### Compound annual growth rate, gross written premium, Japan, 2013–2018

<table>
<thead>
<tr>
<th></th>
<th>In JPY</th>
<th>In USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-0.5%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Life</td>
<td>-0.8%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Non-life</td>
<td>0.5%</td>
<td>-0.8%</td>
</tr>
</tbody>
</table>

*Source: Swiss Re Sigma*

The Japanese insurance market is one of the largest in the world. Life insurance volume is roughly JPY35 trillion, ranked second behind the US in total annual premium. Likewise, the property and casualty (P&C) insurance market is approximately JPY9 trillion, ranked fourth in the world.

### Expense ratios

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>14.1%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Non-life (including commissions ratio)</td>
<td>32.6%</td>
<td>34.6%</td>
</tr>
</tbody>
</table>

*Source: Life Insurance Association of Japan (LIAJ), General Insurance Association of Japan (GIAJ)*
Japan’s life insurance premium volume has remained relatively flat during the last five years. However, the annual premium from in-force policies seems to have increased. The volume decrease in 2016 was due to lower yield caused by Bank of Japan’s policy on low interest and product sales suspension.

Japanese firms have not been major players in the InsurTech space to date. Of the roughly JPY242 billion or USD2.24 billion invested in InsurTech companies in 2017, only 16% went to Asia, and less than 1% was invested in Japan.

Both life and non-life insurers face significant challenges in light of an aging population, a low birthrate and persisting low interest rates. Legacy systems and new competitive factors are also driving change in the market.

Projected Japanese age demographics shift, 2008-2038

Source: Oxford Economics
The unfavorable economic environment, including a lingering low interest rate, is among the causes for the decline in Japan’s life business. It has also been difficult to launch new savings products and other types of offerings under such circumstances.

Consumers’ needs are shifting away from death protection and toward life protection (medical, income, etc.). Thus, life insurers are seeking to quickly develop and launch new products and added-value services to boost revenue. Younger consumers (millennials and Generation Z) are migrating to new sales channels, such as co-registered agents, rather than meeting with tied sales representatives.

These customers need to be identified and approached with more enticing products.

As technology advances and non-insurance competitors (such as other financial services companies) enter the industry, it is more important than ever for life insurers to create ecosystems with InsurTechs. Feeling both cost and competitive pressures, incumbent life insurers are looking to the cloud, artificial intelligence (AI), and other technologies to replace inefficient legacy systems, enhance operational agility, and improve their data and analytics capabilities and infrastructures.

**Shift of in-force policies by product**

Medical and cancer products grew by 15% from 2000 to 2017, reflecting increasing consumer needs for third-category products as well as for caregiving protection. Death protection insurance is not as attractive anymore because of the low birthrate and aging population, as well as the development of advanced medical technologies.

The volume of whole life (WL) and term insurance products increased relative to the year 2000 due to:

1. Sales increase of USD-based WL and low-cash-surrender-value WL policies for the purpose of savings and tax advantages
2. More women purchasing WL thanks to increases in double-income households
3. Sales increase in WL due to reasonable pricing and minimum coverage
4. Switch to simple term products at the time of renewing term WL

These customers need to be identified and approached with more enticing products.
**A life insurance powerhouse**

The Japanese life insurance market is the third-largest in the world, following the US and China. Nearly 90% of Japanese households carry life insurance policies. In contrast, 70% of US households and 38% of UK households have life insurance. However, the volume of in-force policies has dropped precipitously since reaching a peak of JPY1.5 trillion in 1996. One reason for the drop is that the workforce population hit its peak in 1997 and has been declining ever since.

In addition, the unit price of premium per person has been decreasing due to continuing low interest rates, as well as a low birthrate and increasing longevity.

**Financial deregulation**

The financial deregulation of 1996 triggered unprecedented changes in the Japanese insurance industry. For instance, it introduced:

- Liberation of premiums
- The third category of insurance products (e.g., medical insurance)
- Co-registered agents
- Sales through bankassurance channels and the internet

The “tied sales representative system” allowed a tied sales representative to sell only one company’s products. However, that system was partially eliminated and the “broker system” was adopted. It should also be noted that the Japanese Insurance Business Act states that only insurers can be structured as mutual companies. Today, mutual insurers have a market share of around 30%.

**Shifting channels**

Tied sales representatives, including life planners, remain a prominent sales channel, especially for life insurance. But more customers are buying insurance products at banks or insurance agencies, including insurance shops, giving these channels a stronger presence in the market.

**The need for system optimization**

Life insurance is incredibly prominent in Japan. But the industry must adopt more aggressive cost-saving programs and increase business efficiency if it is to thrive in the face of an aging population, low birthrate, and persistent low interest rates.

Inflexible legacy systems are a significant challenge. The core systems that support the business still run on mainframe computers. As a result, insurers have accumulated an enormous number of out-of-date IT assets that are resource-intensive and costly to manage and maintain.

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**Percentage of Japanese households with life insurance policies**

88.7%

**Decrease of in-force life insurance policy volume, 1996-2018**

-43.3%

*Source: LIMRA, Life Insurance Culture Center, LIAJ*

**Life insurance sales by channel**

<table>
<thead>
<tr>
<th>Channel</th>
<th>2003</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tied sales representative</td>
<td>72.0%</td>
<td>53.7%</td>
</tr>
<tr>
<td>Agent</td>
<td>7.0%</td>
<td>17.8%</td>
</tr>
</tbody>
</table>

*Source: Life Insurance Culture Center*
Imperatives for life insurers

1. **Focus on highly profitable products** with current customers and develop new products, value-adding services, and sales channels suited to diverse customer needs (e.g., giving advice on health, finance, mental support, ad hoc insurance).

2. **Consider how “human plus digital” channels should play in the market** and develop targeted models and road maps to maximize customers’ lifetime value.

3. **Prepare for a future in which insurance products are available on platforms** like Amazon by acquiring, partnering with or creating InsurTech players and platforms to execute key strategies and drive innovation.

4. **Embrace AI, the cloud, advanced data analytics, and automation** to improve the efficiency and agility of key value chain functions.
With JPY9 trillion in premium, the Japanese P&C insurance market is the fourth-largest in the world, trailing only the US, China, and Germany. The domestic market is largely an oligopoly. The three largest insurers hold 85.6% of market share, while foreign insurers hold only 8%. More non-insurance companies (largely financial services players) are entering the P&C market, which could significantly impact the dominant position of the top P&C insurers.

The increase in damage from severe natural disasters in Japan is leading P&C insurers to redefine risk profiles using the most up-to-date technologies. Further, they will look to adopt advanced technologies to reduce the high cost and inefficiency of legacy systems and improve their operational agility.

**The dominance of automotive**

Automobile insurance (including compulsory automobile liability insurance) represents 60% of net premium in Japan. A “grading system” determines premiums based on policyholders’ accident histories. Agencies dominate sales of auto policies. Hovering around 4%, direct sales are increasing. Enormous shifts within the automotive market are to be expected as advanced telematics become more common.

### Market share of “big three” P&C insurers

85.6%

*Source: GIAJ, Foreign Non-Life Insurance Association of Japan (FNLIA)*

### Improving commission and operating expense ratios

Commission ratios for non-life insurers have dropped by 0.4% points from 2002. Company expenses decreased by 1.7% points during that same time, showing that operations have become more efficient.

### Total expense ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Commission ratio</th>
<th>Admin expense ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>17.6%</td>
<td>16.9%</td>
</tr>
<tr>
<td>2010</td>
<td>17.5%</td>
<td>17.1%</td>
</tr>
<tr>
<td>2018</td>
<td>17.2%</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

*Source: GIAJ, FNLIA*
Imperatives for non-life insurers

1. **Develop and offer new products** and services that address the risks and opportunities relative to new technologies and societal shifts (e.g., the future of mobility, connected homes, broader adoption of personal and company data transaction).

2. **Seize new business opportunities** and create ecosystems through mergers and acquisitions and partnerships with InsurTechs and other digital startups.

3. **Enhance customer experiences** at every touchpoint and strengthen the infrastructure for existing customers.

4. **Leverage technologies** like AI, the cloud, and advanced analytics to improve the efficiency of key functions and parts of the value chain.
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For insights into regional trends and imperatives, please review the 2020 Asia-Pacific Insurance Outlook.

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