net)	Loan amortization	Transfers to contingency reserves		if same as end 99/3	FY98	FY99 estimate
Nippon	325.7	-20.6	225.3	225.3	—	106.2	132.5	0.0	0.0	-26.3	—	—	206.6	226.2	360.0	360.0
Dai-ichi	102.8	-42.5	94.2	94.2	—	178.6	132.4	0.0	0.0	46.3	—	—	187.3	148.3	240.0	240.0
Sumitomo	162.4	-41.9	92.0	92.0	—	99.3	48.7	49.7	0.0	0.9	—	—	169.6	115.1	230.0	210.0
Meiji	139.4	16.7	56.4	56.4	—	50.4	44.1	0.0	0.0	6.3	—	—	133.4	61.9	150.0	130.0
Asahi	75.9	8.2	102.9	102.9	—	77.1	22.3	10.7	44.1	—	—	—	50.1	59.0	130.0	130.0
Mitsui	33.1	-9.4	93.3	93.3	—	218.3	169.4	43.3	0.0	3.5	2.1	—	158.1	59.8	86.7	82.0
Yasuda	109.0	0.5	72.9	72.9	—	61.2	64.1	0.0	0.0	-2.9	—	—	97.2	102.0	79.0	75.0
Taiyou	17.6	-20.6	33.0	33.0	—	23.1	23.2	0.0	0.0	-0.3	0.1	—	7.7	15.6	90.0	82.0
Daido	7.2	9.2	1.8	1.8	—	56.0	17.2	36.6	2.2	0.0	—	—	61.3	34.3	12.1	12.1
Kyoei	28.0	149.8	35.1	35.1	—	51.8	53.7	4.5	0.0	-6.5	0.1	—	44.7	16.6	70.0	70.0
Chiyoda	27.7	69.5	79.2	79.2	—	84.7	46.5	0.9	0.0	37.3	—	—	33.2	19.9	44.0	38.0
Fukoku	36.9	-36.3	18.7	18.7	—	15.2	9.7	3.7	0.0	1.8	—	—	33.4	24.6	35.0	32.0
Nip. Dantai	4.4	-71.8	40.4	40.4	—	41.0	23.7	4.4	0.0	12.9	—	—	5.0	20.6	25.0	29.0
Toho	—	-	—	-	—	-	-	-	-	—	—	—	—	—	-	-
Daihyaku	0.8	-88.1	9.9	9.9	—	35.6	35.7	0.0	0.0	-0.1	—	—	26.5	4.5	35.0	30.0
Tokyo	1.8	-61.7	6.2	6.2	—	4.0	2.2	0.0	0.0	1.7	—	—	-0.4	5.2	12.0	10.0
TOTAL	1,072.6	-20.2	961.3	961.3	—	1,102.2	825.4	153.7	46.3	74.6	2.3	—	1,213.6	913.6	1,598.8	1,530.1

Note:　Amount Payable in Dividends is equivalent to the Members Dividend Reserve as decided by the Surplus Disposal Resolution at previous term end. Negative spread figures are those disclosed by the companies themselves.

Source:　Company earnings reports

Total assets (Table 6)

Total assets decreased by ¥2.9 trillion on end FY98. Excluding repo trades and fund procurement, the decrease is around ¥3.7 trillion. It is also important to note that Asahi and Mitsui also transferred significant amounts of policy assets to their investment advisory affiliates. However, it is nevertheless the case that several of the troubled mid-size insurers were not able to stem an outflow of funds.

Table 6 Total Assets

(Units: ¥ billion)

	Total assets					(Reference) Contribution of individual items					
		Chg vs 99/3 (%)	Chg y-y (%)	Chg. (amount) (1)	Chg. (amount) (2)	Bond lending collateral	Paid acceptances	Subordinated debt	Unamortized funds	Direct reductions in non-performing loans	Deferred taxes
Nippon	42,906.1	0.5	-0.7	-312.7	460.5	-901.5	-1.7	0.0	-228.0	-107.4	465.4
Dai-ichi	29,527.9	-0.7	0.0	2.5	-191.0	-29.2	-0.0	100.0	-173.0	-53.2	349.0
Sumitomo	24,154.9	-0.0	0.1	35.2	-797.0	502.1	1.0	170.0	-25.0	-5.4	189.6
Meiji	17,123.9	-0.9	-0.2	-37.0	-566.8	432.3	5.0	0.0	-78.6	-27.6	198.7
Asahi	11,645.1	-4.1	-4.9	-594.4	-641.9	-111.9	-0.0	73.0	-10.0	-22.9	119.5
Mitsui	9,790.5	-3.2	-11.1	-1,222.1	-844.7	-243.2	-0.0	-145.0	-3.4	-79.7	93.9
Yasuda	9,930.2	1.9	3.6	344.1	0.3	119.3	0.0	100.0	22.7	-12.2	113.9
Taiyou	7,031.4	0.9	1.8	127.5	-9.7	-52.7	0.0	85.0	30.0	-8.8	83.7
Daido	5,554.8	1.3	1.8	99.9	160.6	-47.2	0.0	0.0	-6.8	-6.7	0.0
Kyoei	4,821.1	-5.1	-6.1	-313.7	-334.4	0.0	2.0	8.0	0.0	-15.4	26.2
Chiyoda	4,048.0	-7.2	-12.7	-587.2	-568.7	-13.0	-8.8	10.4	45.0	-94.5	42.3
Fukoku	4,541.0	1.6	2.7	117.4	127.7	0.0	0.0	0.0	0.0	-10.3	0.0
Nip. Dantai	3,585.8	-2.0	-1.7	-63.2	-81.0	0.0	0.0	4.0	0.0	0.0	13.8
Toho	-	-	-	-	-	-	-	-	-	-	-
Daihyaku	2,188.5	-11.3	-15.3	-395.9	-375.9	0.0	0.0	-10.0	0.0	-10.0	0.0
Tokyo	1,194.3	-3.7	-5.2	-65.7	-72.7	-7.0	0.0	14.0	0.0	0.0	0.0
TOTAL	178,043.6	-0.9	-1.6	-2,865.3	-3,734.8	-352.0	-2.7	409.4	-427.1	-454.1	1,696.0

Note: Change (amount) (2) is Change (amount) (1) minus bond lending collateral, paid acceptances, subordinated debt, unamortized funds, direct reductions in non-performing loans and the effects of adopting tax-allocation accounting.

Source: Company earnings reports

Investment portfolio (Ordinary A/C Assets) (Tables 7,8)

Examination of the investment portfolios of the life insurers throws light on the emerging differences in their investment strategies.

Due to the zero-interest rate policy, funds held as cash & deposits or on call are being shifted into other assets. In terms of shares of foreign currency denominated assets, while Dai-ichi has made determined efforts to reduce its exposure, Sumitomo and Asahi have been concentrating on boosting their holdings. Nippon Dantai has a particularly large share of its portfolio tied up in foreign assets, at over 28.1% of its overall portfolio. This resulted in it suffering more than its rivals when the value of the yen surged. We expect all the insurers however to have to adjust their relative holdings of foreign denominated assets in the second half in accordance with exchange rate fluctuations.

All the insurers reduced their loan portfolios on the back of poor demand for funds and the need to dispose of non-performing loans (which will be dealt with in more detail later).

Yasuda Mutual, Meiji Mutual, Kyoei Life and Nippon Life all significantly raised their bond holdings, particularly government bonds. Others, particularly the most troubled institutions, have reduced their bond holdings to under 10% in order to boost their liquidity.

The overall change in bonds held we presume includes the investment in Dowa File & Marine Insurance by Nippon Life and the underwriting of capital increases from banks involved in recent financial restructuring.

Among the weaker institutions one worrying trend is the loss of “portfolio balance” where they are stepping up sales of more liquid stock and bond holdings due to the rise in the stock market, but are also seeing the value of their business in force decreasing while cancellations and lapses are on the rise.

Table 7 Asset Portfolios (1)

(Units: ¥ billion, %)

	Cash, deposits and on call			Loans			Bonds								
										Government bonds			Other		
	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amount)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amount)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amount)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amount)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amount)
Nippon	2.7	-1.0	-392.9	34.5	-1.2	-578.4	25.7	1.8	629.9	16.2	1.8	645.7	9.5	0.0	-15.8
Dai-ichi	7.3	1.2	270.2	29.0	-0.1	-219.3	26.3	0.0	-176.0	13.1	-0.1	-112.5	13.2	0.1	-63.5
Sumitomo	2.7	-4.2	-952.4	29.6	0.0	-40.5	28.8	0.2	-1.7	16.2	-1.6	-395.2	12.7	1.8	393.5
Meiji	4.2	-3.0	-502.9	36.3	-0.7	-177.7	24.9	1.8	243.4	16.7	2.1	312.1	8.2	-0.3	-68.7
Asahi	8.5	-1.5	-191.7	37.0	-0.2	-140.3	17.8	-0.9	-160.7	11.9	-1.5	-203.4	5.9	0.5	42.8
Mitsui	10.3	-4.6	-468.0	33.4	-1.0	-213.4	15.3	1.8	110.1	10.8	1.5	105.3	4.6	0.2	4.8
Yasuda	1.7	-2.6	-237.7	37.3	-0.6	-4.0	18.6	4.6	449.2	13.3	4.8	458.6	5.3	-0.2	-9.4
Taiyou	3.2	-1.9	-132.6	36.1	-0.7	-34.6	33.1	0.5	51.9	19.2	0.7	55.4	13.9	-0.1	-3.4
Daido	5.6	-3.0	-156.3	22.3	-1.0	-40.4	45.4	0.8	67.7	11.4	-2.4	-122.4	34.0	3.2	190.1
Kyoei	12.0	-2.8	-172.9	36.0	-1.3	-157.7	22.3	4.8	185.0	14.3	4.1	169.1	8.0	0.7	16.0
Chiyoda	8.3	-0.3	-36.7	40.2	-1.0	-163.8	8.4	1.3	28.5	8.0	1.3	29.2	0.4	0.0	-0.7
Fukoku	7.8	0.1	7.3	32.6	-1.1	-25.6	29.0	4.7	220.6	13.9	1.4	68.5	15.2	3.3	152.1
Nip. Dantai	12.0	3.2	106.7	29.7	-1.3	-69.0	14.0	-0.8	-40.3	10.1	-0.7	-32.2	4.0	-0.1	-8.1
Toho	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Daihyaku	7.6	-1.3	-52.7	32.3	0.7	-74.7	10.0	0.4	-17.1	9.7	0.4	-16.6	0.3	0.0	-0.5
Tokyo	7.5	0.9	7.7	30.6	-0.7	-24.0	7.1	-1.6	-23.0	5.7	-1.1	-16.5	1.4	-0.5	-6.5
TOTAL	5.3	-1.7	-2,904.8	33.1	-0.6	-1,963.3	24.7	1.4	1,567.7	14.4	0.8	945.1	10.3	0.6	622.6

Source: Company earnings reports

Table 8 Asset Portfolios (2)

(Units: ¥ billion, %)

	Real estate			Money in trust			Equities			Foreign securities			Other securities						Total ordinary a/c assets	
																* Foreign currency denominated assets				
	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amt.)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amt.)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amt.)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amt.)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amt.)	Share of ordinary a/c assets	Chg. vs. 99/3	Chg. (amt.)		Chg. (amt.)
Nippon	5.6	-0.1	-46.9	1.0	-0.0	-19.9	15.5	0.2	52.0	10.5	-0.1	-68.1	0.3	0.0	12.2	9.7	0.2	40.7	38,968	-289.9
Dai-ichi	6.6	0.0	-41.0	0.4	-0.2	-50.7	16.9	0.2	-60.7	8.6	-1.1	-362.2	0.6	0.0	5.9	6.4	-1.2	-381.5	26,840	-669.7
Sumitomo	6.1	-0.1	-22.7	1.1	0.9	203.2	13.2	-0.4	-106.0	11.3	3.7	823.7	3.0	0.6	139.6	5.1	2.6	583.2	22,470	-169.2
Meiji	5.9	-0.1	-27.1	1.1	0.0	4.1	18.8	0.6	59.8	5.1	0.8	124.0	0.3	0.2	27.4	4.2	0.6	86.2	16,049	-186.1
Asahi	5.0	0.1	-2.8	2.7	1.8	199.8	16.5	0.0	-48.7	8.8	2.9	303.3	1.2	-0.9	-110.0	7.8	2.3	237.3	11,072	-310.3
Mitsui	5.6	0.2	-5.9	0.8	0.1	4.0	16.5	0.7	1.6	15.0	2.8	214.2	0.4	0.0	0.0	13.9	3.0	228.0	9,089	-365.8
Yasuda	4.9	-0.1	-5.3	6.9	0.4	47.3	13.0	0.7	80.0	13.8	-1.1	-84.8	0.7	0.5	43.7	12.2	-0.0	15.3	9,362	134.3
Taiyou	3.5	-0.1	-2.0	1.9	0.4	25.6	7.9	-0.1	-5.7	10.7	2.7	189.0	1.4	-0.8	-51.3	7.4	2.8	197.7	6,921	46.3
Daido	3.9	0.2	12.7	4.2	0.4	24.0	5.9	-0.1	-4.6	9.1	2.2	122.0	2.2	1.2	63.3	8.7	3.0	166.2	5,353	53.6
Kyoei	3.1	0.1	-1.3	3.2	1.2	54.1	5.7	-0.2	-25.7	12.6	-1.6	-114.6	3.4	-0.3	-21.7	10.8	-1.6	-107.2	4,805	-260.1
Chiyoda	8.4	0.7	3.6	0.6	0.1	1.9	16.3	-2.4	-151.2	11.8	0.5	-14.6	1.5	0.9	31.9	9.1	0.0	-26.8	3,928	-303.6
Fukoku	3.8	0.2	10.1	4.5	-0.1	-1.5	10.8	0.2	17.6	6.7	0.1	8.2	1.5	-0.1	-1.8	4.3	0.5	26.3	4,376	65.9
Nip. Dantai	2.9	-0.0	-2.7	1.8	-0.1	-3.9	7.1	-1.6	-63.9	28.1	1.4	30.5	1.1	-0.3	-13.0	22.2	-0.7	-40.9	3,572	-70.5
Toho	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Daihyaku	7.8	0.8	-1.4	4.0	-0.4	-20.1	16.2	-1.2	-74.5	16.2	0.9	-24.5	2.5	0.3	-0.8	12.0	0.4	-24.0	2,156	-280.2
Tokyo	8.8	0.3	-1.2	2.4	0.9	10.1	20.8	0.4	-5.8	18.3	-0.0	-9.2	1.5	0.1	-0.1	14.2	0.8	2.5	1,164	-50.1
TOTAL	5.5	-0.0	-134.0	1.7	0.3	478.2	14.5	-0.0	-335.8	10.5	0.8	1,137.0	1.1	0.1	125.3	8.3	0.7	1,003.0	166,126	-2,655.5

Source: Company earnings reports

Realized gains / losses on sales of securities (Table 9)

Losses made on securities holdings stood out in the first fiscal half, either due to the sale of foreign securities heading deeper into the red, or losses posted on unwinding cross-shareholdings. However it appears that all the major life insurers also benefited by aggressively selling domestic equities on the back of rising stock prices.

Table 9 Gains / Losses on Securities Sales

(Units: ¥ billion)

	Realized gain / loss on sales ofmarketable securities				Realized gains on sales of marketable securities				Realized loss on sales of marketable securities				Sales of domestic equities
		Bonds	Equities	Foreign securitie		Bonds	Equities	Foreign securitie		Bonds	Equities	Foreign securitie	
Nippon	92.8	15.2	117.6	-40.0	225.3	27.8	119.9	77.5	132.5	12.6	2.3	117.5	166.2
Dai-ichi	-38.2	25.2	10.5	-74.0	94.2	27.7	62.6	3.8	132.4	2.4	52.1	77.8	270.0
Sumitomo	43.3	9.8	33.2	0.3	92.0	22.9	68.3	0.8	48.7	13.2	35.1	0.5	—
Meiji	12.3	1.9	14.1	-3.7	56.4	1.9	53.7	0.7	44.1	0.0	39.6	4.4	—
Asahi	80.6	4.3	69.6	6.7	102.9	8.6	81.7	12.6	22.3	4.4	12.1	5.9	150.0
Mitsui	-76.1	-3.0	36.5	-109.5	93.3	0.9	86.3	6.0	169.4	3.9	49.8	115.5	85.8
Yasuda	8.8	3.4	34.3	-28.9	72.9	23.9	44.2	4.7	64.1	20.5	9.9	33.6	—
Taiyo	9.8	10.7	10.6	-11.5	33.0	18.7	13.9	0.4	23.2	8.0	3.3	11.9	27.5
Daido	-15.4	0.3	0.2	-15.9	1.8	1.2	0.5	0.0	17.2	0.9	0.3	15.9	3.5
Kyoei	-18.5	10.0	10.7	-39.2	35.1	10.9	18.8	5.4	53.7	0.8	8.1	44.7	43.9
Chiyoda	32.7	0.9	51.4	-19.6	79.2	7.5	70.9	0.6	46.5	6.6	19.5	20.2	—
Fukoku	9.0	4.7	4.6	-0.3	18.7	4.8	12.2	1.6	9.7	0.1	7.6	1.9	11.2
N. Dantai	16.7	1.8	14.8	0.0	40.4	12.3	27.7	0.4	23.7	10.5	12.8	0.3	96.9
Toho	-	-	-	-	-	-	-	-	-	-	-	-	—
Daihyaku	-25.8	0.0	-23.4	-2.4	9.9	0.0	9.3	0.5	35.7	0.0	32.7	2.9	90.9
Tokyo	4.0	-1.0	5.3	-0.3	6.2	0.6	5.5	0.1	2.2	1.6	0.3	0.3	—
TOTAL	135.9	84.3	389.9	-338.2	961.3	169.8	675.5	115.1	825.4	85.5	285.5	453.3	—

Note: Figures for domestic equities sales are on a disclosed book-value basis
Source: Company earnings reports

Unrealized gains / losses on marketable securities and real-estate (Table 10)

Table 10 shows unrealized gains / losses on assets held in ordinary accounts, including those for which no market value has been disclosed. As the table shows, many of the life insurers are holding some sort of loss, apart from Meiji. Despite the recent stock market climb, out of the 15 major life insurers 5 are holding overall negative positions on their securities holdings.

Among the weaker institutions, despite posting unrealized profits on their equities, the share index break even level is ¥1,000 up on March. That is evidence that the quality of their holdings is getting worse. Without a rise in share prices in the second fiscal half it would be difficult to expect them to be realizing any profits on their share holdings.

Table 10 Unrealized gains / losses (1)

(Units: ¥ billion, %)

	Unrealized gain / loss (ordinary account)			Equities		Share index break even level		Bonds		Foreign securities		Other	
		Chg. vs. 99/3	As % of total assets		Chg. vs. 99/3	Sep-99	Mar-99		Chg. vs. 99/3		Chg. vs. 99/3		Chg. vs. 99/3
Nippon	4,502	368	10.5	3,921	896.5	10,600	10,500	649.3	-6.4	-64.7	-517.4	-3.5	-3.9
Dai-ichi	1,913	423	6.5	1,689	610.1	12,800	12,800	355.3	-18.2	-129.9	-166.6	-2.1	-1.5
Sumitomo	418	238	1.7	481	331.4	15,100	15,100	130.5	36.5	-189.7	-128.8	-3.4	-1.3
Meiji	1,042	32	6.1	816	89.2	12,600	12,100	191.0	1.2	34.9	-58.8	0.3	0.2
Asahi	172	259	1.5	364	351.5	14,700	15,700	-4.7	15.0	-187.3	-107.2	-0.1	-0.0
Mitsui	232	167	2.4	306	215.9	14,500	14,800	11.1	6.7	-84.5	-54.4	-0.7	-0.7
Yasuda	224	69	2.3	325	192.4	13,600	14,200	14.4	-8.2	-114.5	-114.2	-0.8	-0.9
Taiyou	351	78	5.0	306	112.6	10,960	11,600	69.8	2.4	-22.8	-34.9	-2.3	-1.8
Daido	274	32	4.9	123	48.2	12,500	12,700	161.2	0.4	-10.4	-16.3	0.1	0.1
Kyoei	-117	20	-2.4	-37	21.2	19,500	>18,500	-1.2	-4.9	-43.6	-19.6	-34.8	23.6
Chiyoda	-160	0	-4.0	-75	36.7	19,700	18,000	-0.3	2.1	-78.8	-41.5	-5.7	3.1
Fukoku	182	79	4.0	163	74.9	13,300	13,300	41.7	5.3	-6.1	-9.8	-16.7	8.2
Nip. Dantai	-149	-74	-4.1	23	-7.6	15,400	14,300	-2.0	4.5	-158.6	-70.6	-11.4	0.1
Toho	—	—	—	—	—	-	-	—	—	—	—	—	—
Daihyaku	-123	24	-5.6	-55	41.3	20,200	19,500	0.3	0.3	-55.4	-21.4	-13.1	3.3
Tokyo	-75	-2	-6.3	-33	13.8	19,700	18,800	-3.2	2.1	-36.3	-20.8	-2.8	3.1
TOTAL	8,685	1,715	4.9	8,316	3,028.1	-	-	1,613.3	38.9	-1,147.8	-1,382.3	-97.2	31.3

Source: Company earnings reports

Table 11 Unrealized gains / losses (2)

(Units: ¥ billion)

	Money in trust		Derivatives	Interest rate / bond		Currency		Equity		Real estate end Sep-99		end Mar-99	
		Chg. vs. 99/3			Chg. vs. 99/3		Chg. vs. 99/3		Chg. vs. 99/3	Disclosed price	Road rating	Disclosed price	Road rating
Nippon	6.8	-15.5	77.4	44.4	9.7	33.0	33.4	0.0	0.0	287.4	-	282.7	-
Dai-ichi	6.6	-0.4	52.0	15.7	-0.7	36.1	41.8	0.2	16.7	-52.2	-	-56.6	-
Sumitomo	7.4	6.6	-14.3	1.5	-10.1	-15.5	-7.7	-0.2	-0.1	-159.0	-	-162.4	-
Meiji	3.3	1.5	2.4	6.4	2.1	-4.0	-8.0	0.0	14.6	66.1	-	58.5	-
Asahi	-0.8	-0.4	3.9	4.8	-0.1	0.0	0.0	-0.9	-0.9	217.0	-	223.0	-
Mitsui	5.8	2.7	29.7	11.5	-0.8	37.4	24.4	-19.2	3.3	-27.7	-	-26.8	-
Yasuda	-15.6	-24.9	28.5	-2.4	5.1	31.1	27.7	-0.1	0.1	7.1	-	10.8	-
Taiyou	7.6	5.0	33.9	22.8	-1.8	11.3	12.2	-0.2	0.6	-6.9	-	-2.5	-
Daido	52.2	30.3	0.4	0.4	-0.1	0.0	-0.5	0.0	0.0	6.2	-	7.5	-
Kyoei	-15.4	6.8	5.3	0.0	0.4	5.7	6.1	-0.4	-0.4	24.8	-	30.7	-
Chiyoda	-0.4	-0.4	-4.0	-2.8	-0.3	0.4	1.8	-1.6	-1.6	-0.3	-	-6.6	-
Fukoku	8.2	4.1	13.2	13.6	-1.2	-0.4	-0.2	0.0	0.0	0.0	94.0	-	111.2
Nip. Dantai	2.5	2.2	-14.5	-13.6	0.1	-0.9	-1.4	0.0	6.0	-14.0	-	-12.0	-
Toho	—	—	-	—	—	—	—	—	—	—	-	-	-
Daihyaku	0.5	3.9	5.5	0.2	0.2	5.3	8.7	0.0	14.2	-4.5	-	4.4	-
Tokyo	-0.0	1.0	-0.4	-0.3	-0.3	-0.1	0.2	0.0	0.0	58.3	-	78.7	-
TOTAL	68.8	22.6	219.2	102.2	2.2	139.3	138.4	-22.3	52.7	40.2	94.0	429.4	111.2

Source: Company earnings reports

Non-performing loans (Table 12)

Though it appears that many life insurers have in fact reduced their holdings of non-performing loans compared to September 1998 due to the adoption of direct reduction after March 1999, if the direct reduction is added back, then loans under risk administration have in fact grown by around ¥220 billion since end FY98. Chiyoda, Daihyaku and Tokyo saw their loans under risk administration increase as a proportion of their general loans. Among the larger firms, Dai-ichi and Asahi also saw their ratio of loans under risk administration rise.

While the insurers have stepped up their disposal of loans to bankrupt borrowers and loans in arrears, many life insurers have on the other hand seen the amount of loans of eased borrowing terms they hold increase, and while they are taking direct reductions on their holdings of secured debt, there are concerns that their overall holdings of non-performing loans may increase depending on the appraisal value of their real-estate assets.

Table 12 Loans Under Risk Administration

(Units: ¥ billion, %)

	Loans under risk administration												Reserve ratio
					Loans to bankrupt and reorganizing borrowers		Loans in arrears		Loans over 3 months in arrears		Loans of eased lending terms		
		As ratio of general loans (%)	As ratio of general loans at 99/3(%)	Chg. on 99/3		Chg. on 99/3		Chg. on 99/3		Chg. on 99/3		Chg. on 99/3	
Nippon	265.3	2.2	2.2	-6.8	40.4	2.7	110.8	-29.3	9.2	5.5	104.8	14.4	102.6
Dai-ichi	236.9	3.4	2.2	79.6	34.4	27.3	19.5	-3.9	38.4	3.4	144.5	52.9	56.2
Sumitomo	99.3	1.7	1.6	3.7	0.9	-0.0	6.1	1.4	7.7	-0.3	84.6	2.7	57.9
Meiji	69.7	1.3	1.5	-14.0	1.4	-0.1	13.3	12.6	10.0	-20.9	45.0	-5.6	83.6
Asahi	184.2	5.0	3.2	62.2	6.3	0.2	10.8	-2.0	14.3	-10.8	152.8	74.7	68.8
Mitsui	88.7	3.1	3.2	-8.2	2.6	-0.6	15.5	-6.4	4.1	-0.1	66.5	-1.1	79.5
Yasuda	22.9	0.7	0.7	-1.3	0.3	-0.1	0.5	-1.2	4.6	-1.2	17.5	1.2	113.3
Taiyou	72.5	3.1	3.4	-8.0	0.2	-5.7	1.8	-1.2	7.9	-1.5	62.7	0.4	12.4
Daido	30.5	2.6	2.5	0.5	0.7	-1.1	1.8	-1.7	4.2	0.3	23.9	3.0	42.6
Kyoei	43.2	2.6	3.5	-21.0	2.5	-32.8	2.2	-2.0	5.9	-3.4	32.7	17.2	46.2
Chiyoda	187.6	12.4	6.6	77.2	20.2	3.9	49.5	-2.9	30.9	17.7	87.0	58.5	28.2
Fukoku	36.4	2.7	2.4	3.6	1.5	1.4	4.2	0.8	1.0	-1.5	29.7	2.8	52.4
Nip. Dantai	44.8	4.4	3.5	6.6	13.0	6.7	2.3	-1.6	2.7	-4.1	26.8	5.6	73.6
Toho	—	—	-	—	—	—	—	—	—	—	—	—	-
Daihyaku	78.6	12.2	7.3	26.4	3.2	-0.3	3.1	-2.3	10.1	5.8	62.2	23.2	51.1
Tokyo	29.8	9.0	3.0	19.1	3.2	0.2	3.8	-0.2	1.0	0.1	21.8	18.9	22.9
TOTAL	1,490.3	3.0	2.4	219.5	130.7	1.8	245.3	-40.0	151.9	-11.0	962.4	268.8	-

Source: Company earnings reports

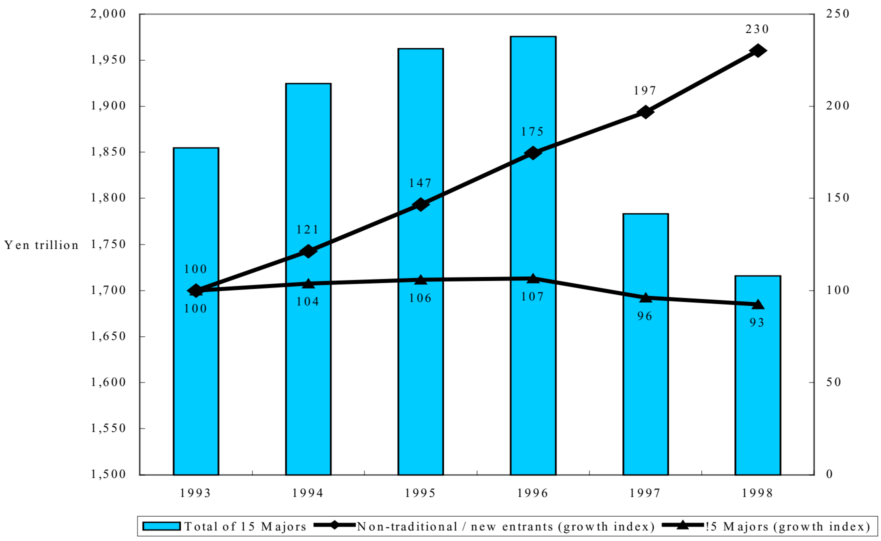
(2) Life insurance subsidiaries of nonlife and overseas life insurers (Table 13)

While growth among non-Japanese life insurers and life insurance subsidiaries of firms outside the traditional life insurer group has stagnated in some cases, overall the picture continues to be healthy (Figure 4). Among the subsidiaries of nonlife insurers, Tokyo Marine & Fire Anshin continues to consolidate its commanding lead. However, as its sales strategy relies so much on agents, the key to its future growth will be how far it can increase sales efficiency and the performance of those agents.

Among new insurance businesses set up by overseas firms, nonlife insurers and other outside sector entrants, Alico Japan, Sony, Orix and Prudential have been attracting attention. All of them are continuing to sustain double-digit growth in the size of business in force. Sony even posted 23.5% growth year on year. Alico Japan meanwhile has a distinctive product strategy, offering a broad range of insurance products. Orix specializes in mail-order insurance (Orix Direct) and in cultivating a client-base from emerging businesses. In future, since an over-reliance on endowment policies has given rise to substantial interest rate risk, these firms should start to shift their strategies to acquiring more high-value guarantee insurance. These areas of business specialization are throwing into stark relief the “generalist” nature of the major established insurers.

These new entrants are still however a long way off threatening the dominance of the majors. Together they still only account for some 4~5% of the overall life insurance market in terms of business in force, and are only grabbing some 10% of new business. Even the fast-growing Sony took on only ¥1.6 trillion in new business in force in the first fiscal half, a 16.1% year on year decline. While its full-commission type sales organization has been successful up to now, it has to face up to the possibility that in order to grow any further it will have to modify its sales strategy.

Figure 4 Total Assets at Life Insurance Subsidiaries of Nonlife and Overseas Insurers



Source: NRI, from Life Insurance Industry Statistics published by the Insurance Research Institute

Table 13 Life Insurance Subsidiaries of Nonlife and Overseas Insurers and Outside Sector Entrants

(Units: Yen billion)

	Business in force								Total assets		Premium revenue		Claims and other payments		Cancellation repayments	
	Individual insurance		Individual annuities		Group insurance		Group annuities									
		% y-y		% y-y		% y-y		% y-y		% y-y		% y-y		% y-y		% y-y
Tokyo Fire & Marine Anshin	3,831.3	64.8	124.9	35.6	1,082.7	28.9	23.8	19.0	222.1	55.2	56.4	13.4	6.1	78.8	2.1	138.3
Mitsui Mirai	1,311.7	46.6	33.3	236.4	468.6	102.0	-	-	81.0	57.6	22.1	112.5	2.0	226.7	0.7	212.7
Sumitomo Fire & Marine	1,569.9	41.0	15.8	79.5	364.4	32.4	-	-	80.0	67.8	21.4	3.6	3.9	184.8	2.3	1,486.1
Nichido	881.1	40.7	27.8	50.3	180.1	20.2	-	-	45.6	49.2	10.8	-6.2	1.1	68.7	0.4	195.2
Chiyoda Fire & Marine Ebisu	673.7	52.7	12.7	36.6	174.5	263.5	-	-	29.0	29.5	6.5	1.8	0.8	184.2	0.4	324.5
Dowa	608.0	42.0	33.6	48.7	120.2	105.5	-	-	31.3	39.8	7.4	32.3	1.1	67.0	0.5	78.5
Dai-Tokyo Shiawase	1,111.4	32.5	56.4	40.3	84.2	37.1	-	-	30.9	56.5	11.5	95.0	1.1	48.1	0.5	260.2
Koa Life	680.0	43.7	24.6	77.0	130.9	26.0	-	-	26.2	39.8	7.3	37.4	1.2	144.7	0.3	86.5
Nippon Fire & Marine Partners	627.4	61.2	4.0	166.7	192.3	25.8	-	-	23.9	29.2	5.8	66.0	0.9	81.4	0.3	72.2
Kyoei Fire & Marine Shinrai	404.1	52.5	20.6	0.5	158.1	47.8	-	-	21.3	17.9	3.8	40.1	0.6	127.4	0.3	192.3
Fuji	786.8	20.4	14.0	32.1	86.5	32.9	-	-	25.7	45.1	7.5	31.9	2.9	344.6	0.5	230.6
DIY	23.7	—	-	-	-	-	-	-	4.9	—	0.0	—	0.0		0.0	
TOTAL	12,509.1	48.1	367.7	48.3	3,042.5	45.3	23.8	19.0	622.0	51.6	160.5	26.0	21.7	124.5	8.3	231.7

AFLAC	4,185.2	8.1	1.8	—	—	—	—	—	2,667.1	11.9	336.9	9.0	151.8	12.3	33.2	23.6
Alico	11,043.1	12.1	5.0	163.2	1,461.9	0.1	—	—	996.6	14.8	159.3	15.5	80.1	2.4	31.9	1.8
Sony	17,432.0	17.8	36.9	40.8	579.9	7.8	20.5	19.9	963.8	23.4	175.1	3.4	60.1	33.4	39.2	39.0
Orix	2,500.7	21.7	—	—	430.9	-7.7	—	—	452.8	45.1	108.8	0.1	29.8	37.3	20.3	44.0
ING	2,907.7	10.7	2.4	26.3	294.8	32.9	—	—	321.1	11.3	46.3	0.0	24.9	-30.4	17.2	8.3
Prudential	11,466.9	18.5	2.7	28.6	11.9	36.8	—	—	378.9	35.2	75.6	21.5	16.7	6.8	6.6	13.2
INA Himawari	4,189.7	18.8	38.3	74.1	1,078.3	32.5	—	—	304.5	18.5	62.8	23.7	22.9	-8.5	13.7	-13.6
Nicos	1,294.6	8.4	—	—	1,331.9	9.5	—	—	110.1	14.7	13.7	8.0	9.0	-8.2	4.6	-35.6
Orico	546.8	24.5	—	—	291.8	8.9	—	—	97.3	12.0	13.1	8.7	6.8	1.6	5.1	14.1
AXA	703.5	521.5	—	—	—	—	—	—	30.5	43.2	8.0	52.6	1.1	41.6	0.4	102.9
Skandia	78.2	142.4	0.1	—	—	—	—	—	13.3	17.5	1.5	68.0	0.1	-71.7	0.0	227.3
Manulife-Century	879.9	—	81.5	—	1,189.0	—	—	—	143.6	—	59.6	—	42.8	—	2.5	—
GE Edison	2,291.7	127.6	69.3	275.6	6,993.2	2.8	13.9	10.6	341.7	15.2	58.8	-16.4	41.1	-1.9	3.0	-49.7
Zurich	102.3	301.2	—	—	—	—	—	—	2.9	140.8	1.7	183.3	0.4	270.2	—	—
TOTAL	59,622.3	23.7	238.0	339.9	13,663.6	173.6	34.4	100.9	6,824.2	26.7	1,121.3	22.5	487.5	30.3	177.6	18.6

Source: Company supplied material

2. Restructuring

1) The Influx of Foreign Entrants, and Tie-Ups Between Large and Mid-Size Insurers

While large differences are emerging in the earnings performance of Japan's large and mid-size life insurers, the announcement of tie-ups between Toho Mutual and G.E. Capital of the U.S., and Daihyaku Mutual and Canada's Manulife heralded the real arrival of foreign firms into the Japanese life insurance market.

On 18 November 1999 Heiwa Life sold 1/3 of its total share issuance to Aetna International Inc., a subsidiary of the large U.S.-based life insurance and financial services company Aetna Inc., and Aetna has agreed to send 3 of its executives to cooperate with Heiwa Life. A recent agreement to purchase the remainder of Aetna's shares will bring Heiwa Life totally into the Aetna fold.

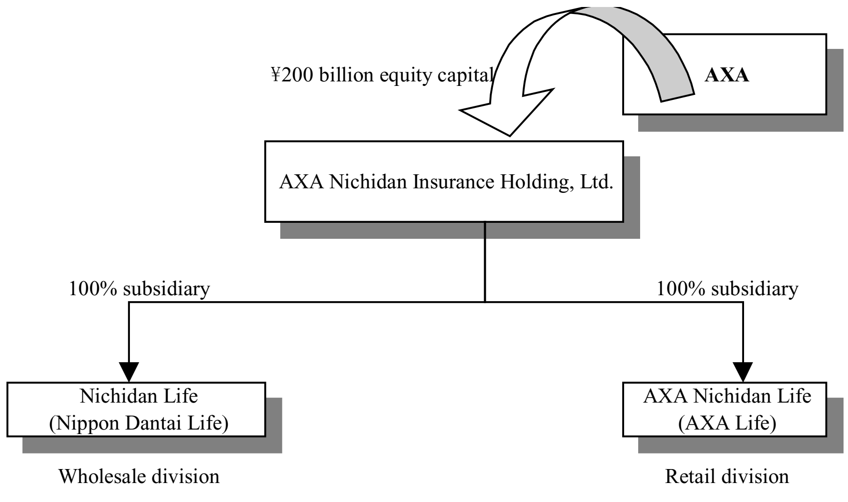
This was followed on 29 November by an announcement of a comprehensive capital alliance between Nippon Dantai Life and the world's largest financial / insurance group, the Paris-based AXA, through which they are to reorganize under a joint holding company structure effected through a share-transfer.

Japan's life insurers have also now begun to consolidate. On 13 December 1999 Yasuda Mutual and Fukoku Mutual announced they were to engage in a comprehensive alliance across all business areas. This was in response to the announcement of the three-way merger between their parent banks, Fuji, Dai-ichi Kangyo and the Industrial Bank of Japan. Rumours have also abounded of a tie-up between four life insurers including Dai-ichi Mutual, which is already in a comprehensive alliance with IBJ, and Asahi Life, which is closely connected to Dai-ichi Kangyo Bank. The other prospective partners, Yasuda Mutual and Fukoku Mutual, have however stressed their intention to pursue independent business strategies. Here we will examine AXA's business strategy and the details of the alliance between the two domestic Japanese insurers.

2) The Nippon Dantai Life - AXA Alliance

French company AXA is the world's largest insurance group with 110,000 employees, operations in 60 countries, assets under management of ¥75.6 trillion, and gross revenues of ¥7.7 trillion in FY98.

Figure 5 The Axa-Nippon Dantai Merger



Source: Nippon Dantai Insurance web-site

Plans are for AXA Life Insurance, AXA's Japanese subsidiary, and Nippon Dantai, to set up Japan's first insurance joint holding company ("AXA Nichidan Insurance Holdings, Limited") through a share transfer in March 2000. Both Nippon Dantai Life and AXA Life will then become 100% subsidiaries of the holding company, changing their names respectively to "Nichidan Life" and "AXA Life." AXA will inject a total ¥200 billion in equity capital into the holding company by March 2000 in return for a 95% stake (Figure 5). Taking advantage of the fact that Nippon Dantai Life is a joint-stock company is stressed as a distinctive feature of this alliance.

The management of the new AXA Nichidan Insurance Holding Co., Ltd. will be headed by T. Matsudo of Nippon Dantai as president, with AXA's Michael W. Short appointed vice-president. Both in a position to build on established customer bases, Nichidan Life will be in control of the wholesale side of the business while AXA Nichidan Life will concentrate on the retail side.

In the first half of FY99 Nippon Dantai's earnings performance was unexpectedly poor, both in terms of cash flow and the number of policies it had in force. It posted an unrealized loss of approximately ¥150 billion on its holdings of foreign securities, which made up fully 28.1% of its ordinary account portfolio. Up until the first half of FY98 it was still shifting a major proportion of its portfolio over to foreign securities, but the rise in the value of the yen caught it by surprise and the strategy backfired. It has announced its intention to cut down its foreign exposure to the tune of some ¥200 billion in the second half which is likely to be funded from AXA's equity investment.

3) The Yasuda Mutual / Fukoku Mutual Business Tie-Up

(1) Overview

According to press releases, this tie-up plan was a response to drastic changes in the market environment. Significant distrust of life insurance companies had built up among customers unnerved by the bankruptcies of Nissan Life and Toho Mutual, while at the same time competition was intensifying as foreign entrants, nonlife insurers and outside companies were setting up life insurance subsidiaries in Japan. The planned merger of their "parent" banks (Fuji in Yasuda Mutual's case, and Dai-ichi Kangyo in Fukoku's case), was an added incentive, they said.

In this announcement they emphasized that, built around a relationship of trust, the tie-up arrangement would also value their independence and autonomy, "furthering each company's potential by maximizing profits through co-operative activities."

The details revealed the following main points:

- The joint development of nonlife insurance business

  Fukoku Mutual is to take an equity stake in the nonlife subsidiary already set up by Yasuda Mutual (the size of the investment was not revealed), while Fukoku Seimei would in return buy into Yasuda Mutual's joint-venture with Direct Line Insurance plc of the U.K..

- Streamlining investment in IT systems

  They will examine together the issue of outsourcing their IT systems requirements and jointly run a systems development company, which would become a joint-venture sometime in the future.

- Joint development of defined-contribution style pension products
- Joint development of investment trust business

- Joint operation of a call centre
- Co-operation in the area of asset management
- Exchange of personnel

(2) Evaluation

Certainly through this alliance Yasuda Mutual and Fukoku Mutual will be able to enhance their position in the insurance industry, though presumably this was not their only reason for making the decision. In the midst of the current struggle for survival among Japan's life insurers, and as new entrants from outside the traditional life insurer circle, whether foreign firms or firms belonging to unrelated sectors, continue to grab large chunks of new business, it is vitally important for Yasuda Mutual and Fukoku Mutual to be able to appeal to their customers from a position of financial strength.

3. The Failure of Toho Life and the Direction of Related Government Policy

1) The Handling of the Toho Life Collapse

On 22 December 1999, Toho Mutual and GE Capital Life signed an agreement covering the terms of Toho's bankruptcy. Only six months before, on 4 June, Toho had determined to carry on business. Now it will transfer to GE Capital by March 2000 those of its operations that had been suspended by the Financial Supervisory Agency: policy cancellations; policy amendments; lending to new policy subscribers; payment of dividends (Table 12).

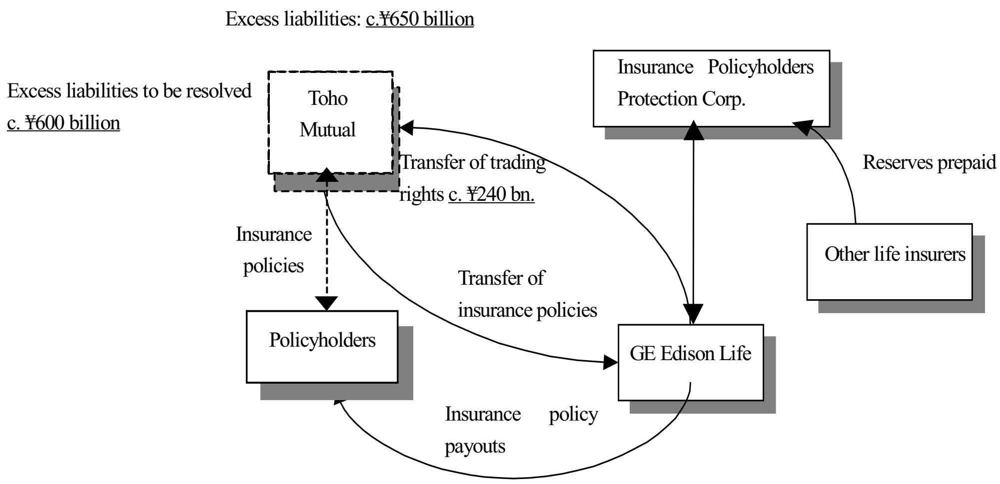
Table 12 Toho Mutual's Bankruptcy and Planned Course of Action

Background	4-Jun-99	Toho Mutual directors decide, at an extraordinary meeting, that they will stay in business. The same day, the head of the FSA orders a partial suspension of business..
	5-Jun-99	Bankruptcy administrators appointed, including the Life Insurance Assocaiation of Japan
	12-Jul-99	Extraordinary meeting of shareholders' representatives held. Resolution passed to extend period required for shareholders' representatives to approve results for 99/3.
	6-Aug-99	Administrators appoint outside consultants Price Waterhouse Coopers to aid in the bankruptcy disposal process and select a rescuer.
	11-Aug-99	Administrators set up investigation committee to look in to issues of management responsibility .
	17-Dec-99	Toho Mutual agrees for GE Edison Life Insurance Co. to take over its policies as the rescuing institution. Application made to the FSA.
	22-Dec-99	GE Edison and Toho Mutual sign agreement on transferral process.
Planned	29-Dec-99	Report to Toho Mutual shareholders' representatives drawn up
	14-Jan-00	Meeting of shareholders' representatives.
	17-Jan-00 ～ 17-Feb-00	Objection period.
	1-Mar-00	Transferral of Toho's policies to GE Edison takes effect.
	late Mar-2000	GE Edison Life Insurance Co. continues with payout of ex-Toho policies

Source: Company disclosure documents

Under the scheme for the transfer of Toho's policies agreed on 17 December 1999, as shown in Figure 6, the total value of excess liabilities as at end September 1999 of ¥650 billion covering individual and group insurance and group annuities was first adjusted down to cover only 90% of the policy reserve, some ¥600 billion. To make up this sum GE Edison itself provided ¥240 billion in purchase of Toho's trading rights, with the remaining ¥360 billion being covered by Japan's insurance industry.

Figure 6 Scheme For The Disposal Of Toho Mutual's Policies



Source: NRI

The terms of the transferred insurance policies were also subject to some changes. According to the FSA: (1) special policy reserves were reduced (90% of value for special policy reserves, with individual annuities, *zaikei* (a type of savings system) annuities and *zaikkei* insurance being covered 100%); (2) assumed rates of interest were lowered (as well as lowering the assumed rate of interest to 1.5%, the assumed mortality rate was updated to Toho's most recent level, while the assumed rate of expenses was revised to the average for policies in force); (3) cash surrender value was lowered (surrender policies to face lower returns for a period of 8 years, at a gradually declining rate of reduction). As a result of (1) and (2), while the premium rates remained practically unchanged, the value of cover, annuity amount, benefit amount and cash surrender values all suffered reductions.

By lowering the guaranteed returns to policyholders from the 4.75% for a policy taken out in FY93 to 1.5%, these changes in policy terms shifted some of the burden onto Toho's policyholders. The reductions were also steeper than had been the case at Nissan Life, which had only reduced its assumed rate of return to 2.75%. Death and hospitalization benefits, however, were to be paid out at their full amount up to March 2001.

2) Future Direction of Government Bankruptcy Policy

While the plans for Toho Mutual were being worked out, the Life Insurance Policyholders Protection Corporation decided on 22 December 1999 to accept the Japanese government's new expansion plan for the life insurance safety net. The government pledged a total ¥400 billion in tax-funds, which would be topped up with an additional ¥100 billion that the Ministry of Finance had demanded from other life insurers.

Previously the funds available to the Policyholders Protection Corp. were composed solely from industry contributions, which amounted to a total ¥460 billion at a rate of ¥46 billion per year. In order to make up for any shortage an upper limit of ¥460 billion in government guaranteed funds had been set. The rescue package for Toho Mutual, however, of approximately ¥360 billion was to be borne by the insurance industry, leaving the Protection Corp. desperately in need of further funds.

In accepting the Ministry of Finance’s plan the Protection Corp. boosted its reserves to a total ¥960 billion made up of the ¥560 billion maximum pledged by the life insurance industry itself plus the ¥400 billion in public funds. The government and insurance industry had also agreed to renegotiate terms if in the future some massive bankruptcy were to overwhelm this ¥960 billion reserve.

The public funds to be made available to the Policyholders Protection Corp. were not to be government compensation bonds re-allocated from funds already pledged to the Deposit Insurance Corp., but an extra “subsidy” to be funded out of the government’s general account. The funds are to be in place by end March 2003.

This decision was in keeping with the recommendations regarding insurance company risk management and reform of bankruptcy legislation contained in the interim report (21 December) of the “Working Group to Examine the Fundamental Problems Affecting the Insurance Industry” set up by the 2nd Committee of the Financial System Council of the Ministry of Finance.

The interim report examined the question of reform of current systems in place for the rehabilitation of insolvent companies. At that time the two pillars of the system were the Prompt Corrective Action set of measures based on solvency margin ratio considerations, and the Insurance Policyholders Protection Corp.. Since 25 August the group had met 11 times to discuss in particular the need for greater sophistication in risk management techniques employed by insurance companies now that serious market risk in the industry had emerged, and the necessity of reforms to bankruptcy legislation since insurance companies, being mutual associations, were not subject to reorganization proceedings under the Corporate Rehabilitation Law.

The issues discussed by the interim report were, after being made available for public comment, then to be presented to the Diet in January 2000 as revisions to the Insurance Business Act along with the issue of the use of public funds.

4. Conclusion

First half earnings results were testament to the widening performance gap among major life insurance firms. The troubles afflicting all insurers spread to the major life insurers in FY98 and had in only six months resulted in significant differences among them.

On 1 January 2000 the Financial Supervisory Agency advised Kyoei Life, Daihyaku Mutual and Taisho Life of the results of its inspection (as at end March 1999) of the three companies. Told that they had not done enough to rectify their non-performing loans, Daihyaku and Taisho immediately took steps to increase their equity capital (Kyoei had already done so).

Other life insurers have opted to restructure under the umbrella of a foreign insurance company. Starting with the full entrance into the market of AXA, the competition, alliances and rivalries among traditional Japanese life insurers, foreign and nonlife insurers and other market entrants will undoubtedly intensify. Now the management strategies of large and midsize life insurers have to focus on both business specialization and in achieving forecast profitability levels. We have not yet reached the stage where we can tell who will emerge as winners and who as losers, however. We can expect to see competition getting even fiercer especially among the winners, while industry restructuring will accelerate coupled with an intensifying debate over the merits of demutualization.

On the other hand, the losers are now becoming even more at risk of going bankrupt. While reform of the current system for handling bankruptcies is ongoing with the expansion of the functions of the Policyholders Protection Corp., however with its current level of funding it will not be enough to counter the level of under-funding caused by the widening gap between investment returns and guaranteed levels of policy payouts (negative spreads). Injection of public funds worked to some extent in helping the banks with the static costs of their non-performing loans, but with the more "liquid" type liability costs of life insurers who are fighting against negative spreads, it is not certain that the use of public funds will have such a beneficial effect.

Whether it is industrial restructuring or revisions to the "safety-net" supporting life insurers, the important thing is to clarify the advantages or disadvantages for insurance policyholders. The previous attitude whereby companies did not disclose information because they were purportedly afraid of policyholders' "misunderstanding" becomes a serious disadvantage for policyholders if the insurer goes under. The above-mentioned interim report highlighted the difficulties in the current situation regarding the protection of policyholders, where the right to be appropriately recompensed militates against the principle of "self-responsibility" for their own investments. The vital issue requiring examination now is how far full and fair disclosure is incumbent upon Japan's life insurance companies.