

Japanese Life Insurers' Results for the First Half of Fiscal 2000

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1. Insurance in Force

1) Individual insurance and annuities

Insurance in force for Japan's 12 leading life insurers' individual insurance and annuities business in the first half of fiscal 2000 (i.e., the six months to September 2000) declined by 2.9% year on year to ¥1,232.6 trillion (Table 1). Although this was the fourth year in succession in which insurance in force has declined, the decline was less than the average of -4% recorded in the first half of fiscal 1999. Another positive development was the fact that policy cancellations and lapses were 5.3% lower. With the number of high-cost products (such as single-premium endowment policies) reaching maturity having peaked in fiscal 1999, cancellations of individual insurance policies should have leveled off in fiscal 2000.

Table 1 Individual Life and Annuity Insurance

(Units: 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 & lapses		Cancellation rate	
	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	y/y, %	
Nippon	305,125	-3.4	9,754	-4.5	12,009	-8.1	16,198	-1.8	429	22.7	420	23.6	321,323	-3.3	12,429	-7.3	12,669	-9.5	3.9	-0.3
Dai-ichi	222,160	-2.0	6,263	-7.5	9,797	6.7	7,246	-4.3	51	99.6	37	294.6	229,406	-2.1	9,834	7.0	10,164	-8.7	4.4	-0.1
Sumitomo	201,484	-3.0	7,760	-2.3	9,521	-17.0	11,586	-1.3	308	36.4	294	41.2	213,070	-2.9	9,814	-16.0	10,050	-6.2	4.7	0.1
Meiji	119,400	-3.5	4,756	45.4	6,786	65.6	8,245	-3.2	76	-23.2	53	-30.1	127,645	-3.5	6,839	63.9	6,295	-4.9	4.9	0.1
Asahi	79,051	-4.0	2,810	27.5	3,560	21.3	7,019	-5.5	85	1.4	41	73.8	86,071	-4.1	3,601	21.8	3,400	-7.7	3.9	-0.1
Yasuda	70,447	-2.9	3,137	10.2	3,992	2.2	4,692	-1.6	131	46.4	131	47.1	75,140	-2.9	4,123	3.2	3,607	-6.1	4.8	-0.2
Mitsui	65,920	-4.6	1,934	-5.8	2,592	0.6	2,839	0.1	123	1.8	121	2.7	68,759	-4.4	2,713	0.7	3,155	-9.0	4.5	-0.1
Taiyo	10,071	0.2	755	21.8	755	21.8	5,215	3.4	251	-4.1	251	-4.1	15,286	1.3	1,006	14.1	536	8.2	3.5	0.2
Daido	37,891	-0.2	2,252	-3.3	2,262	-4.3	1,125	-2.7	28	19.9	28	19.9	39,016	-0.3	2,290	-4.1	1,849	-8.3	4.2	-0.4
Fukoku	34,351	1.3	1,362	9.3	1,711	-0.2	2,468	-2.5	53	71.1	53	71.1	36,819	1.1	1,765	1.0	1,085	1.3	3.0	0.0
Nichidan	11,526	-7.1	68	-86.2	84	-84.9	2,435	-9.9	0	-99.7	-15	-58.2	13,962	-7.6	69	-86.7	779	-23.0	5.3	-1.1
Tokyo	5,794	-6.4	273	-10.9	309	-9.5	398	-21.3	4	-18.2	3	-10.8	6,192	-7.6	312	-9.5	459	-4.6	7.1	0.2
Subtotal	1,163,221	-2.9	41,123	2.1	53,378	1.0	69,466	-2.6	1,537	14.5	1,417	23.4	1,232,687	-2.9	54,795	1.5	54,056	-5.3	4.4	-0.2
Aoba	1,901	-13.8	-	-	-	-	575	-8.8	-	-	-	-	2,476	-12.7	-	-	129	-44.9	4.9	-2.6
Aetna	2,207	1.1	127	12.1	176	17.4	256	-7.9	0	-	-3	-31.0	2,463	0.1	173	18.8	143	-0.6	5.8	-0.1
Heiwa	1,296	-7.2	83	-16.9	85	-16.7	65	-9.4	0	0.0	0	-50.0	1,361	-7.3	85	-16.7	131	-18.1	9.2	-1.2
Yamato	19,990	14.7	2,032	27.2	2,032	27.2	54	46.6	10	168.4	10	168.4	20,044	14.7	2,042	27.5	724	17.6	3.9	0.1
Sony	13,078	14.0	1,104	3.9	1,104	3.9	4	43.7	-	-	-	-	13,082	14.1	1,104	3.9	N.A.	N.A.	N.A.	N.A.
Prudential	2,577	-6.4	101	7.1	101	7.1	358	-11.0	0.5	-44.4	1	-44.4	2,935	-7.0	101	6.6	186	7.0	6.2	0.8
Saison																				
Total	1,204,270	-2.6	44,570	3.0	56,876	1.8	70,779	-2.7	1,548	14.9	1,425	24.1	1,275,049	-2.6	58,300	2.3	55,249	-5.1	4.5	-0.1

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 the first half of fiscal 1999.

Source: NRI, from news releases of the companies concerned.

Meiji Life (with a 63.9% increase) and six of the other companies (including Asahi Life and Taiyo Life) saw an increase in new sales of individual insurance and annuities, indicating that innovative products such as Meiji Life's "Life Account", which enables policyholders to modify how premiums are allocated between death/healthcare insurance and investments every year, and a product of Daiichi Life's which exempts policyholders from having to pay any more premiums if they fall victim to one of the three "dread diseases" have succeeded in stimulating demand from individuals.

2) Group insurance and annuities

Insurance in force for the 12 companies' group insurance business in the first half of fiscal 2000 increased by 1.3% year on year to ¥369.75 trillion, while insurance in force for their group annuities business declined by 0.5% to ¥44.11 trillion (Table 2). Although four of the largest life insurers (excluding Nippon Life, Daiichi Life and

Table 2 Group Life and Annuity Insurance

(Units: JPY billion, %)

	Group insurance			Group annuity insurance											Fund under management at affiliates					
	Insurance in force			Insurance in force								General account			Separate accounts			(Reference)		
		y/y, %	h/h, %	y/y, %	h/h, %	y/y	h/h	y/y	h/h	y/y	h/h	y/y	h/h	y/y	h/h	00/6	00/3	99/9		
Nippon	65,455	3.6	1.9	11,614	6.0	1.6	660	187	6,853	-414	-178	4,761	1,074	365	6,994	1,902	1,756			
Dai-ichi	48,074	2.4	2.1	7,898	1.3	0.7	104	56	4,740	-445	-199	3,159	549	255	7,016	6,660	3,105			
Sumitomo	38,739	2.3	2.7	4,728	-0.2	-5.8	-292	-10	3,321	-125	-89	1,408	-167	79	8,829	8,754	9,986			
Meiji	47,112	2.8	2.5	4,871	-4.1	-3.6	-206	-181	3,881	-277	-226	990	71	45	2,005	913	766			
Asahi	22,870	0.3	0.2	2,157	-14.4	-7.7	-362	-180	1,705	-313	-192	453	-49	12	1,585	1,264	1,406			
Yasuda	67,738	2.1	0.2	3,803	2.6	-0.1	96	-4	3,225	57	-43	578	39	39	1,355	1,315	1,261			
Mitsui	25,773	-2.5	-2.1	2,690	-5.0	0.2	-142	6	2,180	-136	-70	511	-6	76	2,339	2,067	1,845			
Taiyo	10,305	3.7	1.0	759	1.0	-2.8	8	-22	661	4	-10	98	4	-12	2,428	2,702	2,034			
Daido	11,422	-0.9	-1.3	2,551	2.5	0.6	63	16	2,352	24	1	199	39	15	2,428	2,702	2,034			
Fukoku	11,454	3.9	1.0	1,884	6.5	2.6	115	47	1,647	51	-7	237	64	54	321	300	282			
Nichidan	13,956	-14.3	-5.1	973	-11.1	-2.2	-122	-22	964	-123	-24	9	1	2	-	-	-			
Tokyo	6,854	-2.4	1.7	183	-41.2	-22.0	-128	-52	158	-128	-54	25	0	3	-	-	-			
Subtotal	369,751	1.3	0.9	44,112	-0.5	-0.4	-207	-160	31,688	-1,826	-1,092	12,425	1,619	932	32,871	25,875	22,440			
Aoba	9	-35.5	-11.7	163	-36.3	-32.0	-93	-77	163	-42	-77	0	-51	0	-	-	-			
Aetna																				
Heiwa	962	-3.9	-5.9	16	-39.0	-34.6	-10	-8	16	-10	-8	-	-	-	-	-	-			
Yamato	373	-14.0	-10.0	22	-11.6	-4.0	-3	-1	22	-3	-1	-	-	-	-	-	-			
Sony	675	16.4	13.7	24	18.3	2.1	4	1	24	4	1	-	-	-	-	-	-			
Prudential	14	14.7	-3.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Saison	669	-10.5	-0.2	20	-7.9	-3.3	-2	-1	20	-2	-1	-	-	-	-	-	-			
Total	372,454	1.3	0.9	44,357	-0.7	-0.6	-311	-246	31,932	-1,879	-1,178	12,425	1,568	932	32,871	25,875	22,440			

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; Fukoku Asset Management

2 "y/y" is the year-on-year change since the first half of fiscal 1999; "h/h" is the half-on-half change since the second half of fiscal 1999.

Source: NRI, from news releases of the companies concerned.

Yasuda Life) saw insurance in force for their group business decline by about ¥1 trillion, the fact that this was less than the ¥2 trillion decline the 12 companies suffered in total in the first half of fiscal 1999 indicates that the rate at which groups are transferring their annuities from parent companies to their subsidiaries is easing. There was also a significant increase in the amount of group annuity business being transferred from parent companies to affiliated investment advisory companies.

2. Profit and Loss Analysis

1) Net insurance income

Although new insurance sales appear to be recovering, many life insurers saw their income from insurance and reinsurance premiums decline year on year. However, most of the companies also saw their insurance claims and other payments decline year on year. Total income from insurance and reinsurance premiums rose by 0.1% to ¥11.37 trillion, while insurance claims and other payments declined by 18.3% to ¥10.27 trillion, and the ratio of insurance claims and other payments to income from insurance and reinsurance premiums at many of the companies was less than 100% (Table 3).

Table 3 Net Insurance Income

(Units: JPY billion, %)

	Income from insurance and reinsurance premiums		Insurance claims and other payments		Surrender value		Ratio of claims and other payments to insurance income	
		y/y, %		y/y, %		y/y, %		y/y, %
Nippon	2,873	1.6	2,309	-11.6	614	-1.6	8.0	-12.0
Dai-ichi	1,870	6.6	1,631	-16.9	498	-4.9	8.7	-24.6
Sumitomo	1,578	-2.1	1,369	-26.6	393	-16.4	8.7	-29.1
Meiji	1,161	5.5	1,241	-13.1	345	25.6	10.7	-22.9
Asahi	683	-3.0	800	-35.5	228	-61.1	11.7	-58.8
Yasuda	757	-3.0	631	-22.4	138	-34.3	8.3	-20.9
Mitsui	647	-0.7	575	-30.9	174	-22.5	8.9	-38.8
Taiyo	554	-5.8	556	-6.6	134	33.8	10.0	-0.8
Daido	533	-11.2	451	-0.4	96	-10.1	8.5	9.1
Fukoku	370	-3.6	299	-1.9	65	-4.4	8.1	1.4
Nichidan	282	2.6	275	-20.1	88	-31.2	9.7	-27.6
Tokyo	65	-22.9	139	8.6	34	-26.9	21.4	62.2
Subtotal	11,373	0.1	10,274	-18.3	2,807	-16.5	9.0	-20.4
Aoba	21	-23.4	124	1.7	24	-41.0	58.7	144.6
Aetna Heiwa	30	-4.4	41	7.9	13	1.3	13.7	15.6
Yamato	19	-6.8	21	-30.4	8	-4.7	11.4	-38.8
Sony	202	14.6	59	-1.5	34	-13.9	2.9	-4.8
Prudential	90	15.6	22	30.4	9	42.0	2.4	2.7
Saison	30	-4.2	40	9.0	27	19.4	13.1	15.8
Total	11,765	0.3	10,581	-17.8	2,922	-16.3	9.0	-19.9

Source: NRI, from news releases of the companies concerned.

2) Net Investment Income

(1) Investment income

Total income from investment increased by 10.6% to ¥4.22 trillion (Table 4). Income from interest and dividends declined by 10.1% to ¥2.04 trillion as interest rates in Japan remained at record lows and redemptions of high-yielding bonds increased. Disposals of high-quality assets in order to write off non-performing loans and non-realized losses on securities also appear to have been a factor.

Table 4 Net Investment Income

(Units: 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/y, %	y/y	y/y	y/y	y/y	y/y	y/y, %					
Nippon	1,238	16.0	575	-11.2	302	-12.4	323	265	589	42.3	201	-63	37	37	282	243	649	-0.7
Dai-ichi	879	43.5	400	-1.5	157	2.0	298	266	439	34.9	144	-32	12	12	200	196	440	53.2
Sumitomo	629	32.4	262	-16.1	207	73.0	128	105	296	46.9	109	43	49	-1	99	80	333	21.7
Meiji	343	6.9	214	-5.4	54	-27.7	69	53	132	28.7	22	-37	13	13	75	73	211	-3.4
Asahi	234	-16.9	124	-2.1	55	-59.9	47	42	101	-7.0	19	-21	38	27	30	30	133	-23.1
Yasuda	229	-2.9	106	-17.2	31	-64.1	57	48	121	23.3	22	-48	44	44	42	39	108	-21.6
Mitsui	228	-36.9	99	-26.4	68	-44.6	57	45	148	-47.3	67	-126	2	-41	49	44	80	-0.2
Taiyo	161	10.1	97	2.2	48	27.6	5	5	69	73.0	16	-11	27	27	6	4	92	-13.5
Daido	124	3.3	74	-15.1	15	-	25	21	45	-43.2	7	-15	13	-23	12	10	80	90.7
Fukoku	91	5.8	54	-2.0	14	-40.0	16	16	41	34.3	13	1	7	4	10	9	49	-10.2
Nichidan	54	-40.0	32	-29.4	17	-	1	1	108	121.1	76	53	8	3	2	2	-54	-229.9
Tokyo	19	-29.1	12	-20.4	2	-67.4	3	2	10	40.1	4	1	1	1	2	2	9	-55.6
Subtotal	4,229	10.6	2,050	-10.1	970	-16.4	1,031	870	2,101	20.9	701	-255	252	103	809	731	2,129	2.0
Aoba	19	35.4	11	-19.6	8	2296.5	0	0	1	-21.8	0	0	0	0	0	0	18	43.5
Aetna	18	-34.1	8	-0.9	9	-53.8	0	0	7	14.4	4	1	0	-2	0	0	11	-49.0
Heiwa																		
Yamato	6	-13.2	5	-1.5	0	-79.9	0	0	1	-22.7	0	0	0	0	0	0	5	-10.8
Sony	18	-21.1	11	-13.1	2	-41.6	3	-3	6	-27.3	0	-2	1	-2	5	4	12	-17.3
Prudential	11	-28.5	6	9.0	3	-43.5	1	-2	7	-5.9	2	-4	0	0	4	3	3	-53.1
Saison	8	-33.5	8	-18.8	0	-90.4	0	0	2	-35.1	0	-1	1	1	0	0	6	-33.0
Total	4,309	9.9	2,098	-10.1	992	-16.7	1,035	865	2,126	20.3	707	-261	254	101	818	738	2,183	1.3

Source: NRI, from news releases of the companies concerned.

Gains from disposals of securities declined 16.4% to ¥969.7 billion. The stock market, which had been so strong in the second half of fiscal 1999, has been weak since the summer of 2000. As a result, life insurers have found it difficult to use gains from disposals of securities to write off non-performing assets, and many resorted to this less than in the first half of fiscal 1999.

Valuation gains on the separate accounts of the 12 life insurers increased by ¥870 billion to ¥1.03 trillion. This was largely a result of the fact that, with the adoption of market value accounting in fiscal 2000, all the securities in insurers' separate accounts

were classified as "trading securities"¹ and valued at market. In fiscal 1999, when the accounting standard adopted for securities in separate accounts was that only those Japanese and non-Japanese equities held for individual variable insurance should be valued at market while valuation losses on all equities should be accounted for at the lower of cost or market, total valuation gains on the separate accounts of all 12 companies for the first half only amounted to ¥160.7 billion (or 4.2% of investment income). In the first half of fiscal 2000, however, they accounted for 24.4% of net income—enough to boost investment income as a whole. Without this change in accounting standards, investment income for the first half of fiscal 2000 would have been about 10% less than for the same period of the previous year.

(2) Investment expenses

Investment expenses for the 12 companies increased by 20.9% to ¥2.10 trillion. Although losses on the disposal of securities declined by ¥250.0 billion to ¥700.8 billion, Sumitomo Life and Nichidan Life saw their losses on the disposal of securities increase by ¥40-50 billion because of the heavy weighting of the euro, which continued to depreciate during this period, in their foreign-currency assets.

Total net investment income rose by 2% to ¥2.12 trillion.

3) Operating income

Total operating income declined by ¥123.8 billion (or 12.2%) to ¥892.3 billion, with nine out of the 12 companies (the exceptions being Daiichi Life, Mitsui Life and Daido Life) seeing a decline (Table 5).

Total revenues declined by 7.4% to ¥16.60 trillion. Although income from insurance and reinsurance premiums and investment income both increased, sharp declines in reversals of provisions for policy reserves (as a result of fewer cancellations) and other revenues meant that revenues declined.

Total expenditures declined by 7.2% to ¥15.71 trillion. Although insurance claims and other payments were sharply lower than in the first half of fiscal 1999 and

1 Following the adoption of market value accounting, Japanese life insurers now classify their securities holdings according to the following main categories: (1) "trading securities" (valued at market at the end of the fiscal year, with valuation gains and losses entered in the profit and loss account); (2) "securities to be held until maturity" (valued at cost, which is entered in the balance sheet); (3) "other securities" (securities that cannot be classified as either (1) or (2) and are entered under "Capital" in the balance sheet); and (4) shares in subsidiaries and affiliates.

Table 5 Operating Income

【Operating income】

【Revenues】

(Units: JPY billion, %)

	Operating income		Revenues		Income from insurance and reinsurance premiums		Investment income		Other revenues			
		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %	Reversals of provisions for policy reserves	
Nippon	264	-18.8	4,266	4.9	2,873	1.6	1,238	16.0	155	-9.8	0	-
Dai-ichi	183	78.1	2,956	3.2	1,870	6.6	879	43.5	207	-58.4	0	-100.0
Sumitomo	159	-2.0	2,263	-11.3	1,578	-2.1	629	32.4	55	-88.1	0	-100.0
Meiji	126	-9.8	1,753	-9.4	1,161	5.5	343	6.9	249	-51.5	145	-60.7
Asahi	43	-43.4	1,098	-30.4	683	-3.0	234	-16.9	181	-69.4	152	-71.8
Yasuda	78	-28.5	1,005	-11.8	757	-3.0	229	-2.9	19	-84.6	0	-100.0
Mitsui	43	29.6	882	-29.9	647	-0.7	228	-36.9	7	-97.2	0	-100.0
Taiyo	9	-47.8	724	-3.2	554	-5.8	161	10.1	9	-31.7	0	-
Daido	45	535.1	666	-8.3	533	-11.2	124	3.3	9	41.9	0	-
Fukoku	17	-52.7	469	-2.5	370	-3.6	91	5.8	9	-26.8	0	-
Nichidan	-77	-1845.6	363	-18.2	282	2.6	54	-40.0	27	-66.1	25	-67.5
Tokyo	1	-57.8	164	6.7	65	-22.9	19	-29.1	80	87.7	79	92.2
Subtotal	892	-12.2	16,609	-7.4	11,373	0.1	4,229	10.6	1,007	-63.5	401	-79.8
Aoba	17	1.9	151	5.0	21	-23.4	19	35.4	111	8.4	110	8.0
Aetna												
Heiwa	1	-95.0	56	-11.1	30	-4.4	18	-34.1	9	72.8	9	80.3
Yamato	1	385.7	28	-25.4	19	-6.8	6	-13.2	4	-66.6	4	-66.8
Sony	0	-98.2	221	10.6	202	14.6	18	-21.1	1	83.1	0	-
Prudential	0	-50.0	101	8.5	90	15.6	11	-28.5	0	-42.4	0	-
Saison	1	-57.9	48	-0.2	30	-4.2	8	-33.5	10	122.1	9	150.7
Total	911	-13.1	17,215	-7.1	11,765	0.3	4,309	9.9	1,141	-60.5	532	-74.8

【Expenditures】

	Expenditures		Insurance claims and other payments		Investment expenses		Operating expenses		Provisions for policy reserves		Other expenditures	
		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %		y/y, %
Nippon	4,002	6.9	2,309	-11.6	589	42.3	311	-3.5	564	215.6	228	6.1
Dai-ichi	2,773	0.4	1,631	-16.9	439	34.9	238	-0.1	216	2186.0	249	9.7
Sumitomo	2,103	-12.0	1,369	-26.6	296	46.9	225	-2.4	124	2337.5	90	4.3
Meiji	1,628	-9.3	1,241	-13.1	132	28.7	135	-3.1	2	-39.5	119	-3.7
Asahi	1,055	-29.7	800	-35.5	101	-7.0	96	-7.2	3	152.1	55	14.6
Yasuda	927	-10.0	631	-22.4	121	23.3	97	0.0	41	1921.5	37	90.3
Mitsui	839	-31.5	575	-30.9	148	-47.3	84	-6.6	15	1491.5	17	-20.1
Taiyo	715	-2.1	556	-6.6	69	73.0	42	-6.1	33	-8.6	15	3.8
Daido	621	-13.7	451	-0.4	45	-43.2	54	-3.9	65	-47.9	7	-12.0
Fukoku	451	1.6	299	-1.9	41	34.3	44	2.2	59	-1.9	8	55.9
Nichidan	440	0.1	275	-20.1	108	121.1	21	-40.0	30	432.8	7	-6.0
Tokyo	163	7.5	139	8.6	10	40.1	11	-15.2	0	-82.2	3	-15.9
Subtotal	15,717	-7.2	10,275	-18.3	2,101	20.9	1,357	-3.8	1,150	169.9	835	7.2
Aoba	135	5.4	124	1.7	1	-21.8	2	3.7	0	-74.2	7	380.9
Aetna												
Heiwa	56	6.8	41	7.9	7	14.4	7	-1.2	0	-45.5	1	-10.8
Yamato	27	-26.9	21	-30.4	1	-22.7	4	-13.8	0	523.2	0	-1.6
Sony	221	11.9	59	-1.5	6	-27.3	39	-0.9	113	30.7	4	19.0
Prudential	100	8.6	22	30.4	7	-5.9	21	7.2	48	1.6	2	87.0
Saison	47	2.9	40	9.0	2	-35.1	4	-22.3	0	-26.9	1	30.1
Total	16,304	-6.7	10,581	-17.8	2,126	20.3	1,435	-3.7	1,312	134.1	850	8.1

Source: NRI, from news releases of the companies concerned.

measures to reduce operating expenses had a visible effect, higher investment expenses and a sharp increase (of 169.9% to ¥1.15 trillion) in provisions for policy reserves led to higher expenditures.

Although the decline in reversals of provisions for policy reserves (as a result of fewer cancellations) and a corresponding increase in provisions contributed to the decline in revenues and the increase in expenditures, this is to be welcomed inasmuch as it also contributes to putting the companies' finances on a sounder basis.

3. Assets

1) Slight increase in total assets

Total assets grew by ¥1,900.4 billion (or 1.1%) to ¥169.10 trillion, with 10 out of the 12 companies seeing an increase. However, in order to assess the real change in

Table 6 Changes in Assets

(Units: JPY billion, %)

	Total assets					Factors contributing to changes in assets						
	y/y, %	h/h, %	h/h (1)	h/h (2)	Changes in cash margin deposits for repo trades	Changes in acceptan ces and guarante es	Changes in subordi nated debt	Changes in undepreci ated fund	Write- downs of non- performin g assets	Changes in deferred tax assets	Valuati on Gains	
Nippon	43,932	2.4	1.7	0	-35	-66	-2	0	180	-77	0	0
Dai-ichi	30,719	4.0	2.3	0	-69	68	1	0	0	-70	70	0
Sumitomo	23,952	-0.8	1.1	0	76	-48	-15	0	0	-13	0	0
Meiji	16,923	-1.2	0.5	0	-167	192	-5	0	20	-41	0	0
Asahi	11,362	-2.4	0.3	0	-158	195	0	0	0	-37	0	0
Yasuda	10,100	1.7	0.2	0	60	-82	0	-1	30	-6	0	0
Mitsui	9,768	-0.2	-3.1	0	401	-333	0	0	0	-68	0	0
Taiyo	7,333	4.3	3.6	0	-105	0	0	0	-3	-1	-90	198
Daido	5,864	5.6	2.3	0	-13	-15	0	0	-7	-6	-31	71
Fukoku	4,698	3.5	1.8	0	12	0	0	0	0	-12	0	0
Nichidan	3,434	-4.2	0.4	0	-74	0	0	45	-	0	29	0
Tokyo	1,015	-15.0	-7.3	0	-10	10	0	0	0	0	0	0
Subtotal	169,101	1.3	1.1	0	-81	-80	-20	44	220	-332	-21	270
Aoba	931	-15.1	-9.4	0	1	0	0	0	-	0	-1	0
Aetna												
Heiwa	534	-1.1	-1.0	0	-1	0	0	0	-	0	1	0
Yamato	277	-3.1	-1.3	0	4	0	0	0	0	-4	0	0
Sony	1,201	24.6	10.3	0	0	0	0	0	-	0	0	0
Prudential	490	29.3	11.9	0	0	0	0	0	-	0	0	0
Saison	536	-1.6	-2.9	0	0	0	0	0	-	0	0	0
Total	173,069	1.3	1.1	0	-76	-80	-20	44	220	-336	-21	270

- Notes: 1 h/h (2) was obtained by deducting changes in cash margin deposits for repo trades, acceptances and guarantees, subordinated debt and undepreciated fund, write-downs of non-performing assets, and the effect of tax-effective accounting from h/h (1) (i.e., changes in total assets).
- 2 Undepreciated fund was obtained by deducting fund contributions for the first half of fiscal 2000 from the fund's assets for fiscal 1999 as recorded in the balance sheet.
- 3 Positive numbers for factors contributing to changes in assets have a negative effect on the figure for assets (and vice versa).

the value of the assets, they have to be adjusted for a number of items, including repo cash deposits, deferred tax assets produced by tax-effective accounting, write-downs of non-performing assets, and valuation gains on "other securities" produced by market value accounting (see below) (Table 6). Adjusting for these items reduces the increase in the total assets of the 12 companies to ¥1.81 trillion—some ¥80 billion less than the increase indicated by their balance sheets.

The figure for valuation gains from market value accounting was obtained by adjusting the figures for (1) valuation gains on other securities (under "Capital") produced

2) Composition of assets

The assets on the general accounts of the 12 companies for the first half of fiscal 2000 increased by about ¥1 trillion to ¥155.78 trillion from the end of fiscal 1999 (Table 7). The main reasons for the decline in lending were lower rates of return as a result of low interest rates and weaker demand for funds as a result of weak economic growth and greater use of direct financing.

Bond holdings increased by ¥617.1 billion from the end of fiscal 1999—an increase of only 0.2% in terms of their share of general account assets. It had been expected that life insurers would increase their holdings of Japanese government bonds because of their low risk, but, in fact, they reduced them by ¥1.27 trillion. The uncertain outlook for interest rates and the downgrading of Japanese government debt mean that Japanese government bonds can no longer necessarily be considered low-risk assets.

Table 7 General Account Portfolios

(Units: JPY billion, %)

	Cash & deposits, call loans				Loans receivable				Bonds				Government bonds			
	Amount	% of general account	Change in %	h/h	Amount	% of general account	Change in %	h/h	Amount	% of general account	Change in %	h/h	Amount	% of general account	Change in %	h/h
Nippon	1,121	2.9	0.6	237	13,016	33.4	-1.2	-315	10,360	26.6	0.4	279	6,127	15.7	0.0	58
Dai-ichi	1,821	6.6	0.1	61	6,713	24.4	-1.8	-376	8,358	30.4	1.0	403	4,698	17.1	0.7	264
Sumitomo	830	3.7	0.6	134	6,611	29.5	-0.5	-70	5,250	23.4	-1.4	-264	1,284	5.7	-6.9	-1,532
Meiji	634	4.0	-0.4	-66	5,691	36.0	-1.0	-130	4,204	26.6	0.9	158	2,960	18.7	0.3	62
Asahi	617	5.7	-0.5	-58	3,808	35.1	-0.7	-66	2,063	19.0	-2.2	-226	1,629	15.0	0.1	19
Yasuda	238	2.5	-1.3	-124	3,453	36.4	0.4	29	1,963	20.7	-0.1	-17	1,134	11.9	-2.2	-209
Mitsui	890	9.8	-5.8	-578	2,750	30.4	-0.4	-158	2,235	24.7	5.6	430	1,530	16.9	3.8	288
Taiyo	329	4.6	0.8	66	2,493	34.5	-1.0	23	2,392	33.1	-0.6	45	1,307	18.1	-0.1	42
Daido	183	3.2	-1.3	-67	1,151	20.5	-0.2	10	2,478	44.0	-1.3	-15	407	7.2	-1.9	-93
Fukoku	422	9.4	-1.0	-37	1,454	32.4	0.4	33	1,376	30.7	0.6	39	769	17.1	0.6	35
Nichidan	635	18.0	6.1	209	886	25.9	-3.5	-117	426	12.5	-6.2	-211	280	8.2	-6.2	-210
Tokyo	64	6.5	-1.7	-23	272	27.6	-1.1	-35	67	6.8	0.1	-4	61	6.2	0.2	-3
Subtotal	7,785	5.0	-0.2	-245	48,297	31.0	-1.0	-1,171	41,172	26.4	0.2	617	22,187	14.2	-0.9	-1,278
Aoba	75	8.1	-0.6	-14	298	32.3	0.2	-29	462	50.0	-3.2	-81	217	23.5	22.8	210
Aetna	18	3.4	-10.4	-57	165	31.0	-3.4	-20	193	36.2	16.6	87	79	14.7	8.9	47
Heiwa	13	4.5	-1.3	-4	56	20.1	-1.8	-6	118	42.6	-0.1	-2	39	14.2	-0.2	-1
Yamato	13	4.5	-1.3	-4	56	20.1	-1.8	-6	118	42.6	-0.1	-2	39	14.2	-0.2	-1
Sony	180	16.2	-3.9	-22	39	3.5	0.2	6	552	49.6	-0.9	44	N.A.	-	-	-
Prudential	16	3.7	2.1	10	20	4.6	0.1	3	281	63.7	-3.8	21	N.A.	-	-	-
Saison	29	5.3	-9.1	-51	138	25.8	-1.2	-11	156	29.2	0.3	-3	N.A.	-	-	-
Total	8,115	5.1	-0.3	-383	49,014	30.7	-1.1	-1,229	42,935	26.9	0.3	-684	22,522	14.1	-0.8	-1,023

(Units: JPY billion, %)

	Bonds				Money held in trust				Real estate				Equities			
	Other bonds				Amount	% of general account	Change in %	h/h	Amount	% of general account	Change in %	h/h	Amount	% of general account	Change in %	h/h
	Amount	% of general account	Change in %	h/h												
Nippon	4,233	10.9	0.5	221	514	1.3	0.1	57	1,950	5.0	-0.1	-20	6,135	15.8	0.0	43
Dai-ichi	3,660	13.3	0.3	139	123	0.4	0.1	55	1,603	5.8	-0.2	-23	4,529	16.5	0.0	54
Sumitomo	3,966	17.7	5.5	1,269	360	1.6	0.7	169	1,367	6.1	0.0	20	3,289	14.7	0.5	129
Meiji	1,244	7.9	0.6	96	101	0.6	0.0	9	962	6.1	0.0	2	2,816	17.8	-0.2	-16
Asahi	435	4.0	-2.3	-245	295	2.7	0.0	-2	661	6.1	0.0	-1	1,867	17.2	-0.5	-43
Yasuda	829	8.7	2.0	192	595	6.3	-0.5	-53	439	4.6	0.1	7	1,244	13.1	0.2	22
Mitsui	705	7.8	1.8	142	28	0.3	0.0	0	478	5.3	0.1	-8	1,483	16.4	1.0	30
Taiyo	1,085	15.0	-0.5	3	104	1.4	0.2	22	239	3.3	-0.2	-2	826	11.4	3.7	287
Daido	2,070	36.8	0.6	79	325	5.8	0.4	28	199	3.5	-0.2	-6	442	7.9	2.3	133
Fukoku	606	13.5	-0.1	4	213	4.8	0.2	7	172	3.8	0.0	3	498	11.1	0.4	24
Nichidan	146	4.3	-0.1	-1	646	18.9	13.9	474	111	3.2	0.0	0	166	4.9	-0.9	-33
Tokyo	6	0.6	-0.1	-1	25	2.5	0.4	2	94	9.6	0.6	-1	234	23.7	1.0	-8
Subtotal	18,985	12.2	1.1	1,895	3,328	2.1	0.5	768	8,277	5.3	-0.1	-29	23,529	15.1	0.3	622
Aoba	245	26.5	-26.0	-291	0	0.0	0.0	0	43	4.6	0.2	-2	1	0.1	0.0	0
Aetna	115	21.4	7.7	40	21	3.9	0.5	2	18	3.3	-0.1	-1	4	0.8	-6.8	-37
Heiwa	79	28.5	0.2	-1	11	3.9	1.8	5	11	4.0	0.0	0	25	9.2	0.3	1
Yamato																
Sony	N.A.	-	-	-	113	10.2	2.5	35	8	0.7	0.2	3	5	0.4	0.0	1
Prudential	N.A.	-	-	-	-	0.0	0.0	0	5	1.1	-0.1	0	16	3.5	0.7	5
Saison	N.A.	-	-	-	2	0.3	-0.2	-1	9	1.6	0.0	0	19	3.5	-0.1	-1
Total	19,423	12.2	0.6	1,645	3,474	2.2	0.5	809	8,371	5.2	-0.1	-29	23,599	14.8	0.2	590

(Units: JPY billion, %)

	Foreign securities				Other securities				Total assets in general account						
									Foreign-currency assets				Euro assets, %	h/h	
	Amount	% of general account	Change in %	h/h	Amount	% of general account	Change in %	h/h	Amount	% of general account	Change in %	h/h			
Nippon	3,914	10.1	-0.5	-155	134	0.3	0.0	2	3,558	9.1	-0.6	-181	35.9	38,936	393
Dai-ichi	2,609	9.5	0.1	73	112	0.4	-0.1	-34	2,082	7.6	0.5	158	30.9	27,491	435
Sumitomo	2,648	11.8	-0.3	-54	535	2.4	-1.9	-428	515	2.3	-1.3	-295	50.9	22,443	204
Meiji	878	5.6	0.4	62	45	0.3	0.1	16	753	4.8	0.4	60	43.8	15,793	48
Asahi	1,286	11.9	4.8	513	43	0.4	-1.0	-104	602	5.5	-0.3	-28	33.1	10,847	37
Yasuda	1,143	12.0	0.8	76	112	1.2	0.1	9	845	8.9	0.6	59	25.2	9,496	-16
Mitsui	937	10.4	0.0	-41	13	0.1	-0.9	-81	759	8.4	-0.7	-100	36.6	9,036	-392
Taiyo	662	9.2	-1.4	-77	67	0.9	-1.0	-65	442	6.1	-1.2	-65	37.6	7,219	264
Daido	619	11.0	1.1	72	134	2.4	0.0	5	566	10.1	1.0	64	36.1	5,627	121
Fukoku	242	5.4	-0.2	-7	10	0.2	0.0	2	173	3.8	0.5	27	26.8	4,488	50
Nichidan	434	12.7	-10.3	-351	33	1.0	-0.1	-4	190	5.6	-10.2	-350	58.0	3,420	12
Tokyo	184	18.7	0.4	-11	17	1.7	0.1	-1	156	15.8	0.9	-3	20.5	985	-82
Subtotal	15,555	10.0	0.0	100	1,255	0.8	-0.4	-684	10,641	6.8	-0.5	-654	-	155,780	1,075
Aoba	28	3.0	3.0	28	8	0.9	0.9	8	0	0.0	0.0	0	0.0	925	-96
Aetna	106	19.8	5.2	27	0	0.0	-2.0	-11	37	7.0	-2.0	-11	N.A.	534	-5
Heiwa	33	11.8	0.9	2	7	2.5	0.0	0	19	6.7	0.8	2	27.5	277	-4
Yamato															
Sony	184	16.5	1.1	29	2	0.2	0.0	0	43	3.9	1.5	18	N.A.	1,112	107
Prudential	84	19.0	1.9	18	-	0.0	0.0	0	51	11.4	-1.4	1	N.A.	441	56
Saison	162	30.2	9.1	45	5	0.9	0.4	2	93	17.5	0.7	1	N.A.	536	-16
Total	16,151	10.1	0.1	250	1,277	0.8	-0.4	-685	10,883	6.8	-0.4	-643	-	159,605	1,117

Source: NRI, from news releases of the companies concerned.

Equity holdings increased by ¥621.8 billion, while foreign securities increased by ¥100.5 billion. However, this was probably a one-off phenomenon. With average assumed interest rates still at 3.5%-4.0%, life insurers had no alternative but to adopt a cautious attitude to equity investment. Moreover, with many investors still worried that the yen might continue to appreciate and the euro to depreciate, many life insurers clearly felt that foreign bonds were a risky investment.

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

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

At the end of September 2000, the Nikkei Average stood at ¥15,747—¥4,590 lower than at the end of fiscal 1999. Reflecting this poor performance by the stock market, nearly all 12 companies saw the unrealized gains on their securities portfolios decline (Table 8).

The level on the Nikkei Average at which the unrealized gains on their Japanese equity portfolios would disappear declined from the end of fiscal 1999 for eight out of the 12 companies. This probably reflected factors such as the fact that all of the companies had stepped up their liquidation of cross-shareholdings while increasing their holdings of stocks offering better returns and the fact that most of the companies found it difficult to take profits on equity holdings when the stock market was so weak.

Six out of the 12 companies had unrealized losses on their land portfolios. Since fiscal 1999, all of the companies have made efforts to dispose of property in order to reduce their exposure to property investment risk, and they are no longer liable to suffer sharp increases in unrealized losses if property prices continue to fall.

2) Non-performing assets

Risk management assets (i.e., non-performing assets) declined by ¥180.7 billion to ¥1.04 trillion (Table 9). All of the companies have been dealing with their non-performing assets by making provisions against estimated uncollectibles and writing this amount down against their performing assets.

Table 8 Unrealized Gains and Losses on Securities and Land

(Units: JPY billion, %)

	Unrealized gains & losses on securities (general account)													
					Equities		Level of Nikkei Average at which unrealized gains disappear		Bonds		Foreign securities		Other	
	y/y	h/h	% of total assets	h/h	00/9	00/3	h/h	h/h	h/h	h/h	h/h	h/h		
Nippon	4,500	53	-839	10.2	3,866	-756	960	1,010	459	-5	177	-74	-1	-4
Dai-ichi	1,735	-97	-373	5.6	1,466	-475	1,180	1,140	235	65	37	44	-3	-7
Sumitomo	458	-42	-312	1.9	417	-286	1,390	1,450	87	9	-37	-30	-9	-5
Meiji	1,012	-50	-172	6.0	758	-194	1,170	1,200	143	7	111	16	-1	-1
Asahi	28	-150	-165	0.2	17	-175	1,555	1,550	3	8	8	3	0	-1
Yasuda	292	67	-145	2.9	248	-157	1,270	1,280	11	5	36	9	-4	-2
Mitsui	95	-150	-223	1.0	96	-242	1,400	1,400	2	-2	-3	22	0	0
Taiyo	287	-64	-79	3.9	269	-68	1,058	1,088	5	5	-30	-15	-3	-1
Daido	114	-108	-143	1.9	-	-178	1,070	1,060	113	38	1	-1	0	-2
Fukoku	144	-34	-25	3.1	111	-35	1,200	1,400	32	9	1	1	0	0
Nichidan	-62	57	41	-1.8	-8	-8	1,750	1,830	1	1	46	140	8	17
Tokyo	-94	-24	-23	-9.3	-59	-17	1,980	2,080	-3	0	-26	-6	-5	0
Subtotal	8,508	-543	-2,459	5.0	7,180	-2,591	-	-	1,133	139	321	109	-18	-7
Aoba	5	-3	-5	0.6	-	-	-	-	6	-5	0	0	0	0
Aetna	5	-1	-6	1.0	0	-7	1,510	1,720	4	-1	1	2	0	0
Heiwa	12	-6	-4	4.3	4	-4	1,350	1,540	8	0	0	0	0	0
Yamato	12	-6	-4	4.3	4	-4	1,350	1,540	8	0	0	0	0	0
Sony	45	8	5	3.7	3	0	N.A.	1,100	37	5	5	0	0	0
Prudential	-1	-3	-7	-0.2	1	1	N.A.	N.A.	0	0	-2	-2	0	0
Saison	7	4	15	1.2	1	1	1,300	N.A.	1	-1	8	18	0	0
Total	8,581	-544	-2,461	5.0	7,189	-2,600	-	-	1,189	137	332	127	-18	-7

(Units: JPY billion)

	Money held in trust		Derivatives							Unrealized gains and losses on land						
			Interest rates		Currencies		Equities		Bonds		00/9		00/3			
	h/h	h/h	h/h	h/h	h/h	h/h	h/h	h/h	NLA price	Inheritance tax assessment price	NLA price	Inheritance tax assessment price				
Nippon	0	-40	24	34	-3	-11	-12	0	0	1	1	187	-	195	-	
Dai-ichi	0	-2	2	2	-10	N.A.	-	N.A.	-	N.A.	-	-33	-	-19	-	
Sumitomo	0	-15	5	-9	-2	14	7	0	-2	0	0	-178	-	-185	-	
Meiji	0	-8	5	5	2	0	-1	0	-3	0	0	0	-	0	-	
Asahi	0	-2	2	2	-2	0	0	0	0	-1	0	181	-	174	-	
Yasuda	0	-9	0	0	0	0	2	1	3	-2	-2	13	-	14	-	
Mitsui	0	-4	8	9	-1	-1	-28	0	29	0	0	-40	-	-41	-	
Taiyo	0	-5	17	18	-2	0	-5	0	0	0	0	-23	-	-20	-	
Daido	-8	-29	0	0	0	-1	1	1	1	0	0	-9	-	1	-	
Fukoku	0	-7	11	11	-1	0	0	0	0	0	0	-	81	-	91	-
Nichidan	N.A.	-	0	0	14	0	4	0	0	0	0	N.A.	-	-29	-	
Tokyo	N.A.	-	0	0	0	0	1	0	0	0	0	39	-	39	-	
Subtotal	-8	-121	74	72	-3	2	-33	1	27	-2	-1	138	81	128	91	
Aoba	N.A.	-	0	0	-	0	-	0	-	0	-	N.A.	-	N.A.	-	
Aetna	N.A.	-	0	0	0	0	0	0	0	0	0	28	-	29	-	
Heiwa	N.A.	-	0	0	0	0	0	0	0	0	0	5	-	5	-	
Yamato	0	0	0	0	0	0	-	0	-	0	-	5	-	5	-	
Sony	N.A.	-	N.A.	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	
Prudential	N.A.	-	N.A.	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	N.A.	-	
Saison	N.A.	-	N.A.	N.A.	-	N.A.	-	N.A.	-	N.A.	-	-3	-	-3	-	
Total	-8	-121	74	72	-3	2	-33	1	27	-2	-1	167	81	158	91	

Notes: 1 NLA = National Land Agency.

2 The inheritance tax assessment price is roughly 80% of the National Land Agency price.

Source: NRI, from news releases of the companies concerned.

Table 9 Non-Performing Assets

(Units: JPY billion, %)

	Total non-performing assets										Valuation of assets in accordance with enforcement regulations of Financial Reconstruction Law						Substandard claims			
				Loans to borrowers under bankruptcy		Non-accrual status loans		Loans past due for three months or		Loans with altered lending conditions		Bankrupt and quasi-bankrupt claims	Doubtful claims	Subtotal		Provision ratio	y/y, %			
	% of loans receivable	% of total assets	h/h	h/h	h/h	h/h	h/h	h/h	Difference between subtotal and (loans to borrowers under bankruptcy proceedings + non-accrual status loans)											
Nippon	226	2.0	0.5	-34	26	10	146	-43	2	-2	52	0	235	63	118	182	9	53	88.5	-7.3
Dai-ichi	160	2.7	0.5	-35	24	2	116	-14	7	1	13	-23	160	48	92	140	0	20	53.3	8.6
Sumitomo	80	1.4	0.3	-4	1	1	42	0	2	2	35	-8	80	3	40	43	0	37	42.7	-4.9
Meiji	99	1.9	0.6	-17	23	22	36	-8	4	1	36	-33	99	45	14	59	0	40	60.1	5.8
Asahi	128	3.7	1.1	-4	5	1	9	-6	0	0	32	0	129	29	68	97	1	32	52.3	-5.7
Yasuda	71	2.1	0.7	0	1	1	68	-1	0	-	2	-1	71	16	53	69	0	2	54.3	-1.2
Mitsui	126	4.9	1.3	-8	3	0	82	-5	0	0	4	-4	127	10	75	85	0	41	48.8	0.5
Taiyo	20	0.8	0.3	-53	0	0	4	-53	5	-1	10	1	20	2	2	4	0	16	51.8	26.6
Daido	25	2.3	0.4	-4	1	0	16	-4	1	0	7	1	25	4	15	19	1	6	74.1	-2.4
Fukoku	32	2.3	0.7	-2	2	0	13	0	1	0	15	-2	32	5	11	16	0	17	61.5	7.3
Nichidan	52	6.2	1.5	-17	16	-4	27	-8	0	0	9	-5	52	22	22	43	0	9	76.2	10.6
Tokyo	22	9.1	2.2	-2	5	2	3	-4	0	-	14	0	23	6	15	21	13	2	32.1	-3.8
Subtotal	1,041	2.4	0.6	-181	107	38	645	-146	23	1	266	-74	1,053	252	525	777	24	276	60.2	0.0
Aoba	18	6.2	1.9	-4	2	-2	14	-2	0	-	1	0	18	5	12	16	0	1	0.0	-106.7
Aetna	14	9.6	2.6	-4	2	0	11	-4	0	0	1	1	14	13	0	13	0	2	57.1	21.6
Heiwa	11	25.0	3.9	0	0	0	2	-1	0	0	8	1	11	1	2	3	1	8	18.0	-0.8
Yamato	0	0.0	0.0	-	0	-	0	-	0	-	0	-	-	-	-	-	-	-	-	-
Sony	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	-	-	-	-	-	-	-	-
Saison	1	1.1	0.3	0	0	0	1	-	0	0	0	0	1	1	0	1	0	0	62.0	18.3
Total	1,085	2.4	0.6	-189	112	35	673	-153	23	2	276	-73	1,097	272	539	810	25	286	58.7	-1.6

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 the companies concerned.

5. Indicators of Financial Soundness

The solvency margin ratio (solvency margin/risk amount × ½) of all 12 companies was above 200%, which is the level at which the authorities would require prompt corrective action, but four of the companies saw their solvency margin ratio decline by 100% or more from its level at the end of fiscal 1999 (Table 10). Not many of the companies raised funds during the first half of fiscal 2000 (by taking out subordinated loans or issuing subordinated debt) to boost their solvency margin ratio, while declining share prices led to a decline in the unrealized gains on their equity portfolios (one of the capital items constituting the solvency margin), thereby depressing the ratio.

The first half of fiscal 2000 was also the first time Japanese life insurers have published figures for their real net assets—an indicator of their financial strength.

Table 10 Composition of Solvency Margin

[Reference]

(Units: JPY billion, %)

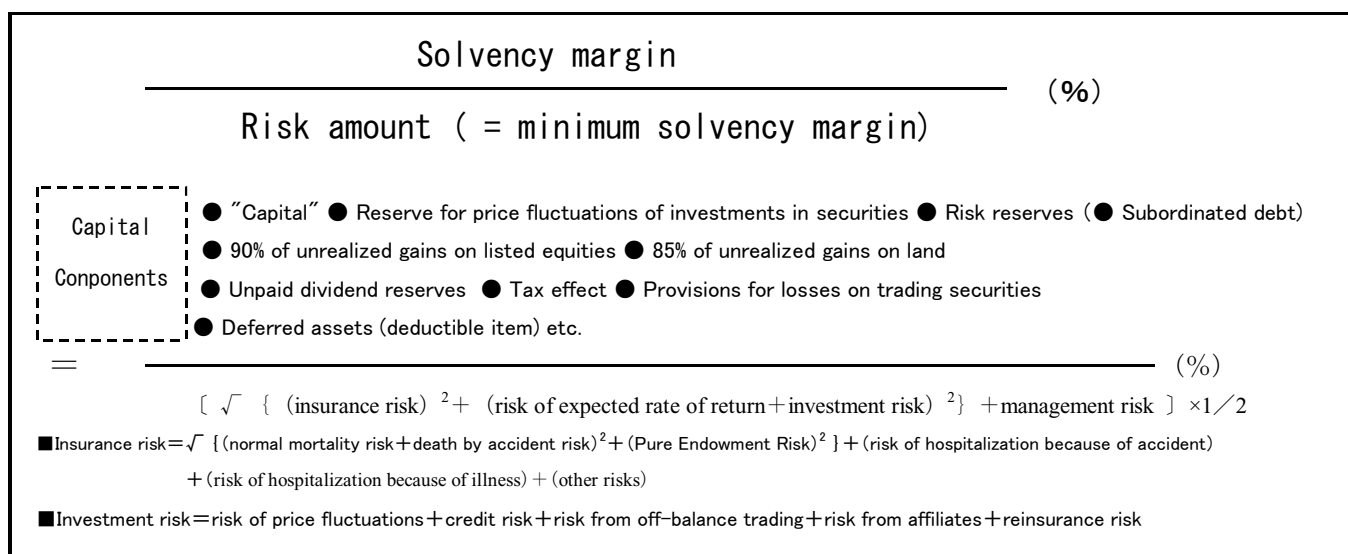
	Solvency margin ratio		Outstanding subordinated debt		Unrealized gains & losses on equities		Unrealized gains & losses on land		Real net assets	% of total assets
	h/h	pp	h/h	h/h	h/h	h/h	h/h			
Nippon	103	-65.8	0	0	3,479	-680	159	-7	7,500	1.7
Dai-ichi	76	-110.6	100	0	1,319	-427	-33	-14	3,300	1.1
Sumitomo	61	-65.7	395	0	375	-257	-178	7	1,600	0.7
Meiji	69	-41.0	0	0	682	-175	0	0	1,900	1.1
Asahi	63	-98.7	273	0	15	-157	154	6	865	0.8
Yasuda	70.3	-105.3	110	-1	223	-142	11	-1	927	0.9
Mitsui	51	-166.7	145	0	87	-218	-40	0	500	0.5
Taiyo	98	-70.3	85	0	242	-61	-23	-3	710	1.0
Daido	88.3	-121.1	0	0	0	-160	-9	-9	553	0.9
Fukoku	81	-96.5	33	0	100	-31	69	-9	427	0.9
Nichidan	41.5	-11.2	90	45	-8	-8	N.A.	-	More than 70	More than 2.0%
Tokyo	37	-76.7	40	0	-59	-17	33	0	1	0.0
Subtotal	-	-	1,270	44	6,455	-2,334	143	-29	-	-
Aoba	More than 35	-	0	0	0	0	N.A.	-	Positive	-
Aetna									55	1.0
Heiwa	70.8	15.6	0	0	0	-6	24	-1	about 29	-
Yamato	53.2	-91.0	0	0	4	-4	4	0		
Sony	138.9	-47.8	0	0	3	0	N.A.	-	209	1.7
Prudential	148.5	-	0	0	1	1	N.A.	-	N.A.	-
Saison	35	8.9	0	0	1	1	-3	0	15	0.3
Total	-	-	1,270	44	6,463	-2,342	168	-29	-	-

Real net assets = real net assets (A) - real net liabilities (B)

(total balance sheet assets + unrealized gains & losses on securities + unrealized gains & losses on real estate and movables + unrealized gains & losses on money held in trust) - real net liabilities.

- Notes:1 The figure for unrealized gains & losses on equities consists of 90% of the figure for unrealized gains and 100% of the figure for unrealized losses. The figure for unrealized gains & losses on land consists of 85% of the figure for unrealized gains and 100% of the figure for unrealized losses.
- 2 When Tokyo Life published its results for the first half of fiscal 2000, it gave ?? as the figure for its real net assets, but later changed this to ??.
- 3 The fact that Daido Life's figure for unrealized gains & losses on equities is zero is the result of market value accounting. Its solvency margin includes 90% of unrealized gains of ¥135.8 billion on listed equities.
- 4 If Daido Life did not use market value accounting, the figure for its real net assets would be ¥593.7 billion (¥40.3 billion more than the published figure). The figure of ¥40.3 billion for deferred tax liabilities would be added to the figure for real net assets under "Capital," and the figure for "% of total assets" would increase from 9.4% to 10.3%.
- 5 pp = percentage points.

[Reference] **Components of Solvency Margin Ratio**



Source: NRI, from news releases of the companies concerned.

This figure is obtained by deducting the figure for total liabilities (less the figures for some reserves) from the total figure for assets valued at market (including securities and property). It shows what assets would be left if a company had to pay out all its liabilities to its policyholders.²

6. Highlights of the First Half of Fiscal 2000

1) Restructuring of Japan's life insurance industry

Since the autumn of 1999, a number of major foreign insurers, including Axa of France, have taken effective control of a number of Japanese life insurers and are making inroads into the Japanese insurance market. The two Japanese life insurers that failed in October 2000 (Chiyoda Life and Kyoei Life) are also undergoing restructuring at the initiative of the US insurers AIG and Prudential. As of the end of fiscal 1999, the total assets and income from insurance premiums of foreign insurers operating in Japan and those Japanese companies that have formed alliances with them (i.e., Kyoei Life, Chiyoda Life, Nichidan Life, Aetna Heiwa Life, and Aoba Life) were (as a share of the domestic market) 10.9% and 12.5%, respectively.

² Even if an insurance company's balance sheet shows that it has a net surplus of assets, the authorities may still order it to stop trading if unrealized losses mean that its real net assets are in deficit.

In response, other Japanese life insurers have started to form alliances with Japanese non-life insurers in order to put their businesses on a sounder footing. They clearly believe that partnerships are a more effective way of expanding their businesses, competing in an increasingly price-competitive market and meeting the challenge of a deregulated "third-sector insurance" (i.e., areas such as healthcare and disability insurance) than attempting to become full-service insurance companies on their own.

2) Growth in consulting sales

The foreign insurers would like to adopt consulting sales and establish it as the standard way of winning new insurance business in the Japanese market. Sony and Prudential both have teams of salesmen using this approach, and both companies have succeeded in boosting their new insurance sales and income from insurance premiums.

In the first half of fiscal 2000, Sony saw individual insurance and annuity insurance in force rise by 14.7% and new insurance sales by 27.5%. The company owes its success to its brand name and its AA- rating. Prudential has also been enjoying strong growth, with insurance in force up 14.1%.

3) Adoption of market value accounting

(1) Disclosure of securities according to the purpose for which they are held

April 2000 saw the start of market value accounting for financial products in Japan, and in fiscal 2001 this will have to be applied to all securities portfolios. For the first half of fiscal 2000, Japanese life insurers disclosed details of their securities holdings (classified according to the purpose for which they were held) "for information purposes" (Table 11).

However, the classification they used is only provisional. Life insurers must set aside reserves from their premium income to cover the cost of future liabilities to policyholders. These reserves are entered as liabilities in their balance sheets. Such liabilities have a duration of 20-30 years, and Japanese life insurers do not value them at market. They have therefore been allowed to treat those bonds held as either "investments to be held until maturity" or "other securities" as part of these reserves and match them with liabilities of a similar duration.

Table 11 Composition of Securities Holdings

(Units: JPY billion, %)

	Trading securities			Bonds held to redemption			Shares in subsidiaries & affiliates			Other securities					Total	
		%	Change in value		%	Change in value		%	Change in value	%	Change in value	Bonds	Equities	Foreign securities		
Nippon	479	2.1	0	0	0.0	0	338	1.5	2	21,508	96.3	4,500	10,360	6,058	3,617	22,324
Dai-ichi	211	1.3	0	0	0.0	0	367	2.3	0	15,241	96.3	1,735	8,358	4,474	2,296	15,819
Sumitomo	350	2.6	0	3,799	28.5	27	201	1.5	0	8,989	67.4	431	3,593	3,139	1,501	13,339
Meiji	72	0.9	0	2,690	33.6	107	169	2.1	0	5,084	63.4	905	1,614	2,761	658	8,015
Asahi	136	2.4	0	173	3.0	0	39	0.7	0	5,403	94.0	28	2,007	1,863	1,143	5,751
Yasuda	537	10.6	0	56	1.1	0	88	1.7	0	4,386	86.6	292	1,907	1,199	1,101	5,066
Mitsui	0	0.0	0	558	11.2	6	84	1.7	-118	4,341	87.1	100	2,096	1,457	775	4,983
Taiyo	104	2.5	0	315	7.7	0	8	0.2	-13	3,655	89.5	288	2,321	555	685	4,082
Daido	4	0.1	0	2,319	63.0	114	9	0.2	0	1,349	36.7	0	241	439	524	3,681
Fukoku	536	25.2	0	361	17.0	18	1	0.1	0	1,227	57.7	126	544	498	175	2,126
Nichidan	0	0.0	0	0	0.0	0	0	0.0	0	1,060	100.0	-62	412	166	434	1,060
Tokyo	0	0.0	0	0	0.0	0	7	1.5	0	494	98.5	-94	67	234	177	502
Subtotal	2,430	2.8	0	10,270	11.8	273	1,310	1.5	-129	72,737	83.8	8,248	33,520	22,842	13,085	86,747
Aoba	0	0.0	0	0	0.0	0	0	0.0	0	498	100.0	5	462	1	28	498
Aetna	1	0.2	0	142	43.7	5	0	0.0	0	183	56.2	-1	122	4	36	326
Heiwa	11	5.6	0	26	13.4	1	0	0.0	0	157	81.0	11	92	25	33	194
Yamato	4	0.5	0	0	0.0	0	1	0.1	0	738	99.4	45	552	5	181	742
Sony	0	0.0	0	0	0.0	0	0	0.0	0	342	100.0	-7	156	19	162	342
Prudential	N.A.	-	-	N.A.	-	-	N.A.	-	-	N.A.	-	-	N.A.	N.A.	N.A.	N.A.
Saison	0	0.0	0	0	0.0	0	0	0.0	0	0	0.0	-7	156	19	162	342
Total	2,445	2.8	0	10,438	11.7	278	1,311	1.5	-129	74,655	84.0	8,302	34,905	22,895	13,525	88,849

Note: Such data have only been disclosed since the first half of fiscal 2000.

Source: NRI, from news releases of the companies concerned.

Japanese life insurers have until fiscal 2001 to classify their securities holdings according to the purpose for which they are held. This means that the classification of securities (as "investments to be held until maturity" or "other securities") adopted for the first half of fiscal 2000 is likely to be revised. The figures for Japanese life insurers' securities holdings are therefore likely to undergo considerable revision before the end of fiscal 2001, depending on the purpose for which they are held.

It remains to be seen how each life insurer will eventually classify its securities. For example, classifying bonds as "other securities" would mean that any unrealized losses incurred on them as a result of rising interest rates would have to be entered in the capital account, thereby affecting the company's capital. The companies will probably therefore take their time in deciding how to classify their bond holdings.

(2) The approach of Daido Life and Taiyo Life to market value accounting

Daido Life and Taiyo Life, which formed an alliance in January 1999, have adopted thorough disclosure procedures with a view to demutualizing and floating on

the stock exchange in 2002. For example, unlike other life insurers, they have already adopted market value accounting for "other securities."

In Daido Life's case, valuation gains on "other securities" come to ¥111.6 billion if the figure for money held in trust is added. Instead of treating this figure as unrealized gains on securities, the company has entered it on its balance sheet. This means that, if the figure for its unrealized gains on securities was calculated in the same way as that of life insurers that do not value these securities at market, it would be ¥225.6 billion rather than the figure of ¥114.0 billion (which only includes bonds classified as "investments to be held until maturity") in Table 8.

Similarly, calculating Daido Life's real net assets on the same basis as other life insurers would boost the published figure in Table 10 by ¥40.3 billion to ¥593.7 billion—10.3% of total assets rather than 9.4%. With market value accounting, the valuation gain of ¥111.6 billion is entered under both "Assets" and "Liabilities & Capital." However, only ¥71.3 billion of this is entered under "Capital" (as "valuation gains on other securities"), while the remaining ¥40.3 billion ($¥111.6 \text{ billion} \times 36.1\%$) is deducted as corporate income tax.³

7. Conclusion

In the first half of fiscal 2000, there was a slight increase in new insurance sales; the rate of cancellations stopped increasing; and there was a sharp decline in insurance claims and other payments. Although conditions remain tough, there has been a slight improvement in insurance sales.

However, the average assumed interest rate of the 12 companies is still 3.5%-4.0%, and there is little prospect of any rapid improvement in investment returns. Although life insurers in the past were able to use gains from the disposal of equity holdings, the weakness of the stock market has now made this difficult. Nor can it be ignored that, by increasing their holdings of long-term bonds since the mid-1990s, Japanese life insurers have also increased their interest-rate sensitivity.

They now need to rearrange their portfolios to make them less sensitive to the risks of rising interest rates and falling share prices. This will entail reducing their holdings of equities held mainly to cement corporate relations and adopting a more flexible approach to equity investment while trying to reduce the duration of investments acquired with new money. At the same time, they will have to develop and sell new products (such as group insurance policies that can be renewed annually).

³ The effective rate of corporate income tax is 36.1%.