
Sales of Individual Annuity Products via Bank Branches in Fiscal 2003

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I. Rapid Growth in Bancassurance

It is now nearly two years since banks began to sell individual annuities on behalf of insurance companies in October 2002. At first, many observers were skeptical about the prospects because of the stockmarket slump and low interest rates, but sales have grown rapidly, with income from annuity premiums totaling more than ¥3 trillion on a cumulative basis.

Fiscal 2003, which ended in March 2004, is the first fiscal year for which figures for sales of individual annuities via bank branches are available for the year as a whole. The top seven life insurance groups gave details of their premium income from (new) annuity sales from this source in their media information pack, showing that their total income from this source during the previous 12 months was roughly ¥630 billion.

II. Smaller Insurance Groups Making the Most Headway

Table 1 shows sales of annuities via bank branches for the top seven life insurance groups arranged in descending order of premium income. It is clear that those groups that are top in terms of total assets and sales of new individual insurance are not necessarily top in terms of premium income from annuity sales.

Sumitomo Life, the leader, which has dropped to fourth place in terms of total assets and sales of new individual insurance as a result of the merger between Meiji Mutual and Yasuda Mutual in January 2004, is still earning roughly twice as much premium income from annuities sold via bank branches as Nippon Life.

Table 1 Premium Income from Sales of Annuities via Bank Branches by Top Seven Life Insurance Groups (Fiscal 2003)

(¥ mil)

Ranking in terms of assets/sales of new individual life insurance	Company	All plans			Variable annuities			Fixed annuities		
		Number of plans	Premium income	Premium income per plan	Number of plans	Premium income	Premium income per plan	Number of plans	Premium income	Premium income per plan
4	Sumitomo Life	38,901	131,850	3.39	38,555	130,770	3.39	346	1,080	3.12
3	Meiji Yasuda Life	24,535	125,433	5.11	1,096	5,601	5.11	23,439	119,832	5.11
5	T&D Financial	12,538	83,029	6.62	12,538	83,029	6.62	-	-	-
7	Fukoku Mutual	63,060	80,009	1.27	116	484	4.17	62,944	79,525	1.26
6	Mitsui Life	14,748	79,296	5.38	14,748	79,296	5.38	-	-	-
1	Nissay	10,983	67,892	6.18	8,868	63,846	7.20	2,115	4,046	1.91
2	Dai-ichi Mutual	10,468	61,794	5.90	10,053	59,676	5.94	415	2,118	5.10

Note: The figures for T&D Group are those for T&D Financial Life.
Source: NICMR, from company data.

Sumitomo Life's strength lies in its product strategy. Instead of offering guarantees (e.g., of the principal on the death of the annuity holder) on the products it sells via the SMBC Group like most of its rivals, the company has reduced its annual charges to annuity holders to a minimum. In contrast, it does offer guarantees (that the value of the account at the time of vesting will not be less than that of the accrued premiums) on the products which it markets via small financial institutions. These have been a great success because of their simplicity, which makes them easier for third parties (such as banks) to explain.

Meiji Yasuda Life and Fukoku Mutual have captured a large share of the market by focusing on fixed annuities in an effort to differentiate themselves from their rivals. Fukoku Mutual has focused on shinkin banks, and its products were best-sellers at about 90% of shinkin banks. Table 2 lists the three insurance companies whose annuity products account for the bulk of such annuities sold by regional, second-tier regional and shinkin banks, respectively. There are clearly big differences depending on the distribution channel (type of bank) and product (variable annuity, single-premium fixed annuity or regular-premium fixed annuity) involved.

**Table 2 Sales of Annuities via Regional Financial Institutions
(Second Half of Fiscal 2003)**

Variable annuities (single premium)			Fixed annuities (single premium)			Fixed annuities (regular premium)		
Company	Number of institutions at which best-seller	Share	Company	Number of institutions at which best-seller	Share	Company	Number of institutions at which best-seller	Share
(regional banks)			(regional banks)			(regional banks)		
Sumitomo Life	21	35%	ALICO Japan	32	55%	Mitsui Sumitomo Kirameki Life	10	42%
Hartford Life	15	25%	Meiji Yasuda	11	19%	Nipponkoa Life	7	29%
Nissay	10	17%	AIG Edison	10	17%	Himawari Life	3	13%
Total no. of institutions	60		Total no. of institutions	58		Total no. of institutions	24	
(second-tier regional banks)			(second-tier regional banks)			(second-tier regional banks)		
Sumitomo Life	28	65%	ALICO Japan	13	41%	Mitsui Sumitomo Kirameki Life	10	45%
Nissay	3	7%	Meiji Yasuda	9	28%	Nipponkoa Life	5	23%
Hartford Life	3	7%	Tokio Marine Anshin Life	5	16%	Himawari Life	3	14%
Manulife	3	7%	Total no. of institutions	32		Total no. of institutions	22	
Mitsui Life	3	7%						
Total no. of outlets	43							
(shinkin banks)			(shinkin banks)			(shinkin banks)		
Sumitomo Life	31	78%	Fukoku Mutual	57	86%	Fukoku Mutual	32	73%
Nissay	8	20%	Tokio Marine Anshin Life	3	5%	Mitsui Sumitomo Kirameki Life	7	16%
PCA Life	1	3%	Meiji Yasuda	2	3%	Kyoei Kasai	3	7%
Total no. of institutions	40		Total no. of institutions	66		Total no. of institutions	44	

Note: "Number of institutions at which best-seller" means the number of regional financial institutions which indicated that they sold more products of a particular insurance company than of any other insurance company.

Source: NICMR, from Japan Financial News data of 21 May 2004.

III. Foreign Insurance Companies Making Inroads

Table 3 shows the sales of new individual annuities (including via channels other than bank branches) by the top 20 providers in Japan. Although these figures, unlike those in Table 1, which represent premium income, show contract values and therefore tend to boost the sales of companies that rely heavily on monthly premiums, they clearly illustrate the competitive environment in the Japanese market for

individual annuities (e.g., by the fact that three out of the top five companies are either non-Japanese, or joint ventures with non-Japanese, companies). The company at the top of the list, ALICO Japan, has also created one of the most successful annuity products (a high-yielding foreign-currency annuity). As can be seen from Table 2, it ranked as the best-selling annuity at many regional banks in fiscal 2003.

Nor are product characteristics the only difference between Japanese and non-Japanese life insurance companies. Non-Japanese life insurance companies have managed to maintain their sales growth even when their Japanese rivals have copied their products. Non-Japanese companies clearly have more experience of distributing their products via third-party outlets.

For example, Hartford Life, Number Four in Table 3, is the Number One provider of variable annuities and also has a 30% share of the market for variable annuities sold via bank branches in the United States. Similarly, AIG controls more than 30% of the US market for fixed annuities sold via bank branches. US life insurers such as these have a wealth of experience of distributing their products via third-party outlets such as banks and investment brokers.

Table 3 Sales of New Annuities by Top 20 Providers (Fiscal 2003)

	No. of plans sold (1000)	% change	Sales (contract value) (¥100 mil)	Sales(contract value) per plan (¥ mil)	
ALICO Japan	198	662%	10,565	656%	5.34
Nissay	89	-2%	8,037	12%	9.03
Sumitomo Life	135	35%	5,789	34%	4.29
Hartford Life	63	125%	4,364	106%	6.93
Mitsui Sumitomo CitilInsurance	50	783%	3,891	927%	7.78
Meiji Yasuda Life	43	87%	2,568	70%	5.97
AIG Edison	73	30%	2,302	58%	3.15
Fukoku Mutual	83	177%	2,209	81%	2.66
Tokio Marine Anshin Life	61	3%	2,136	-9%	3.50
Mitsui Life	50	35%	2,119	28%	4.24
Dai-ichi Mutual	27	-40%	1,542	-26%	5.71
ING	19	-14%	1,209	-21%	6.36
Mitsui Sumitomo Kirameki Life	24	500%	1,180	511%	4.92
AXA	15	114%	1,039	58%	6.93
T&D Financial	14	27%	904	39%	6.46
Nipponkoa Life	25	56%	868	44%	3.47
Daido Life	9	-40%	806	-42%	8.55
American Family	18	-65%	664	-61%	3.69
Asahi Mutual	14	-1%	613	8%	4.35
Manulife	12	100%	579	120%	4.83

Source: NICMR, from company data.

In contrast, Japanese insurance companies have tended to rely on their own sales forces. Therefore, while they know how to sell directly to final clients (B-to-C business know-how), they still have a lot to learn about how to beat their rivals in selling via third parties (B-to-B business know-how).

IV. "Principal Guarantees" and "Foreign Currency" Sell Annuities

The two product features that have proved most attractive to customers taking out individual annuities via bank branches have been "principal guarantees" and "foreign currency." Although their products differ in detail, Sumitomo Life, Hartford Life and Mitsui Sumitomo CitiInsurance have boosted their sales by offering principal guarantees, while ALICO Japan and AIG Edison have seen their sales of foreign-currency annuities rise sharply.

There are two types of principal guarantees for variable annuities: a guaranteed payout in the event of the annuity holder's death and a guarantee on the value of the accumulation fund before the annuity commences. This second type is by far and away the more popular type of guarantee with those who take out an annuity via a bank branch. Because the investment risk of this type of product is ultimately borne by the insurance company, the annuity holder's investment options are limited (e.g., to a small number of funds managed by the insurance company itself).

This preference for principal guarantees—rather than the freedom to choose from a wide range of funds, which is often regarded as one of the main attractions of variable annuities—appears to reflect the very nature of distribution via bank branches. Perhaps it is hardly surprising if product simplicity (for both customers and the bank staff whose job it is to sell the products) and customer preferences dictate which products sell best.

One new type of principal guarantee that has recently attracted considerable interest in the United States is an annuity that allows annuity holders to withdraw up to a certain amount from their accumulation fund every year without having to pay a penalty. Although in Japan there are not yet any annuities offering this type of principal guarantee (withdrawals are currently limited to investment gains), there are some new products that give annuity holders access to a limited amount of liquidity without any penalty.

There have recently been calls in Japan (mainly from Japanese insurance companies) for stricter rules governing the reserves that are necessary to fund principal guarantees, and the Financial Services Agency asked for public comment on proposed amendments to the rules from 10 August to 9 September 2004. In the United States there have been concerns that cutthroat competition has led insurance companies to offer guarantees at very low premium rates, and the insurance commissioners are now considering whether the rules governing how reserves are accrued need to be tightened. Although the calls from Japanese insurers were probably prompted by the debate in the United States, competition in the Japanese insurance industry has yet to lead to the same degree of pressure on margins. Nor are non-Japanese insurers charging their Japanese annuity holders the same low premium rates as they charge their customers back home.

V. Choice of Funds Reflects Annuity Providers

One of the characteristics of variable annuities is that annuityholders are usually able to choose their investments from a wide range of subaccounts and to change their choices. Since these subaccounts are, in most cases, mutual funds, variable annuities have also attracted considerable interest in Japan as a new means of persuading retail investors to invest in the securities market.

However, the choice of funds that insurance companies offer their holders of annuities with multiple subaccounts tends to reflect the interests of the providers rather than those of the consumers who are going to be the final investors.

Table 4 lists the characteristics of the managers of the subaccounts available with the variable annuities offered by the main Japanese banks (Mizuho Bank, Bank of Tokyo-Mitsubishi, UFJ Bank, Sumitomo Mitsui Banking and Resona Bank) and securities companies (Nomura Securities, Nikko Cordial Securities and Daiwa Securities). The fund managers have been classified according to their relationship with the insurance company providing the annuity as (1) in-house (i.e., the annuity provider itself), (2) provider-affiliated, (3) distributor-affiliated or (4) independent.

Although these annuities offer an average choice of eight funds, there is a clear bias in that a high proportion of the fund managers are distributor-affiliated, suggesting that the annuity providers' priority was to ensure that their new distributors had an incentive to sell their annuities.

There are indications that annuity providers are offering a wider choice of funds, including, for example, REITs. This trend towards catering more for the interests of investors (annuity holders) (e.g., by offering them a choice of popular funds) seems set to increase.

Table 4 Affiliation of Companies Managing Subaccounts Offered by Variable Annuities

	No. of subaccounts	In-house	Provider-affiliated	Distributor-affiliated	Independent
Mean	7.5	0.4	1.3	4.1	1.8
Median	7.0	0.0	0.0	4.0	1.0
(%)					
Mean		7%	18%	57%	19%
Median		0%	0%	63%	14%

Notes: (1) Managers affiliated to both provider and distributor have been classified as "provider-affiliated".

(2) The data cover variable annuities sold via Mizuho Bank, Bank of Tokyo-Mitsubishi, UFJ Bank, Sumitomo Mitsui Banking, Resona Bank, Nomura Securities, Nikko Cordial Securities and Daiwa Securities.

Source: NICMR, from company data.