
Life Insurers

-Review of FY01 Results: Working to Boost Finances-

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1. New Policy Amounts and Policy Amounts in Force

The major life insurers' FY01 results were characterized by a deterioration in finances— lower solvency margin ratios and reduced equity capital. This was partly because of ongoing difficulties in the insurance underwriting business—the value of cancelled and lapsed policies exceeded new policy amounts, so policy amounts in force continued to decrease— and partly because falling share prices resulted in valuation losses on equity holdings and a decrease in unrealized gains. While some companies drew down funds from their reserves for risks and reserves for price fluctuations (which are regarded as part of equity capital) in response to the fall in profits, others added to these reserves, thus widening the gaps between companies. Some life insurers also raised funds or took out subordinated loans in order to boost their balance sheets, while others announced strategies—such as reviews of unprofitable businesses, cost cuts, and business mergers—that were bolder than those they had used previously. Japan's life insurers have thus stepped up their measures to strengthen their operating bases.

Total new policy amounts (including increases by conversion) at Japan's 10 major life insurers rose for the second year in a row in FY01, climbing 5.5% to ¥120.22 trillion. This was largely due to growth in group credit life insurance policies for housing loans and also because insurers took on group policies from other life insurers that had gone bankrupt, thus leading to a substantial increase in new policy amounts for group insurance.

At the same time, new policy amounts for individual insurance policies, which are a major source of profits for life insurers, fell 1.1% to ¥104.80 trillion. Companies that saw strong growth include Taiyo Life, which is shifting from savings-type products to insurance-type products, and Asahi Life, Sumitomo Life, and Mitsui Life, which are enjoying strong sales of account-type products where it is possible to change the proportion of premiums that go to death/health insurance products and

savings, and Daido Life Insurance [8799] (Buy; ¥306,000), which has benefited from strong sales of non-participating term insurance.

There has been steady growth in health-related insurance, although this has had little impact on new policy amounts, which mainly reflect insured amounts. Insurance premiums on Nippon Life's new health/nursing care insurance policies rose 45% to ¥75.4 billion (on a annualized basis). Mean while, Dai-Ichi Life, which sells American Family Insurance's cancer insurance, acquired 320,000 new contracts, although these were not included in its new policy amount figures.

There was a slowdown in the previously rapid growth in new policy amounts for individual insurance policies at companies not included among the 10 majors, such as American Family Insurance, Sony Life, and Tokio Marine Anshin Life. This was due to both (1) increased competition as a result of new entrants into the market and (2) increases in insurance premiums.

Meanwhile, total policy amounts in force at Japan's 10 major life insurers fell for the fifth successive year in FY01, slipping 2.4% to ¥1,549.51 trillion. This was largely because, while new policy amounts for individual insurance policies and individual annuity products fell slightly, the value of cancelled and lapsed policies rose again, climbing 5.5%, reflecting the debate about whether life insurers that look as if they might go bankrupt should reduce their assumed investment yields. Nevertheless, there were substantial differences between the individual insurers in terms of changes in the value of cancelled and lapsed policies—the value of cancelled and lapsed policies actually fell at Nippon Life, Dai-Ichi Life, and Daido Life.

In addition, because the figures for new policy amounts include increases by conversion, they do not necessarily translate directly to an increase in policy amounts in force.

The rate of decline in policy amounts in force for group annuity products has accelerated. As well as reflecting customers' growing choosiness with regard to insurance companies, this is also because some companies, such as Asahi Life and Mitsui Life, have decided to reduce the size of their group annuity businesses, while others have been trying to encourage customers to sign contracts with affiliated investment consultancy companies rather than with themselves because of the difficulty of managing assets in the current low-interest-rate environment and in view of the risk to liquidity posed by the possibility of an increase in policy cancellations if interest rates were to rise in future.

The major life insurers, including Nippon Life, have launched new group annuity products with deductions for repayments and an assumed investment yield on the general account of 1.25% for the defined contribution corporate pension system that started in April 2002. They plan to lower the assumed investment yield on old-style general account group annuity products with no deduction for repayments from 1.5% to 0.75%.

Although the life insurers face asset management risk in their group annuity product businesses because of the low level of interest rates, we believe that falling policy amounts in force for group annuity products should have little impact on the insurers' overall results because this business makes little contribution to profits.

Figure 1 Individual Insurance and Annuities in FY01

(¥ billion)

	Individual insurance				Individual annuities								
	New policy amount	% y-y	Of which, increases by conversion	Decrease in existing policies	Policy amount in force	% y-y	New policy amount	% y-y	Of which, increases by conversion	Decrease in existing policies	% y-y	Policy amount in force	% y-y
Nippon	22,714.1	-7.9	3,975.1	33,589.8	289,109.7	-3.6	559.2	-37.4	-9.0	913.5	-16.5	15,713.4	-2.2
Dai-ichi	18,423.8	-7.5	4,779.7	24,804.9	213,384.3	-2.9	115.1	39.2	-33.0	361.1	-7.4	6,832.3	-3.5
Sumitomo	18,833.1	5.8	4,943.9	27,129.1	187,432.7	-4.2	204.2	-69.2	-93.8	804.6	1.9	10,893.3	-5.2
Meiji	12,138.1	-8.2	2,977.9	16,007.0	114,239.5	-3.3	120.0	-8.9	-37.7	472.5	-6.0	7,686.6	-4.4
Asahi	8,819.6	19.8	2,859.9	15,684.0	70,477.0	-8.9	-96.2	-	-157.7	1,178.5	117.9	5,487.5	-18.9
Yasuda	8,106.3	-1.4	1,105.9	11,006.5	66,664.2	-4.2	150.1	-45.8	-0.9	344.5	-3.3	4,451.0	-4.2
Mitsui	5,576.4	3.3	1,851.2	10,297.0	59,188.9	-7.4	102.7	-58.6	25.1	355.5	17.3	2,535.7	-9.1
Taiyo	2,047.9	40.4	1,789.4	16.7	10,217.3	2.6	140.1	-70.4	0.0	338.3	-17.6	5,015.5	-3.8
Daido	4,506.7	3.7	50.8	4,551.3	37,838.9	-0.1	63.6	16.5	0.0	79.7	-8.4	1,090.1	-1.5
Fukoku	3,631.6	2.3	631.1	3,171.6	35,030.6	1.3	67.5	-52.1	0.0	148.3	-21.8	2,371.5	-3.3
10-company total	104,797.6	-1.1	23,175.5	148,030.6	1,083,583.1	-3.8	1,426.3	-53.3	-357.2	4,996.5	7.1	62,076.9	-5.4
Gibraltar	1,033.0	-	-183.6	8,429.1	25,971.0	-22.2	10.2	-	3.4	308.6	-	979.1	-23.4
American Family	840.4	-13.5	0.0	386.8	5,464.3	9.1	42.5	-53.3	0.0	7.3	204.2	136.1	-34.9
AXA Life Group	1,505.1	-23.5	1.9	1,757.0	12,959.0	-1.9	35.0	-51.7	-2.1	173.7	-39.9	2,201.1	-5.9
AIG Star	1,718.3	-	0.0	6,997.9	16,937.8	-23.8	0.0	-	0.0	244.4	-	760.3	-24.3
GE Edison	763.5	-45.3	31.1	2,904.5	7,232.4	-22.8	115.7	-0.9	0.0	148.7	-66.9	881.7	-3.6
Sony	3,893.1	-10.9	0.0	1,940.9	23,408.0	9.1	23.4	7.3	23.4	1.2	105.1	88.6	33.4
Alico Japan	2,106.9	1.3	0.0	1,231.9	13,435.7	7.0	106.1	46.1	0.0	-2.5	-	214.8	102.3
Manulife	1,031.2	-17.0	0.0	-3,155.7	6,478.3	182.7	19.7	9.4	0.0	-257.4	-	382.6	262.7
Prudential	2,754.4	0.3	0.0	1,113.3	15,896.1	11.5	9.6	-	0.0	-1.9	-	7.3	35.2
Tokio Marine Anshin	1,156.1	-33.1	0.0	487.2	6,588.6	11.3	9.6	-52.2	0.0	9.8	-4.4	142.7	-0.1
Overall total	118,848.3	-2.9	23,208.5	154,696.5	1,175,045.5	-3.0	1,778.3	-48.7	-335.9	5,075.4	-6.8	66,131.8	-4.7

	Cancelled/lapsed policies		% of cancellations/lapsed policies
	Cancelled/lapsed policies	% y-y	
Nippon	24,801.0	-4.6	7.9
Dai-ichi	19,519.8	-3.9	8.6
Sumitomo	21,262.5	0.9	10.3
Meiji	13,005.2	2.1	10.3
Asahi	12,978.4	75.3	15.4
Yasuda	8,118.4	8.8	10.9
Mitsui	7,944.2	18.7	11.9
Taiyo	1,209.7	0.7	8.0
Daido	3,483.2	-1.0	9.0
Fukoku	2,281.3	0.6	6.2
10-company total	114,613.5	5.5	-
Gibraltar	-	-	-
American Family	-	-	-
AXA Life Group	-	-	-
AIG Star	-	-	-
GE Edison	1,655.3	12.7	7.7
Sony	-	-	-
Alico Japan	-	-	-
Manulife	-	-	-
Prudential	-	-	-
Tokio Marine Anshin	-	-	-
Overall total	-	-	-

Note: (1) Figures for new policy amounts include increases by conversion. (2) Figures for cancelled/lapsed policies are the totals for both individual insurance and individual annuity policies. (3) Figures for the Axa Life Insurance Group are the totals for both Axa Group Life Insurance and Axa Life Insurance. (4) Overall totals do not include Gibraltar or AIG Star. Source: Nomura, from companies' results documents

Figure 2 Group Insurance and Annuities in FY01

	Group insurance				Group annuities				Total			
	New policy amount		Policy amount in force		New policy amount		Policy amount in force		New policy amount		Policy amount in force	
	¥ billion	% y-y	¥ billion	% y-y	¥ billion	% y-y	¥ billion	% y-y	¥ billion	% y-y	¥ billion	% y-y
Nippon	2,892.5	76.7	76,120.4	13.3	2.5	-83.0	10,412.0	-9.9	26,168.3	-3.8	391,355.5	-0.9
Dai-ichi	1,991.8	4.4x	52,499.6	8.9	2.7	-49.1	7,693.0	-1.3	20,533.4	0.4	280,409.2	-0.9
Sumitomo	1,380.1	2.7x	41,045.4	5.5	4.3	-94.8	4,507.1	-4.8	20,421.7	7.2	243,878.5	-2.8
Meiji	1,565.2	2.4x	53,201.6	11.9	2.0	-87.7	4,740.0	-1.3	13,825.3	-1.4	179,867.7	0.8
Asahi	777.6	5.4x	12,203.4	-46.6	1.1	5.5x	520.0	-74.4	9,502.1	25.0	88,687.9	-18.6
Yasuda	1,424.8	2.1x	71,048.7	3.9	0.1	-98.1	3,512.4	-7.4	9,681.3	5.5	145,676.3	-0.5
Mitsui	2,374.8	10.3x	23,328.0	-6.8	0.1	-88.9	1,713.6	-34.1	8,054.0	37.1	86,766.2	-8.0
Taiyo	275.1	3.5x	11,022.7	6.2	0.0	-32.6	813.2	3.1	2,463.1	22.6	27,068.7	2.8
Daido	533.4	2.1x	11,909.7	2.8	0.5	-90.4	2,553.9	-0.8	5,104.2	9.4	53,392.6	0.5
Fukoku	760.8	3.8x	13,108.6	8.3	4.5	22.5x	1,897.6	1.4	4,464.4	14.8	52,408.3	2.8
10-company total	13,976.1	2.9x	365,488.1	3.8	17.8	-86.4	38,362.8	-9.8	120,217.8	5.5	1,549,510.9	-2.4
Gibraltar	63.1	-	5,186.1	-60.1	0.0	-	288.2	-12.7	1,106.3	-	32,424.4	-32.4
American Family	0.0	-	0.0	-	0.0	-	0.0	-	882.9	-16.9	5,600.4	9.6
AXA Life Group	127.8	80.3	12,389.6	-5.9	0.0	-	920.2	-1.0	1,667.9	-21.0	28,469.9	-4.0
AIG Star	200.5	-	4,345.3	-59.7	0.0	-	344.2	-25.5	1,918.8	-	22,387.6	-35.0
GE Edison	592.6	7.5x	5,437.8	-27.8	0.0	-	144.9	-9.9	1,471.8	-7.5	13,696.8	-23.8
Sony	23.0	-42.8	756.2	10.2	29.0	36.3x	64.0	2.5x	3,968.5	-10.4	24,316.8	9.4
Alico Japan	332.3	60.9	2,019.6	18.1	0.0	-	0.0	-	2,545.3	7.9	15,670.1	9.0
Manulife	51.9	-89.2	523.9	-63.1	0.0	-	28.5	265x	1,102.8	-36.7	7,413.3	94.3
Prudential	0.0	-	16.7	7.7	0.0	-	0.0	-	2,754.4	0.3	15,920.1	11.5
Tokio Marine Anshin	424.9	89.6	2,287.7	42.4	0.4	-	18.0	-2.2	1,591.0	-19.4	9,037.0	17.6
Overall total	15,528.6	2.6x	388,919.6	2.8	47.2	-64.1	39,538.4	-9.5	136,202.4	3.2	1,669,635.3	-1.9

Note: (1) Figures for new policy amounts include increases by conversion. (2) Figures for the Axa Life Insurance Group are the totals for both Axa Group Life Insurance and Axa Life Insurance. (3) Overall totals do not include Gibraltar or AIG Star.
Source: Nomura, from companies' results documents

2. Profits

Total core profits (which are equivalent to operating profits) at Japan's 10 major life insurers dropped 0.8% in FY01 to ¥2.07 trillion. The fall in core profits was thus less than the fall in policy amounts in force. We put this down to a number of temporary factors:

(1) At companies with a substantial amount of policy cancellations, drawdowns from their liability reserves exceeded the funds returned to policyholders on the cancellation of their contracts, so profits rose in the short term.

(2) Dai-Ichi Life switched from the fixed-percentage method to the straight-line method for calculating depreciation and this boosted its profits by ¥11.7 billion.

(3) Daido Life recorded profits of just under ¥10.0 billion from the redemption of overseas mutual funds.

Although total business costs at the 10 major life insurers fell 1.2% to ¥2.67 trillion, business costs rose at companies that enjoyed rapid growth in their new policy amounts because of the increase in the costs of acquiring new contracts. In the accounts of Japan's life insurers, which are drawn up in accordance with Japanese accounting practices, income comes from contracts acquired in the past, whereas the costs of acquiring new contracts are not deferred but written down as costs arising during the period in question. This means that profits are squeezed when new policy amounts increase.

It used to be the case that different companies used different methods to calculate their negative spreads, but they now all have to use the same method, starting with the FY01 accounts. This method is: $(\text{yield on asset management profits included in core profits} - \text{average assumed investment yield}) \times \text{liability reserves on the general account}$. The yield on asset management profits included in core profits is: $(\text{asset management profits included in core profits} - \text{interest on reserves for dividends}) / \text{general account liability reserves}$. General account liability reserves are: the average of liability reserves at the beginning of the period, excluding reserves for risks, and liability reserves at the end of the period (excluding any increase due to the assumed investment yield).

If we recalculate negative spreads in FY00 using the new method in order to compare the figures for FY00 and FY01, we see that the total negative spread at Japan's 10 major life insurers fell from ¥1.31 trillion in FY00 to ¥1.25 trillion, a drop of ¥64.5 billion. Taiyo Life saw a substantial decrease in its negative spread because its average assumed investment yield fell as savings-type insurance policies taken out

when interest rates were high reached maturity. In the case of Daido Life, its negative spread also dropped sharply because of profits from the redemption of overseas mutual funds.

Each company's average assumed investment yield depends on the proportion of its total portfolio accounted for by group annuity products, for which any change in assumed investment yield has to be applied to all policies, and the proportion of its total portfolio accounted for by whole life insurance policies and individual annuity products, where the assumed investment yield is fixed for a long period. Asahi Life's average assumed investment yield rose in FY01 because of a sharp decline in group annuity products. (Figure 4)

Total transfers to reserves for dividends to policyholders at the 10 majors fell to ¥415.0 billion in FY01, down ¥165.2 billion from FY00. We think this was because, at many companies, the decrease in extraordinary dividends paid when a contract is terminated led to a decrease in the maximum amount of reserves for dividends and thus resulted in a decrease in transfers. Actual dividend payments were greater than transfers to reserves for dividends, because they also included drawdowns from reserves for dividends.

Adjusted core profits—core profits minus transfers to reserves for dividends to policyholders—are an indicator of the profits that belong to the company (or the shareholders). Total adjusted core profits at Japan's 10 major life insurers rose 9.8% to ¥1.66 trillion in FY01. However, we think this was partly because core profits were inflated by one-off factors and partly because transfers to reserves for dividends to policyholders were lower than the actual dividend payments. Thus, real adjusted core profits were smaller than this.

We have also looked at the life insurers' profitability in terms of their core profits, their adjusted core profits, and their core profits excluding negative spreads, divided by the assets in their general accounts. We believe that core profits excluding negative spreads are more or less the same as the total of mortality profits and cost profits—in other words, the total of the three sources of profits (mortality profits, cost profits, and investment return profits (currently investment return losses)—minus investment return profits (or losses). In Figure 3, core profits excluding negative spreads, divided by general account assets, are shown as profitability 3. This indicator tends to be higher for companies with high proportions of high insured amount insurance products, which produce substantial mortality profits, and for large companies, which tend to have higher cost profits.

Figure 3 Core Profits and Profitability

(¥ billion)

	Gross core profits		Business costs		Core profits (a)		Negative spread (b)	
	01/3	02/3	01/3	02/3	01/3	02/3	01/3	02/3
Nippon	1,239.1	1,181.4	620.3	619.7	618.8	561.7	330.0	340.0
Dai-ichi	853.3	857.8	493.3	480.0	359.9	377.7	256.7	254.9
Sumitomo	726.5	729.7	448.6	431.1	277.9	298.6	251.6	236.5
Meiji	582.6	556.4	306.7	297.8	275.9	258.6	74.0	78.9
Asahi	300.3	308.6	195.4	202.2	104.9	106.4	120.0	106.3
Yasuda	365.5	369.4	190.5	185.7	175.1	183.7	50.0	39.0
Mitsui	262.9	279.6	170.2	173.2	92.7	106.4	94.0	87.7
Taiyo	96.1	98.9	82.2	85.0	13.9	13.9	80.3	66.3
Daido	221.5	218.0	107.2	108.1	114.2	109.9	22.5	5.7
Fukoku	150.5	147.8	92.7	90.4	57.7	57.4	35.2	34.5
10-company total	4,798.3	4,747.7	2,707.2	2,673.4	2,091.1	2,074.3	1,314.3	1,249.8
Gibraltar	73.4	114.9	50.1	84.2	23.3	30.7	-	-
American Family	258.6	286.0	179.4	188.1	79.2	97.8	-	-
AXA Life Group	109.4	120.8	132.0	130.6	-22.5	-9.8	-	-
AIG Star	-	91.4	-	60.2	-	31.2	-	-
GE Edison	83.2	32.4	54.4	50.5	28.7	-18.2	-	-
Sony	90.7	109.7	80.4	83.0	10.3	26.8	20.4	23.1
Alico Japan	120.8	137.2	94.6	112.7	26.2	24.5	-	-
Manulife	11.7	27.5	27.3	38.9	-15.6	-11.4	-	-
Prudential	45.7	51.2	44.2	49.6	1.5	1.7	-	-
Tokio Marine Anshin	41.0	50.2	33.7	40.1	7.3	10.1	-	-
Overall total	5,632.9	5,677.6	3,403.3	3,451.1	2,229.6	2,226.5	-	-

	Transfers to reserves for dividends (c)		Adjusted core profits (d=a-c)		Core profits before negative spread (e=a+b)		General account assets (f)	
	01/3	02/3	01/3	02/3	01/3	02/3	01/3	02/3
Nippon	187.6	187.6	431.2	374.1	948.8	901.7	39,301.5	42,009.1
Dai-ichi	46.8	23.1	313.2	354.6	616.6	632.6	28,693.8	27,712.0
Sumitomo	82.7	24.9	195.2	273.7	529.5	535.1	22,342.3	21,889.8
Meiji	79.4	28.5	196.5	230.1	349.9	337.5	16,416.3	16,262.9
Asahi	31.9	17.5	73.0	88.9	224.9	212.7	10,765.7	7,590.5
Yasuda	59.2	61.8	115.8	121.9	225.1	222.7	9,718.9	9,451.3
Mitsui	27.3	19.6	65.4	86.8	186.7	194.1	9,111.4	7,883.4
Taiyo	11.1	10.9	2.8	3.0	94.3	80.1	7,167.5	6,750.7
Daido	33.2	30.7	81.0	79.2	136.7	115.6	5,652.0	5,754.3
Fukoku	21.0	10.4	36.8	47.0	92.9	91.9	4,642.8	4,640.4
10-company total	580.2	415.0	1,510.9	1,659.3	3,405.4	3,324.1	153,812.1	149,944.4
Gibraltar	28.9	18.5	-5.6	12.2	-	-	4,086.7	3,765.0
American Family	0.0	0.0	79.2	97.8	-	-	3,174.4	3,712.1
AXA Life Group	14.8	15.1	-37.3	-24.9	-	-	3,367.4	3,379.3
AIG Star	-	1.2	-	30.0	-	-	2,370.1	1,880.1
GE Edison	4.0	3.4	24.8	-21.6	-	-	2,077.0	1,970.7
Sony	0.8	0.6	9.5	26.2	30.7	49.9	1,358.7	1,622.9
Alico Japan	1.7	1.8	24.6	22.7	-	-	1,104.6	1,399.9
Manulife	0.9	-1.8	-16.5	-9.6	-	-	124.8	1,065.1
Prudential	0.0	0.0	1.5	1.6	-	-	509.3	620.5
Tokio Marine Anshin	5.4	8.4	1.8	1.7	-	-	458.8	657.1
Overall total	636.7	461.0	1,592.9	1,765.5	2,229.6	2,226.5	170,073.8	168,137.0

	Profitability 1 (g=a/f)		Profitability 2 (h=d/f)		Profitability 3 (i=e/f)	
	01/3	02/3	01/3	02/3	01/3	02/3
Nippon	1.57%	1.34%	1.10%	0.89%	2.41%	2.15%
Dai-ichi	1.25%	1.36%	1.09%	1.28%	2.15%	2.28%
Sumitomo	1.24%	1.36%	0.87%	1.25%	2.37%	2.44%
Meiji	1.68%	1.59%	1.20%	1.41%	2.13%	2.08%
Asahi	0.97%	1.40%	0.68%	1.17%	2.09%	2.80%
Yasuda	1.80%	1.94%	1.19%	1.29%	2.32%	2.36%
Mitsui	1.02%	1.35%	0.72%	1.10%	2.05%	2.46%
Taiyo	0.19%	0.21%	0.04%	0.04%	1.31%	1.19%
Daido	2.02%	1.91%	1.43%	1.38%	2.42%	2.01%
Fukoku	1.24%	1.24%	0.79%	1.01%	2.00%	1.98%
10-company total	1.36%	1.38%	0.98%	1.11%	2.21%	2.22%
Gibraltar	0.57%	0.82%	-0.14%	0.32%	-	-
American Family	2.50%	2.64%	2.50%	2.63%	-	-
AXA Life Group	-0.67%	-0.29%	-1.11%	-0.74%	-	-
AIG Star	-	1.66%	-	1.59%	-	-
GE Edison	1.38%	-0.92%	1.19%	-1.09%	-	-
Sony	0.76%	1.65%	0.70%	1.61%	2.26%	3.07%
Alico Japan	2.37%	1.75%	2.22%	1.62%	-	-
Manulife	-12.50%	-1.07%	-13.25%	-0.90%	-	-
Prudential	0.29%	0.27%	0.29%	0.27%	-	-
Tokio Marine Anshin	1.58%	1.54%	0.40%	0.27%	-	-
Overall total	1.31%	1.32%	0.94%	1.05%	-	-

Note: (1) Gross core profits = core profits + business costs. (2) Figures for Gibraltar for FY00 are from 24 October 2000 to 2 April 2001.

(3) Overall totals exclude AIG Star.

Source: Nomura, from companies' results documents

Although core profits fell only slightly, total recurring profits at Japan's 10 major life insurers dropped a massive 68.2% to ¥565.8 billion in FY01. We put this down to net losses on marketable securities of ¥1.06 trillion (a deterioration of ¥1.46 trillion relative to FY00), most of which were due to markdowns of equities.

Some companies drew down funds from their reserves for risks, which they had built up to protect themselves against the risks posed by their assumed investment yields, but this was not enough to cancel out their equity-related losses completely.

Taiyo Life recorded a one-time loss of ¥57.4 billion in FY01 from transfers to its liability reserves (on its income statement this is included in drawdowns from liability reserves of ¥287.1 billion) resulting from the tightening of its reserve accumulation standards. In the same period, it also drew down ¥52.6 billion from its reserves for risks. Basically, it cut the assumed investment yield on its individual annuity products with an assumed investment yield of 5%, on which it had already started paying pension benefits, to 1%, and increased its liability reserves. It could be said that it used reserves for risks accumulated in the past to dispose of the burdens arising from negative spreads expected in the future, so its negative spread should decline substantially from FY02 onward.

Considerable importance is attached to life insurers' net income, which affects the source of funds for dividends to policyholders. Net recurring profits and net extraordinary gains are both sources of net income. Total net income at the 10 majors dropped 57.3% to ¥333.3 billion in FY01. This was because, although there were extraordinary gains, owing to drawdowns from reserves for price fluctuations, for example, these were exceeded by extraordinary losses arising from such things as losses on the disposal of real estate and movables and the continued amortization of temporary discrepancies related to retirement benefit liabilities (ie, unfunded pension liabilities).

Figure 4 Investment Yields on Asset Management Profits Included in Core Profits and Assumed Investment Yields

(%)

	Investment yield on asset management profits included in core profits (A)		Assumed investment yield (B)		Spread (A-B)	
	01/3	02/3	01/3	02/3	01/3	02/3
Nippon	2.80	2.70	3.80	3.70	-1.00	-1.00
Dai-ichi	2.56	2.49	3.70	3.59	-1.14	-1.10
Sumitomo	2.30	2.30	3.70	3.60	-1.40	-1.30
Meiji	2.80	2.70	3.30	3.20	-0.50	-0.50
Asahi	2.60	2.70	3.80	4.00	-1.20	-1.30
Yasuda	2.70	2.74	3.30	3.20	-0.60	-0.46
Mitsui	2.43	2.41	3.64	3.63	-1.21	-1.22
Taiyo	2.57	2.56	3.84	3.62	-1.27	-1.06
Daido	2.96	2.97	3.42	3.08	-0.46	-0.11
Fukoku	2.37	2.31	3.24	3.15	-0.87	-0.84

Source: Nomura, from companies' results documents

Nippon Life included in its extraordinary gains ¥100.2 billion in profits on the revaluation of securities under Article 112 of the Insurance Business Law. Meanwhile, Asahi Life recorded net losses of ¥149.5 billion because of extraordinary losses of ¥152.5 billion arising from the disposal of equities in order to strengthen its balance sheet.

While some companies drew down funds from their reserves for risks and reserves for price fluctuations, which are regarded as part of equity capital, other companies increased these reserves. It thus appears that the differences between the individual life insurers in terms of their financial strength have grown.

Figure 5 Core Profits and Recurring Profits in FY01

	Core profits (A)		Capital gains/losses (B)		Securities-related gains/losses		One-time gains/losses (C)		Transfers to reserves for risks		Bad-dept expenses		Recurring profits (A+B+C)	
	y-y		y-y		y-y		y-y		y-y		y-y		y-y	
Nippon	561.7	-57.1	-94.6	-53.7	-55.3	-61.6	-195.1	-87.7	-129.0	-22.0	-61.7	272.0	-198.5	
Dai-ichi	377.7	17.8	-233.3	-269.6	-186.3	-293.6	-41.0	30.9	-41.0	40.8	0.0	103.4	-220.9	
Sumitomo	298.6	20.7	-206.9	-285.0	-184.6	-256.9	41.5	45.8	40.0	44.1	-25.3	133.2	-218.6	
Meiji	258.6	-17.3	-215.0	-220.7	-194.8	-230.3	-21.3	80.1	-5.3	91.4	-15.9	22.4	-157.8	
Asahi	106.4	1.5	-284.1	-290.2	-281.9	-293.3	111.0	126.1	115.9	117.1	-4.9	-66.7	-162.7	
Yasuda	183.7	8.6	-154.2	-139.8	-26.7	-84.1	-4.3	30.7	-3.3	31.7	-1.0	25.2	-100.5	
Mitsui	106.4	13.7	-174.3	-162.3	-116.9	-161.9	76.9	85.4	85.0	86.0	-8.1	9.0	-63.2	
Taiyo	13.9	-0.1	9.3	-3.8	27.5	-25.3	-5.0	1.1	52.6	57.6	-0.1	18.2	-2.7	
Daido	109.9	-4.3	-87.2	-68.2	-21.7	-22.9	17.4	30.4	21.0	28.3	-3.6	40.1	-42.2	
Fukoku	57.4	-0.3	-32.9	-37.4	-24.0	-27.0	-15.4	-11.2	-1.9	-0.1	-13.5	9.1	-48.9	
10-company total	2,074.3	-16.8	-1,473.2	-1,530.7	-1,064.6	-1,456.9	-35.3	331.5	134.0	474.9	-134.2	565.8	-1,216.0	
Gibraltar	30.7	7.4	-25.1	-24.1	-1.2	-2.4	3.5	38.6	0.0	-2.4	-4.6	9.2	21.8	
American Family	97.8	18.6	-3.6	-1.4	-6.7	-2.8	-4.2	0.9	-4.2	1.0	0.0	90.1	18.2	
AXA Life Group	-9.8	12.7	-69.7	25.0	1.3	77.9	-5.4	-2.9	-1.5	0.2	-5.4	-84.9	34.9	
AIG Star	31.2	-	-7.8	-	-9.1	-	-21.4	-	0.0	-	-0.1	2.0	-	
GE Edison	-18.2	-46.9	0.0	-10.0	6.0	-1.2	-1.5	6.8	-1.5	0.0	0.0	-19.7	-50.0	
Sony	26.8	16.5	-5.5	-7.1	-3.1	-4.0	-1.4	70.6	-1.4	0.5	0.0	19.9	80.0	
Alico Japan	24.5	-1.7	3.5	0.1	-0.9	-0.5	-2.9	-4.8	-2.8	-0.6	-0.1	25.0	-6.4	
Manulife	-11.4	4.2	-5.7	-5.7	-4.4	-4.4	23.0	16.6	0.0	-6.4	-0.1	5.9	15.1	
Prudential	1.7	0.2	-2.0	-1.5	-0.8	-1.3	0.6	1.4	1.1	1.9	0.0	0.2	0.1	
Tokio Marine Anshin	10.1	2.9	0.1	-0.2	0.2	-0.0	-1.6	0.3	-1.6	0.3	-0.0	8.7	3.0	
Overall total	2,226.5	-3.1	-1,581.1	-1,555.4	-1,074.1	-1,395.6	-25.3	459.1	122.1	469.5	-144.4	620.1	-1,099.4	

Note: (1) Securities-related gains/losses = gains on sales of securities - losses on sales of securities - valuation losses on securities. (2) Bad-dept expenses = transfers to special loanloss reserves + transfers to provisions for specified overseas loans + loan writedowns. (3) Figures for Gibraltar for FY00 are from 24 October 2000 to 2 April 2001. (4) Overall totals exclude AIG Star.

Source: Nomura, from companies' results documents

Figure 6 Extraordinary Gains/losses in FY01

	Extraordinary gains		Extraordinary losses				Net income		
	Y-Y	Y-Y	Y-Y	Losses on			Y-Y	Y-Y	
				the disposal of real estate and movables	Transfers to reserves for price fluctuations	Losses related to retirement benefit liabilities			
Nippon	105.6	75.9	0.0	34.6	-43.2	18.0	1.0	247.6	-0.2
Dai-ichi	29.2	25.8	0.0	59.9	-172.1	12.0	0.0	27.6	-23.9
Sumitomo	43.3	26.5	38.0	47.4	-136.5	0.0	-7.4	73.4	-51.1
Meiji	38.4	27.9	20.4	33.6	6.4	0.0	-5.4	14.3	-104.2
Asahi	67.5	9.9	66.2	68.7	55.4	0.0	-3.1	-149.5	-229.7
Yasuda	10.7	6.5	0.0	5.2	-23.8	0.0	-10.0	29.1	-37.6
Mitsui	92.0	80.6	70.0	7.1	-1.0	0.0	-31.0	55.6	17.9
Taiyo	1.2	-14.3	0.0	1.7	-10.9	6.9	4.9	11.4	7.0
Daido	6.9	3.3	0.0	1.5	-27.7	1.3	-0.0	7.7	-17.1
Fukoku	20.4	20.1	20.2	1.3	-1.9	0.0	-20.2	16.0	-7.6
10-company total	415.3	262.2	214.7	261.0	-355.4	38.3	-71.2	333.3	-446.5
Gibraltar	41.2	-322.6	0.0	0.5	0.5	0.8	-0.1	12.9	-312.5
American Family	0.1	0.1	0.0	0.1	-0.1	0.5	-0.1	56.8	11.7
AXA Life Group	0.3	-12.8	0.0	6.9	-17.9	0.0	0.0	-63.7	45.9
AIG Star	13.1	-	0.0	1.6	-	0.5	-	10.0	-
GE Edison	3.9	2.7	0.0	0.2	0.1	0.5	0.1	-13.9	-21.6
Sony	0.1	0.1	0.0	0.0	-0.2	0.3	0.0	12.0	51.4
Alico Japan	0.0	-0.1	0.0	0.1	-0.0	0.6	0.1	13.4	-4.7
Manulife	0.0	-6.3	0.0	0.7	0.3	0.1	0.1	6.8	41.0
Prudential	0.0	0.0	0.0	0.0	-0.0	0.1	0.1	0.0	0.0
Tokio Marine Anshin	0.0	0.0	0.0	0.0	-0.0	0.1	0.0	0.0	0.0
Overall total	460.9	-76.8	214.7	269.5	-372.7	41.4	-70.9	357.6	-635.3

Note: (1) Figures for Gibraltar for FY00 are from 24 October 2000 to 2 April 2001. (2) Overall totals exclude AIG Star.

Source: Nomura, from companies' results documents

3. Finances

The average solvency margin ratio of the 10 major life insurers dropped 49.7 percentage points year on year to 628.2% at the end of March 2002. This was because, although the total amount of risk (the denominator) fell, mainly thanks to a reduction in asset management risk as a result of the sale of equity holdings and the fall in the market value of equity holdings owing to the fall in share prices, there was an even greater fall in the solvency margin—the numerator—owing to the decline in unrealized gains on securities. However, Yasuda Life, Mitsui Life, and Daido Life saw their solvency margin ratios rise—in Yasuda Life's case because it reduced its asset management risk by hedging its equity holdings, in Mitsui Life's case because it raised funds, and in Daido Life's case because it recorded an increase in unrealized gains on marketable securities after switching its bond holdings for group annuities from bonds to be held to maturity to other marketable securities.

Net asset value, which serves as a yardstick for determining whether or not an insurer is effectively insolvent, totaled ¥13.66 trillion at the 10 majors at end-March 2002, down 21.6% year on year, more or less mirroring the fall in the total solvency margin.

At some companies, the solvency margin was greater than net asset value, while at others the reverse was true. This is because the solvency margin includes subordinated loans, deferred tax assets, future profits, and unrealized gains/losses on other marketable securities only, while net asset value does not include subordinated loans, deferred tax assets, or future profits, but does include unrealized gains/losses on bonds to be held to maturity and debt securities matched to liability reserves.

At the end of March 2002, total capital at the 10 major life insurers was up ¥421.5 billion year on year to ¥5.95 trillion. However, this was largely because Nippon Life booked ¥1.40 trillion in valuation gains as a result of adopting mark-to-market accounting in FY01. If we exclude this extraordinary factor, total capital actually fell, largely because of a decline in valuation gains.

To counter this trend, many insurers are taking steps to raise funds in order to strengthen their balance sheets and boost their retained profits. In FY01 Asahi Life, Yasuda Life, Mitsui Life, and Fukoku Life all raised funds. This resulted in increased capital for Asahi Life and Mitsui Life.

In FY02, too, we expect to see continued efforts to beef up finances and boost retained profits, with planned fund-raising amounting to ¥150.0 billion at Nippon Life, ¥80.0 billion at Dai-Ichi Life, ¥60.0 billion at Meiji Life, and ¥11.0 billion at Asahi Life.

Figure 7 Solvency Margin Ratios and Net Asset Value

(¥ billion except where noted)

	Solvency margin			Total risk			Solvency margin ratio (%)			Net asset value			Net asset ratio (%)		
	01/3	02/3	% y-y	01/3	02/3	% y-y	01/3	02/3	% y-y	01/3	02/3	% y-y	01/3	02/3	% y-y
Nippon	6,185.4	5,218.2	-15.6	1,589.8	1,460.9	-8.1	778.1	714.4	-63.7	7,211.4	5,967.6	-17.2	18.3	14.2	-4.1
Dai-ichi	3,173.7	2,468.9	-22.2	930.3	832.7	-10.5	682.3	593.0	-89.3	3,150.5	2,409.9	-23.5	11.0	8.7	-2.3
Sumitomo	1,843.2	1,479.5	-19.7	668.7	553.6	-17.2	551.3	534.5	-16.8	1,520.0	980.0	-35.5	6.8	4.5	-2.3
Meiji	1,746.0	1,424.1	-18.4	523.4	467.4	-10.7	667.2	609.4	-57.8	1,936.9	1,628.4	-15.9	11.8	10.0	-1.8
Asahi	965.5	544.4	-43.6	355.4	260.8	-26.6	543.4	417.6	-125.8	571.0	393.6	-31.1	5.3	5.2	-0.1
Yasuda	964.4	766.2	-20.5	320.1	250.1	-21.9	602.6	612.8	10.2	888.5	702.3	-21.0	9.1	7.4	-1.7
Mitsui	642.0	516.5	-19.5	280.6	202.2	-22.4	492.7	510.7	18.0	379.1	277.8	-26.7	4.2	3.5	-0.6
Taiyo	766.3	586.4	-23.5	190.0	152.6	-19.7	806.8	768.8	-38.0	677.5	455.6	-32.7	9.5	6.7	-2.7
Daido	475.5	437.5	-8.0	125.5	113.3	-9.7	757.6	772.0	14.4	618.9	471.2	-23.9	11.0	8.2	-2.8
Fukoku	474.2	393.3	-17.1	121.7	111.1	-8.7	779.3	708.2	-71.1	470.9	374.8	-20.4	10.1	8.1	-2.1
10-company total	17,236.1	13,834.9	-19.7	5,085.4	4,404.6	-13.4	677.9	628.2	-49.7	17,424.7	13,661.3	-21.6	11.3	9.1	-2.2
Gibraltar	140.0	263.1	87.9	72.2	47.9	-33.7	387.9	1,099.3	711.4	-	-	-	-	-	-
American Family	647.8	609.9	-5.8	97.2	99.6	2.5	1,333.4	1,225.3	-108.1	-	-	-	-	-	-
AXA Life Group	180.9	141.4	-21.8	75.7	62.1	-17.9	477.9	455.2	-22.7	-	-	-	-	-	-
AIG Star	133.0	168.0	26.3	43.6	35.9	-17.6	610.4	935.7	325.3	-	-	-	-	-	-
GE Edison	211.5	198.5	-6.1	40.6	39.2	-3.4	1,043.2	1,013.2	-30.0	-	-	-	-	-	-
Sony	312.8	293.8	-6.1	32.8	39.3	19.9	1,905.9	1,493.5	-412.4	-	-	-	-	-	-
Alico Japan	244.4	257.8	5.5	36.8	41.7	13.4	1,327.9	1,235.3	-92.6	317.5	307.5	-3.1	23.4	18.9	-4.4
Manulife	76.7	92.1	20.1	2.5	18.0	632.6	6,256.9	1,025.7	-5,231.2	-	-	-	-	-	-
Prudential	92.5	89.9	-2.8	12.5	15.3	22.4	1,475.6	1,171.9	-303.7	-	-	-	-	-	-
Tokio Marine Anshin	52.6	66.6	26.7	6.0	7.2	19.4	1,744.0	1,850.4	106.4	-	-	-	-	-	-
Overall total	19,328.3	16,016.1	-17.1	5,505.3	4,810.9	-12.6	702.2	665.8	-36.3	-	-	-	-	-	-

Note: Net asset ratio = net asset value/general account assets

Source: Nomura, from companies' results documents

	Funds + capital		Legal reserves		Revaluation gains/losses		Surplus		Valuation gains/losses		Total capital		Subordinated bonds/loans	
	Y-1	Y-2	Y-1	Y-2	Y-1	Y-2	Y-1	Y-2	Y-1	Y-2	Y-1	Y-2	Y-1	Y-2
Nippon	450.0	0.0	155.6	0.8	77.8	77.8	653.1	51.9	1,400.4	1,400.4	2,736.9	1,530.9	-	-
Dai-ichi	150.0	0.0	73.6	0.2	22.7	-0.4	225.3	-22.0	526.3	-438.6	998.0	-460.8	100.0	0.0
Sumitomo	169.0	0.0	3.3	0.3	-62.5	8.0	343.8	-19.2	-112.9	-212.0	340.8	-222.9	545.0	150.0
Meiji	60.0	-20.0	101.9	20.2	66.1	5.4	90.5	-91.5	336.4	-141.3	654.9	-227.1	-	-
Asahi	200.0	151.0	51.4	49.2	1.8	-90.3	58.9	-141.8	-34.7	77.7	277.4	45.8	123.0	-150.0
Yasuda	90.0	30.0	42.2	0.4	18.2	4.6	109.6	-36.3	5.5	-129.6	265.5	-131.0	100.0	-11.4
Mitsui	169.0	135.0	2.5	0.2	-	-	107.9	26.8	-67.7	-80.7	211.7	81.3	223.0	-22.0
Taiyo	24.0	-3.0	7.3	3.0	-21.2	-21.2	136.5	-3.4	30.5	-120.2	177.1	-144.8	85.0	0.0
Daido	0.0	-6.8	36.1	7.0	-	-	86.4	-32.8	41.5	1.1	164.0	-31.5	-	-
Fukoku	30.0	30.0	1.7	0.1	4.7	4.7	49.5	-5.0	34.8	-48.1	120.6	-18.4	32.5	0.0
10-company total	1,342.0	316.2	475.5	81.4	107.6	-11.4	1,861.6	-273.3	2,160.1	308.6	5,946.8	421.5	1,208.5	-33.4
Gibraltar	50.0	-7.6	0.0	-0.4	-	-	12.9	71.0	6.6	-15.2	69.5	47.7	98.0	98.0
American Family	0.3	0.0	0.0	0.0	-	-	143.6	33.9	205.9	205.9	350.0	239.8	-	-
AXA Life Group	150.9	35.0	130.6	35.0	-	-	-207.6	-63.7	-55.6	-55.6	18.2	-49.4	56.6	-1.4
AIG Star	30.0	0.0	0.0	0.0	-	-	10.0	9.0	12.6	12.6	52.6	21.6	30.0	0.0
GE Edison	66.5	0.0	65.5	0.0	-	-	-16.4	-13.9	0.8	0.8	116.4	-13.1	72.0	0.0
Sony	65.0	0.0	25.6	0.0	-0.8	-0.8	-24.8	12.0	20.1	-16.2	85.2	-5.0	-	-
Alico Japan	45.5	41.2	0.0	0.0	-	-	13.4	-22.8	52.8	52.8	111.9	71.2	-	-
Manulife	48.4	0.0	0.0	-46.6	-	-	6.2	53.4	-8.8	-8.8	45.9	-2.0	25.0	0.0
Prudential	10.0	0.0	0.0	0.0	-	-	-1.4	0.0	0.7	0.7	9.3	0.7	-	-
Tokio Marine Anshin	30.0	0.0	0.0	0.0	-	-	-3.5	0.0	0.9	-0.7	27.4	-0.7	-	-
Overall total	1,838.6	384.8	697.2	69.4	106.8	-12.2	1,794.1	-194.5	2,396.2	485.0	6,833.3	732.5	1,490.1	63.2

Source: Nomura, from companies' results documents

Figure 8 Breakdown of Shareholders' Equity at End-FY01

4. Asset Management

At end-March 2002, total general account assets at the 10 major companies were down by just under ¥3.9 trillion to ¥149.9 trillion, mainly because of a decline in the market value of their equity holdings. However, general account assets at Nippon Life, which introduced mark-to-market accounting in FY01, rose by ¥2.7 trillion, reflecting the market value of its equities.

Figure 9 Breakdown of General Account Assets at End-FY01

(¥ billion)

	Cash/call loans		Money trusts		Securities		Bonds		Equities	
	% of total		% of total		% of total		% of total		% of total	
Nippon	511.4	1.2	548.7	1.3	25,637.6	61.0	12,336.4	29.4	7,407.9	17.6
Dai-ichi	561.7	2.0	99.0	0.4	18,129.8	65.4	9,946.1	35.9	4,514.1	16.3
Sumitomo	631.7	2.9	0.0	0.0	11,411.5	52.1	5,244.0	24.0	2,295.6	10.5
Meiji	666.9	4.1	15.0	0.1	8,912.6	54.8	4,577.2	28.1	2,714.3	16.7
Asahi	441.2	5.8	27.5	0.4	3,434.0	45.2	1,562.3	20.6	946.2	12.5
Yasuda	279.6	3.0	382.3	4.0	4,369.5	46.2	1,818.8	19.2	1,044.4	11.1
Mitsui	658.8	8.4	0.3	0.0	4,002.0	50.8	2,109.1	26.8	905.9	11.5
Taiyo	148.7	2.2	95.9	1.4	3,803.8	56.3	2,532.6	37.5	576.4	8.5
Daido	330.2	5.7	95.2	1.7	3,832.8	66.6	2,951.8	51.3	296.9	5.2
Fukoku	457.9	9.9	202.4	4.4	2,208.9	47.6	1,501.0	32.3	459.0	9.9
10-company total	4,688.1	3.1	1,466.4	1.0	85,742.5	57.2	44,579.3	29.7	21,160.7	14.1
Gibraltar	144.9	3.8	0.0	0.0	2,793.2	74.2	2,277.5	60.5	90.7	2.4
American Family	57.6	1.6	0.0	0.0	2,974.9	80.1	1,304.2	35.1	14.3	0.4
AXA Life Group	161.5	4.8	1,782.1	52.7	575.0	17.0	105.6	3.1	154.6	4.6
AIG Star	94.2	5.0	0.0	0.0	1,113.9	59.2	668.9	35.6	47.3	2.5
GE Edison	92.4	4.7	0.0	0.0	1,373.9	69.7	395.4	20.1	71.5	3.6
Sony	301.0	18.5	248.8	15.3	944.1	58.2	776.9	47.9	11.9	0.7
Alico Japan	44.4	3.2	0.5	0.0	1,157.9	82.7	752.1	53.7	9.1	0.7
Manulife	10.2	1.0	26.1	2.4	757.5	71.1	327.5	30.7	56.8	5.3
Prudential	12.8	2.1	0.0	0.0	530.4	85.5	392.3	63.2	14.4	2.3
Tokio Marine Anshin	42.7	6.5	0.0	0.0	504.6	76.8	501.5	76.3	3.0	0.5
Overall total	5,650.0	3.3	3,523.9	2.1	98,467.9	57.9	52,081.1	30.6	21,634.3	12.7

	Overseas securities		Loans		Real estate		Total		Assets in overseas currencies	
	% of total		% of total		% of total		y-y		% of total	
Nippon	5,131.3	12.2	12,194.2	29.0	1,905.7	4.5	42,009.1	2,707.6	4,829.8	11.5
Dai-ichi	3,534.7	12.8	6,346.1	22.9	1,497.7	5.4	27,712.0	-981.8	2,943.4	10.6
Sumitomo	3,657.0	16.7	6,375.2	29.1	1,116.5	5.1	21,889.8	-452.5	1,306.6	6.0
Meiji	1,586.3	9.8	5,124.8	31.5	1,008.8	6.2	16,262.9	-153.4	1,491.3	9.2
Asahi	870.0	11.5	2,762.5	36.4	621.3	8.2	7,590.5	-3,175.2	605.3	8.0
Yasuda	1,381.2	14.6	3,489.1	36.9	410.4	4.3	9,451.3	-267.6	1,202.4	12.7
Mitsui	934.8	11.9	2,511.8	31.9	452.3	5.7	7,883.4	-1,228.0	674.9	8.6
Taiyo	665.6	9.9	2,309.7	34.2	191.6	2.8	6,750.7	-416.8	611.0	9.1
Daido	461.9	8.0	1,157.3	20.1	179.3	3.1	5,754.3	102.3	305.9	5.3
Fukoku	224.1	4.8	1,443.6	31.1	210.8	4.5	4,640.4	-2.4	149.2	3.2
10-company total	18,446.8	12.3	43,714.3	29.2	7,594.4	5.1	149,944.4	-3,867.7	14,119.8	9.4
Gibraltar	395.2	10.5	445.8	11.8	38.9	1.0	3,765.0	-321.7	302.1	8.0
American Family	1,656.3	44.6	593.0	16.0	22.2	0.6	3,712.1	537.6	291.6	7.9
AXA Life Group	291.3	8.6	544.5	16.1	104.8	3.1	3,379.3	11.9	186.1	5.5
AIG Star	380.7	20.2	402.8	21.4	32.6	1.7	1,880.1	-490.0	313.2	16.7
GE Edison	905.8	46.0	247.1	12.5	34.9	1.8	1,970.7	-106.3	193.5	9.8
Sony	151.5	9.3	54.5	3.4	46.1	2.8	1,622.9	264.2	24.4	1.5
Alico Japan	358.1	25.6	163.7	11.7	0.5	0.0	1,399.9	295.3	393.4	28.1
Manulife	371.2	34.9	138.8	13.0	4.3	0.4	1,065.1	940.3	0.2	0.0
Prudential	115.6	18.6	45.0	7.2	8.7	1.4	620.5	111.3	3.6	0.6
Tokio Marine Anshin	0.0	0.0	7.6	1.2	0.1	0.0	657.1	198.3	0.0	0.0
Overall total	23,072.6	13.6	46,357.1	27.3	7,887.5	4.6	170,017.1	-2,426.8	15,827.9	9.3

Source: Nomura, from companies' results documents

The main distinguishing feature of the life insurers' FY01 results with regard to asset management was that many companies reduced their lending because of sluggish demand for funds and cut back their investments in money trusts and equities (risk assets). At the same time, however, as US interest rates fell, they also increased their investment in overseas bonds, after hedging the exchange rate risk.

Unrealized gains on securities at the 10 major life insurers totaled ¥4.49 trillion at end-March 2002, down ¥3.13 trillion from a year earlier. This is mainly because of a decline in unrealized gains on equities from ¥4.42 trillion in FY00 to ¥1.87 trillion in FY01.

Sumitomo Life, Asahi Life, Yasuda Life, and Mitsui Life all had unrealized losses on equities, and three out of these four, excluding Yasuda Life, were also saddled with unrealized losses on their overall securities portfolios. There were sizable differences between individual players, though, with Nippon Life alone notching up unrealized gains on equities totaling ¥1.71 trillion.

Moreover, as of end-September 2001, of the 10 majors, only Nippon Life had debt securities matched to its liability reserves, but by the end of FY01, six companies did. We think that this is because bonds are user-friendly, as this category of securities can be sold off to match the duration of the owner's liabilities, and also because they can be valued at cost.

Figure 11 sets out the book prices of equities in general accounts at end-March 2001 and end-March 2002. It also shows our estimates of the value of equities that the life insurers sold off, based on their net capital gains on equities in FY01, and assuming that their equity portfolios remained the same. According to our calculations, the 10 majors sold equities totaling just under ¥1.8 trillion in FY01, which we think included contributions to ETFs. We calculate that Sumitomo Life, Asahi Life, and Mitsui Life made the largest reductions in the value of their equity holdings.

We also tried to calculate the impact of equities on total risk, the denominator in the solvency margin ratio. Asset management risk for equities is calculated as follows: market value of equity holdings x 10% x 70% (portfolio diversification effect). We then calculated this risk as a proportion of total risk. The real asset management risk of equity holdings as a proportion of total risk is in fact smaller than this, but the figures nonetheless allow us to compare the individual insurers.

Figure 10 Market Value of Securities Holdings

	Bonds to be held to maturity		Debt securities matched to liability reserves		Equity holding in subsidiaries & affiliates		Other securities				Equities		Overseas securities		Total	
	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss	Unrealized gain/loss
Nippon	249.7	0.1	13,384.0	647.7	63.9	10.2	12,978.1	2,185.1	2.8	0.8	7,243.8	1,712.0	4,414.5	486.5	26,675.9	2,843.2
Dai-ichi	0.0	0.0	688.4	11.6	0.0	0.0	17,464.6	823.3	9,269.1	286.4	4,419.9	378.9	3,395.1	161.2	18,153.0	834.9
Sun生命	4,230.0	71.7	0.0	0.0	0.0	0.0	7,273.6	-177.2	2,529.4	97.4	2,206.6	-283.3	2,401.3	35.6	12,218.0	-87.6
Meiji	3,324.3	187.8	0.0	0.0	0.0	0.0	5,378.1	525.8	1,542.2	27.8	2,510.2	306.4	1,306.6	193.7	8,702.3	713.5
Asahi	239.6	5.0	52.2	-0.3	0.0	0.0	3,093.3	-54.3	1,431.6	18.3	909.1	-106.0	697.2	33.4	3,385.0	-49.5
Yasuda	81.6	2.6	1,048.6	16.6	0.0	0.0	3,112.2	8.6	747.8	12.6	965.7	-33.3	1,279.0	29.3	4,242.3	27.8
Mitsui	456.2	3.6	587.9	3.3	0.0	0.0	3,055.7	-58.0	1,487.1	31.6	857.5	-143.9	659.0	53.9	4,099.7	-51.1
Taiyo	216.9	-0.6	1,041.3	5.4	0.4	0.0	2,501.6	47.7	1,330.2	51.0	563.1	3.4	575.2	-4.6	3,760.2	52.4
Daido	1,565.9	76.2	0.0	0.0	0.0	0.0	2,326.9	64.4	1,522.1	56.0	278.2	18.0	290.7	-1.4	3,892.8	140.6
Fukoku	334.0	14.3	0.0	0.0	1.3	-0.1	1,753.5	54.5	1,097.8	23.8	450.3	18.5	153.1	14.7	2,088.8	68.7
10-company total	10,698.1	360.6	17,516.6	702.2	65.6	10.1	58,937.5	3,419.8	20,960.1	605.6	20,404.3	1,870.8	15,171.5	1,002.4	87,218.0	4,492.8
Glbratar	93.4	-0.8	1,564.2	19.1	0.0	0.0	1,153.8	10.3	743.5	5.0	90.5	5.0	289.9	-0.5	2,811.4	28.6
American Family	1,075.0	41.0	0.0	0.0	0.0	0.0	1,940.4	322.7	1,286.8	236.0	13.8	0.6	639.8	86.1	3,015.4	363.7
AXA Life Group	0.0	0.0	0.0	0.0	0.0	0.0	572.8	-24.2	105.6	1.6	152.4	-18.6	291.3	0.8	572.8	-24.2
AG Star	0.0	0.0	356.9	3.4	0.0	0.0	747.4	19.6	315.4	2.4	42.7	4.9	380.1	14.3	1,104.2	23.0
GE Edison	0.0	0.0	870.7	-15.2	0.0	0.0	443.4	1.3	179.6	1.5	0.0	0.0	235.8	0.5	1,314.1	-13.9
Sony	0.0	0.0	0.0	0.0	0.0	0.0	1,049.8	31.5	879.2	21.9	11.9	2.1	155.9	7.4	1,049.8	31.5
Alico Japan	19.8	3.7	279.6	7.4	0.0	0.0	787.9	82.7	552.9	42.4	7.4	1.4	222.9	39.4	1,087.3	93.8
Manulife	0.0	0.0	438.9	21.6	0.0	0.0	382.0	-8.8	251.7	0.2	56.5	-9.5	32.3	-0.0	820.9	12.9
Prudential	49.3	2.6	291.4	7.9	0.0	0.0	192.2	1.1	97.4	1.9	14.4	-1.1	80.4	0.3	532.8	11.7
Tokio Marine Anshin	476.4	14.4	0.0	0.0	0.0	0.0	42.6	1.5	39.5	1.4	3.0	0.1	0.0	0.0	519.0	15.9
Overall total	12,411.9	421.6	21,318.3	746.4	65.6	10.1	66,249.8	3,857.6	25,411.6	919.9	20,797.0	1,855.6	17,499.8	1,150.7	100,045.8	5,035.8

Source: Nomura, from companies' results documents

Figure 11 Indicators Related to Equities on the General Account

(¥ billion)

	01/3-end		02/3			02/3-end		02/3	02/3-end	02/3-end	(A/B)
	Book value	Unrealized gain/loss	Profits on the sale of equities	Losses on the sale of equities	Valuation losses on equities	Book value	Unrealized gain/loss	Estimated sale value	Market value of equities X 7% (A)	Total risk (B)	
Nippon	5,902.7	2,977.0	168.4	19.0	312.5	5,531.8	1,712.0	-207.8	507.1	1,460.9	34.7%
Dai-ichi	4,394.9	873.8	91.4	17.8	345.4	4,040.9	378.9	-82.2	309.4	832.7	37.2%
Sumitomo	3,092.6	13.3	41.9	127.0	94.9	2,489.9	-283.3	-422.8	154.5	553.6	27.9%
Meiji	2,658.4	486.6	46.5	81.5	220.6	2,203.8	306.4	-199.1	175.7	467.4	37.6%
Asahi	1,857.3	-237.0	49.3	77.5	286.3	1,015.0	-106.0	-527.8	63.6	260.8	24.4%
Yasuda	1,126.0	112.3	37.7	78.4	45.2	999.0	-33.3	-41.0	67.6	250.1	27.0%
Mitsui	1,389.2	-81.9	22.8	73.2	63.0	1,001.4	-143.9	-274.5	60.0	202.2	29.7%
Taiyo	565.5	153.9	26.5	29.7	1.6	559.7	3.4	-1.1	39.4	152.6	25.8%
Daido	323.2	48.7	36.0	53.6	52.4	260.3	18.0	7.1	19.5	113.3	17.2%
Fukoku	491.7	76.1	8.3	1.1	38.2	431.7	18.5	-28.9	31.5	111.1	28.4%
10-company total	21,801.5	4,422.8	528.9	558.7	1,460.1	18,533.5	1,870.8	-1,778.1	1,428.3	4,404.6	32.4%
Gibraltar	186.9	5.7	24.3	23.7	0.3	85.6	5.0	-101.6	6.3	47.9	13.2%
American Family	8.7	1.2	0.1	0.1	0.7	13.2	0.6	5.2	1.0	99.6	1.0%
AXA Life Group	178.4	-4.8	2.3	0.1	5.1	171.0	-18.6	-4.5	10.7	62.1	17.2%
AIG Star	47.4	0.4	2.2	2.0	8.9	37.8	4.9	-1.0	3.0	35.9	8.3%
GE Edison	0.0	0.0	0.1	0.0	0.0	0.0	0.0	-0.1	0.0	39.2	0.0%
Sony	5.0	2.3	1.3	0.0	0.4	9.8	2.1	3.9	0.8	39.3	2.1%
Alico Japan	6.8	2.0	0.5	0.2	1.4	6.0	1.4	0.3	0.5	41.7	1.2%
Manulife	0.0	0.0	0.1	3.8	1.1	66.0	-9.5	70.8	4.0	18.0	22.0%
Prudential	15.5	-0.4	0.3	0.5	0.4	15.5	-1.1	0.6	1.0	15.3	6.6%
Tokio Marine Anshin	2.9	0.4	0.0	0.0	0.0	2.9	0.1	0.0	0.2	7.2	3.0%
Overall total	22,253.2	4,429.4	560.2	589.1	1,478.4	18,941.4	1,855.6	-1,804.4	1,455.8	4,810.9	30.3%

Note: Estimated sale value = book value at end March 2002 - (book value at end March 2001 + profits on the sale of equities - losses on the sale of equities - valuation losses on equities)

Source: Nomura, from companies' results documents

Figure 12 The Outstanding Balance of Subordinated Loans

(¥ billion)

	98/3	99/3	00/3	01/3	02/3
Nippon	1,319.7	1,126.9	1,076.3	932.3	782.7
Dai-ichi	951.6	867.4	796.4	766.1	609.9
Sumitomo	748.3	713.2	671.6	555.4	547.9
Meiji	1,038.0	884.6	849.6	739.3	670.3
Asahi	718.9	685.3	663.2	577.9	449.9
Yasuda	578.3	563.3	514.8	476.4	464.3
Mitsui	468.5	434.7	417.7	402.0	394.5
Taiyo	374.1	325.3	342.3	356.3	363.4
Daido	213.2	177.2	169.7	176.7	180.2
Fukoku	179.9	170.0	171.0	154.6	145.6
10-company total	6,590.4	5,947.8	5,672.5	5,136.9	4,608.6

Source: Nomura, from companies' results documents

Figure 13 Breakdown of Loans by Debtor Classification as of End-FY01

(¥ billion)

	Loans to bankrupt borrowers		Delinquent loans		Delinquent loans in arrears		Total non-performing loans		As % of total credit extended		Total credit extended	
		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg
Nippon	26.4	-6.1	108.3	-3.6	28.8	-23.6	163.5	-33.4	1.2	-0.2	13,942.7	-566.7
Dai-ichi	18.7	-9.8	63.0	-15.5	12.5	-5.3	94.2	-30.7	1.3	-0.2	7,125.3	-1,000.5
Sumitomo	0.6	-1.7	43.3	0.8	20.9	-7.0	64.8	-7.9	0.9	-0.1	7,467.3	-310.2
Meiji	4.9	-4.9	12.8	2.5	11.4	-11.3	29.1	-13.7	0.5	-0.2	5,853.4	-479.8
Asahi	8.1	-2.9	52.6	-15.2	22.4	-1.0	83.1	-19.1	3.0	0.5	2,787.3	-1,336.7
Yasuda	3.4	-6.9	12.3	-20.1	17.6	14.4	33.3	-12.5	0.9	-0.3	3,820.6	-155.8
Mitsui	4.2	-2.3	27.0	-37.5	15.3	-25.3	46.5	-65.1	1.6	-2.0	2,894.2	-228.2
Taiyo	0.9	0.0	1.1	-0.2	12.3	-2.7	14.3	-2.8	0.6	-0.1	2,322.4	-101.0
Daido	3.5	0.7	7.7	-6.2	3.7	-5.0	14.9	-10.5	1.1	-1.0	1,346.1	147.6
Fukoku	0.5	-1.4	22.8	19.3	3.5	-15.7	26.8	2.2	1.8	0.1	1,452.5	11.4
10-company total	71.2	-35.2	350.9	-75.8	148.5	-82.4	570.5	-193.5	1.2	-0.3	49,011.7	-4,019.7
Gibraltar	6.4	-25.4	1.2	-4.9	2.5	0.3	10.1	-30.0	2.3	-2.0	448.8	-486.7
American Family	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	601.1	392.8
AXA Life Group	12.9	-7.6	3.8	-2.0	3.3	-5.1	20.0	-14.7	3.7	-0.2	548.3	-365.1
AIG Star	1.2	0.7	19.7	-6.2	0.0	-0.2	20.9	-5.7	5.2	1.0	404.7	-241.4
GE Edison	1.9	0.1	14.8	-1.3	0.2	-0.3	16.9	-1.5	6.8	2.6	247.8	-190.4
Sony	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	55.5	11.7
Alico Japan	0.0	0.0	10.3	0.0	0.0	0.0	10.3	0.0	6.0	-0.8	171.4	20.3
Manulife	0.0	0.0	3.5	3.5	0.0	0.0	3.5	3.5	2.5	2.5	140.6	131.8
Prudential	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	54.3	30.2
Tokio Marine Anshin	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	54.1	30.3
Overall total	93.5	-67.4	404.3	-86.6	154.5	-87.8	652.3	-241.9	1.3	-0.3	51,738.4	-4,686.3

Source: Nomura, from companies' results documents

Our calculations show that risk associated with equity holdings is greater at major Japanese life insurers than at their overseas counterparts, and that there are sizable differences between individual insurers in this respect. We believe that, from now on, Japan's life insurers will need to trim their equities further in order to reduce their asset management risk and thus raise—and stabilize—their solvency margin ratios.

Figure 12 shows subordinated loans as a proportion of total lending on the general accounts of the 10 major life insurers. The outstanding balance of subordinated loans at the 10 majors at end-March 2002 was down 10.3% year on year to ¥4.61 trillion, marking a slide of 30% from the level at end-March 1998. We think this is because the insurers have been reducing their new lending, while at the same time the fixed-term subordinated loans issued in the past have been reaching their repayment dates.

Meanwhile, while no figures are actually disclosed, we think that there has been an increase in the amount invested by the life insurers in preferred securities and subordinated bonds issued by major banks, leading us to conclude that there has been little decrease in the life insurers' exposure to the banking sector. When life insurers raise funds, major banks in the same financial group are frequently major investors, which means that the relationship of interdependence between banks and life insurers has, if anything, grown.

For life insurance companies, the problem of non-performing loans is less than that of the risk of fluctuations in the prices of their marketable securities, and tends to have a smaller impact on earnings. As of the end of March 2002, non-performing loans at the 10 majors, disclosed in accordance with the Financial Restructuring Law totaled ¥570.5 billion, down ¥193.5 billion from a year earlier. The figure represented 1.2% of total credit extended, down 0.3 percentage point year on year.

For FY02, we think that core profits will continue their downward trend as policy amounts in force fall and continued low interest rates result in substantial negative spreads.

Against this backdrop, we think the challenges for FY02 will be (1) to pare down risk by shedding equity holdings and scaling back group annuity operations on the general account and (2) to beef up balance sheets and retained profits by raising funds and cutting dividends to policyholders.

Of Japan's 10 major life insurers, 9, excluding listed Daido Life, apparently plan to change their articles of incorporation at their July general members' meetings so that they can change their maximum dividends to policyholders from the current 80% or more of their surplus available for dividends at the end of term to 20% or more. This will enable them to pour profits resulting from capital gains and other means back into retained profits, even if they keep dividends at the same level as before.

As far as shoring up their finances and retained profits by raising funds is concerned, we think that most efforts will take the form of fund-raising from institutional investors through the issuance of fund-backed securities, as major banks in the same financial group increasingly lack the capacity to act as major investors. However, as the number of companies able to issue such fund-backed securities is likely to be limited, we think there is a possibility of increased polarization between companies able to expand operations by raising funds and those that aim to raise solvency margin ratios by paring down risk.

Another key issue, in our view, is that the restrictions on banks selling insurance products over the counter are due to be lifted in October. Because of the current low level of interest rates and the stock market slump, the environment for sales of individual variable annuities, which look set to be the main insurance products sold via banks, cannot be described as ideal. Nevertheless, we think these products are likely to become the next-biggest product after investment trusts as far as the banks are concerned, thanks in part to their high commissions. We therefore think it will be worth watching how each life insurer develops its product line-up and sales channel policy.