Outline of FY02 results at the major life insurers

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1. New policies written and policies in force

FY02 (ended March 2003) earnings results for the major life insurers remained bleak from the previous fiscal year amid the harsh environment for insurance underwriting. The value of policies in force continued to decline and earnings were weighed down by negative spreads due to persistently weak interest rates. In addition, the decline of stock prices gave rise to valuation losses on securities holdings and deterioration in solvency margins. Amid these circumstances, insurers picked up the pace of restructuring by promoting sales of securities holdings in a bid to lessen related risks and withdrawing from low-margin operations, such as the group insurance and group annuity businesses.

The balance of total policies newly written by the 10 leading life insurers in FY02 (including net increases due to conversion) fell 7.9% year on year, to ¥110,730 billion, turning down for the first time in three years. In addition to a 7.2% decrease for mainstay individual insurance products, the group insurance segment saw a considerable 18.0% year-on-year drop as the shift of policies from other companies tapered off. At the same time, new policies written for individual annuity insurance climbed 39.6%, due in part to the lifting of the ban on over-the-counter sales of insurers' products via banks from October 2002.

Looking at insurers separately, the balance of new polices written in the mainstay category of individual life insurance declined at seven of the 10 majors, with especially conspicuous falls noted for companies focusing on the new account-style products, such as Sumitomo Life Insurance and Meiji Life Insurance. We thus think the positive effects of the new account-style insurance products that were introduced in FY00 have run their course. Meanwhile, the balance of newly written individual policies increased at Nippon Life Insurance on strong demand for its core whole life policy for health and long-term care benefits, including death benefits; at Taiyo Life Insurance due to the company's shift to insurance products from previous savings-type products; and at Daido Life Insurance on the effectiveness of a wider lineup, including non-participating policies.

As for companies other than the 10 majors, Gibraltar Life Insurance, Axa Life Insurance Group, and Tokio Marine Life Insurance saw considerable growth in the individual insurance segment as the adverse impact of higher insurance rates seems to have petered out, and reinforced sales structures apparently proved effective. Also, robust growth was noted at GE Edison Life Insurance, due mainly it seems to the company's acquisition of Saison Life Insurance.

The balance of policies in force at the 10 leading insurers declined 3.7% year on year, to ¥1,492,270.8 billion, falling for the sixth consecutive year. Out of the total, in terms of the aggregate value of individual insurance and individual annuity policies, the balance of cancellations and lapsed policies declined by 6.1% year on year to ¥107,671.7 billion, thanks to efforts by all the majors to prevent cancellations. Even so, the balance of newly written policies also fell by 6.6% to ¥99,261.5 billion, so cancellations and lapsed policies still outweighed newly written policies. The balance of policies in force thus declined 4.2% year on year, to ¥1,097,748.5 billion. Three major insurers managed to mark year-on-year growth in the balance of policies in force for individual and individual annuity products; they were Taiyo Life, Daido Life, and Fukoku Mutual Life Insurance.

Figure1 Trends in individual insurance and individual annuity policies in FY02

	Individual insurance						Individual annuities						Cancelled/lapsed policies			
	New policy amount (¥ bn)	(% y-y)	Decrease in existing policies (¥ bn)	(% y-y)	Policy amount in force (¥ bn)	(% y-y)	New policy amount (¥ bn)	(% y-y)	Decrease in existing policies (¥ bn)	(% y-y)	Policy amount in force (¥ bn)	(% y-y)	Cancelled/ lapsed policies (¥ bn)	(% y-y)	% of cancellations/ lapsed policies (%)	(% y-y)
Nippon	24,525.4	8.0	34,501.7	2.7	279,133.4	-3.5	717.2	28.3	884.8	-3.1	15,545.8	-1.1	24,824.7	0.1	8.1	0.3
Dai-Ichi	17,684.5	-4.0	25,152.0	1.4	205,916.8	-3.5	177.5	54.2	327.2	-9.4	6,682.6	-2.2	19,518.3	0.0	8.9	0.3
Sumitomo	15,786.9	-16.2	25,454.8	-6.2	177,764.8	-5.2	378.9	85.6	662.0	-17.7	10,610.2	-2.6	18,859.2	-11.3	9.5	-0.8
Meiji	8,762.4	-27.8	15,956.2	-0.3	107,045.7	-6.3	128.2	6.8	407.0	-13.9	7,407.8	-3.6	12,698.2	-2.4	10.4	0.1
Asahi	7,860.3	-10.9	13,485.2	-14.0	64,852.1	-8.0	-60.9	-36.7	743.5	-36.9	4,683.1	-14.7	10,925.6	-15.8	14.4	-1.0
Yasuda	7,024.2	-13.3	10,554.8	-4.1	63,133.6	-5.3	170.8	13.8	307.4	-10.8	4,314.4	-3.1	7,746.4	-4.6	10.9	0.0
Mitsui	5,527.1	-0.9	8,632.2	-16.2	56,083.8	-5.2	146.3	42.5	232.0	-34.7	2,450.0	-3.4	6,158.0	-22.5	10.0	-1.9
Taiyo	2,091.0	2.1	1,808.1	1.0	10,500.2	2.8	84.4	-39.8	331.5	-2.0	4,768.4	-4.9	1,318.9	9.0	8.7	0.7
Daido	4,533.6	0.6	4,191.4	-7.9	38,181.1	0.9	139.8	119.8	68.4	-14.2	1,161.5	6.5	3,290.7	-5.8	8.5	-0.5
Fukoku	3,474.3	-4.3	3,336.2	5.2	35,168.7	0.4	109.6	62.4	136.6	-7.9	2,344.5	-1.1	2,331.8	2.2	6.2	0.1
Total	97,269.7	-7.2	143,072.6	-3.3	1,037,780.2	-4.2	1,991.8	39.6	4,100.4	-17.9	59,968.3	-3.4	107,671.7	-6.1		
Gibraltar	1,588.4	53.8	3,896.1	-53.8	23,663.3	-8.9	6.1	-40.2	79.6	-74.2	905.6	-7.5	-	-	-	-
American Family	856.3	1.9	453.4	17.2	5,867.2	7.4	168.4	296.2	20.3	178.1	284.2	108.8	-	-	-	-
Axa Life Ins Group	1,725.2	14.6	1,697.9	-3.4	12,986.3	0.2	19.2	-45.1	147.4	-15.1	2,072.9	-5.8	1,511.8	-8.9	10.0	-0.7
AIG Star	1,218.4	-29.1	3,471.5	-50.4	14,684.7	-13.3	0.0	-	76.0	-68.9	684.3	-10.0	-	-	-	-
GE Edison	938.5	22.9	-793.2	-	8,964.1	23.9	145.7	25.9	-155.4	-	1,182.8	34.1	-	-	-	-
Sony	3,518.3	-9.6	2,237.2	15.3	24,689.1	5.5	18.9	-19.2	3.7	208.3	103.8	17.2	1,869.8	13.0	8.0	0.3
Alico Japan	2,201.5	4.5	1,311.6	6.5	14,325.6	6.6	139.8	31.8	25.3	-	329.3	53.3	-	-	-	-
Manulife	646.6	-37.3	1,402.3	-	5,722.6	-11.7	26.3	33.5	53.2	-	355.7	-7.0	-	-	-	-
Prudential	2,602.2	-5.5	1,288.0	15.7	17,210.3	8.3	0.0	-	-1.4	-26.3	8.7	19.2	-	-	-	-
Tokio Marine Anshin	1,443.2	24.8	603.8	23.9	7,428.0	12.7	234.3	2340.6	10.6	8.2	366.4	156.8	-	-	-	-
Total	114,008.3	-6.2	158,641.2	-6.7	1,173,321.4	-3.7	2,750.5	53.8	4,359.7	-22.5	66,262.0	-2.4				

Notes: (1) Figures for new policy amounts include net increases due to conversion. (2) Figures for cancelled/lapsed policies are totals for both individual insurance and individual annuity policies. (3) Figures for Axa Life Insurance Group are totals for both Axa Group Life Insurance and Axa Life Insurance.

Source: Nomura, from company materials

Figure2 Trends in group insurance and group annuity policies in FY02

	Group insurance				Group annuities				Total			
	New policy amount (¥ bn)	(% y-y)	Policy amount in force (¥ bn)	(% y-y)	New policy amount (¥ bn)	(% y-y)	Policy amount in force (¥ bn)	(% y-y)	New policy amount (¥ bn)	(% y-y)	Policy amount in force (¥ bn)	(% y-y)
Nippon	1,160.4	-59.9	80,054.2	5.2	2.1	-16.0	9,760.8	-6.3	26,405.1	0.9	384,494.2	-1.8
Dai-Ichi	2,740.9	37.6	54,193.5	3.2	0.5	-81.5	7,067.0	-8.1	20,603.4	0.3	273,859.9	-2.3
Sumitomo	1,104.8	-19.9	39,273.2	-4.3	0.7	-83.7	3,735.4	-17.1	17,271.3	-15.4	231,383.6	-5.1
Meiji	843.0	-46.1	52,845.5	-0.7	0.5	-75.0	4,547.5	-4.1	9,734.1	-29.6	171,846.5	-4.5
Asahi	0.5	-99.9	7,632.3	-37.5	0.0	-	199.6	-61.6	7,799.9	-17.9	77,367.1	-12.8
Yasuda	4,724.0	231.6	67,828.3	-4.5	0.4	300.0	3,282.0	-6.6	11,919.4	23.1	138,558.3	-4.9
Mitsui	87.7	-96.3	20,551.6	-11.9	0.0	-	1,483.1	-13.5	5,761.1	-28.5	80,568.5	-7.1
Taiyo	106.7	-61.2	10,979.9	-0.4	0.0	-	801.5	-1.4	2,282.1	-7.3	27,050.0	-0.1
Daido	497.6	-6.7	12,365.8	3.8	0.0	-	2,441.8	-4.4	5,171.0	1.3	54,150.2	1.4
Fukoku	193.3	-74.6	13,583.0	3.6	5.4	20.0	1,896.3	-0.1	3,782.6	-15.3	52,992.5	1.1
Total	11,458.9	-18.0	359,307.3	-1.7	9.6	-46.2	35,215.0	-8.2	110,730.0	-7.9	1,492,270.8	-3.7
Gibraltar	142.8	126.3	2,695.0	-48.0	0.0	-	278.5	-3.4	1,737.3	57.0	27,542.4	-15.1
American Family	-	-	-	-	-	-	-	-	1,024.7	16.1	6,151.4	9.8
Axa Life Ins Group	185.9	45.5	11,254.7	-9.2	0.3	-	1,111.9	20.8	1,930.6	15.8	27,425.8	-3.7
AIG Star	198.4	-1.0	2,158.4	-50.3	0.0	-	313.8	-8.8	1,416.8	-26.2	17,841.2	-20.3
GE Edison	885.1	49.4	5,062.5	-6.9	0.0	-	147.2	1.6	1,969.3	33.8	15,356.6	12.1
Sony	4.9	-78.7	857.0	13.3	0.3	-99.0	64.1	0.2	3,542.4	-10.7	25,714.0	5.7
Alico Japan	413.7	24.5	2,117.5	4.8	-	-	-	-	2,755.0	8.2	16,772.4	7.0
Manulife	0.0	-	258.5	-50.7	0.0	-	24.4	-14.4	672.9	-39.0	6,361.2	-14.2
Prudential	0.0	-	17.4	4.2	-	-	-	-	2,602.2	-5.5	17,236.4	8.3
Tokio Marine Anshin	313.0	-26.3	2,766.7	20.9	0.0	-	15.3	-15.0	1,990.5	25.1	10,576.4	17.0
Total	13,602.7	-13.9	386,495.0	-3.0	10.2	-78.4	37,170.2	-7.5	130,371.7	-6.4	1,663,248.6	-3.5

Notes: (1) Figures for new policy balance include net increases due to conversion. (2) Figures for Axa Life Insurance Group are totals for both Axa Group Life Insurance and Axa Life Insurance.

Source: Nomura, from company materials

Figure3 Retail sales of insurance products via banks (October 2002 - March 2003)

	Variable annuity			Fixed annuity			Total		
	No. of policies	Insurance premiums (¥ mn)	Avg. premiums per policy (¥ thou)	No. of policies	Insurance premiums (¥ mn)	Avg. premiums per policy (¥ thou)	No. of policies	Insurance premiums (¥ mn)	Unit price premiums per policy (¥ thou)
Nippon	7,006	46,901	6,694	2,335	3,951	1,692	9,341	50,852	5,444
Dai-Ichi	6,532	39,153	5,994	480	2,368	4,933	7,012	41,521	5,921
Sumitomo	26,131	79,464	3,041	382	1,104	2,890	26,513	80,568	3,039
Meiji	713	4,306	6,039	3,271	20,296	6,205	3,984	24,602	6,175
Asahi			0			0			0
Yasuda	776	2,475	3,189	4,877	16,683	3,421	5,653	19,158	3,389
Mitsui	9,470	60,508	6,389			0	9,470	60,508	6,389
Taiyo			0			0			0
Daido			0			0			0
Fukoku	69	183	2,652	11,933	12,060	1,011	12,002	12,243	1,020
Total	50,697	232,990	4,596	23,278	56,462	2,426	73,975	289,452	3,913

Source: Nomura, from company materials

2. Earnings trends

Core profits, an indicator of operating earnings at life insurers, continued to decline in FY02 with the 10 majors reporting a 3.6% year-on-year fall, to ¥1,999.4 billion. Although leading insurers lowered expected rates of returns on group annuity policies in FY02, which should have helped boost profits, core profits decreased in the end because it seems the impact of the fall in the balance of policies in force was considerable.

Combined negative spread at the 10 majors contracted 6.6% year on year in FY02, but was still high at ¥1,167.1 billion. While expected rates of return were lowered on the one hand, with returns from asset management continuing to diminish, the spread does not appear to be improving by much. The negative spread at Taiyo Life narrowed significantly because the company lowered the expected rate of return on individual annuity policies in FY01 in order to build up liability reserves. In contrast, the negative spread increased substantially at Daido Life on an unfavorable comparison against FY01 when the insurer had booked gains from the redemption of foreign investment trusts.

In addition, Asahi Mutual Life's expected rate of return increased compared with the year earlier, but we think that is attributable to the company's withdrawal from the group annuity insurance business (changes in the expected rate of return apply to all policies in force).

As for business expenses at the 10 majors, costs declined 6% year on year to ¥2,496.5 billion. In addition to the benefits of a decrease in head office expenses, we think most of the reduction in costs can be explained by the decline in the balance of new policies written. Looking at trends at individual insurers, we note that Taiyo Life and Daido Life both enjoyed an increase in new policies, and business expenses rose accordingly, it seems.

The 10 majors' combined adjusted core profits, or core profits less transfers to reserves for policyholder dividend payments, declined 3.3% from the previous fiscal year, to ¥1,604.2 billion. However, the decrease as a proportion to core profits contracted. We believe this was because transfers to reserve funds for policyholder dividend payments declined by 4.7% year on year, to ¥395.3 billion. As the current mainstay insurance product is the standard dividend-yielding policy for which interest-based dividends are paid every five years, we expect to see a decrease in transfers to reserve funds for policyholder dividend payments going forward as well. As such, we estimate the degree of decline in adjusted core profits should be less than that for core profits, and we think that that trend will likely continue.

A look at return on assets by using general account assets as the denominator, and core profits, adjusted core profits, and core profits before negative spread as the respective numerators, shows that profitability in FY02 weakened slightly from the year earlier when viewed in terms of any of the indicators.

If we break down earnings between the core profit level and recurring profits into capital gains/losses and one-time gains/losses, we see that the 10 leading insurers collectively incurred capital losses of ¥1,582.4 billion and booked one-time gains of ¥121.6 billion. As a result, aggregate recurring profits for the 10 companies amounted to a modest ¥538.6 billion, down 4.8% year on year. Marketable securities-related losses, including the unloading of shareholdings, reached ¥1,468.5 billion, up ¥403.9 billion from the year earlier, and represented the bulk of the capital losses. The companies posted one-time gains due namely to a decrease in bad debt-related losses and because some companies made use of contingency reserves, but that was not enough to make up for the capital losses.

The aggregate net balance for the 10 majors in FY02 increased 6.3% to ¥354.3 billion, with all 10 securing a surplus (indicated as a net profit at Daido Life) because in addition to a decrease in one-time losses from the sale of real estate and securities holdings, some companies booked one-time gains by using price-fluctuation reserves that they had build up to deal with potential future risks, such as risks associated with a fall of stock prices.

Although Asahi Mutual Life reported a net surplus, the company's equity capital was weighed down by valuation losses amounting to ¥201.2 billion on securities and property holdings. So under the provision stipulated by article 55 of the Insurance Business Law, which sets restrictions on the outflow of an insurer's surplus funds, the company deferred payment of dividends to all policyholders, including group insurance policyholders.

In addition, despite the harsh operating environment, some companies continued to transfer funds to contingency reserves and price-fluctuation reserves to protect themselves against such risks as those posed by a fall of stock prices, so we think the difference in financial soundness among major life insurers is widening.

Figure4 Comparison of core profits and profitability

	Gross core profits		Business costs		Core profits (a)		Negative spread (b)	
	02/3	03/3	02/3	03/3	02/3	03/3	02/3	03/3
Nippon	1,181.4	1,153.4	619.7	608.2	561.7	545.1	340.0	320.0
Dai-Ichi	857.8	825.0	480.0	458.7	377.7	366.3	254.9	250.4
Sumitomo	729.7	692.0	431.1	391.5	298.6	300.6	236.5	223.6
Meiji	556.4	532.5	297.8	273.3	258.6	259.2	78.9	69.5
Asahi	308.6	242.7	202.2	167.0	106.4	75.7	106.3	88.0
Yasuda	369.4	359.5	185.7	177.0	183.7	182.5	39.0	34.0
Mitsui	279.6	228.4	173.2	134.3	106.4	94.1	87.7	79.6
Taiyo	98.9	114.9	85.0	86.1	13.9	28.7	66.3	43.5
Daido	218.0	197.9	108.1	109.2	109.9	88.7	5.7	20.5
Fukoku	147.8	149.5	90.4	91.1	57.4	58.4	34.6	38.1
Total	4,747.6	4,496.0	2,673.4	2,496.5	2,074.3	1,999.4	1,249.9	1,167.1
Gibraltar	114.9	126.1	84.2	71.5	30.7	54.6	-	-
American Family	286.0	293.4	188.1	199.2	97.8	94.2	-	-
Axa Life Ins Group	120.8	116.9	130.6	121.4	-9.8	-4.5	41.6	33.3
AIG Star	91.4	93.4	60.2	44.3	31.2	49.1	-	-
GE Edison	32.4	-10.3	50.5	56.0	-18.2	-66.2	-	-
Sony	109.7	100.3	83.0	77.9	26.8	22.5	23.1	28.7
Alico Japan	137.2	144.7	112.7	135.1	24.5	9.7	-	-
Manulife	27.5	23.3	38.9	36.7	-11.4	-13.3	-	-
Prudential	51.2	53.4	49.6	50.6	1.7	2.8	-	-
Tokio Marine Anshin	50.2	55.8	40.1	47.5	10.1	8.3	-	-
Total	5,768.9	5,493.1	3,511.3	3,336.6	2,257.7	2,156.5		

	Transfers to reserves for dividends (c)		Adjusted core profits (d=a-c)		Core profits before negative spread (e=a+b)		General account assets (f)	
	02/3	03/3	02/3	03/3	02/3	03/3	02/3	03/3
Nippon	187.6	116.2	374.1	429.0	901.7	865.1	42,009.1	41,180.0
Dai-Ichi	23.1	42.3	354.6	323.9	632.6	616.7	27,712.0	27,408.4
Sumitomo	24.9	39.5	273.7	261.0	535.1	524.2	21,889.8	21,130.3
Meiji	28.5	47.7	230.1	211.6	337.5	328.7	16,262.9	15,602.0
Asahi	17.5	0.0	88.9	75.7	212.7	163.7	7,590.5	6,550.1
Yasuda	61.8	72.8	121.9	109.7	222.7	216.5	9,451.3	9,268.1
Mitsui	19.6	23.8	86.8	70.3	194.1	173.7	7,883.4	7,348.9
Taiyo	10.9	11.3	3.0	17.5	80.1	72.2	6,750.7	6,475.0
Daido	30.7	26.6	79.2	62.2	115.6	109.2	5,754.3	5,840.1
Fukoku	10.4	15.2	47.0	43.2	92.0	96.5	4,640.4	4,640.8
Total	415.0	395.3	1,659.3	1,604.2	3,324.2	3,166.5	149,944.4	145,443.8
Gibraltar	18.5	35.8	12.2	18.8	-	-	3,765.0	3,581.5
American Family	0.0	0.1	97.8	94.2	-	-	3,712.1	4,055.0
Axa Life Ins Group	15.1	15.8	-24.9	-20.3	31.8	28.8	3,379.3	3,789.7
AIG Star	1.2	0.5	30.0	48.6	-	-	1,880.1	1,743.4
GE Edison	3.4	2.8	-21.6	-69.1	-	-	1,970.7	2,309.0
Sony	0.6	0.6	26.2	21.9	49.9	51.2	1,622.9	1,863.7
Alico Japan	1.8	1.8	22.7	7.9	-	-	1,399.9	1,596.3
Manulife	-1.8	-0.3	-9.6	-13.0	-	-	1,065.1	894.3
Prudential	0.0	0.0	1.6	2.8	-	-	620.5	763.8
Tokio Marine Anshin	8.4	28.8	1.7	-20.6	-	-	657.1	1,161.0
Total	462.3	481.1	1,795.4	1,675.4			170,017.1	167,201.5

	Profitability 1 (g=a/f) (%)		Profitability 2 (h=d/f) (%)		Profitability 3 (i=e/f) (%)	
	02/3	03/3	02/3	03/3	02/3	03/3
Nippon	1.34	1.32	0.89	1.04	2.15	2.10
Dai-Ichi	1.36	1.34	1.28	1.18	2.28	2.25
Sumitomo	1.36	1.42	1.25	1.24	2.44	2.48
Meiji	1.59	1.66	1.41	1.36	2.08	2.11
Asahi	1.40	1.16	1.17	1.16	2.80	2.50
Yasuda	1.94	1.97	1.29	1.18	2.36	2.34
Mitsui	1.35	1.28	1.10	0.96	2.46	2.36
Taiyo	0.21	0.44	0.04	0.27	1.19	1.11
Daido	1.91	1.52	1.38	1.06	2.01	1.87
Fukoku	1.24	1.26	1.01	0.93	1.98	2.08
Total	1.38	1.37	1.11	1.10	2.22	2.18
Gibraltar	0.82	1.52	0.32	0.53	-	-
American Family	2.64	2.32	2.63	2.32	-	-
Axa Life Ins Group	-0.29	-0.12	-0.74	-0.54	0.94	0.76
AIG Star	1.66	2.82	1.59	2.79	-	-
GE Edison	-0.92	-2.87	-1.09	-2.99	-	-
Sony	1.65	1.21	1.61	1.17	3.07	2.75
Alico Japan	1.75	0.61	1.62	0.50	-	-
Manulife	-1.07	-1.49	-0.90	-1.46	-	-
Prudential	0.27	0.37	0.27	0.37	-	-
Tokio Marine Anshin	1.54	0.71	0.27	-1.77	-	-
Total	1.33	1.29	1.06	1.00		

Note: (1) Gross core profits = core profits + business expenses. (2) Figures for Axa Life Insurance Group are totals for both Axa Group Life Insurance and Axa Life Insurance.
Source: Nomura, from company materials

Figure5 Investment yields and assumed investment yields

	Investment yield as included in core profit calculation (A)		Assumed investment yield yield (B)		Spread (A-B)	
	02/3 (%)	03/3 (%)	02/3 (%)	03/3 (%)	02/3 (%)	03/3 (%)
Nippon	2.66	2.56	3.67	3.49	-1.01	-0.93
Dai-Ichi	2.49	2.32	3.59	3.38	-1.1	-1.06
Sumitomo	2.3	2.2	3.6	3.4	-1.3	-1.2
Meiji	2.66	2.54	3.25	3.06	-0.59	-0.52
Asahi	2.65	2.75	4.03	4.17	-1.38	-1.42
Yasuda	2.74	2.63	3.23	3.07	-0.49	-0.44
Mitsui	2.39	2.39	3.63	3.62	-1.24	-1.23
Taiyo	2.56	2.45	3.62	3.17	-1.06	-0.72
Daido	2.97	2.45	3.08	2.86	-0.11	-0.41
Fukoku	2.31	2.01	3.15	2.92	-0.84	-0.91
Gibraltar	-	2.29	-	1.65	-	0.64
American Family	-	-	-	-	-	-
Axa Life Ins Group	2.12	2.32	3.42	3.27	-1.31	-0.95
AIG Star	-	-	-	-	-	-
GE Edison	-	-	-	-	-	-
Sony	1.91	1.62	3.64	3.44	-1.73	-1.82
Alico Japan	-	-	-	-	-	-
Manulife	-	-	-	-	-	-
Prudential	-	-	-	-	-	-
Tokio Marine Anshin	-	-	-	-	-	-

Source: Nomura, from company materials

Figure6 Core profits and recurring profits in FY02

(¥ billion)

	Core profits (A)		Capital gains/losses (B)				One-time gains/losses (C)						Recurring profits (A+B+C)	
					Securities-related gains/losses				Transfers to reserves for risks		Bad-debt expenses			
		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg
Nippon	545.1	-16.6	-423.6	-329.0	-349.3	-294.1	-5.1	190.1	-4.9	124.1	-0.2	61.5	116.5	-155.5
Dai-Ichi	366.3	-11.4	-229.5	3.7	-157.4	28.8	-2.6	38.4	-2.2	38.8	0.0	0.0	134.2	30.7
Sumitomo	300.6	2.0	-395.8	-188.8	-407.5	-222.9	111.0	69.5	111.0	71.0	0.0	25.3	15.8	-117.4
Meiji	259.2	0.6	-128.8	86.2	-114.5	80.2	-0.4	20.8	0.0	5.3	-0.4	15.5	130.0	107.6
Asahi	75.7	-30.7	-64.0	220.1	-61.0	220.9	-10.0	-121.0	-0.1	-116.0	6.0	10.9	1.7	68.5
Yasuda	182.5	-1.2	-126.6	27.5	-205.9	-179.2	0.0	4.3	0.0	3.3	0.0	1.0	55.9	30.7
Mitsui	94.1	-12.3	-126.5	47.9	-99.9	17.0	43.7	-33.2	44.3	-40.7	-0.6	7.5	11.4	2.4
Taiyo	28.7	14.9	-4.8	-14.1	3.3	-24.2	-0.8	4.1	-0.6	-53.3	-0.2	-0.1	23.1	4.9
Daido	88.7	-21.2	-40.8	46.4	-45.7	-24.0	-1.9	-19.3	-1.8	-22.8	-0.1	3.6	46.0	6.0
Fukoku	58.4	1.0	-41.9	-9.1	-30.6	-6.6	-12.4	3.0	-1.6	0.4	-10.8	2.7	4.1	-5.0
Total	1999.4	-74.9	-1582.4	-109.2	-1468.5	-403.9	121.6	156.9	144.2	10.2	-6.3	127.9	538.6	-27.1
Gibraltar	54.6	23.9	-22.9	2.2	-10.4	-9.2	-51.1	-54.6	0.0	0.0	0.0	4.6	-19.3	-28.5
American Family	94.2	-3.6	1.7	5.2	2.0	8.6	-4.0	0.2	-4.0	0.2	-0.1	-0.1	91.9	1.8
Axa Life Ins Group	-4.5	5.3	-71.0	-1.3	-29.3	-30.6	4.9	10.3	2.2	3.6	-0.1	5.3	-70.7	14.3
AIG Star	49.1	17.9	-7.2	0.6	-6.7	2.4	-30.6	-9.2	-1.0	-1.0	0.0	0.1	11.3	9.3
GE Edison	-66.2	-48.1	9.1	9.1	9.1	3.1	-0.7	0.8	-0.7	0.8	0.0	0.0	-57.8	-38.1
Sony	22.5	-4.3	-2.5	2.9	-0.7	2.4	-1.4	0.0	-1.4	0.0	0.0	0.0	18.6	-1.3
Alico Japan	9.7	-14.8	8.1	4.7	8.9	9.8	-2.0	0.9	-2.0	0.8	0.0	0.1	15.8	-9.2
Manulife	-13.3	-1.9	-8.7	-2.9	-16.9	-12.5	-5.0	-28.0	0.0	0.0	0.0	0.0	-27.0	-32.9
Prudential	2.8	1.2	-1.9	0.1	-0.6	0.2	-0.8	-1.4	-0.9	-2.0	0.0	0.0	0.1	-0.1
Tokio Marine Anshin	8.3	-1.9	22.3	22.2	-0.4	-0.6	-3.1	-1.6	-3.1	-1.6	0.0	0.0	27.5	18.8
Total	2156.5	-101.2	-1655.2	-66.3	-1513.5	-430.3	27.6	74.3	133.2	11.1	-6.5	138.0	528.9	-93.2

Notes: (1) Securities-related gains/losses = gains on sales of securities・losses on sales of securities・valuation losses on securities. (2) Bad-debt expenses = transfers to special loan-loss reserves + transfers to provisions for specified overseas loans + loan writedowns. (3) Figures for Axa Life Insurance Group are totals for both Axa Group Life Insurance and Axa Life Insurance.

Source: Nomura, from company materials

Figure7 Extraordinary gains/losses in FY02

(¥ billion)

	Extraordinary gains		Gains on the disposal of real estate and movables		Drawdowns from reserves for price fluctuations		Extraordinary losses		Losses on the disposal of real estate and movables		Transfers to reserves for price fluctuations		Losses related to retirement benefit liabilities		Net income before tax		Net income	
		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg
Nippon	75.4	-30.2	1.0	-4.4	0.0	0.0	79.1	-16.4	17.1	-17.5	17.0	-1.0	39.4	0.0	112.8	-169.3	111.5	-136.1
Dai-Ichi	65.3	36.1	0.5	-17.7	56.0	56.0	132.0	34.2	104.6	44.7	0.0	-12.0	0.0	0.0	67.5	32.6	56.1	28.5
Sumitomo	18.9	-24.5	1.0	-4.3	8.0	-30.0	52.3	-12.9	34.5	-12.9	0.0	0.0	16.9	0.0	-17.6	-128.9	1.3	-72.1
Meiji	12.0	-26.4	2.4	-11.3	0.0	-20.4	98.7	45.4	13.8	-19.7	2.5	2.5	13.8	0.0	43.4	35.9	42.8	28.4
Asahi	31.8	-35.7	0.2	-1.2	0.0	-66.2	24.7	-210.1	4.6	-64.0	2.1	2.1	0.0	0.0	8.9	242.8	5.9	155.4
Yasuda	52.1	41.4	0.2	-0.9	43.6	43.6	37.8	14.3	17.5	12.3	0.0	0.0	18.0	0.0	70.2	57.8	70.6	41.4
Mitsui	64.1	-27.9	56.2	52.8	0.0	-70.0	24.4	1.1	19.0	11.9	3.0	3.0	0.0	0.0	51.1	-26.6	42.3	-13.3
Taiyo	55.3	54.1	0.0	-0.3	52.8	52.8	69.7	60.6	0.8	-0.9	0.0	-6.9	0.0	0.0	8.6	-1.6	4.8	-6.5
Daido	6.2	-0.7	0.9	-1.1	0.0	0.0	5.3	-28.5	3.9	2.3	1.2	-0.1	0.0	0.0	20.4	7.3	11.4	3.8
Fukoku	8.4	-12.0	0.3	0.2	2.5	-17.7	8.4	-0.7	0.5	-0.7	0.0	0.0	7.9	0.0	4.1	-16.2	7.7	-8.4
Total	389.5	-25.8	62.8	11.8	162.9	-51.8	532.3	-113.2	216.3	-44.6	25.8	-12.4	96.0	0.0	369.3	33.7	354.3	21.1
Gibraltar	60.4	19.1	0.6	-3.9	0.0	0.0	1.5	-17.8	0.5	0.0	0.9	0.1	0.0	0.0	3.8	-8.8	6.4	-6.6
American Family	0.0	-0.1	0.0	0.0	0.0	0.0	0.8	0.2	0.2	0.1	0.6	0.0	0.0	0.0	91.0	1.5	57.1	0.2
Axa Life Ins Group	18.2	17.9	0.1	-0.2	3.8	3.8	12.3	5.3	12.3	5.3	0.1	0.0	0.0	0.0	-80.6	26.2	-130.0	-66.3
AIG Star	7.2	-5.9	1.0	-5.1	0.0	0.0	2.8	0.6	2.1	0.5	0.7	0.1	0.0	0.0	15.2	3.5	11.7	1.7
GE Edison	3.6	-0.3	2.1	-1.7	0.0	0.0	14.3	12.0	0.8	0.6	0.7	0.1	0.0	0.0	-71.3	-49.9	-45.7	-31.8
Sony	0.0	-0.1	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.3	0.0	0.0	0.0	17.6	-1.4	11.3	-0.7
Alico Japan	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.2	0.2	0.0	0.7	0.1	0.0	0.0	13.2	-9.3	8.2	-5.2
Manulife	3.4	3.4	0.0	0.0	0.0	0.0	1.9	1.1	0.1	-0.6	0.2	0.1	0.0	0.0	-25.2	-32.1	-25.3	-32.1
Prudential	0.1	0.1	0.0	0.0	0.0	0.0	0.2	0.0	0.1	0.1	0.0	-0.1	0.0	0.0	0.1	0.0	0.0	0.0
Tokio Marine Anshin	0.1	0.1	0.0	0.0	0.1	0.1	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	-1.3	-1.5	-1.0	-1.0
Total	482.5	8.6	66.6	0.9	166.8	-48.0	567.2	-111.7	232.6	-38.5	30.0	-11.9	96.0	0.0	331.8	-38.1	246.9	-120.7

Source: Nomura, from company materials

3. Financial position

At the end of March 2003, the weighted average of solvency margin ratios across the 10 major life insurers fell 58.2 percentage points year on year, to 570%, mainly as a result of a decline in unrealized gains on shareholdings, which are included in the solvency margin (the numerator of the ratio). Solvency margin ratios increased at Yasuda Mutual Life Insurance and Daido Life Insurance, both of whom are attempting to lower their asset management risks considerably by divesting or hedging against shareholdings.

The value of adjusted net assets, which is an indicator of whether a company is effectively solvent, were down year-on-year at nine of the 10 insurers, with Daido Life being the exception. In aggregate across the 10 insurers, adjusted net assets are higher than solvency margin. On an individual level, however, some insurers have lower adjusted net assets than solvency margin. This is because adjusted net assets do not include subordinated debt, which is included in solvency margin. In our view, these companies need to boost their adjusted net assets by acquiring new funds or increasing capital through demutualization.

At the end of March 2003, the aggregate capital base of the 10 major insurers came to ¥4,352.9 billion, down ¥1,593.8 billion year on year. While some insurers acquired new funds during the year, the main reason for the smaller capital base was apparently a ¥1,491.7 billion decline in valuation gains/losses on shareholdings, which was driven by lower share prices. Also, some companies posted negative valuation differences on shareholdings, which limited the funds available for distribution as dividends to policyholders. Those insurers who were unable to ease the pressure on funds by acquiring new funds need to, in our view, secure stronger profits, increase surpluses by drawing down risk and price fluctuation reserves, and recover valuation gains/losses on shareholdings—which will require a stock market recovery.

Figure8 Solvency margin ratios and adjusted net asset value

(¥billion except where noted)

	Solvency margin			Total risk			Solvency margin ratio (%)			Adjusted net assets			Adjusted net asset ratio (%)		
	02/3	03/3	% y-y	02/3	03/3	% y-y	02/3	03/3	% pts	02/3	03/3	y-y chg (¥ bn)	02/3	03/3	% pts
Nippon	5,218.2	4,032.9	-22.7	1,460.9	1,279.0	-12.4	714.4	630.6	-83.8	5,967.6	5,077.4	-890.2	14.2	12.3	-1.9
Dai-Ichi	2,468.9	1,986.4	-19.5	832.7	731.0	-12.2	593.0	543.5	-49.5	2,409.9	2,061.6	-348.3	8.7	7.5	-1.2
Sumitomo	1,479.5	1,202.3	-18.7	553.6	482.9	-12.8	534.5	497.9	-36.6	977.3	844.4	-132.9	4.5	4	-0.5
Meiji	1,424.1	1,110.5	-22	467.4	417.5	-10.7	609.4	532.0	-77.4	1,628.4	1,362.3	-266.0	10	8.7	-1.3
Asahi	544.4	347.0	-36.3	260.8	192.5	-26.2	417.6	360.4	-57.2	393.6	236.3	-157.3	5.2	3.6	-1.6
Yasuda	766.2	613.8	-19.9	250.1	198.8	-20.5	612.8	617.6	4.8	702.3	589.6	-112.6	7.4	6.4	-1.1
Mitsui	516.5	363.1	-29.7	202.2	177.0	-12.5	510.7	410.4	-100.3	277.8	117.7	-160.1	3.5	1.6	-1.9
Taiyo	586.4	446.7	-23.8	152.9	131.1	-14.3	767.0	681.5	-85.5	455.6	341.3	-114.4	6.7	5.3	-1.5
Daido	437.5	424.8	-2.9	113.3	98.8	-12.9	772.0	860.2	88.2	471.2	515.5	44.2	8.2	8.8	0.6
Fukoku	393.3	337.0	-14.3	111.1	103.6	-6.7	708.2	650.5	-57.7	374.8	316.1	-58.7	8.1	6.8	-1.3
Total	13,834.9	10,864.6	-21.5	4,405.0	3,812.2	-13.5	628.2	570.0	-58.2	13,658.6	11,462.2	-2,196.4	9.1	7.9	-1.2
Gibraltar	263.1	253.3	-3.7	47.9	45.1	-5.8	1,099.3	1,123.8	24.5	214.7	352.2	137.5	5.7	9.8	4.1
American Family	609.9	687.4	12.7	99.6	106.4	6.9	1,225.3	1,292.1	66.8	-	-	-	-	-	-
Axa Life Ins Group	141.4	179.1	26.6	62.1	84.3	35.7	455.2	424.8	-30.3	117.8	156.2	38.4	3.5	4.1	0.6
AIG Star	167.5	189.5	13.1	36.0	29.9	-17	930.3	1,267.6	337.3	-	-	-	-	-	-
GE Edison	198.5	233.5	17.6	39.2	51.2	30.7	1,013.2	911.7	-101.5	-	-	-	-	-	-
Sony	293.8	307.4	4.6	39.3	45.4	15.4	1,493.5	1,354.2	-139.3	296.5	319.4	22.9	18.3	17.1	-1.1
Alico Japan	257.8	262.9	2	41.7	45.6	9.3	1,235.3	1,152.9	-82.4	-	-	-	-	-	-
Manulife	92.1	66.5	-27.8	18.0	17.3	-3.9	1,025.7	770.4	-255.3	-	-	-	-	-	-
Prudential	89.9	92.3	2.7	15.3	16.8	9.7	1,171.9	1,096.8	-75.1	-	-	-	-	-	-
Tokio Marine Anshin	66.6	83.6	25.5	7.2	8.7	21.1	1,850.4	1,917.8	67.4	-	-	-	-	-	-
Total	16,015.6	13,220.1	-17.5	4,811.3	4,262.9	-11.4	665.7	620.2	-45.5						

Note: Adjusted net asset ratio = adjusted net assets divided by general account assets
Source: Nomura, from company materials

Figure9 Breakdown of equity capital (end-March 2003)

(¥billion)

	Funds / capital		Fund redemption reserves/capital surplus		Retained earnings		Land valuation gains/losses		Stock valuation gains/losses		Total capital		Subordinated bonds/loans	
		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg		y-y chg
Nippon	300.0	-150.0	450.0	300.0	280.1	-373.0	72.3	-5.5	659.3	-741.1	1762.3	-974.5	0.0	0.0
Dai-Ichi	230.0	80.0	70.0	0.0	277.0	51.6	4.4	-18.3	205.8	-320.5	787.5	-210.5	100.0	0.0
Sumitomo	169.0	0.0	1.0	0.0	319.3	-24.5	-59.9	2.5	-47.8	65.1	381.6	40.8	395.0	-150.0
Meiji	100.0	40.0	120.0	20.0	86.3	-4.2	65.8	-0.3	128.3	-208.2	500.6	-154.3	0.0	0.0
Asahi	211.0	11.0	50.0	0.0	48.0	-10.9	-1.2	-3.0	-200.1	-165.4	108.0	-169.4	123.0	0.0
Yasuda	90.0	0.0	40.0	0.0	128.9	19.3	7.9	-10.3	-43.8	-49.3	223.2	-42.2	111.1	-1.2
Mitsui	169.0	0.0	1.0	0.0	126.5	18.6	0.0	0.0	-85.6	-17.9	210.9	-0.7	223.0	0.0
Taiyo	0.0	-24.0	10.0	3.0	127.2	-9.4	-21.5	-0.3	1.5	-28.9	117.2	-59.9	85.0	0.0
Daido	75.0	75.0	0.1	-34.9	53.2	-33.2	0.0	0.0	47.6	6.1	175.9	11.9	0.0	0.0
Fukoku	30.0	0.0	1.0	0.0	47.2	-2.3	4.2	-0.4	3.1	-31.7	85.6	-35.0	37.5	5.0
Total	1374.0	32.0	743.1	288.1	1493.7	-367.9	72.0	-35.6	668.4	-1491.7	4352.9	-1593.8	1074.6	-146.2
Gibraltar	50.0	0.0	0.0	0.0	19.3	6.4	0.0	0.0	3.4	-3.1	72.8	3.2	53.0	-45.0
American Family	0.3	0.0	0.0	0.0	155.4	11.7	0.0	0.0	240.6	34.7	396.4	46.4	0.0	0.0
Axa Life Ins Group	196.7	45.8	174.5	45.8	-335.8	-130.0	0.0	0.0	7.0	62.6	42.3	24.1	70.4	13.8
AIG Star	30.0	0.0	0.0	0.0	21.7	11.7	0.0	0.0	23.6	11.0	75.3	22.6	30.0	0.0
GE Edison	66.5	0.0	65.5	0.0	-62.1	-45.7	0.0	0.0	6.1	5.3	76.0	-40.4	102.5	30.5
Sony	65.0	0.0	0.9	-24.8	11.3	36.0	-0.8	0.0	18.7	-1.4	95.1	9.8	0.0	0.0
Alico Japan	45.5	0.0	0.0	0.0	8.2	-5.2	0.0	0.0	38.2	-14.7	92.0	-19.9	0.0	0.0
Manulife	48.4	0.0	0.0	0.0	-19.1	-25.3	0.0	0.0	-10.2	-1.5	19.1	-26.8	25.0	0.0
Prudential	10.0	0.0	0.0	0.0	-1.4	0.0	0.0	0.0	2.7	1.9	11.2	1.9	0.0	0.0
Tokio Marine Anshin	30.0	0.0	0.0	0.0	-4.5	-1.0	0.0	0.0	4.6	3.6	30.1	2.6	0.0	0.0
Total	1916.3	77.8	983.9	309.0	1286.6	-509.3	71.3	-35.6	1002.9	-1393.4	5263.1	-1570.1	1355.5	-146.9

Note: Figures for Axa Life Insurance Group are totals for both Axa Group Life Insurance and Axa Life Insurance.
Source: Nomura, from company materials

4. Asset management

Aggregate assets in the general account of the 10 insurers came to ¥145.4 trillion at end-March 2003, down ¥4.5 trillion year on year. Of these assets, shareholdings were down ¥6.1 trillion and the ratio of shareholdings fell to 10.3%, from 14.1%. The main factor behind the decline in shareholdings was apparently a drop in market value and selling activity. Assets whose value increased were government and corporate bonds, up ¥3.3 trillion, and foreign bonds, up ¥1.8 trillion. The increase in yen-denominated bonds and hedged foreign bonds was particularly noticeable.

Figure10 Breakdown of assets in general account (end-March 2003)

	Cash/call loans		Money trusts		Marketable securities					
							Fixed income		Equities	
	¥ bn	% of total	¥ bn	% of total	¥ bn	% of total	¥ bn	% of total	¥ bn	% of total
Nippon	512.8	1.2	248.3	0.6	25,277.6	61.4	13,359.4	32.4	5,547.0	13.5
Dai-Ichi	618.0	2.3	2.4	0.0	18,063.8	65.9	9,978.5	36.4	3,252.0	11.9
Sumitomo	278.9	1.3	0.0	0.0	11,908.8	56.4	6,079.3	28.8	1,360.9	6.4
Meiji	551.8	3.5	0.0	0.0	8,505.6	54.5	5,175.1	33.2	1,919.5	12.3
Asahi	262.5	4.0	0.0	0.0	3,344.1	51.1	2,044.1	31.2	543.3	8.3
Yasuda	375.8	4.1	371.8	4.0	4,008.2	43.2	1,989.4	21.5	793.2	8.6
Mitsui	347.7	4.7	0.3	0.0	4,081.7	55.5	2,043.0	27.8	618.1	8.4
Taiyo	166.7	2.6	55.6	0.9	3,612.8	55.8	2,415.0	37.3	386.0	6.0
Daido	390.0	6.7	150.4	2.6	3,786.0	64.8	3,035.4	52.0	201.7	3.5
Fukoku	357.7	7.7	152.9	3.3	2,445.6	52.7	1,791.6	38.6	375.4	8.1
Total	3,861.8	2.7	981.7	0.7	85,034.2	58.5	47,910.8	32.9	14,997.2	10.3
Gibraltar	93.2	2.6	0.0	0.0	2,759.8	77.1	2,100.5	58.6	65.6	1.8
American Family	55.8	1.4	0.0	0.0	3,245.4	80.0	1,310.7	32.3	13.4	0.3
Axa Life Ins Group	179.3	4.7	1,925.7	50.8	1,001.0	26.4	249.4	6.6	117.9	3.1
AIG Star	26.4	1.5	0.0	0.0	1,200.5	68.9	651.1	37.3	34.2	2.0
GE Edison	100.1	4.3	0.0	0.0	1,702.2	73.7	551.6	23.9	71.8	3.1
Sony	258.0	13.8	320.9	17.2	1,155.5	62.0	943.8	50.6	14.8	0.8
Alico Japan	51.3	3.2	0.6	0.0	1,312.9	82.2	811.1	50.8	1.7	0.1
Manulife	11.4	1.3	25.6	2.9	671.3	75.1	270.3	30.2	47.9	5.4
Prudential	20.1	2.6	0.0	0.0	654.2	85.7	500.5	65.5	7.8	1.0
Tokio Marine Anshin	41.9	3.6	0.0	0.0	1,010.9	87.1	1,010.8	87.1	0.1	0.0
Total	4,699.4	2.8	3,254.4	1.9	99,747.8	59.7	56,310.6	33.7	15,372.3	9.2

	Overseas fixed income		Loans		Real estate		Total			
								y-y chg	Assets in foreign currencies	
	¥ bn	% of total	¥ bn	% of total	¥ bn	% of total	¥ bn	¥ bn	¥ bn	% of total
Nippon	5,402.5	13.1	11,586.8	28.1	1,860.6	4.5	41,180.0	-829.1	4,998.2	12.1
Dai-Ichi	4,625.2	16.9	6,265.3	22.9	1,334.2	4.9	27,408.4	-303.6	3,814.1	13.9
Sumitomo	4,309.6	20.4	5,907.9	28.0	1,049.3	5.0	21,130.3	-759.5	2,122.5	10.0
Meiji	1,383.1	8.9	4,929.0	31.6	982.0	6.3	15,602.0	-660.8	1,220.6	7.8
Asahi	717.3	11.0	2,047.7	31.3	613.4	9.4	6,550.1	-1,040.4	421.2	6.4
Yasuda	1,113.5	12.0	3,535.1	38.1	386.3	4.2	9,268.1	-183.2	1,035.0	11.2
Mitsui	1,360.0	18.5	2,248.9	30.6	414.6	5.6	7,348.9	-534.6	986.1	13.4
Taiyo	770.2	11.9	2,229.1	34.4	193.7	3.0	6,475.0	-275.7	769.9	11.9
Daido	352.2	6.0	1,181.7	20.2	174.6	3.0	5,840.1	85.8	192.7	3.3
Fukoku	254.8	5.5	1,380.0	29.7	205.1	4.4	4,640.8	0.4	183.4	4.0
Total	20,288.3	13.9	41,311.5	28.4	7,213.7	5.0	145,443.8	-4,500.7	15,743.5	10.8
Gibraltar	572.7	16.0	409.5	11.4	38.4	1.1	3,581.5	-183.5	418.8	11.7
American Family	1,921.3	47.4	665.3	16.4	21.4	0.5	4,055.0	342.9	308.7	7.6
Axa Life Ins Group	615.5	16.2	479.9	12.7	88.4	2.3	3,789.7	410.4	366.1	9.7
AIG Star	503.1	28.9	302.9	17.4	30.7	1.8	1,743.4	-136.7	491.3	28.2
GE Edison	1,077.9	46.7	282.6	12.2	31.2	1.4	2,309.0	338.3	288.6	12.5
Sony	188.4	10.1	65.6	3.5	46.1	2.5	1,863.7	240.8	16.9	0.9
Alico Japan	458.2	28.7	186.8	11.7	0.4	0.0	1,596.3	196.4	507.8	31.8
Manulife	349.6	39.1	72.1	8.1	32.2	3.6	894.3	-170.7	6.8	0.8
Prudential	131.1	17.2	53.4	7.0	9.0	1.2	763.8	143.2	2.5	0.3
Tokio Marine Anshin	0.0	0.0	12.0	1.0	0.1	0.0	1,161.0	504.0	0.0	0.0
Total	26,106.1	15.6	43,841.7	26.2	7,511.8	4.5	167,201.5	-2,815.6	18,151.1	10.9

Source: Nomura, from company materials

Aggregate unrealized gains on marketable securities at end-March 2003 across the 10 insurers were ¥2,977.4 billion, a ¥1,515.4 billion contraction from the previous year. While unrealized gains on bonds increased as a result of lower interest rates, the 10 insurers posted aggregate unrealized losses on equities for the first time, with losses reaching ¥380.5 billion, falling ¥2,251.3 billion from unrealized gains of ¥1,870.8 billion last year.

On an individual basis, Asahi Mutual Life Insurance, Yasuda Mutual Life Insurance, and Mitsui Mutual Life Insurance had unrealized losses at end-March 2003 on marketable securities.

Some companies, including Sumitomo Life, Mitsui Life, and Taiyo Life Insurance, switched from bonds held to maturity to other marketable securities that can be sold prior to maturity.

If we assume a certain shareholding portfolio across the 10 major insurers, we estimate that just over ¥1.9 trillion in shareholdings were sold in FY02, based on book values at end-FY02 and end-FY03 and on shareholding-related profits in FY02. This is slightly above our estimate of just under ¥1.8 trillion in FY01, which indicates to us that the insurers are attempting to trim shareholdings through, among other things, the creation of exchange-traded funds (ETFs).

The 10 major insurers have achieved a lower break-even point on shareholdings—the share price at which unrealized gains are zero—as a result of reduced shareholdings and a lower book value for shareholdings due to impaired asset accounting.

While each insurer has made an effort to decrease its shareholdings, we believe they are still at an excessive level relative to equity capital. In our view, insurers need to continue to trim risky shareholdings in order to maintain a stable solvency margin ratio and secure adequate funds to pay dividends to policyholders.

Figure11 Market value of securities holdings (end-March 2003)

(¥ billion)

	Bonds to be held to maturity		Debt securities matched to policy reserves		Equity holdings in subsidiaries & affiliates		Other securities		Bonds		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
Nippon	254.6	1.8	14,801.3	1,033.8	54.6	0.9	11,410.1	1,030.4	1.4	0.4	5,386.9	668.0	4,670.1	422.3	26,520.8	2,067.1
Dai-Ichi	0.0	0.0	1,137.4	172.9	0.0	0.0	17,359.3	321.7	9,013.8	326.3	3,126.1	-151.4	4,479.3	160.9	18,496.7	494.6
Sumitomo	293.1	12.1	1,980.6	63.6	0.0	0.0	10,026.5	-74.9	4,075.0	162.0	1,270.8	-304.1	3,854.8	98.3	12,300.2	0.8
Meiji	4,038.2	266.3	0.0	0.0	0.0	0.0	4,339.3	200.7	1,526.6	47.2	1,706.8	3.7	1,091.7	149.6	8,377.5	467.0
Asahi	752.2	17.4	666.1	32.9	0.0	0.0	1,913.2	-213.0	895.7	9.4	507.4	-213.3	470.8	-3.8	3,331.5	-162.7
Yasuda	98.5	6.1	1,144.9	42.4	0.0	0.0	2,697.0	-68.5	838.2	26.8	681.8	-55.8	1,009.7	-37.8	3,940.5	-20.0
Mitsui	0.0	0.0	0.0	0.0	0.0	0.0	3,985.0	-100.1	2,043.0	65.2	571.5	-218.0	1,253.0	65.1	3,985.0	-100.1
Taiyo	27.6	0.6	942.1	32.8	0.0	0.0	2,601.6	2.4	1,499.8	55.7	359.6	-62.9	679.7	12.0	3,571.3	35.9
Daido	1,642.5	104.0	0.0	0.0	0.0	0.0	2,231.2	73.9	1,547.3	74.7	172.2	3.6	193.0	3.1	3,873.7	177.9
Fukoku	396.5	12.1	12.0	0.1	1.2	-0.2	1,965.8	4.9	1,407.0	49.7	347.2	-50.3	194.1	8.4	2,375.6	16.9
Total	7,503.2	420.6	20,684.5	1,378.5	55.8	0.7	58,529.1	1,177.4	22,847.8	817.4	14,130.3	-380.5	17,896.3	877.9	86,772.9	2,977.4
Gibraltar	287.6	7.5	1,895.0	147.8	0.0	0.0	737.3	5.4	418.8	16.3	65.5	-7.0	227.0	-2.2	2,920.0	160.6
American Family	1,477.1	210.4	0.0	0.0	0.0	0.0	1,978.2	377.1	1,243.3	287.6	12.9	-1.4	722.1	90.9	3,455.4	587.5
Axa Life Ins Group	0.0	0.0	0.0	0.0	0.0	0.0	966.6	6.0	248.0	4.5	115.8	-8.4	585.5	12.3	966.6	6.0
AIG Star	0.0	0.0	366.3	25.0	0.0	0.0	848.5	36.8	309.7	7.5	30.0	3.3	502.6	26.0	1,214.8	61.9
GE Edison	0.0	0.0	1,261.4	96.7	0.0	0.0	502.7	9.6	142.2	12.3	0.2	-0.1	322.5	-1.1	1,764.1	106.3
Sony	0.0	0.0	0.0	0.0	0.0	0.0	1,299.5	29.3	1,086.2	25.9	14.8	-0.8	190.9	4.8	1,299.5	29.3
Alico Japan	19.9	4.2	239.6	24.0	0.0	0.0	1,053.7	59.9	596.0	42.1	1.5	0.5	437.3	17.2	1,313.3	88.0
Manulife	0.0	0.0	356.5	9.9	0.0	0.0	346.9	-10.2	194.4	1.3	47.7	-11.1	78.9	0.3	703.4	-0.3
Prudential	57.6	1.6	414.4	53.7	0.0	0.0	222.7	4.1	116.6	4.8	7.8	-1.8	98.3	1.2	694.7	59.4
Tokio Marine Anshin	1,015.9	150.2	0.0	0.0	0.0	0.0	145.1	7.1	145.1	7.1	0.0	0.0	0.0	0.0	1,161.0	157.4
Total	10,361.4	794.5	25,217.7	1,735.6	55.9	0.7	66,630.5	1,702.5	27,348.1	1,226.8	14,426.5	-407.2	21,061.3	1,027.2	102,265.7	4,233.5

Source: Nomura, from company materials

Figure12 Indicators related to equities on the general account and estimated sale value (FY02)

(¥ billion)

	02/3-end					03/3-end		
	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
Nippon	5,531.8	1,712.0	114.9	66.2	506.0	4,718.8	668.0	-355.7
Dai-Ichi	4,040.9	378.9	65.3	97.2	370.2	3,277.5	-151.4	-361.3
Sumitomo	2,489.9	-283.3	43.1	169.5	334.2	1,574.9	-304.1	-454.3
Meiji	2,203.8	306.4	18.3	60.4	102.0	1,703.1	3.7	-356.7
Asahi	1,015.0	-106.0	26.9	91.5	59.7	720.6	-213.3	-170.2
Yasuda	999.0	-33.3	14.7	78.1	126.6	737.6	-55.8	-71.4
Mitsui	1,001.4	-143.9	11.0	27.4	133.8	789.6	-218.0	-61.6
Taiyo	559.7	3.4	12.2	28.4	23.9	422.5	-62.9	-97.1
Daido	260.3	18.0	5.0	13.9	50.5	168.6	3.6	-32.3
Fukoku	431.7	18.5	0.8	29.6	16.9	397.6	-50.3	11.6
Total	18,533.5	1,870.8	312.2	662.2	1,723.8	14,510.7	-380.5	-1,949.1
Gibraltar	85.6	5.0	0.9	4.3	8.1	72.4	-7.0	-1.6
American Family	13.2	0.6	0.0	1.5	0.1	14.3	-1.4	2.6
Axa Life Ins Group	178.4	-4.8	0.0	0.0	32.5	124.2	-8.4	-21.7
AIG Star	37.8	4.9	2.1	2.5	6.7	26.7	3.3	-4.0
GE Edison	0.0	0.0	0.1	0.0	0.0	0.3	-0.1	0.2
Sony	9.8	2.1	1.7	0.5	0.7	15.6	-0.8	5.2
Alico Japan	6.0	1.4	0.5	0.9	1.3	1.0	0.5	-3.4
Manulife	66.0	-9.5	0.5	1.3	12.1	58.8	-11.1	5.7
Prudential	15.5	-1.1	0.4	1.2	1.9	9.6	-1.8	-3.3
Tokio Marine Anshin	2.9	0.1	0.0	0.5	0.0	0.0	0.0	-2.5
Total	18,948.8	1,869.3	318.5	674.8	1,787.0	14,833.6	-407.2	-1,971.8

Note: Estimated sale value = book value at end March 2003 - (book value at end March 2002 + profits on the sale of equities - losses on the sale of equities - valuation losses on equities)
Source: Nomura, from company materials

Figure13 Share price levels at which unrealized profits are zero

	As of end-March 2002		As of end-March 2003	
	Nikkei average	Topix	Nikkei average	Topix
Nippon	8,400	810	7,200	700
Dai-Ichi	10,000	970	8,500	830
Sumitomo	12,400	1,190	9,800	970
Meiji	9,400	900	8,100	800
Asahi	12,500	1,210	11,500	1,130
Yasuda	11,400	1,100	8,800	860
Mitsui	12,500	1,200	10,500	1,050
Taiyo	11,400	1,090	9,680	957
Daido	10,300	990	7,800	770
Fukoku	10,500	1,020	9,300	900

Source: Nomura, from company materials

In terms of capital sharing with banks, while there do not appear to have been any significant changes in the amount of capital received from banks, it seems that insurers have made a smaller capital contribution to banks. Aggregate capital contributions by the 10 major insurers at end-March 2003 came to ¥6,312.5 billion, down ¥1,902.1 billion on end-September 2002. Insurers' exposure to shareholdings has decreased as a result of banking share price declines, and some insurers have apparently decided not to renew subordinated loans that have reached maturity. Most of the major banks increased their capital in the second half of FY02, but it appears that, rather than underwrite the capital increase, some companies have decided to reduce their overall exposure to banks after credit-rating institutions cited high exposure to banks as a risk factor.

Figure14 Cross-holdings with banks

(￥billion)

	Banks' holdings in life insurers				Life insurers' holdings in banks			
	Funds	Subordinated loans, etc	Total	vs 02/9-end	Equities	Subordinated loans, etc	Total	vs 02/9-end
Nippon	0.0	0.0	0.0	0.0	403.2	540.0	943.2	-402.2
Dai-Ichi	150.0	100.0	250.0	0.0	318.1	697.5	1015.6	-381.6
Sumitomo	160.0	375.0	535.0	0.0	219.0	758.4	977.4	-140.5
Meiji	94.5	0.0	94.5	0.0	364.5	538.5	903.0	-437.0
Asahi	200.0	123.0	323.0	0.0	81.8	392.3	474.0	-134.9
Yasuda	60.0	100.0	160.0	0.0	160.3	452.3	612.6	-117.2
Mitsui	142.5	203.0	345.5	0.0	49.9	380.1	430.0	-93.7
Taiyo	0.0	80.0	80.0	-21.0	145.3	350.6	495.9	-111.8
Daido	0.0	0.0	0.0	0.0	98.2	219.6	317.8	-37.8
Fukoku	0.0	35.0	35.0	5.0	43.5	99.5	143.0	-45.2
Total	807.0	1016.0	1823.0	-16.0	1883.8	4428.7	6312.5	-1902.1

Note: Note: (1) Equity holdings in banks include preferred shares. (2) Subordinated loan holdings in banks include subordinated loans, subordinated bonds, and preferred securities issued to raise capital from investors.
Source: Nomura, from companies・materials

In our view, the risk to life insurers stemming from nonperforming loans is minimal in comparison with the risk of a fluctuation in stock and bond prices. Aggregate nonperforming loans disclosed by the 10 insurers at end-March 2003 came to ¥423.5 billion, down ¥147 billion year on year. The ratio of nonperforming loans to total credit extended was 1.0%, down 0.3 percentage points. Life insurers appear to have reserved adequately against nonperforming loans and we see little risk of them incurring major losses in this area.

Figure15 Breakdown of loans by debtor classification as of end-FY02

(¥ billion, except where noted)

	Bankrupt/ de facto bankrupt loans		Doubtful loans		Special attention loans		Total non-performing loans		As % of total loans extended		Normal loans		Total loans extended	
		vs 02/3		vs 02/3		vs 02/3		vs 02/3		vs 02/3		vs 02/3		vs 02/3
Nippon	18.9	-7.5	77.6	-30.7	34.5	5.7	131.1	-32.5	1.0	-0.2	12,715.3	-498.6	12,846.5	-531.1
Dai-Ichi	13.8	-4.9	38.7	-24.4	8.1	-4.4	60.6	-33.6	1.0	-0.5	6,243.8	-49.8	6,304.4	-83.5
Sumitomo	0.6	0.0	35.1	-8.2	14.0	-6.9	49.7	-15.1	0.8	-0.2	5,947.5	-439.4	5,997.2	-454.5
Meiji	4.8	-0.1	6.9	-5.9	10.2	-1.2	21.9	-7.3	0.4	-0.1	5,048.7	-207.8	5,070.6	-215.0
Asahi	5.3	-2.9	38.7	-13.9	21.6	-0.9	65.5	-17.6	3.2	0.2	1,999.3	-704.9	2,064.8	-722.5
Yasuda	2.2	-1.2	7.0	-5.3	1.4	-16.2	10.6	-22.6	0.3	-0.7	3,677.2	192.9	3,687.8	170.3
Mitsui	3.8	-0.4	17.6	-9.4	27.7	12.4	49.1	2.6	2.2	0.3	2,213.6	-268.4	2,262.7	-265.8
Taiyo	0.6	-0.2	1.1	0.0	9.4	-2.8	11.2	-3.1	0.5	-0.1	2,229.0	-79.1	2,240.1	-82.3
Daido	3.6	0.1	5.1	-2.7	1.1	-2.6	9.8	-5.1	0.8	-0.5	1,177.9	29.4	1,187.8	24.3
Fukoku	0.8	0.4	9.8	-13.0	3.5	0.0	14.2	-12.6	1.0	-0.8	1,372.9	-52.8	1,387.1	-65.4
Total	54.4	-16.7	237.5	-113.4	131.6	-16.9	423.5	-147.0	1.0	-0.3	42,625.4	-2,078.4	43,049.1	-2,225.4
Gibraltar	5.4	-1.0	1.2	0.0	2.3	-0.2	8.9	-1.2	2.2	-0.1	403.3	-35.4	412.2	-36.6
American Family	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	673.4	72.3	673.4	72.3
Axa Life Ins Group	9.0	-3.9	4.3	0.5	2.3	-1.0	15.6	-4.4	3.2	-0.4	467.7	-60.6	483.3	-65.0
AIG Star	0.8	-0.4	1.2	0.2	0.0	0.0	2.0	-0.1	0.8	0.2	261.6	-95.9	263.6	-96.0
GE Edison	2.3	0.4	7.8	-7.0	0.4	0.2	10.5	-6.4	3.5	-3.3	288.1	57.1	298.6	50.8
Sony	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	66.8	11.3	66.8	11.3
Alico Japan	0.0	0.0	10.3	0.0	0.0	0.0	10.3	0.0	7.7	-1.0	124.5	15.2	134.8	15.2
Manulife	0.0	0.0	0.0	-3.5	0.0	0.0	0.0	-3.5	0.0	-2.5	73.1	-63.9	73.1	-67.5
Prudential	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	64.3	9.9	64.3	9.9
Tokio Marine Anshin	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	44.5	16.4	44.5	16.4
Total	71.9	-21.6	262.3	-123.2	136.6	-17.9	470.9	-162.7	1.0	-0.3	45,092.7	-2,152.0	45,563.8	-2,314.7

Note: Figures for Axa Life Insurance Group are totals for both Axa Group Life Insurance and Axa Life Insurance.
Source: Nomura, from company materials

5. Outlook

While we look for flat or slightly lower negative spread in FY03, as a result of a decline in forecast rates of return, we expect core profits to continue to weaken as policies in force also decrease. In this environment, shareholdings will, in our view, to have the greatest potential impact on earnings. In particular, we expect insurers with unrealized losses on shareholdings to face an uphill battle finding enough funds to pay dividends to policyholders, which means that trimming shareholdings is likely to remain an urgent issue. In that light, we expect selling activity to remain relatively high in FY03.

In response to a smaller capital base as a result of lower stock prices, we expect insurers to step up their efforts to boost capital by acquiring funds or subordinated debt. Companies with relatively high levels of adjusted net assets are more likely to acquire subordinated debt, which is a more dynamic way of raising funds, than to acquire funds, which require passage of a resolution at their policyholders' meeting to do so and need to be repaid with future earnings.

In the lead up to an industry reshuffle, whereby Meiji Life Insurance and Yasuda Life are to merge in January 2004, Daido Life and Taiyo Life are to merge in April 2004 to form a holding company, and Mitsui Life is to demutualize, we are likely to see insurers cut operational costs further in FY03 by consolidating and scrapping branches and various aspects of their business.

Also, there are some foreign life insurers who face sluggish earnings, as exemplified by American International Group's (AIG) announcement that it will acquire GE Edison Life Insurance. As a result, we may see more foreign companies withdraw from the Japanese market, which we would expect to spark a further reshuffle of the industry.

Figure16 FY03 earnings estimates

(¥ billion)

	Core profits		Negative spread		Recurring profits	
	Mar-03	2004/3E	Mar-03	2004/3E	Mar-03	2004/3E
Nippon	545.1	about ·500.0 bn	320.0	Flat	116.5	Hard to estimate
Dai-Ichi	366.3	Flat or slightly lower	250.4	Flat or slightly lower	134.2	Hard to estimate
Sumitomo	300.6	Lower	223.6	Flat	15.8	Higher
Meiji	259.2	Flat	69.5	about ·70.0 bn	130.0	Higher
Asahi	75.7	Slightly lower	88.0	Roughly flat	1.7	Flat
Yasuda	182.5	Very slightly lower	34.0	Flat	55.9	Higher
Mitsui	94.1	Flat	79.6	Slightly lower	11.4	Higher
Taiyo	28.7	·29.4 bn	43.5	·38.6 bn	23.1	·26.0 bn
Daido	88.7	·88.0 bn	20.5	·25.0 bn	46.0	·70.0 bn
Fukoku	58.4	Very slightly lower	38.1	·43.0 bn	4.1	Higher
Total	1,999.4		1,167.1		538.6	

Source:Nomura, from companies' result materials