The Strategies of Major Foreign Insurance Companies in Japan

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During the past year, Japan's life insurance industry has seen a number of changes, many of which have been initiatives by foreign insurance companies. In this report we shall examine how major US and European insurance companies have formed alliances with or taken over Japanese life insurance companies, and how they are likely to develop their businesses in Japan.

1. Recent Moves by Foreign Insurers into the Japanese Market

1) Foreign takeovers of Japanese life insurance companies

In November 1999, the world's largest insurance group, Axa, formed a tie-up with Nippon Dantai Life Insurance (Japan's No.13 life insurance company, with premiums totaling ¥557.65 billion in fiscal 1999). In March of this year, Axa set up a holding company, Axa Nichidan Insurance Holdings, under the control of which it placed its Japanese operation and Nippon Dantai Life Insurance, renamed Axa Nichidan Life Insurance and Nichidan Life Insurance, respectively.

That same month, the international division of the US life insurer Aetna acquired 33% of the shares of Heiwa Life Insurance (Japan's No.26 life insurance company, with premiums totaling ¥63.59 billion in fiscal 1999), increasing this to 92.3% in February of this year, when it made an offer for the company. As a result, in April of this year Heiwa began a new existence as Aetna Heiwa Life Insurance. However, in July, the Dutch financial group ING announced that it was acquiring Aetna's financial service and international divisions, and Aetna Heiwa will become part of the ING Group in 2001.

In October of this year, foreign insurance companies took advantage of the situation when two Japanese life insurance companies, Chiyoda Life Insurance and Kyoei Life Insurance, abandoned attempts to restructure their operations and filed for court protection. Now the names "AIG" (American International Group) and "Prudential" (Prudential Insurance Company of America) form part of the name of the successor companies.

In May 2000, Kyoei Life Insurance (Japan's No.11 life insurance company, with premiums totaling ¥626.84 billion in fiscal 1999) and Prudential Insurance announced that they were setting up a joint sales operation and that Prudential would acquire ¥30 billion of the former's shares in a third-party offering. Having turned down financial assistance from the Policyholders' Protection Corporation, Prudential is the most likely company to acquire Kyoei's business.

In contrast, Chiyoda (Japan's No.12 life insurance company, with premiums totaling ¥513.0 billion in fiscal 1999) has a large portfolio of non-performing assets on its books. Therefore, depending on how these are valued and whether the negotiations on an offer price are successful, AIG could pull out. Unlike the agreement between Kyoei and Prudential Insurance, which is more or less signed and sealed, the situation with Chiyoda and AIG is still uncertain.

2) Foreign insurers now control more than 10% of the Japanese life insurance market

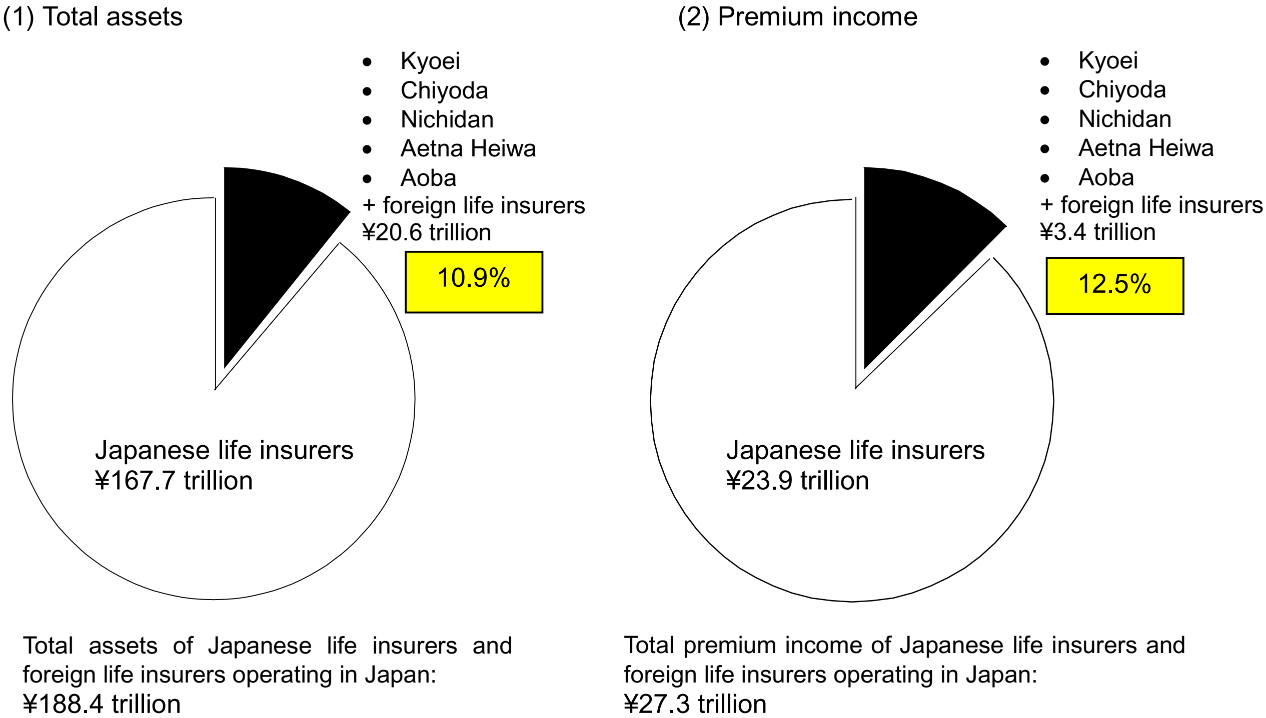
If we add to the above group Aoba Life, which was acquired by the French distribution and financial services group Artemis, foreign insurers in Japan now have assets totaling ¥20.6 trillion and ¥3.4 trillion in premiums (as of 1999)—more than Sumitomo Life's ¥3.24 trillion in premiums. In terms of assets, this represents a 10.9% share of the Japanese life insurance market, and, in terms of premiums, a 12.5% share (see Figure 1).

If we include the figures for Kyoei-Prudential and Chiyoda-AIG, foreign insurers' premium income in Japan (in fiscal 1999) increased as follows:

Axa (Axa Japan + Nichidan): ¥18.7 billion → ¥576.4 billion (No. 14 with a 2.1% share)

Prudential (Prudential Japan + Kyoei): ¥169.6 billion → ¥796.5 billion (No.11 with a 2.9% share)

Figure 1 Foreign Life Insurance Groups' Share of the Japanese Market



Note: "Foreign life insurers" includes GE Edison and Manulife Century.
Source: NRI, from company accounts.

ING (ING Japan + Aetna Heiwa): ¥109.2 billion → ¥172.8 billion (No.17 with a 0.6% share)

AIG (Alico Japan + Chiyoda): ¥348.8 billion → ¥861.9 billion (No. 10 with a 3.1% share)

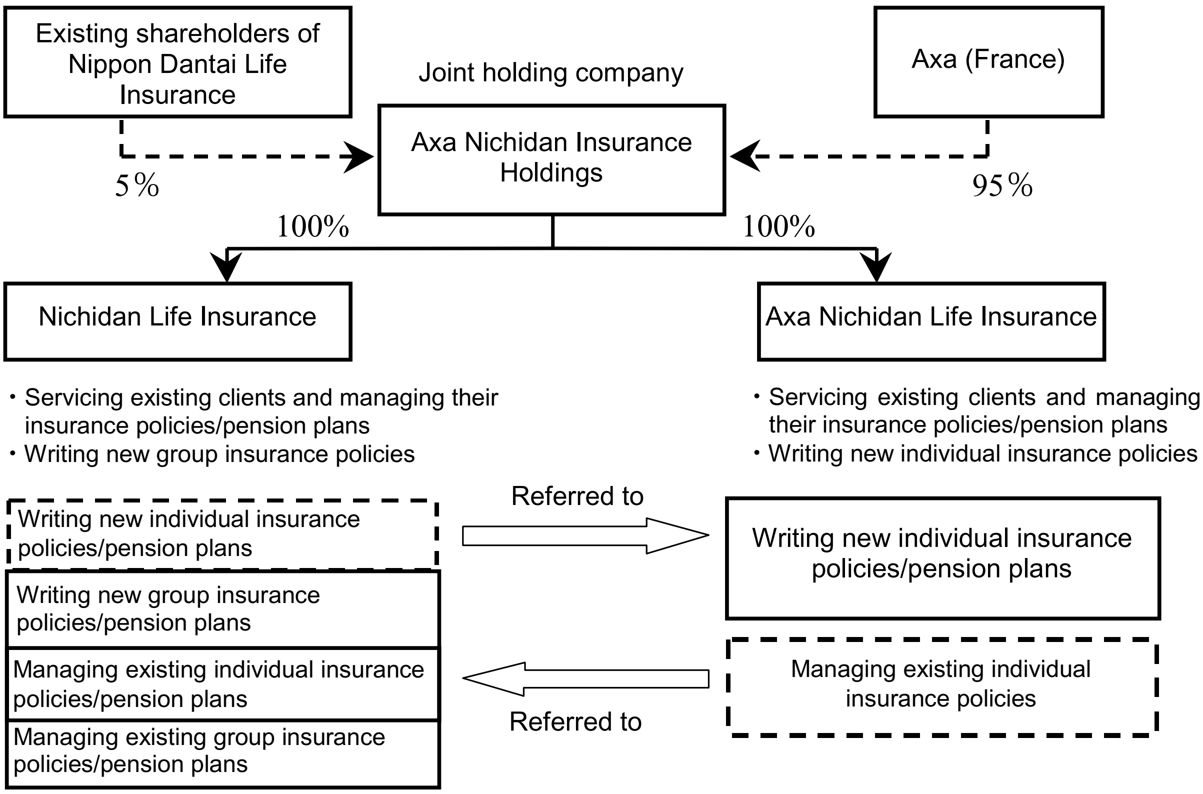
In terms of premium income in 1998, Japan is the world's largest life insurance market (28.6%) after the United States (30.0%). Several of the world's largest insurance companies moved into Japan following the deregulation that accompanied the 1996 revision of the Insurance Business Law and the loss of confidence in Japanese insurance companies that accompanied the collapse of Nissan Life in 1997. In the following four respects, the life insurance business is more attractive than the non-life insurance business, and this is probably why the foreign insurers took the view that it was well worth their while to take a stake in a Japanese partner: (1) once someone becomes a policyholder, he is committed to paying regular premiums over a long period; (2) deregulation of premiums will take place slowly, and margins will be maintained; (3) assets can be invested for the long term; and (4) the spread of e-tailing is unlikely to threaten existing, face-to-face sales channels.

3) Foreign insurers' strategies in Japan: urgent need to restructure Japanese partners

(1) Axa Group

Axa Nichidan Insurance Holdings is 95% owned by Axa and 5% owned by shareholders of the former Nippon Dantai Life Insurance. The holding company controls Nichidan Life (formerly Nippon Dantai Life Insurance) and Axa Nichidan Life (formerly Axa Life), which are responsible, respectively, for new group and individual insurance policies (see Figure 2). Having received (via the holding company) a capital injection of ¥141.0 billion from Axa, Nichidan Life's capital base has been strengthened considerably (from ¥7.29 billion in fiscal 1997 to ¥80.15 billion in fiscal 1999). Both subsidiaries have been rated AA- by Japanese rating agencies.

Figure 2 Axa Group's New Organizational Structure in Japan



Source: NRI, from Axa Nichidan data.

This alliance, in which the former Nippon Dantai Life Insurance has taken advantage of foreign capital to ensure its future success, appears to have been formed for positive reasons. There is no doubt that the company has derived considerable benefit from access to Axa's infrastructure and know-how (e.g., its global network, its expertise in developing and marketing variable and savings-type insurance products, and the soft-sell approach of Axa Nichidan Life's "Life Plan Adviser" channel.[1] By introducing the latest products and sales know-how to markets in which the former Nippon Dantai Life Insurance has an edge (especially, chambers of commerce and group insurance), Axa is aiming to increase its presence in the Japanese market. The synergies of selling variable insurance and developing more savings-type products were already beginning to appear in July of this year.

If Nichidan Life is included, the Japan operations' share of the group's Asian business rises from 2% to 14% in terms of premium income. Along with the Australian insurance company National Mutual, which Axa acquired in 1995 and which is the second-biggest insurer in Australia, Hong Kong and New Zealand, Axa's Japanese business looks like becoming the hub of its operations in the Asia-Pacific region.

Given Axa's policy of carving out a major share of any market it moves into, the possibility cannot be ruled out that the company may expand its operations (especially its underdeveloped non-life insurance business) in Japan and the rest of Asia and acquire a non-life insurance company in the region. Nor can the company be said to have captured an adequate share of the Japanese life insurance market. There is therefore considerable interest in what the Axa Group's next move will be in the Asia-Pacific region.

(2) Prudential Group

Prudential Life Japan reported healthy results for fiscal 1999: total assets of ¥437.9 billion (+31.4% year on year), premium income of ¥162.8 billion (+17.6%), and 730,000 policies (+15.3%). In terms of the net increase in its individual insurance policy (the most accurate indicator of growth), the group was third out of the 44 life insurance companies in Japan with an increase of ¥1.6 trillion. The productivity of the group's 2,300 employees was much higher than that of Japanese life insurers with many times more salespeople.

Since it was founded in 1987, the company has grown at an annual rate of some 10%-20%. This growth has been driven by the company's "Life Planners" (its specialist insurance staff), who are expert not only in life insurance but also many other areas, including law and taxation. These skilled salespeople, who have come from other industries, undergo two years of training to equip them to help their customers plan their lives by offering them customized products based on annual income, assets and family membership. As well as helping customers to review their insurance cover at different stages of their lives, they provide advice on unforeseeable events such as having to undergo hospital treatment. This consulting sales approach, which starts with basic life cover and extends to all aspects of life planning, including actually delivering insurance money to the family of someone who has just died, has proved popular.

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1 Axa Nichidan Life Insurance's business is gathering momentum. In fiscal 1999 the company had total revenues from premium income, etc., of ¥18.77 billion (+38.1% year on year), total assets of ¥73.02 billion (+142.7%) and more than 128,000 insurance policies.

The company has developed some unique products, including ones aimed at the growing number of elderly people in society. Such products include its "living needs policy" (which pays out insurance money when a policyholder is not expected to live more than another six months) and its "same-day payment service" (which guarantees to pay up to ¥3 million to the policyholder's dependants on the day he dies, provided they have a copy of the death certificate).

Although founded after the Second World War, Kyoei Life had the biggest sales network of any of Japan's smaller life insurance companies (91 offices with 12,732 sales forces, as of fiscal 1997). When Prudential moved into Japan in 1979, Kyoei set up a nationwide network under eight regional offices, following Prudential’s advice and made a name for itself. Its approach to group sales has proved particularly popular in the education sector.

If Prudential (with its successful life planners) and Kyoei (with its successful sales force) were to join forces, they would present a formidable challenge to their rivals.

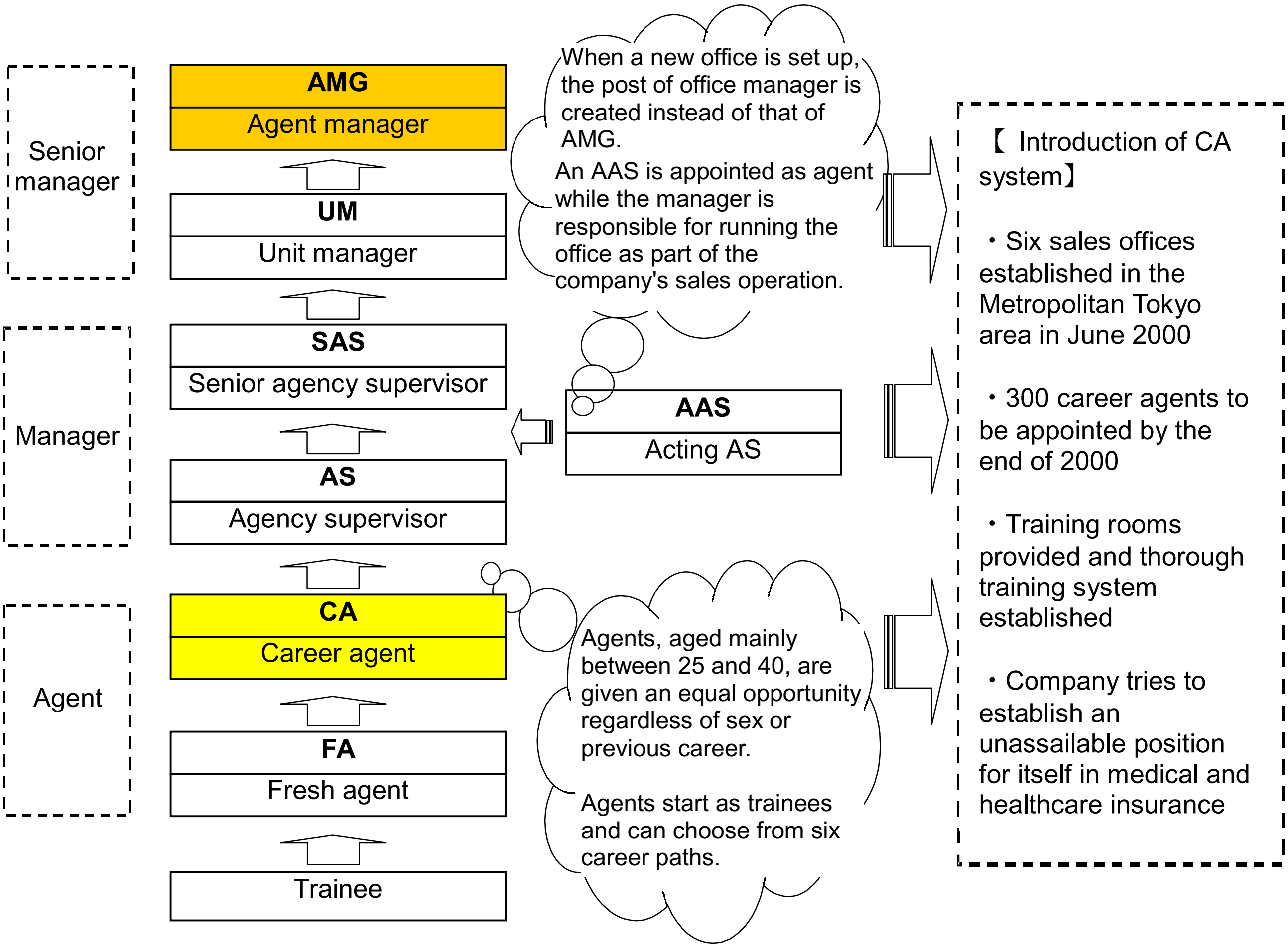
(3) Aetna/ING Group

Aetna's international division made its first move into the emerging markets' life insurance business in the 1980s. Its Taiwanese operation, which was founded in 1987, forms the hub of its operations in the Asia-Pacific region, and Aetna is the country's biggest foreign insurance company, employing 12,000 salespeople and with an annual premium income of ¥120-130 billion. The company's success there is almost certainly the result of its adoption of a US-style "career agent system" (CAS). It offers a 24-hour hotline service and has launched a number of new products, including AIDS insurance and long-term medical insurance.

In forming its alliance with Heiwa Life, Aetna is said to have relied heavily on the expertise it accumulated in Taiwan. Aetna Heiwa also introduced a career agent system (in June of this year). This works by offering its career agents, who form the core of its sales force, a clear career path as an incentive (see Figure 3). The company has six offices in Metropolitan Tokyo and expects to have a force of 300 career agents by the end of this year.

In September the company opened a call center within its new Customer Relationship Management Division. Open 24 hours a day, 365 days a year, the center is the first of its kind in Japan to offer a round-the-clock service. In addition to answering queries from policyholders, it will also answer queries from general customers, its own sales force and agents. The center is expected to offer a customer-based service by not only providing product information, but also answering queries about life insurance in general.

Figure 3　Overview of Career Agent System



Source:　NRI, from Aetna Heiwa press releases.

The former Heiwa Life Insurance Company built a reputation for itself in the individual insurance market. With a solvency margin ratio of more than 500% (578.5% as of fiscal 1998) and several tens of billions of yen in unrealized real estate gains, it managed to remain in good financial health for a medium-sized life insurance company. Following the tie-up, Aetna lost no time in introducing its own sales methods, and ING's acquisition of Aetna's overseas division should increase Aetna Heiwa's business opportunities further.

In April 1999 ING Life Japan launched Japan's first variable pension product. In September 1999 it set up its own mutual fund company and began to sell its products in January 2000. In the spring of the same year it formed a joint venture with a US fund management company to develop its pension business in Japan, which it has gradually built up, and it has been able to apply the expertise it has acquired from developing and managing savings-type products in the United States and Europe to the products it has launched in Japan.

Aetna Heiwa's business plans will become clearer in the course of this year, but the company would appear to have a number of options. For example, it could boost its product range by adopting variable insurance and pension/mutual fund products from ING while making the most of the sales expertise it has acquired from Aetna's international division. Alternatively, it could continue its alliance with its US parent and develop its medical and healthcare business in Japan. Both ING and Aetna see Aetna Heiwa as forming the core of their Japanese operations and are in the process of building up a strong and distinctive sales capability in the areas of life insurance, medical and healthcare insurance, and pensions.

If it does take over Chiyoda's business, acquiring its large customer base (with 1.2 million policyholders) and its extensive sales network, AIG will also be able to establish a much stronger presence in the Japanese market at one fell swoop. With its Japanese life insurance arm Alico Japan (total assets of ¥1.09 trillion and a premium income of ¥348.88 billion, as of fiscal 1999), its non-life insurance arm AIU and its direct sales arm American Home, the AIG Group has established a formidable presence in Japan. In July of this year the group signed a comprehensive agreement with Fuji Fire & Marine, one of the smaller non-life insurance companies in Japan, to cooperate in a large number of areas, including marketing, product offerings and development, and loss adjustment. Alico has been marketing cancer and medical insurance in Japan, while Chiyoda has successfully expanded its medical insurance business through a tie-up with the US insurer Unum. The group is likely to become a major player in the promising "third-sector" market.

All the foreign insurance companies in Japan have introduced a consulting sales approach. It is widely believed that it will be a long time before such an approach is accepted by the sales staff of existing life insurance companies, who are used to a more traditional approach, and that foreign insurers will have to devote considerable resources to retraining them.

In May of this year Axa appointed a new chairman, Henri de Castries. An internationalist and ex-official of the French ministry of finance well known for his no-nonsense approach, de Castries set about reorganizing the group's North American operations soon after he took up his post. Meanwhile, Prudential Insurance needs to adopt a more performance-based approach to its business and is planning to demutualize in the course of 2001.

As the appointment of de Castries at Axa and Prudential Insurance's plans to subject itself to shareholder scrutiny show, management changes at the head office can be expected to be reflected in the strategies these companies adopt in Japan. There is every likelihood that those Japanese life insurance companies that have joined forces with foreign life insurers will undergo a transformation as a result of the pressure exerted by their head offices and enjoy a period of rapid growth.

Recent Tie-Ups and Reorganizations in the Japanese Insurance Industry

(1) Restructuring of Japanese insurance industry around foreign insurance companies

Announce-ment	Japanese insurer	Foreign company	Details
1998/3	Toho Life	GE Capital (US)	GE Capital, the largest finance house in the US, and Toho Life establish a joint-venture life insurance company, GE Edison Life, in February 1992.
1999/4	Daihyaku Life	Manulife Financial (Canada)	Daihyaku Life and Manulife Financial establish a joint-venture life insurance company, Manulife Century. Goodwill transferred to the joint venture.
1999/6	Toho Life	GE Capital	Toho Life ordered to cease business after transferring its goodwill to GE Edison, its joint-venture with GE Capital. Agreed in December 1999 that all Toho Life's assets be transferred to Edison Life.
1999/9	Aoba Life	Artemis (France)	Acquires Nissan Life for ¥25.0 billion after its collapse in April 1997. (Artemis signs agreement with Life Insurance Association to acquire all the shares in Aoba Life.)
1999/11	Heiwa Life	Aetna (US)	Aetna International acquires 33% shareholding in Heiwa Life. Acquires 92.3% shareholding as a result of takeover bid in February 2000. Name changed to Aetna Heiwa Life Insurance in April 2000. Capital increased to ¥5.0 billion. ING acquires Aetna's international division in July 2000. Aetna Heiwa to become part of the ING Group.
	Nippon Dantai Life	Axa (France)	Nippon Dantai Life and Axa announce establishment of insurance holding company by March 2000. Axa Nichidan Life Insurance Holdings (capitalized at ¥140.0 billion) established in March 2000.
2000/1	Nicos Life	Winterthur (Switzerland)	Nippon Shinpan sells life insurance subsidiary Nicos Life and exits life insurance business. Winterthur Insurance acquires shares for ¥17.3 billion.
2000/5	Kyoei Life	Prudential (US)	Prudential Insurance Company of America takes a ¥30.0 billion stake in Kyoei Life. Announce intention to establish joint insurance and mutual fund sales company by end of March 2001.
2000/10	Chiyoda Life	AIG (US)	Chiyoda Life abandons attempt to reorganize its operations and commences liquidation procedure.
2000/10	Kyoei Life	Prudential (US)	Kyoei Life abandons attempt to reorganize its operations and commences liquidation procedure.

(2) Strategic alliances with foreign partners (insurers and fund managers)

Announce-ment	Japanese insurer	Foreign company	Details
1999/2	Fukoku Life	CGU (UK insurer)	Signs agreement with CGU under which CGU will manage Fukoku Life pension fund assets in Europe. Cooperation increased in October of same year. Begin management of pension funds under special accounts. Strengthen active management.
	Asahi Life	Metropolitan Life (US insurer)	Sign comprehensive asset management and mutual fund agreement. Establish joint-venture fund management company.
1999/3	Chiyoda Life	Unum (US insurer)	Sign comprehensive agreement to develop and sell insurance products. Unum's group long-term disability insurance and Chiyoda's medical insurance sold as a package.
1999/4	Nippon Life	Deutsche Bank	Establish joint-venture fund management operation in London.
1999/9	Mitsui Life (Mitsui Life & Casualty)	Unum (US insurer)	Unum Japan and Mitsui Life & Casualty sign cooperation agreement. Unum provides expertise in developing and selling its group long-term disability insurance products.
1999/10	Yasuda Life	DirectLine (UK direct insurer)	Sign agreement to establish low-cost direct auto insurance sales operation by autumn 2000.
	Sumitomo Life	Old Mutual (South Africa)	Sign agreement to cooperate in asset management and to sell Sumitomo Life's investment management subsidiary's mutual funds in Europe.
2000/1	Kyoei Life	Lincoln Financial (US insurer)	Sign agreement to cooperate in reinsurance business and to establish joint-venture reinsurance consultancy Kyoei Lincoln Reinsurance Services.
2000/2	Yasuda Life	AIG (US insurer)	Sign agreement to cooperate in defined contribution pension business and to sell AIG's pension fund products to Japanese companies in Hong Kong before launching same products in Japan. Acquire expertise for defined contribution business in Japan.
2000/7	Fuji Fire & Marine	AIU	Sign comprehensive cooperation agreement covering marketing, product offerings and development, loss adjustment, etc.
2000/9	Daiichi Life	American Family (US insurer)	Sign agreement to sell each other's insurance products and develop new products. Sell products (such as American Family's cancer insurance) targeted at "third sector."

Source: NRI, from newspaper reports, etc.