

# Japanese Life Insurers' Results for Fiscal 2000

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## 1. Insurance in Force

### 1) Individual insurance and annuities

Individual insurance and annuities in force for Japan's 10 leading life insurers in fiscal 2000 (ended in March 2001) declined by 2.9% year on year to ¥1,192.46 trillion. With no less than five life insurers becoming insolvent in fiscal 2000 alone, the number of policyholders deserting the industry continued to increase, making fiscal 2000 the fourth fiscal year in a row in which individual insurance and annuities in force for the 10 leading life insurers has declined (Table 1).

**Table 1 Individual Life Insurance and Annuities**

(JPY Billion • %)

	Individual insurance						Individual annuity insurance						Individual life and annuity insurance							
	Insurance in force		New sales		New sales (inc. net transfers)		Insurance in force		New sales		New sales (inc. net transfers)		Insurance in force		New sales (inc. net transfers)		Cancellations and lapses		Cancellation rate	
		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %
Nippon	299,985	-3.3	20,694	-1.2	24,671	-4.8	16,068	-1.2	910	18.1	894	18.6	316,053	-3.2	25,564	-4.2	25,988	-8.2	8.0	-0.4
Dai-ichi	219,765	-2.2	12,785	-6.0	19,918	-3.4	7,078	-4.2	113	55.4	83	93.7	226,844	-2.3	20,001	-3.2	20,314	-8.5	8.7	-0.6
Sumitomo	195,729	-4.2	14,431	-7.2	17,796	-16.4	11,494	-1.1	688	29.1	662	33.3	207,222	-4.0	18,458	-15.3	21,074	-1.7	9.8	0.1
Meiji	118,108	-1.8	9,493	34.7	13,229	57.6	8,039	-4.4	175	-30.1	132	-39.4	126,148	-1.9	13,361	55.2	12,743	-3.3	9.9	0.2
Asahi	77,341	-3.8	5,723	23.7	7,365	20.1	6,762	-6.3	178	-3.1	90	23.6	84,104	-4.0	7,454	20.2	7,405	1.1	8.5	0.5
Yasuda	69,564	-2.4	6,514	16.3	8,220	10.0	4,645	-1.7	278	23.8	277	24.0	74,210	-2.4	8,497	10.4	7,461	-2.0	9.8	0.1
Mitsui	63,910	-5.2	3,987	-6.5	5,396	-2.0	2,789	-1.9	255	-2.4	248	-3.1	66,698	-5.1	5,644	-2.1	6,693	-3.0	9.5	0.2
Taiyo	9,950	-0.7	1,458	9.4	1,458	9.4	5,214	1.2	474	-7.9	474	-7.9	15,170	-0.1	1,932	4.6	1,201	20.3	7.9	1.3
Daido	37,884	-0.1	4,330	-4.0	4,347	-4.9	1,106	-2.8	54	9.0	55	9.4	38,990	-0.2	4,401	-4.7	3,527	-8.3	9.0	-0.8
Fukoku	34,571	1.3	2,873	9.8	3,550	1.0	2,452	-1.9	141	70.9	141	70.9	37,023	1.0	3,691	2.6	2,267	4.7	6.2	0.2
Subtotal	1,126,816	-2.9	82,288	2.7	105,949	1.1	65,647	-2.4	3,265	11.0	3,054	12.7	1,192,460	-2.9	109,003	1.4	108,673	-4.6	8.9	-0.1
Azami	300	-	0	-	0	-	28	-	0	-	0	-	328	-	-	-	N.A.	-	N.A.	-
Yamato	1,226	-9.3	179	-21.8	188	-19.3	60	-12.6	0	-25.0	0	0.0	1,285	-9.5	189	-19.3	280	-9.7	19.7	-1.0
Axa-GL	10,631	-13.1	79	-93.2	105	-91.6	2,249	-12.0	0	-99.8	-23	-28.9	12,880	-12.9	82	-93.3	N.A.	-	N.A.	-
Aoba	1,792	-12.4	0	-	0	-	558	-7.4	0	-	0	-	2,350	-11.3	-	-	216	-42.4	8.2	-3.8
Aetna	2,199	-0.3	283	6.6	359	8.2	243	-9.0	0	0.0	-5	-28.2	2,442	-1.3	354	9.0	302	11.9	12.2	1.1
Heiwa																				
Sony	21,456	14.3	4,368	17.0	4,368	17.0	66	47.2	22	101.9	22	101.9	21,522	14.4	4,390	17.2	1,469	10.9	7.8	-0.2
Prudential	14,255	15.2	2,747	17.2	2,747	17.2	5	38.5	0	-	0	-	14,260	15.2	2,747	17.2	700	20.2	5.7	1.0
Total	1,178,675	-2.6	89,943	2.4	113,716	1.0	68,857	-2.8	3,287	8.9	3,048	13.7	1,247,532	-2.6	116,764	1.2	-	-	-	-

Notes: 1 Cancellation rate = (Cancellations and lapses of individual life and annuity insurance) / (Individual life and annuity insurance in force at start of year).

2 "y/y" is the year-on-year change since fiscal 1999.

Source: NRI, from news releases of companies concerned.

However, the decline was less than the -3.9% recorded in fiscal 1999. This is because the number of single-premium endowment policies reaching maturity peaked in fiscal 1999 and insurance payments on maturing policies have leveled off. As a result, the number of policy cancellations and lapses has started to decline while new insurance sales increased by 1.4% on fiscal 1999.

Fiscal 2000 saw a number of successful product launches, included that of Meiji Mutual's "Life Account," which enables policyholders to modify how premiums are allocated between death/healthcare insurance and investments every year. The appearance of products of this type is significant because it marks a departure from the traditional sales approach, which has focused on death insurance.

**Table 2 Group Life Insurance and Annuities**

(JPY billion\*%)

	Group insurance			Group annuity insurance										Funds under management at affiliates (Total for discretionary and advisory agreements)			
	Insurance in force			Insurance in force										00/12	00/9	00/3	
				General account				Separate accounts									
	y/y, % (1)	y/y, % (2)		y/y, % (1)	y/y, % (2)	Chg y/y (1)	Chg y/y (2)		Chg y/y (1)	Chg y/y (2)		Chg y/y (1)	Chg y/y (2)				
Nippon	67,158	4.6	8.8	11,556	1.1	5.0	129	553	706	33	-766	4,492	96	1,319	1,828	1,747	1,454
Dai-ichi	48,190	2.4	4.1	7,797	-0.6	-4.2	-45	-345	495	13	-1,031	2,845	-58	686	3,498	3,442	2,995
Sumitomo	38,891	2.7	3.0	4,734	-0.1	-11.9	-5	-640	344	31	-515	1,293	-35	-125	1,205	1,173	962
Meiji	47,562	3.5	4.4	4,803	-4.9	-11.5	-249	-623	388	-227	-656	923	-23	33	943	892	739
Asahi	22,866	0.2	-1.1	2,033	-13.0	-33.5	-305	-1,023	164	-255	-715	391	-50	-308	601	565	544
Yasuda	68,373	1.2	4.0	3,793	-0.4	0.1	-14	2	328	10	-22	514	-24	25	264	237	0
Mitsui	25,034	-4.9	-5.7	2,599	-3.2	-14.4	-86	-439	214	-82	-398	455	-4	-40	1,530	1,487	1,340
Taiyo	10,378	1.7	7.1	789	0.9	6.7	7	49	71	35	44	83	-27	5	544	532	449
Daido	11,585	0.1	0.1	2,574	1.5	6.2	39	149	237	21	89	202	18	60	544	532	449
Fukoku	12,099	6.7	10.7	1,872	1.9	9.2	35	159	172	70	176	147	-36	-18	93	44	44
Subtotal	352,136	2.1	3.9	42,550	-1.1	-4.8	-492	-2,156	3,120	-350	-3,794	11,345	-142	1,638	10,506	10,120	8,528
Azami	61	-	-	2	-	-	-	-	0	-	-	-	-	-	-	-	-
Yamato	357	-13.9	-32.7	20	-11.1	-39.6	-3	-13	2	-3	-13	-	-	-	-	-	-
Axa-GL	13,172	-10.4	-	929	-6.6	-	-66	-	92	-67	-	8	1	-	-	-	-
Aoba	7	-32.0	-56.3	139	-42.0	-53.2	-101	-158	14	-101	-157	0	-	-1	-	-	-
Aetna	856	-16.8	-19.4	15	-36.7	-42.2	-9	-11	2	-9	-11	-	-	-	-	-	-
Sony	686	15.6	23.1	26	7.6	40.7	2	7	3	2	7	-	-	-	-	-	-
Prudential	16	9.2	28.1	0	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	367,285	1.5	3.8	43,680	-1.5	-5.2	-668	-2,331	3,233	-527	-3,968	11,353	-141	1,637	-	-	-

Notes: 1 The "affiliates" concerned are as follows: Nippon Life: Nissay Asset Management; Dai-ichi Mutual: IBJ-Dai-ichi Mutual Asset Management; Sumitomo Life: Sumitomo Life Investment; Meiji Mutual: Meiji-Dresdner Asset Management; Asahi Mutual: Asahi Life Asset Management; Yasuda Mutual: Yasuda Capital Management; Mitsui Mutual: Mitsui Life Global Asset Management; Taiyo Mutual and Daido Life: T&D Taiyo Daido Asset Management; and Fukoku Mutual: Fukoku Asset Management.

2 "y/y (1)" is the year-on-year change since fiscal 1999 (ended in March); "y/y (2)" is the year-on-year change since fiscal 1998 (ended in March).

Source: NRI, from news releases of companies concerned.

## 2) Group insurance and annuities

Group insurance in force for the 10 companies increased by 2.1% year on year to ¥352.13 trillion, while group annuities in force declined by 1.1% (¥492.4 billion) to ¥42.54 trillion (Table 2). The decline of roughly ¥490 billion in group annuities in force is an improvement on the decline of ¥1.6 trillion in fiscal 1999. Partly a reaction to the sharp decline in fiscal 1999, the improvement indicates that the decline in group annuity business by parent companies has bottomed. Life insurers are also transferring group annuity contracts to their asset management affiliates in an effort to halt the outflow of such business to other life insurers.

## 2. Profit and Loss Analysis

### 1) Net insurance income

Total income from insurance and reinsurance premiums at the top 10 companies declined by 2% to ¥21.99 trillion, while insurance claims and other payments declined by 13% to ¥19.78 trillion. This sharp drop was the result of a 15.5% year-on-year decline in cancellations and other returns as the number of single-premium endowment policies expiring passed its peak and the major insurers stepped up their consultancy sales in an effort to reduce the number of policy cancellations.

**Table 3 Insurance Income-Payments Balance**

(JPY billion・%)

	Income from insurance and reinsurance premiums		Insurance claims and other payments		Cancellations and other returns		Ratio of claims and other payments to insurance income	
		y/y, %		y/y, %		y/y, %		y/y, %
Nippon	5,767	-0.7	4,657	-6.7	1,962	3.5	8.1	-5.1
Dai-ichi	3,729	-0.4	3,182	-17.5	1,304	-21.6	8.5	-17.7
Sumitomo	3,173	-2.2	2,712	-24.5	1,133	-31.0	8.5	-25.2
Meiji	2,295	-0.2	2,320	-10.2	980	-12.1	10.1	-11.2
Asahi	1,345	-4.3	1,651	-21.6	764	-31.0	12.3	-27.1
Yasuda	1,489	-4.6	1,300	-7.2	483	-7.9	8.7	-2.4
Mitsui	1,286	-2.8	1,319	-19.0	558	-31.6	10.3	-20.5
Taiyo	1,097	-5.0	1,137	0.5	299	22.6	10.4	5.7
Daido	1,072	-5.7	865	-0.5	280	1.7	8.1	4.2
Fukoku	739	-3.0	642	8.5	222	35.4	8.7	9.2
Subtotal	21,992	-2.0	19,785	-13.0	7,984	-15.5	9.0	-11.4
Azami	0	-	0	-	0	-	6.2	-
Yamato	40	-4.0	55	-3.4	27	-6.8	13.9	0.9
Axa-GL	516	-7.4	647	-13.0	342	-16.2	12.5	-8.0
Aoba	41	-24.5	193	-4.3	132	6.0	46.6	98.2
Aetna	62	-2.7	85	16.7	41	47.0	13.7	22.8
Heiwa								
Sony	435	16.1	131	18.2	79	18.4	3.0	0.5
Prudential	203	19.4	49	29.6	21	33.6	2.4	1.8
Total	23,289	-1.8	20,943	-12.6	8,625	-14.7	9.0	-11.2

Source: NRI, from news releases of companies concerned.

At six of the companies, income from insurance and reinsurance premiums exceeded insurance claims and other payments, and their ratio of insurance claims and other payments to income from insurance and reinsurance premiums declined by 11.4 percentage points to 90% (Table 3). This improvement was the result of a sharp decline in insurance claims and other payments and in spite of a decline in income from insurance and reinsurance premiums.

## 2) Net investment income

Total income from investment at the top 10 companies fell by 42.8% to ¥4.98 trillion (Table 4). This reflected a 16.6% decline in income from interest and dividends to ¥3.68 trillion as a result of record low interest rates and redemptions of high-yielding bonds as well as a 66.4% decline in gains from disposals of securities.

**Table 4 Investment Income-Expense Balance**

(JPY billion • %)

	Investment income						Investment expenses						Net investment income					
	Income from interest and dividends		Gains from disposals of securities		Valuation gains on the separate accounts		Losses on the disposal of securities		Valuation losses on securities		Valuation losses on the separate accounts							
	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %	¥/y, %					
Nippon	1,280	-46.4	1,045	-19.4	229	-75.1	-	-	507	-60.5	122	-82.0	100	-71.6	156	-	773	-30.0
Dai-ichi	906	-46.0	679	-16.6	226	-70.1	-	-	355	-55.5	94	-72.4	25	-87.2	90	-	551	-37.6
Sumitomo	712	-32.4	467	-21.8	222	-46.5	-	-	219	-58.6	79	-71.3	70	-46.0	1	-	493	-6.0
Meiji	502	-33.6	404	-11.3	97	-63.3	-	-	153	-62.6	46	-70.9	15	-89.7	25	-	350	0.4
Asahi	336	-51.0	241	-0.4	86	-79.8	1	-	111	-68.7	20	-92.9	54	79.7	-	-	225	-32.1
Yasuda	325	-43.4	226	-15.4	94	-57.4	5	-	117	-63.5	31	-79.6	5	-94.8	-	-	208	-17.8
Mitsui	332	-56.2	204	-22.1	104	-69.9	-	-	210	-52.9	57	-82.6	2	-94.9	46	-	122	-61.0
Taiyo	266	-9.6	171	-12.0	94	37.5	-	-	94	1.5	36	-38.2	5	-34.7	5	-	171	-14.7
Daido	192	-33.3	150	-12.9	37	-33.4	4	-	66	-63.5	25	-46.1	11	-87.6	-	-	125	18.5
Fukoku	133	-42.3	95	-14.7	9	-90.4	2	-	32	-70.1	4	-89.9	1	-95.9	-	-	101	-18.5
Subtotal	4,985	-42.8	3,682	-16.6	1,197	-66.4	12	-	1,865	-58.8	515	-78.2	290	-74.3	322	-	3,120	-25.5
Azami	0	-	0	-	0	-	-	-	0	-	0	-	0	-	-	-	0	-
Yamato	12	-41.1	9	-5.1	3	-70.7	-	-	2	-64.7	0	-53.5	0	-88.5	-	-	10	-30.3
Axa-GL	115	-32.0	57	-32.9	29	-61.9	-	-	151	-15.3	105	5.3	1	-95.8	1	-	-36	295.4
Aoba	35	28.2	22	-15.4	13	204.7	-	-	4	-54.2	1	-20.3	0	-50.0	0	-	31	71.8
Aetna	29	-40.9	16	-1.2	12	-61.8	-	-	10	-42.6	5	-44.8	0	-	-	-	20	-39.9
Heiwa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sony	27	-37.3	23	-14.8	1	-85.7	-	-	4	-72.2	0	-99.7	0	-100.0	2	-	23	-19.2
Prudential	17	-39.1	12	-6.9	6	-36.2	-	-	10	-29.8	5	-49.8	0	-14.7	3	-	8	-48.0
Total	5,221	-42.3	3,821	-16.7	1,261	-65.9	12	-	2,046	-57.0	630	-74.6	292	-75.0	329	-	3,175	-25.9

Source: NRI, from news releases of companies concerned.

The reason for the sharp decline in gains from disposals of securities reflected a sharp decline in unrealized losses on securities, and there was therefore not the same need to offset these losses as in fiscal 1999 (when the top 10 life insurers sold some ¥3.5 trillion in securities). Eight of the 10 companies now value their "other securities" at market, and their valuation losses on their securities holdings were

**Table 5 Operating Income**

	【Operating income】		【Revenues】		Income from insurance and reinsurance premiums		Investment income		Other revenues		Deferred premiums		Reversals of provisions for policy reserves	
		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %
Nippon	471	59.5	7,370	-14.1	5,767	-0.7	1,280	-46.4	323	-15.6	303	-18.3	-	-
Dai-ichi	324	-29.2	5,047	-16.8	3,729	-0.4	906	-46.0	412	-36.0	399	-8.7	-	-100.0
Sumitomo	352	17.4	4,040	-20.3	3,173	-2.2	712	-32.4	154	-79.9	111	-17.7	-	-100.0
Meiji	180	-6.0	3,253	-13.0	2,295	-0.2	502	-33.6	455	-33.5	197	-22.6	230	-45.0
Asahi	96	-31.6	2,170	-25.5	1,345	-4.3	336	-51.0	489	-40.4	54	-36.8	434	-40.1
Yasuda	126	-30.2	1,849	-15.6	1,489	-4.6	325	-43.4	34	-36.9	11	-65.1	-	-
Mitsui	72	-51.6	1,814	-25.9	1,286	-2.8	332	-56.2	196	-46.5	11	-56.9	183	-45.9
Taiyo	21	1.0	1,387	-6.0	1,097	-5.0	266	-9.6	24	-9.3	23	-6.4	-	-
Daido	82	138.2	1,269	-11.0	1,072	-5.7	192	-33.3	5	110.9	2	-11.7	-	-
Fukoku	58	-15.6	876	-12.2	739	-3.0	133	-42.3	5	-28.2	2	-43.0	-	-
Subtotal	1,782	-3.0	29,075	-16.7	21,992	-2.0	4,985	-42.8	2,098	-44.1	1,112	-18.8	847	-63.3
Azami	0	-	23	-	0	-	0	-	23	-	0	-	23	-
Yamato	1	-73.8	67	-12.9	40	-4.0	12	-41.1	16	1.2	0	-56.5	16	5.7
Axa-GL	-86	2.7	794	-14.0	516	-7.4	115	-32.0	163	-17.4	0	-	149	-23.4
Aoba	18	251.3	238	0.4	41	-24.5	35	28.2	161	4.2	0	-2.7	157	2.6
Aetna	-1	-112.5	110	-7.3	62	-2.7	29	-40.9	19	241.7	0	-22.0	19	251.5
Heiwa	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sony	-60	-7842.4	463	10.5	435	16.1	27	-37.3	1	-18.1	0	108.2	-	-
Prudential	0	-31.2	220	11.1	203	19.4	17	-39.1	0	37.3	0	53.3	-	-
Total	1,653	-6.9	30,991	-16.0	23,289	-1.8	5,221	-42.3	2,480	-40.5	1,113	-18.8	1,210	-55.6

**【Expenditures】**

	Expenditures		Insurance claims and other payments		Investment expenses		Operating expenses		Provisions for policy reserves		Other expenditures		Deferred payouts	
		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %
Nippon	6,899	-16.7	4,657	-6.7	507	-60.5	620	-3.5	690	-24.6	425	-6.3	346	-3.5
Dai-ichi	4,723	-15.8	3,182	-17.5	355	-55.5	493	1.3	225	1103.1	468	3.7	401	6.4
Sumitomo	3,688	-22.6	2,712	-24.5	219	-58.6	449	-3.9	113	982.3	196	14.5	149	22.5
Meiji	3,072	-13.4	2,320	-10.2	153	-62.6	307	4.8	22	335.6	271	4.6	233	6.3
Asahi	2,074	-25.2	1,651	-21.6	111	-68.7	195	-6.1	7	211.4	109	9.1	83	13.7
Yasuda	1,723	-14.3	1,300	-7.2	117	-63.5	190	-0.2	57	-3.5	58	52.4	34	105.4
Mitsui	1,742	-24.2	1,319	-19.0	210	-52.9	170	-3.9	2	-5.9	41	-9.9	18	-29.1
Taiyo	1,366	-6.1	1,137	0.5	94	1.5	82	-3.9	22	-80.5	30	0.9	20	5.6
Daido	1,187	-14.7	865	-0.5	66	-63.5	107	-2.3	135	-37.8	14	-9.1	2	-13.9
Fukoku	818	-12.0	642	8.5	32	-70.1	93	5.4	41	-69.0	11	-10.1	1	-52.7
Subtotal	27,293	-17.5	19,785	-13.0	1,865	-58.8	2,707	-1.5	1,314	-10.9	1,623	3.0	1,289	6.0
Azami	24	-	0	-	0	-	0	-	22	-	2	-	0	-
Yamato	66	-9.8	55	-3.4	2	-64.7	8	-11.0	0	-12.2	1	-0.9	0	90.9
Axa-GL	880	-12.7	647	-13.0	151	-15.3	62	-11.6	8	658.2	12	-17.0	0	-
Aoba	221	-5.0	193	-4.3	4	-54.2	5	14.0	0	-68.4	18	10.1	0	87.5
Aetna	112	3.9	85	16.7	10	-42.6	14	-4.8	1	5.8	2	0.1	0	19.4
Heiwa	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sony	523	25.1	131	18.2	4	-72.2	80	2.4	300	44.4	8	20.7	0	3.7
Prudential	220	11.2	48	29.6	10	-29.8	44	12.7	114	8.4	4	56.5	0	266.7
Total	29,338	-16.5	20,943	-12.6	2,046	-57.0	2,921	-1.5	1,758	-3.0	1,669	3.0	1,290	6.0

Source: NRI, from news releases of companies concerned.

74.3% greater than in fiscal 1999.<sup>1</sup> Net investment income (investment income - investment expenses) at the 10 companies was down 25.5% on fiscal 1999 to ¥3.12 trillion.

### **3) Operating income**

Total operating income at the 10 companies declined by ¥56 billion (or 3%) to ¥1.78 trillion, with only Nippon Life, Sumitomo Life, Taiyo Mutual and Daido Life recording gains (Table 5).

Revenues declined by 16.7% to ¥29.07 trillion. This reflected a sharp drop in investment income and a decline in reversals of provisions for policy reserves (as a result of fewer cancellations of group insurance policies).

Expenditures declined by 17.5% to ¥27.29 trillion. This reflected a sharp drop in insurance claims and other payments and in investment expenses as well as the fact that provisions for policy reserves were 10.9% lower than in fiscal 1999.

### **4) Introduction of "core operating profit"**

In fiscal 2000, Japanese life insurers introduced the concept of "core profit" and disclosed a figure for it in their accounts (Table 6). Core operating profit indicates how much a life insurer has earned from its core operations (insurance and investment) and is calculated by deducting capital gains and losses (e.g., gains and losses from disposals of securities and valuation losses) and non-operating gains and losses (e.g., provisions and reversals of provisions for contingency reserves) from operating income. While solvency margin ratios indicate the strength of an insurance company's balance sheet, core operating profit indicates the strength of its profit and loss account.

When life insurance companies design their products, they assume certain basic ratios (e.g., rate of return on investments, operating expenses and mortality rates) and calculate their profits from the difference between these and the actual ratios. Life

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<sup>1</sup> As a result of the introduction of market value accounting, Japanese life insurers now classify their securities according to the purpose for which they hold them: (1) trading securities (valued at market as of year-end and entered as a gain or loss in the profit and loss account); (2) securities held to maturity (entered at cost on the balance sheet); (3) shares in subsidiaries and affiliates; and (4) other securities (i.e., other than (1)-(3)) (valued at market and entered as a valuation gain or loss under "capital" on the balance sheet after tax has been deducted). As unrealized gains and losses on securities are entered under "capital" on the balance sheet (rather than on the profit and loss account), the effect is to reduce valuation losses on securities proportionately.

**Table 6 Operating Income (Loss) and Core Operating Profit**

(JPY billion • %)

	Operating income (loss)			Core operating profit				Loss attributable to negative spread		Negative spread ratio		Average assumed rate of return		Rate of return (on general account)	
	Chg y/y	y/y, %		Chg y/y	% of general account assets	% of policy reserves	01/3	00/3		y/y, %		y/y, %		y/y, %	
Nippon	471	176	59.5	619	-62	1.6	1.6	320	300	34.1	3.5	3.8	0.0	2.39	-0.48
Dai-ichi	324	-133	-29.2	360	-40	1.3	1.4	257	258	41.6	2.5	3.7	0.0	2.39	-0.18
Sumitomo	352	52	17.4	278	-32	1.3	1.4	250	220	47.4	5.9	3.7	0.0	2.23	0.19
Meiji	180	-12	-6.0	276	-	1.7	1.9	74	110	21.1	-	3.3	-0.1	2.37	0.60
Asahi	96	-44	-31.6	105	-	1.0	1.1	120	160	53.4	-	3.8	-0.1	2.09	-0.60
Yasuda	126	-54	-30.2	175	-	1.8	2.0	73	75	29.4	-	3.3	0.0	2.18	-0.21
Mitsui	72	-77	-51.6	93	-	1.0	1.1	94	100	50.4	-	3.64	0.0	1.86	-0.71
Taiyo	21	0	1.0	14	-	0.2	0.2	72	80	83.8	-	3.84	-0.3	2.52	-0.30
Daido	82	48	138.2	114	17	2.0	2.1	9	7	7.5	0.7	3.41	-0.1	2.19	0.59
Fukoku	58	-11	-15.6	58	-	1.3	1.3	35	40	37.7	-	3.2	-0.1	2.21	-0.31
Subtotal	1,782	-56	-3.0	2,091	-	1.4	1.5	1,304	1,350	38.4	-	-	-	-	-
Azami	0	-	-	0	-	0.0	0.0	N.A.	-	N.A.	-	1.00	-	-1.11	-
Yamato	1	-3	-73.8	-1	-	-0.5	-0.5	2	3	225.1	-	4.39	0.0	3.64	-1.35
Axa-GL	-86	-2	2.7	10	-	0.3	0.3	(approx.) 38	N.A.	(approx.) 79.6	-	(approx.) 3.6	-0.1	-1.67	-2.18
Aoba	18	13	251.3	10	-	1.2	1.2	0	0	0.0	-	2.32	0.0	3.34	1.75
Aetna	-1	-13	-112.5	-6	-	-1.1	-1.2	5	6	-332.3	-	4.45	0.0	3.70	-2.33
Heiwa															
Sony	-60	-61	-7842.4	10	-	0.8	0.8	15	15	59.0	-	3.98	-	2.31	0.09
Prudential	0	0	-31.2	1	-	0.3	0.3	N.A.	N.A.	-	-	3.96	-	2.43	-0.68
Total	1,653	-122	-6.9	2,115	-	1.3	1.4	-	-	-	-	-	-	-	-

Note: Negative spread ratio = loss attributable to negative spread / (loss attributable to negative spread + core profit).

Source: NRI, from news releases of companies concerned.

insurers derive their earnings from three main sources: (1) the difference between their assumed and actual rate of return on investments; (2) the difference between their assumed and actual operating expenses; and (3) the difference between the assumed and actual mortality rate of their policyholders. The concept of "core profit" was introduced to address some of the criticism long leveled at life insurers that it was difficult for outsiders to assess these sources of profit. Core profit should be roughly equivalent to the total of these three sources of profit and give a clearer picture of the strength of life insurers' profit and loss accounts.

One point that needs to be borne in mind when considering core profit is the fact that it is generally easier for life insurers which do a large amount of term insurance business (including group term insurance) to boost their core profit than for those which depend more on individual insurance and savings products. This is because it is easier to generate profits from the difference between assumed and actual mortality rates in the former than the latter. Also, the fact that much of the profit from group insurance tends to go on dividends means that big core profits do not necessarily feed through to the bottom line.

Japanese life insurers' results for fiscal 2000 show that, although the top 10 companies suffered losses of ¥1.30 trillion because of the difference between their assumed and actual rates of return on investment ("negative spread"), they were more than able to offset these losses from their core operating profits (of ¥2.09 trillion). Nevertheless, interest rates in Japan are likely to remain low for the foreseeable future, so there is no prospect of this negative spread narrowing. While the top 10 companies are still assuming an average rate of return on investment of 3.0%-4.0%, their actual returns on investment (on their general accounts) were generally lower than in fiscal 1999. Not only has there not been any significant rise in interest rates since the Bank of Japan abandoned its policy of zero interest rates: there is little prospect of any big rise in interest rates in the near future so long as the Bank maintains an accommodative monetary policy in its attempts to combat deflation.

### **3. Assets**

#### **1) Composition of assets**

The general account assets of the top 10 life insurers increased by roughly ¥1.6 trillion to ¥151.86 trillion (Table 7). Many of the companies continued to reduce their holdings of risk assets such as equities and property, and holdings in business partners, while increasing the proportion of their assets invested in bonds. There is also a growing tendency for them to invest in property-backed securities in order to boost their returns on investment and offset the drop in investment returns they have suffered as a result of reducing their risk assets.

#### **2) Classification of securities investments by purpose**

Following the adoption of market value accounting in fiscal 2000, Japanese life insurers now classify their securities as (1) "trading securities," (2) "securities held until maturity" or (3) "other securities" according to the purpose for which they hold them. (see Footnote 1 on Page ??). Also, in November 2000 the Japanese Institute of Certified Public Accountants published a report by its Auditing Committee that established a system of classifying bonds according to the duration of the liabilities they match ("policy reserve-matched bonds") and allowed such bonds to be valued at cost from fiscal 2000.

While life insurers' assets are valued at market and therefore fluctuate in value, their liabilities (and especially their policy reserves) are valued at cost. By holding bonds of the same duration as these liabilities, life insurers can shield these liabilities from the effects of such fluctuations. The new system of matching bonds with policy reserves enables them to do this by recognizing the bonds they hold as having the same duration as some of their liabilities.



**Table 7 General Account Portfolios**

(JPY billion・%)

	Cash and deposits, call loans				Loans receivable				Bonds				Government bonds			
	Amount	%	y/y, %	Chg y/y	Amount	%	y/y, %	Chg y/y	Amount	%	y/y, %	Chg y/y	Amount	%	y/y, %	Chg y/y
Nippon	1,163	3.0	0.7	279	12,729	32.4	-2.2	-602	10,180	25.9	-0.3	99	5,398	13.7	-2.0	-672
Dai-ichi	1,671	6.1	-0.5	-90	6,505	23.6	-2.6	-584	8,504	30.8	1.4	549	4,922	17.8	1.5	489
Sumitomo	319	1.4	-1.7	-377	6,283	28.3	-1.8	-399	6,545	29.4	4.7	1,032	3,690	16.6	3.9	873
Meiji	1,149	7.2	2.8	449	5,481	34.4	-2.5	-340	4,182	26.3	0.6	136	2,779	17.5	-0.9	-119
Asahi	425	3.9	-2.3	-250	3,495	32.1	-3.7	-379	2,760	25.4	4.2	471	2,323	21.3	6.4	713
Yasuda	503	5.2	1.4	141	3,566	37.0	1.0	142	1,883	19.5	-1.3	-97	1,037	10.8	-3.3	-306
Mitsui	621	6.8	-8.7	-846	2,717	29.8	-1.0	-190	2,298	25.2	6.1	493	1,617	17.7	4.6	375
Taiyo	270	3.8	0.1	7	2,409	34.3	-1.2	-61	2,588	36.9	3.2	242	948	13.5	-4.7	-317
Daido	447	7.9	3.4	197	1,133	20.1	-0.6	-9	2,533	45.1	-0.2	41	378	6.7	-2.4	-122
Fukoku	151	3.3	-7.0	-308	1,432	31.4	-0.7	11	1,661	36.4	6.2	324	1,191	26.1	9.5	456
Subtotal	6,718	4.4	-0.6	-800	45,748	30.1	-1.9	-2,410	43,135	28.4	1.9	3,288	24,281	16.0	0.7	1,369
Azami	32	20.0	-	-	26	16.4	-	-	9	5.6	-	-	8	5.1	-	-
Yamato	8	3.1	-2.7	-8	53	20.0	-1.9	-8	120	45.0	2.3	0	32	11.9	-2.5	-9
Axa-GL	504	15.4	2.9	78	788	24.1	-5.3	-216	228	7.0	-11.7	-409	120	3.7	-10.7	-370
Aoba	8	0.9	-7.8	-81	257	29.7	-2.5	-71	459	52.9	-0.3	-84	N.A	-	-	-
Aetna																
Heiwa	60	11.2	-2.6	-15	159	29.9	-4.5	-27	173	32.7	13.1	67	63	11.8	6.0	31
Sony	268	20.6	0.5	67	43	3.3	0.0	10	605	46.5	-4.0	97	N.A	-	-	-
Prudential	33	6.4	4.7	26	24	4.6	0.1	6	327	64.3	-3.2	67	N.A	-	-	-
Total	7,630	4.8	-0.5	-733	47,098	29.7	-2.1	-2,716	45,056	28.4	1.6	3,026	-	-	-	-

(JPY billion・%)

	Bonds (cont.)				Money held in trust				Real estate				Equities			
	Amount	%	y/y, %	Chg y/y	Amount	%	y/y, %	Chg y/y	Amount	%	y/y, %	Chg y/y	Amount	%	y/y, %	Chg y/y
Nippon	4,783	12.2	1.8	770	598	1.5	0.3	142	1,825	4.6	-0.5	-145	6,048	15.4	-0.4	-44
Dai-ichi	3,582	13.0	0.0	60	116	0.4	0.2	48	1,482	5.4	-0.6	-144	4,525	16.4	-0.1	50
Sumitomo	2,856	12.8	0.7	159	60	0.3	-0.6	-131	1,161	5.2	-0.8	-187	3,184	14.3	0.1	24
Meiji	1,404	8.8	1.5	255	42	0.3	-0.3	-50	1,001	6.3	0.2	40	2,861	18.0	0.0	29
Asahi	437	4.0	-2.3	-242	156	1.4	-1.3	-141	790	7.3	1.1	128	1,892	17.4	-0.3	-19
Yasuda	846	8.8	2.1	209	560	5.8	-1.0	-88	416	4.3	-0.2	-16	1,204	12.5	-0.4	-19
Mitsui	681	7.5	1.5	118	25	0.3	0.0	-3	468	5.1	0.0	-18	1,439	15.8	0.4	-14
Taiyo	1,641	23.4	7.8	559	88	1.3	0.1	6	227	3.2	-0.2	-14	573	8.2	0.4	35
Daido	2,154	38.3	2.2	163	278	4.9	-0.4	-18	174	3.1	-0.6	-31	335	6.0	0.4	26
Fukoku	471	10.3	-3.3	-132	197	4.3	-0.3	-9	181	4.0	0.2	13	500	10.9	0.3	25
Subtotal	18,853	12.4	1.1	1,919	2,122	1.4	-0.2	-244	7,725	5.1	-0.3	-375	22,561	14.9	-0.1	94
Azami	1	0.5	-	-	0	0.0	-	-	4	2.5	-	-	0	0.0	-	-
Yamato	88	33.1	4.8	9	4	1.5	-0.6	-2	11	4.1	0.1	0	29	10.9	2.0	4
Axa-GL	108	3.3	-1.0	-39	1,133	34.7	29.7	961	98	3.0	-0.2	-13	181	5.5	-0.3	-18
Aoba	N.A	-	-	-	0	-	-	-	39	4.5	0.1	-6	1	0.1	0.0	0
Aetna																
Heiwa	111	20.9	7.1	36	20	3.8	0.3	1	17	3.1	-0.3	-2	2	0.3	-7.2	-39
Sony	N.A	-	-	-	136	10.5	2.7	59	23	1.7	1.3	18	5	0.4	0.0	1
Prudential	N.A	-	-	-	0	-	-	-	9	1.7	0.5	4	16	3.1	0.2	5
Total	-	-	-	-	3,415	2.2	0.5	776	7,925	5.0	-0.3	-373	22,794	14.4	-0.1	47

(JPY billion・%)

	Foreign securities				Other securities				Total assets in general account				Total assets			
	Amount	%	y/y, %	Chg y/y	Amount	%	y/y, %	Chg y/y	Foreign-currency assets				Chg y/y	Chg y/y		
Nippon	3,818	9.7	-0.8	-250	636	1.6	1.3	503	3,517	8.9	-0.8	-222	39,302	759	44,003	1.8
Dai-ichi	2,546	9.2	-0.1	10	91	0.3	-0.2	-55	2,012	7.3	0.2	88	27,590	534	31,603	5.2
Sumitomo	2,492	11.2	-0.9	-210	376	1.7	-2.6	-587	202	0.9	-2.7	-609	22,231	-8	23,723	0.2
Meiji	706	4.4	-0.7	-110	41	0.3	0.1	12	589	3.7	-0.7	-104	15,912	167	17,469	3.7
Asahi	1,112	10.2	3.1	339	50	0.5	-0.9	-97	616	5.7	-0.2	-13	10,885	75	11,210	-1.0
Yasuda	1,063	11.0	-0.2	-4	94	1.0	-0.1	-10	789	8.2	-0.1	3	9,632	120	10,257	1.7
Mitsui	1,239	13.6	3.2	262	77	0.8	-0.1	-17	1,074	11.8	2.7	215	9,111	-316	9,778	-3.0
Taiyo	454	6.5	-4.2	-285	116	1.7	-0.2	-16	274	3.9	-3.4	-234	7,015	60	7,266	2.6
Daido	447	8.0	-2.0	-100	114	2.0	-0.3	-15	365	6.5	-2.6	-137	5,621	114	5,900	2.9
Fukoku	219	4.8	-0.8	-29	13	0.3	0.1	4	137	3.0	-0.3	-9	4,567	129	4,785	3.7
Subtotal	14,097	9.3	-0.4	-378	1,608	1.1	-0.2	-276	9,574	6.3	-0.7	-1,022	151,865	1,636	165,993	2.0
Azami	0	0.0	-	-	0	0.0	-	-	0	0.0	-	-	160	-	160	-
Yamato	31	11.6	0.7	0	7	2.5	0.0	0	11	4.3	-1.6	-5	266	-15	279	-0.7
Axa-GL	186	5.7	-17.3	-599	36	1.1	0.0	-1	63	1.9	-13.9	-477	3,263	-144	3,276	-4.2
Aoba	99	11.4	11.4	99	8	0.9	0.9	8	0	0.0	0.0	0	866	-154	872	-15.1
Aetna																
Heiwa	95	17.9	3.2	16	0	0.0	-2.0	-11	22	4.1	-4.8	-26	530	-10	530	-1.8
Sony	196	15.1	-0.3	42	3	0.3	0.0	1	38	2.9	0.5	14	1,302	296	1,450	33.2
Prudential	73	14.3	-2.9	7	0	-	-	-	4	0.9	-12.0	-45	509	124	563	28.6
Total	14,776	9.3	-0.6	-814	1,662	1.0	-0.2	-279	9,712	6.1	-1.1	-1,563	158,762	1,733	173,123	2.1

Note: Fiscal 2000 general account assets were valued at market.  
Source: NRI, from news releases of companies concerned.

In their accounts for fiscal 2000 the top 10 life insurers owned a total of ¥83.71 trillion in bonds. Of these, 14.5% (worth ¥12.16 trillion) were classified as "bonds held until maturity" and 72.6% (worth ¥60.77 trillion) as "other securities" (Table 8). Only one of the top 10 life insurers (Nippon Life) has so far opted to classify some of its bonds (worth ¥10.75 trillion) as "policy reserve-matched bonds." As of the end of fiscal 2000, a growing number of life insurers had opted to classify their investments as "other securities." Although this requires them to value the investments at market, any valuation gains or losses do not appear in the profit and loss account.

**Table 8 Securities Holdings Classified According to Purpose**

(JPY billion·%)

	Bonds held until maturity			Policy reserve-matched bonds			Shares in subsidiaries and affiliates			Other securities						Total	
		%	Change in value		%	Change in value		%	Change in value		%	Change in value	Bonds	Equities	Foreign securities		Change in value
Nippon	0	0.0	0	10,753	49.2	782	21	0.1	13	11,079	50.7	3,412	4	5,903	3,095	21,852	4,208
Dai-ichi	0	0.0	0	0	0.0	0	0	0.0	0	16,793	100.0	1,518	8,504	4,395	2,352	16,793	1,518
Sumitomo	4,498	34.9	99	0	0.0	0	0	0.0	0	8,401	65.1	155	3,873	3,093	1,206	12,899	254
Meiji	2,772	37.2	209	0	0.0	0	0	0.0	0	4,670	62.8	748	1,509	2,658	482	7,442	957
Asahi	1,012	17.6	10	0	0.0	0	0	0.0	0	4,731	82.4	-176	1,865	1,857	959	5,743	-165
Yasuda	73	1.8	3	0	0.0	0	0	0.0	0	4,014	98.2	212	1,810	1,126	1,021	4,087	215
Mitsui	495	10.0	10	0	0.0	0	0	0.0	0	4,471	90.0	11	2,015	1,389	994	4,965	21
Taiyo	367	9.5	5	0	0.0	0	1	0.0	0	3,481	90.4	236	2,411	566	388	3,849	240
Daido	2,396	66.2	162	0	0.0	0	0	0.0	0	1,224	33.8	63	227	323	302	3,620	226
Fukoku	554	22.4	22	0	0.0	0	1	0.0	0	1,913	77.5	130	1,260	492	141	2,467	152
Subtotal	12,167	14.5	522	10,753	12.8	782	23	0.0	12	60,776	72.6	6,309	23,478	21,802	10,938	83,719	7,625
Azami	0	0.0	0	0	0.0	0	0	0.0	0	9	100.0	0	9	0	0	9	0
Yamato	0	0.0	0	0	0.0	0	0	0.0	0	177	100.0	13	120	26	31	177	13
Axa-GL	0	0.0	0	0	0.0	0	0	0.0	0	614	100.0	-11	214	178	186	614	-11
Aoba	0	0.0	0	0	0.0	0	0	0.0	0	565	100.0	10	459	0	98	565	10
Aetna	151	52.7	11	0	0.0	0	0	0.0	0	135	47.4	4	95	21	19	286	15
Heiwa																	
Sony	0	0.0	0	0	0.0	0	0	0.0	0	857	100.0	57	650	5	202	857	57
Prudential	44	10.6	4	242	58.1	15	0	0.0	0	130	31.3	3	70	16	44	416	22
Total	12,361	14.3	536	10,995	12.7	797	23	0.0	12	63,262	73.0	6,386	25,095	22,047	11,517	86,641	7,731

Source: NRI, from news releases of companies concerned.

## 4. Non-Performing Loans and Non-Realized Gains and Losses on Assets

### 1) Non-realized gains and losses on securities and land

At the end of fiscal 2000, the Nikkei Average stood at 12,999—7,337 lower than at the end of fiscal 1999. After rising in fiscal 1999, shares reversed course and remained under selling pressure. The top 10 life insurers saw not only their equity holdings but

**Table 9 Unrealized Gains and Losses on Securities and Land**

(JPY billion • %)

	Unrealized gains and losses on securities (general account)														Unrealized gains on land			
	Equities			Level of Nikkei Average at which unrealized gains disappear		Bonds		Foreign securities		Yen-dollar rate at which unrealized forex gains disappear		Other		01/03	00/03	Chg y/y		
	Chg y/y	% of total assets	Chg y/y	01/03	00/03	Chg y/y	Chg y/y	01/03	00/03	Chg y/y	Chg y/y	01/03	00/03					
Nippon	4,208	-1,132	9.6	2,990	-1,631	860	1,010	770	306	452	201	10.8	9.9	-6.0	-8.5	112	195	-8
Dai-ichi	1,518	-590	4.8	874	-1,067	1,080	1,140	453	282	197	204	10.5	10.6	-4.9	-8.6	-22	-19	0
Sumitomo	254	-515	1.1	13	-689	1,290	1,450	214	136	50	56	12.2	10.8	-22.3	-18.6	-110	-185	8
Meiji	957	-227	5.5	487	-466	1,040	1,200	261	125	212	117	9.2	8.7	-2.7	-2.7	74	68	1
Asahi	-165	-358	-1.5	-237	-428	1,470	1,550	38	42	34	29	11.8	10.9	-0.3	-0.9	139	174	-3
Yasuda	215	-222	2.1	112	-293	1,150	1,280	55	49	49	22	11.7	11.1	-1.6	0.1	21	14	1
Mitsui	21	-298	0.2	-82	-421	1,370	1,400	57	52	49	73	11.8	11.0	-2.4	-2.4	-57	-41	-2
Taiyo	240	-125	3.3	153	-183	997	1,088	97	52	-5	9	12.4	11.9	-5.3	-3.2	-23	-20	0
Daido	226	-32	3.8	49	-129	1,120	1,060	165	90	36	34	11.2	10.9	-5.8	-8.1	4	1	0
Fukoku	152	-17	3.2	76	-70	1,090	1,400	66	42	12	12	10.8	10.8	-1.9	-1.9	80	91	-1
Subtotal	7,625	-3,516	4.6	4,435	-5,378	-	-	2,175	1,177	1,084	758	-	-	-53.1	-54.8	218	278	-6
Azami	0	-	-	0	-	-	-	0	-	0	-	-	-	0.0	-	1	-	-
Yamato	13	-3	4.8	0	-8	1,294	1,540	12	-	2	2	11.7	-	0.0	0.0	4	5	-1
Axa-GL	-11	92	-0.3	-5	-4	1500-1550	-	7	-	-4	-	-	-	-9.6	-1.1	N.A.	-	-
Aoba	10	0	1.2	-	-	-	-	10	-1	2	2	-	-	-1.3	-1.3	N.A.	N.A.	-
Aetna		4	2.8	-2	-10	1,470	1,720	9	4	8	9	11.7	-	0.0	0.1	18	29	-10
Heiwa	15																	
Sony	57	17	3.9	2	-1	900	1,100	46	13	9	4	10.6	-	0.0	0.0	N.A.	N.A.	-
Prudential	22	16	3.9	0	-3	-	-	20	14	2	5	-	-	0.0	-	0	N.A.	-
Total	7,731	-3,390	4.5	4,430	-5,404	-	-	2,278	1,218	1,104	870	-	-	-64.0	-57.2	-	-	-

Source: NRI, from news releases of companies concerned.

also their securities holdings in general fall in value in fiscal 2000—the latter by ¥3.5 trillion to ¥7.6 trillion (Table 9).

The level on the Nikkei Average at which the unrealized gains on their Japanese equity portfolios would disappear declined from its level at the end of fiscal 1999 for nine of the 10 companies. Following the reconstitution of the Nikkei Average, most of its components are high-tech stocks. As such stocks have declined, so has the index. As a result, the level on the index at which the unrealized gains on life insurers' equity portfolios disappear has probably also declined.

The unrealized gains on the top 10 life insurers' portfolios of bonds and foreign equities increased to ¥1.17 trillion and ¥757.7 billion. The main factors behind the increase were probably (1) the decline in Japanese interest rates in the second half of fiscal 2000 (with yields on new 10-year government bonds falling from 1.77% at the beginning of fiscal 2000 to 1.27% at the end) as a result of the Bank of Japan's accommodative monetary policy and (2) the fall in the value of the yen against the dollar (from ¥106.15 at the beginning of fiscal 2000 to ¥123.90 at the end) as a result of concern about the effect of the economic slowdown in the United States on the Japanese economy.

Four of the 10 companies had unrealized losses on their land portfolios. All the companies under review have been actively disposing of property and reducing their exposure to property risk since fiscal 1999 in an effort to cope with falling property prices.

**Table 10 Non-Performing Assets**

(JPY billion • %)

	Total risk assets										Valuation of assets in accordance with enforcement regulations of Financial Reconstruction Law						Provision ratio				
	% of loans receivable		% of total assets		Loans to borrowers under bankruptcy proceedings		Non-accrual status loans		Loans past due for three months or more		Loans with altered lending conditions		Bankrupt and quasi-bankrupt claims	Doubtful claims	Subtotal	Difference between subtotal and (loans to borrowers under bankruptcy proceedings + non-accrual status loans)	Substandard claims	Chg y/y			
		Chg y/y		Chg y/y		Chg y/y		Chg y/y		Chg y/y		Chg y/y							% of risk assets		
Nippon	196.1	1.7	0.4	-63.9	17.3	1.9	125.3	-63.6	1.6	-1.8	51.8	0.0	19.7	0.10	32.5	111.9	144.4	1.8	52.4	10.2	17.2
Dai-ichi	124.8	2.2	0.4	-69.9	7.6	-14.4	99.4	-31.0	1.7	-4.3	16.1	-2.0	12.5	0.10	28.5	78.6	107.1	0.1	17.8	7.3	28.3
Sumitomo	72.6	1.3	0.3	-11.4	1.1	0.8	43.6	2.4	3.0	3.0	24.8	-1.8	7.3	0.10	2.3	42.6	44.8	0.1	27.9	3.7	-10.7
Meiji	42.7	0.8	0.2	-73.4	3.1	2.7	17.0	-26.6	0.0	-3.1	22.6	-4.6	4.3	0.10	9.8	10.3	20.1	0.0	22.7	11.3	58.5
Asahi	101.4	3.1	0.9	-30.3	2.4	-0.9	75.7	-21.2	1.7	1.6	21.5	-1.0	10.2	0.10	11.0	67.8	78.7	0.6	23.4	6.2	3.8
Yasuda	45.8	1.3	0.4	-25.8	1.2	1.1	41.4	-27.5	0.0	0.0	3.2	0.1	4.6	0.10	10.2	32.4	42.6	0.0	3.2	6.8	12.1
Mitsui	111.4	4.4	1.1	-23.2	1.8	-0.7	69.2	-18.2	0.8	0.6	39.6	-0.5	11.2	0.10	6.5	64.5	71.0	0.0	40.6	4.9	0.8
Taiyo	17.1	0.8	0.2	-55.8	0.0	0.0	2.3	-55.0	5.6	-0.2	9.1	-0.1	1.7	0.10	0.9	1.3	2.2	-0.1	14.9	3.8	13.1
Daido	25.4	2.4	0.4	-3.8	1.0	-0.1	15.7	-4.9	0.4	-0.9	8.3	0.2	2.5	0.10	2.8	14.0	16.8	0.0	8.7	7.0	-6.8
Fukoku	24.6	1.8	0.5	-8.9	0.2	-1.8	5.1	-7.8	1.2	0.4	18.1	0.0	2.5	0.10	1.9	3.5	5.3	0.0	19.3	6.0	6.1
Subtotal	761.9	1.8	0.5	-366.4	35.9	-11.3	494.6	-253.3	16.1	-4.8	215.2	-9.7	76.4	0.10	106.3	426.7	533.0	2.5	230.9	7.3	14.8
Azami	2.6	12.1	1.6	-	0.0	-	1.2	-	1.4	-	0.0	-	0.3	0.10	0.0	1.2	1.2	0.0	1.5	3.5	-
Yamato	10.2	26.1	3.7	-	0.1	0.0	1.7	-1.2	0.4	0.3	8.0	0.1	1.0	0.10	1.1	1.8	2.8	1.1	7.5	2.0	0.8
Axa-GL	34.8	4.7	1.1	-34.7	6.7	-13.0	19.6	-15.7	0.4	-0.2	8.0	-0.6	3.5	0.10	20.5	5.9	26.4	0.0	8.4	8.9	23.4
Aoba	10.3	4.3	1.2	-11.8	2.3	-2.2	7.8	-8.4	0.0	-	0.2	-0.1	1.0	0.10	6.2	3.8	10.1	0.0	0.2	17.1	64.7
Aetna	11.9	8.7	2.3	-5.5	1.8	-0.6	9.0	-5.4	0.0	-0.2	1.1	0.1	1.3	0.11	10.7	0.6	11.2	0.4	1.4	6.7	31.5
Sony	0.0	-	-	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	0.0	0.0	-	0.0	-	-
Prudential	0.0	0.0	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	0.0	0.0	-	0.0	-	-
Total	831.7	2.0	0.5	-418.3	46.8	-27.1	533.9	-284.1	18.3	-4.8	232.5	-10.2	83.5	0.10	144.8	439.9	584.7	3.9	250.0	7.4	15.4

Note: Provision ratio = (provisions for doubtful accounts + provisions for specific borrowers under support) / (bankrupt and quasi-bankrupt claims + doubtful claims + substandard claims) × 100.

Source: NRI, from news releases of companies concerned.

## 2) Non-performing assets

All of the top 10 life insurers saw their risk assets decline in value. Altogether these assets declined in value by ¥366.4 billion to ¥761.9 billion (Table 10). All 10 companies are gradually writing down these losses on these assets. Compared with Japan's top 16 banks at the end of fiscal 2000 (whose non-performing assets constituted 3.4% of their total assets and 5.9% of their loans receivable), Japan's top 10 life insurers had relatively few non-performing assets (0.5% of total assets and 1.8% of loans receivable).

## 5. Indicators of Financial Soundness

Although the top 10 life insurers had more than the 200% solvency margin ratio regarded as an indicator of financial soundness, in all cases the ratio was lower than in fiscal 1999. The way in which the ratio is calculated is now slightly different from what it was before fiscal 2000, however. Because some of the life insurers that managed to achieve a ratio of at least 200% in fiscal 1999 became insolvent in the course of fiscal 2000, the method used had to be reviewed urgently. The main changes were that (1) "unrealized gains and losses on securities" was extended to include not only listed equities but also Japanese bonds and foreign securities; (2) the total risk amount that forms the denominator is now calculated at market rather than cost; and (3) the amount of "future profit" (provisions for dividend reserves) that can be included was reduced from 100% to 50%.

The inclusion of unrealized gains and losses on Japanese bonds and foreign securities helped to boost solvency margin ratios. Increases of 17.2% in price fluctuation reserves (taking them to ¥746.6 billion) and of 19.6% in contingency reserves (taking them to ¥2.08 trillion—provisions for contingency reserves at the 10 companies came to ¥340.9 billion) plus increases in retained earnings also helped. However, (1) a large decline in unrealized gains on equity holdings as a result of the weak stock market and (2) an increase in the total risk amount as a result of the change in the way the ratio is calculated led to an overall decline in the ratio.

Real net asset value (A-B) (calculated by subtracting total liabilities adjusted for reserves such as price fluctuation reserves from total assets such as securities and property valued at market)—an indicator of the value of the assets left after payouts have been made to all policyholders—totaled ¥17.39 trillion at the top 10 companies. While some companies' net asset value was more than 10% of their total assets (Nippon Life, Dai-ichi Mutual, Meiji Mutual and Daido Life), that of some of the others was only about 5%. Therefore, although the solvency margin ratio of the 10 companies varied between about 500% and 800%, there was a wide variation in their real net asset value (Table 11).

**Table 11 Composition of Solvency Margin**

	[Reference]										(JPY billion•%)					(JPY billion•%)				
	Solvency margin		Total risk amount		Solvency margin ratio		Subordinated debt			Unrealized gains and losses on equities		Unrealized gains and losses on bonds		Unrealized gains and losses on foreign securities		Unrealized gains and losses on land		Real net assets	% of total assets	
	y/y, %		y/y, %		y/y, pp.		Chg y/y	% of solvency margin		% of solvency margin	% of solvency margin	% of solvency margin	% of solvency margin	% of solvency margin						
Nippon	6,185	-11.8	1,590	24.2	778.1	-317.7	0	0	0.0	2,679	43.3	1	0.0	396	6.4	96	1.5	Nippon	7,211	16.4
Dai-ichi	3,174	-12.3	930	11.3	682.3	-183.3	100	0	3.2	786	24.8	408	12.8	177	5.6	-58	-1.8	Dai-ichi	3,150	10.0
Sumitomo	1,843	-20.3	669	-2.3	551.3	-124.4	395	0	21.4	12	0.7	127	6.9	21	1.1	-	-	Sumitomo	1,520	6.4
Meiji	1,746	-5.6	523	3.4	667	-64.0	0	0	0.0	438	25.1	51	2.9	186	10.7	-21	-1.2	Meiji	1,937	11.1
Asahi	965	-27.6	355	-2.3	543.4	-189.3	273	0	28.3	-237	-24.5	33	3.4	23	2.3	-5	-0.5	Asahi	571	5.1
Yasuda	964	-17.3	320	11.0	602.6	-205.9	100	-11	10.4	101	10.5	47	4.9	44	4.6	-1	-0.1	Yasuda	855	8.3
Mitsui	642	-28.5	261	-1.8	492.7	-184.0	245	100	38.2	-82	-12.8	44	6.9	42	6.5	-57	-8.8	Mitsui	379	3.9
Taiyo	766	-12.0	190	14.5	806.8	-243.5	85	0	11.1	139	18.1	83	10.8	-5	-0.7	-23	-3.0	Taiyo	680	9.4
Daido	475	-23.6	126	1.3	757.6	-246.6	0	0	0.0	44	9.2	5	1.1	29	6.1	3	0.6	Daido	619	10.5
Fukoku	474	-1.3	122	14.9	779.3	-127.2	0	-33	0.0	69	14.5	41	8.6	10	2.0	68	14.3	Fukoku	471	9.8
Subtotal	17,236	-14.5	5,085	10.1	-	-	1,198	56	7.0	3,949	22.9	840	4.9	922	5.3	2	0.0	Subtotal	17,393	10.5
Azami	10	-	9	-	2070.3	-	0	-	0.0	0	-	0	-	0	-	1	7.2	Azami	9	5.8
Yamato	25	-2.1	9	10.2	553.1	-69.8	0	0	0.0	0	0.7	10	41.7	1	5.9	3	13.3	Yamato	28	10.2
Axa-GL	170	-13.8	73	-21.0	464.7	38.8	58	13	34.1	-5	-2.8	6	3.5	-4	-2.1	N.A.	-	Axa-GL	141	4.3
Aoba	26	40.9	14	-4.4	377.6	121.3	0	0	0.0	0	-	9	33.0	2	7.1	N.A.	-	Aoba	N.A.	-
Heiwa	46	-21.0	14	-18.7	672.7	-19.2	0	0	0.0	-2	-5.1	4	9.8	1	2.8	15	33.7	Heiwa	55	10.5
Sony	313	103.1	33	53.1	1905.9	468.8	0	0	0.0	2	0.6	41	13.2	8	2.6	N.A.	-	Sony	318	21.9
Prudentia	93	14.1	13	29.1	1475.6	-194.9	0	0	0.0	0	-0.4	3	3.1	0	0.3	0	-0.3	Prudentia	110	19.5
Total	17,918	-13.5	5,242	9.6	-	-	1,256	69	7.0	3,943	22.0	913	5.1	931	5.2	-	-	Total	-	-

- Notes: 1 The figures for unrealized gains and losses on equities, bonds and foreign securities (other securities) consist of 90% of the unrealized gains and 100% of the unrealized losses. The figures for unrealized gains and losses on land consist of 85% of the unrealized gains and 100% of the unrealized losses.
- 2 The figures for unrealized gains and losses on land exclude the effect of revaluations.
- 3 pp. = percentage points.

Source: NRI, from news releases of companies concerned.

## 6. Conclusion

Japan's life insurers have developed a number of new products. One example is Meiji Mutual with its "life account." However, the impact of such products does not always last very long. This was the case with the discounted products launched by Nippon Life and Sumitomo Life: demand, which had been strong in fiscal 1999, fell back in fiscal 2000. Sales of account-type products will have to be followed carefully. In general, there has been no significant let-up in the rate of cancellations, and even those companies that have succeeded in boosting sales by launching new products are still not seeing any growth in policies in force.

Japanese life insurers have still to contend with the effects of a negative spread, and there was little improvement in this respect in fiscal 2000 on fiscal 1999. Nor, with little prospect of any significant increase in interest rates, is there any sign of the spread turning positive. Indeed, Japan's life insurers are finding it increasingly

difficult to cope with the situation as their unrealized gains on their equity portfolios disappear rapidly. Although they are reshuffling their portfolios (e.g., by reducing their risk assets, disposing of cross-shareholdings and writing down non-performing assets) in an effort to put their house in order, it will probably be some time before this helps their insurance and investment operations to break out of the impasse in which they currently find themselves.