# Growth Factor of the Life Insurance Business in Japan

OTSUKA, Tadayoshi[1]

Abstract

The purpose of this essay is to quantitatively demonstrate the factors that contributed to the growth of life insurance business in Japan through analyzing the historical trend of life insurance business, overall environment including market, products and price, etc., and the regulation at the time during the one-half century period from the end of World War II till the revision of the Insurance Business Law in 1996.

During a half century period, the life insurance business grew tremendously, i.e. more than 8,000 times in business in force and 10,000 times in total assets. The growth of life insurance business exceeds the growth of Japanese economy by far, as its actual growth is 21 times in business in force or 30 times in total assets. The second largest causal factor of the expansion of life insurance market after the economic growth was the increased number of households. The cause that increase of households exceeded the increase of population during the high growth period was the increase of nuclear families. The increase of nuclear families was due to the increase in urban population, which diminished the function of mutual help within families and local communities.

The reason why the life insurance business grew at a larger scale than the increase of households was the improvement in people's literacy for insurance, i.e. understanding of the necessity for insurance. Also, the trend must have been accelerated by a series of product development that supported people's self-help efforts s well as reductions in premium rates.

## 1. Preface

Meiji Life Insurance was established in 1881, approximately one hundred years after the Equitable Society, the first modern life insurance company, was launched in England. For 130 years since then, the life insurance business in Japan grew steadily as the country became modernized and its economy kept expanding. The nature of the life insurance business, however, was reset at the end of the Second World War. The business before and after the WWII[2] are dramatically different.

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[1] Assistant Professor, Graduate School of Commerce, Wasseda University
1-6-1 Nishiwaseda, Shinjuku-ku, Tokyo 169-8050, Japan, E-mail:otsukata@aoni.waseda.jp

[2] Following is the summary of life insurance business until the WWII. The main focus of the market was the middle class and above, and the distribution agencies were run by the establishment of local communities. At first, the whole life insurance was a mainstream product, then the endowment became more popular. The premium mode was annual, and the underwriting required medical examination by a physician. Many insurers were stock companies, and rather lax regulation at the time resulted in frequent bankruptcies and M&A's compared to the post-war period. For low income citizens, the government offered small size insurance policies through the Postal Life Insurance established in 1916. The product was monthly premium mode and small sized up to 250 yen face amount and underwritten only by self-declaration.

The stance of the regulation after the war was also significantly different from that of the pre-war. Especially during the post-war recovery period, the utmost priority was to re-establish people's trust in insurance business. During the high-growth period and after, the regulator was proactively engaged in healthy growth of life insurance business by advocating two basic stances which point to different directions, i.e. protecting policyholders while reducing their cost, and restricting excessive competitions.

The purpose of this essay is to quantitatively demonstrate the factors that contributed to the growth of life insurance business in Japan through analyzing the historical trend of life insurance business, overall environment including market, products and price, etc., and the regulation at the time during the one-half century period from the end of World War II till the revision of the Insurance Business Law[3] in 1996.

## 2. Historical Trend of Life Insurance Sales

First, I observe the historical trend of business in force and new business as well as total assets and premium income during the period between 1947[4] and 2000 in order to quantitatively demonstrate the growth of life insurance business.

### 2.1. Business in Force and Total Assets

(Table 1) shows the historical movement of business in force and total assets for several years in the post-war period and every five years afterwards. Over the observation period, the business grew dramatically, more than 8,000 times in business in-force and 10,000 times in total assets. However, business in-force peaked out in 1995, so did the total assets in 1997. Both have been declining since.

[3] This was the first full-scale surgical change of the Insurance Business Law since it was enacted in 1900. Graduate School of Commerce, Wasseda University, 1-6-1 Nishiwaseda, Shinjuku-ku, Tokyo 169-8050, Japan
E-mail:otsukata@aoni.waseda.jp

[4] All of the twenty life insurers established the Second Company and completed transferring the business in 1947, at which point my observation starts. Refer to 3.1. (Recovery Period) for the Second Companies.

(Table 1) Historical Business in Force and Total Assets (Amount in 100 million yen)

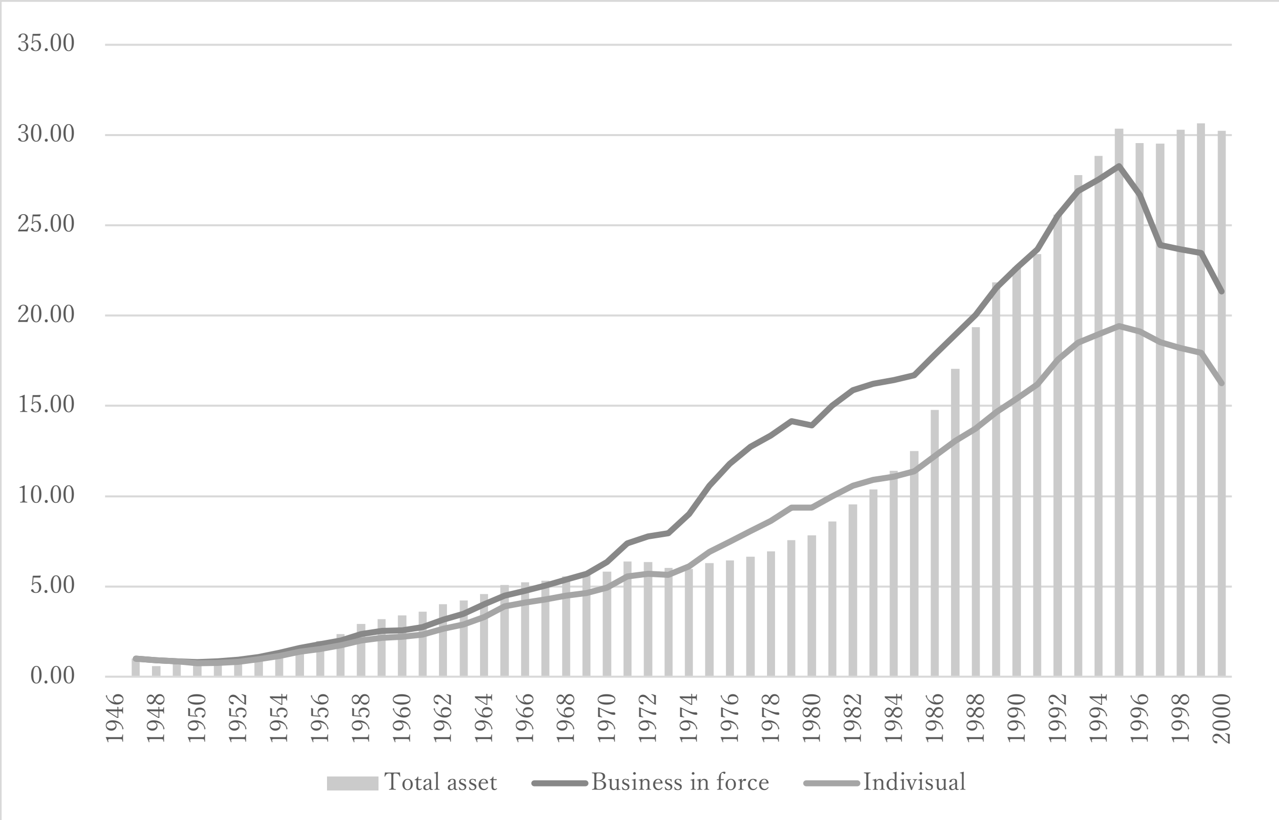
| Year | Business in Force | Individual | Total asset |
|---|---|---|---|
| 1947 | 1,957 | 1,957 | 160 |
| 1948 | 3,656 | 3,557 | 189 |
| 1949 | 4,794 | 4,794 | 367 |
| 1950 | 5,515 | 5,100 | 367 |
| 1955 | 22,430 | 19,330 | 1,929 |
| 1960 | 69,971 | 60,118 | 7,528 |
| 1965 | 244,173 | 211,864 | 22,431 |
| 1970 | 782,301 | 606,741 | 58,548 |
| 1975 | 2,654,178 | 1,730,474 | 128,930 |
| 1980 | 5,723,283 | 3,843,319 | 262,578 |
| 1985 | 8,809,675 | 6,011,921 | 538,706 |
| 1990 | 15,953,087 | 10,835,964 | 1,302,513 |
| 1995 | 21,395,315 | 14,692,588 | 1,874,925 |
| 2000 | 16,312,231 | 12,444,449 | 1,886,767 |

(Souse) Fiscal 1947; *Insurance Historical Record of the Showa Era; Separate Volume 1 Statistics of Business"*, Life Insurance Association of Japan, Fiscal 1948 to 1966; *"Annual Report on Insurance"*, Association of Okura financial affairs, Fiscal 1967 to 2000: *"Statistics of Life Insurance Business in Japan"*, Hoken Kenkyujo Ltd., Hereafter the same shall apply unless otherwise indicated

On the other hand, (Graph 1) shows the net growth rate of business in force and total assets considering the growth of GDP. For the purpose of indexation, the numbers in 1947 were defined as 1, and numbers in each year were divided by the growth rate of GDP.

While the nominal growth of business in force was over 8,000 times, the net growth was 21 times. As for total assets, the nominal was more than 10,000 times, but the net was 30 times. This means that the growth of life insurance business after the war was mainly due to the recovery and advancement of Japanese economy. Still, 21 times and 30 times in net growth rate demonstrate the fact that the life insurance business grew at a pace by far exceeding the growth of Japanese economy. It is obvious that there were growth factors unique to the life insurance market.

Graph 1) Indexed growth of business in force and total assets considering the growth of GDP

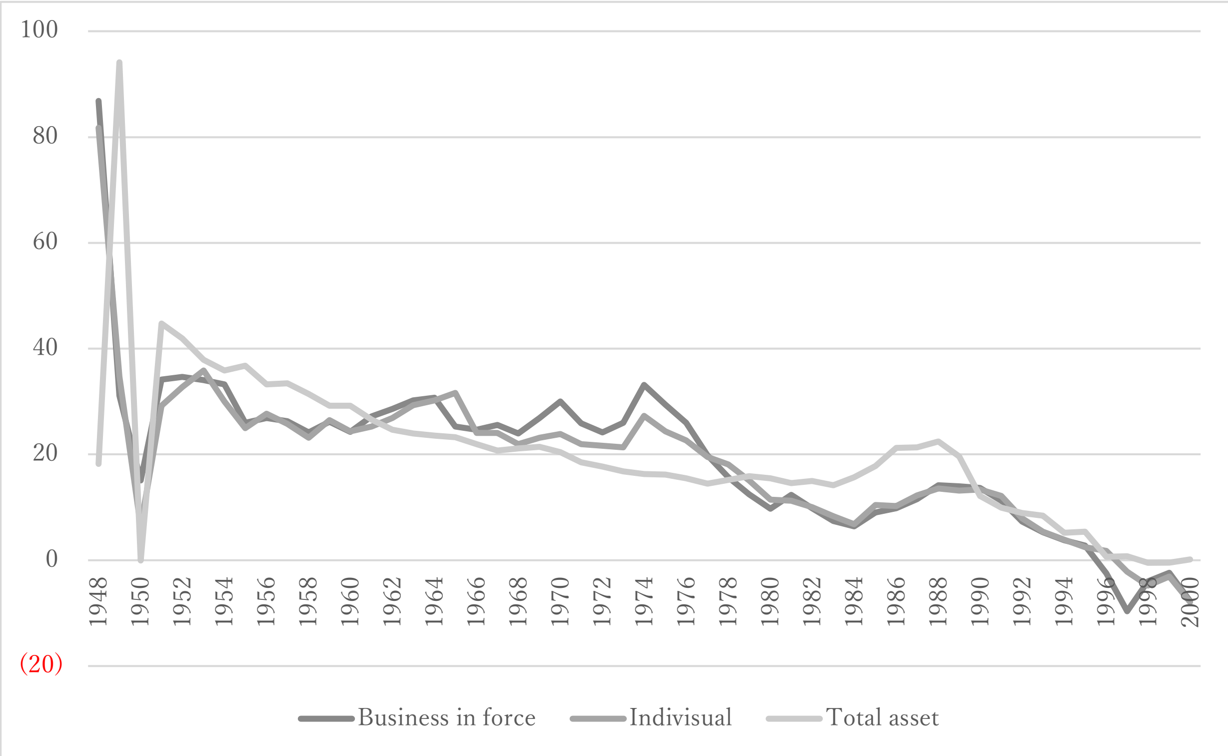



(Note) Numbers in 1947 were defined as 1, each year's numbers divided by GDP growth rate
(Souse) GDP：Up to fiscal 1965 Bank of Japan, afterword Cabinet Office of Japan;
http://www.esri.cao.go.jp/jp/sna/data/data_list/kakuhou/files/

(Graph 2) shows the year-on-year growth rate of business in force and total assets. Although the numbers were volatile for the post-war period, they show a steady growth afterwards. (Graph 3) is same as Graph 2 except that the volatile post-war period has been removed. The annual growth rate of business in force exceeded 20% until 1976, but slowed down thereafter and became as low as 6% by 1984. During the Bubble Economy period between 1985 and 1991, the growth rate recovered and exceeded 10% but started declining again, and finally became negative.

The growth rate of total assets basically shows the same trend as that of business in force, except for the Bubble Economy period during which it showed significantly high growth rates, over 20%. In conclusion, other than the post-war confusion period and the Bubble Economy period, the insurance business was consistently growing despite of some ups and downs. It didn't grow all of sudden at a specific period.

(Graph 2) Year-on year growth of business in force and total assets (%)




(Graph 3) Year-on year growth of business in force and total assets after 1959 (%)

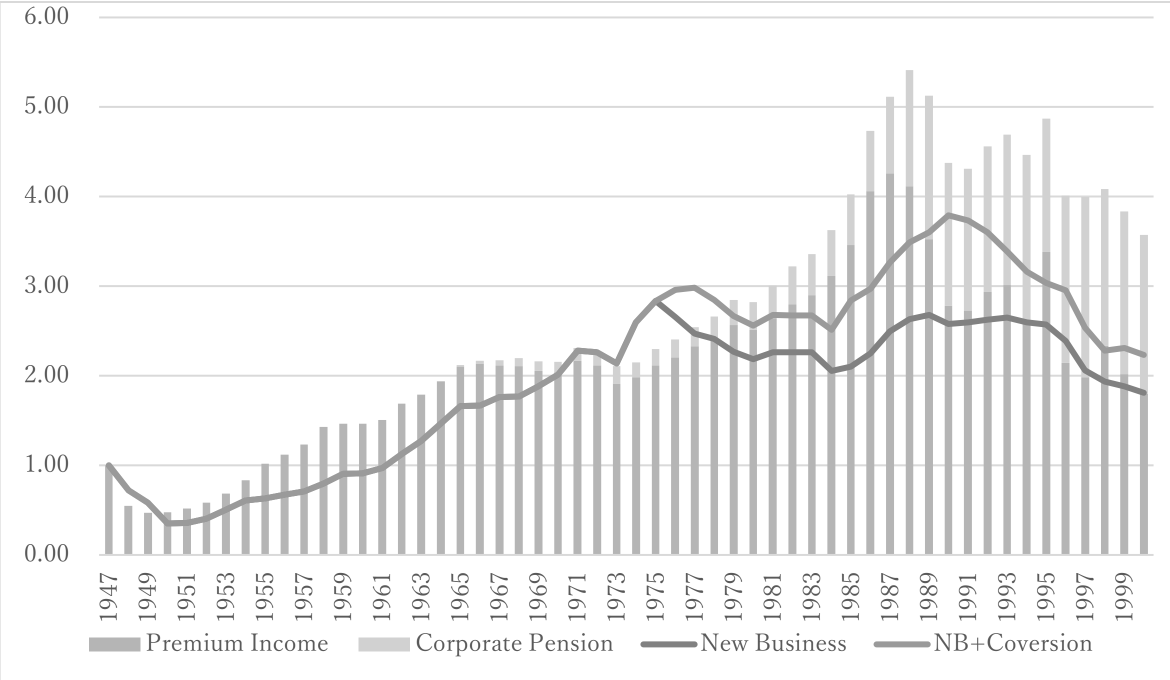
2.2. New business and premium income

Next, let's look at the historical trend of new business of individual insurance and premium income excluding corporate pension. The individual insurance new business includes the actual increase from conversion policies. (Graph 4) is the historical trend of net new business and net premium income. Hereafter in this essay, the growth shall always represent the net growth after considering the GDP growth instead of nominal growth.

Between the beginning and the end of the observation period, the actual growth of both new business and premium income excluding corporate pension are 1.8 times, which shows a clear contrast when compared with the dramatic growth of the business in force and total assets. The different pace of growth between the business in force and the new business is rather reasonable as the policy period of life insurance in general is extended over an extremely long time.

Also, the new business peaked out in 1993, and so did the premium income in 1997. In other words, the new business peaked out two years earlier than the business in force, but the premium income and the total assets peaked out in the same year.

(Graph 4) Indexed growth of new business and premium income considering the growth of GDP

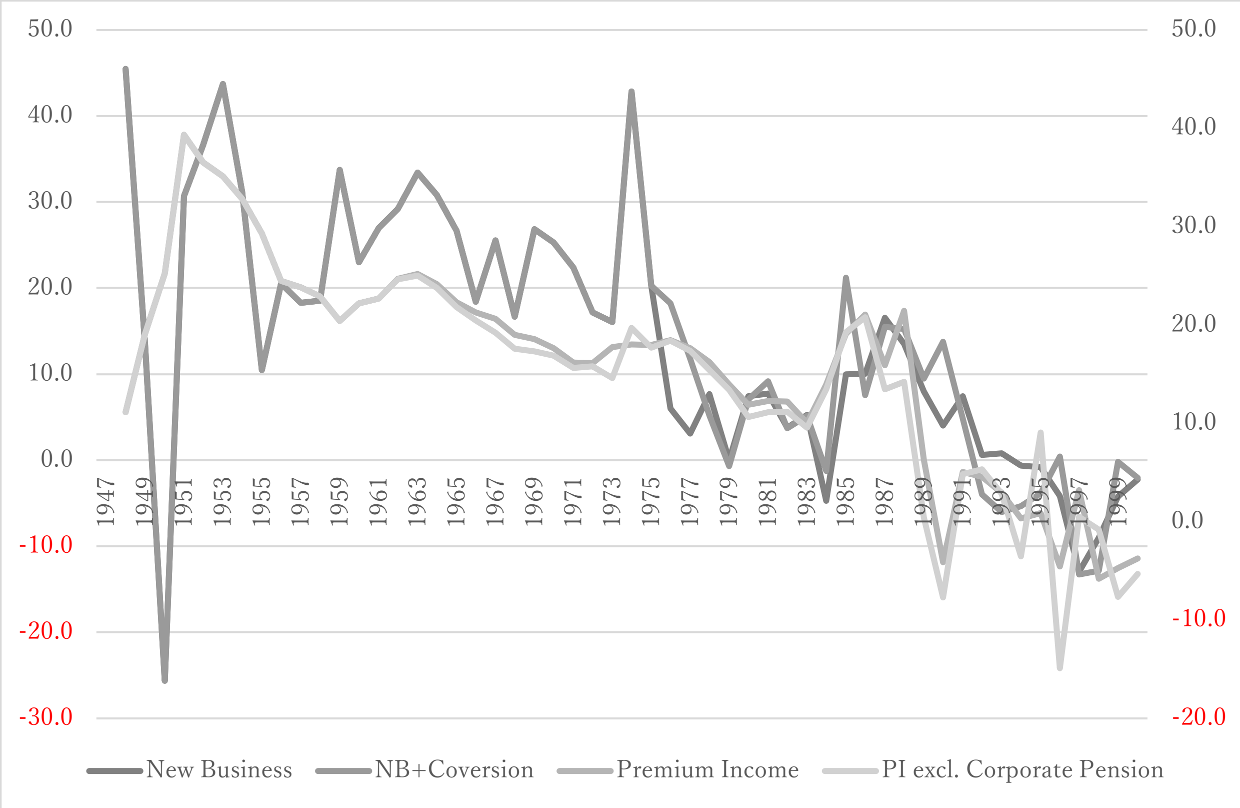



(Note) Numbers in 1947 were defined as 1, each year's number divided by GDP growth rate

(Graph 5) shows the year-on-year growth rate of new business and premium income. Although the new business numbers were volatile even after the post-war period, the growth in average until 1975 is around 20%. Afterwards, although more conversion policies appeared, the new business growth rate decreased gradually, then after picking up during the Bubble Economy period, it started decreasing again and became negative.

Contrary to the new business, the growth rate of premium income was not so volatile. However, it shows the same trend as the new business. After decreasing gradually, the premium income grew by almost 20% during the Bubble Economy period, and started decreasing again to become negative.

(Graph 5) Year-on year growth of new business and premium income (%)




3. Outline of Business

Next, I will divide the 50-year period from the end of WWII until the revision of the Insurance Business Law into four periods: recovery period, high growth period, steady growth period and Bubble Economy period. For each period I will demonstrate the outline of life insurance business and its management, change in price reflecting premium rates and dividends rates, and how the regulation was involved.

(Table 2) Change in the Insurance Business after the World War II

| | Overview of Life Insurance Business | Premium / Dividends | Stance of Regulation |
|---|---|---|---|
| Recovery Period<br>1946~58 | 20 insurers split their account and resumed the business.<br>Female sales reps expanded the market. | Business resumed based on conservative provisional rates.<br>Dividends started distributing again, and premium rates were lowered three times.<br>Rates recovered to the pre-war level. | < Harmonized approach by all companies><br>Under guidance of the regulator, all companies offered the same premiums and dividends. |
| High Growth Period<br>1959～75 | Growth at rates over 20% continued.<br>Increased urban population and nuclear families resulted in stronger demand for life protection.<br>Launch of the endowment with term. | Individualized dividends started reflecting difference in financial strength.<br>Premium rates lowered reflecting improvement in mortality and expense. | < Controlled liberalization ><br>Correction of uniformity, liberalization of dividends within a specified range.<br>Focus on protection of policyholder (establishment of the Insurance Council)<br>Prioritizing the net premium reserve accumulation and restriction on excessive competitions (start of the Governance by Net Premium Reserve). |
| Steady Growth Period<br>1976～84 | Slowdown of growth.<br>Further concentration on life protection products and increased sales of WL with Term products.<br>Entry of foreign life insurers.<br>Launch of the third-sector products.<br>Fixed ranking of company size | Significant increase of dividends across the industry including special dividends funded by capital gains.<br>Dramatic reduction of premium rates including raising interest rate assumptions. Two times additional rate reductions | <Horizontally egalitarian system><br>Regulator focused on reducing policyholder's costs and demanded rate reduction and increase of dividends.<br>Continuation of the Governance by Net Premium Reserve.<br>Improved quality of agents and sales organization. |
| Bubble Economy Period<br>1985～1995 | Significant advancement of saving type products.<br>Increase in total assets.<br>Change in ranking of middle-sized life insurers.<br>Burst of the Bubble followed by emergence of negative spreads. | Rates increased four times after the Bubble burst. | <Liberalization and globalization><br>Market principle-based financial administration and mutual entry by subsidiary (Financial System Reform)<br>Rules and regulations to maintain the financial soundness, extended information disclosure and measures for bankrupt companies (revision of Insurance Business Law) |

(Source) Created by the author

3.1. Recovery Period (1946 – 1958)

As Japan was defeated in the Second World War, all financial institutions across the country fell under the state of bankruptcy. Life insurers also followed the Financial Institutions' Reconstruction and Adjustment Act and executed the designated timing settlement in 1946. In the next couple of years, twenty life insurance companies built the Second Company and transferred business. In 1946, the provisional premium rates with highly conservative assumptions were implemented universally by all companies, which were and applied not only to new business but also retroactively applied to business in force. Also, policyholder dividends were reintroduced in 1948. The recovery period for life insurance business should be the 10-year period from the start of the Second Companies until 1958 when the net value of business in force and premium rates returned to the pre-war level.

The main product in this period was the endowment insurance, the same product as the pre-war period. Although sales were volatile during the post-war depression period and the following inflation period, the life insurance industry as well as Japan's economy started moving on the recovery track at the Korean War in 1950. The pace of recovery of life insurance industry was rather slow compared with other industries in Japan. The actual value of business in force (based on GDP) exceeded the pre-war level only at the end of 1958. The total assets exceeded the pre-war level at the end of 1961.

In terms of premium rates, as the business came back and mortality improved, the premium rates were lowered repeatedly, in 1951, 1955 and 1958 by all the companies, which almost returned to the pre-war level.

The most significant characteristics of the life insurance business in the post-war period was the establishment of sales organization mainly consisting of women, or war widows especially in early periods. Rapid growth of sales channel by recruiting a large number of female agents was the key to the success of life insurance business. The pre-war practice of insurance solicitation by local establishment became obsolete. Instead, a new solicitation style was established whereby female sales agents assigned to work in certain areas made regular visits to households in the area to sell ins

The life insurance business during this period can be represented by the word, "harmonized approach by all companies", which was conducted by the guidance of the regulator. The goal of Japan at the time was the economic recovery, and the goal of the regulator was to rebuild the people's trust in the financial and insurance businesses. This is why the regulator made sure that none of the twenty approved companies go bankrupt. In other words, the authority paid a very close attention so that none of the companies would try to differentiate themselves by offering better price or dividends and as a result start price competitions.

3.2. High Growth Period (1959 – 1975)

After 1954, Japanese economy achieved a dramatic growth and continued growing until the first round Oil Shock in 1973. This period is called the high growth period, which was also true for the life insurance business. New business kept growing at a pace of exceeding 20 percentage, and so did premium income and total assets. In other words, the high growth period for life insurance business lagged a bit behind the overall Japan economy. The high growth period for the life insurance industry was the 16 years period between 1959 and 1975.

The concentration of population in urban areas and advancement of nuclear family that started in later 1950's destroyed the traditional mutual help system within families and local communities, as a result of which the new urban residents became in need for protection against death. The door-to-door visits by female sales reps precisely caught this need.

Also, the mainstream products in this period are different from those in the recovery period. In response to the increased need for life protection, the endowment with term product which offered an enlarged life protection feature was launched. As the need for life protection became stronger than that for saving, the endowment with term accounted for a larger portion of new business, and the ratio of the death benefit to the maturity benefit increased from two times in the early period to as large as twenty times.

One of the highlights in the high growth period was entry of foreign life insurers to the Japanese market. The American Life Insurance Company (Alico Japan) in 1973 and the American Family Assurance Corporation (Aflac Japan) in 1974 launched business in Japan targeting Japanese people for the first time after the war. After that, more foreign life insurers followed, and the market started to become more and more multi-channel with diversified products.

The life insurance business during this period can be represented by the phrase "controlled liberalization" by the authority. Companies didn't pursue premium rates reflecting their management status. Instead, the authority instructed insurers to differentiate by the policyholder's dividends.
Also in this period, the regulator explicitly showed two policies that pointed to different directions. One is protection of policyholders and reducing their costs; the other is restriction on excessive competitions. As for the first one, the Insurance Council, a consultative body of the Minister of Finance, made the first recommendation, which included the correction of imposing universal premium rates and policyholder dividends as well as reduction of policyholder's cost by achieving management efficiency. The latter one, the restriction on excessive competitions, was the beginning of the Governance by Net Premium Reserve to prioritize the accumulation of net premium reserve over offering competitive premium rates.

### 3.3. Steady Growth Period (1976 – 1984)

At the event of the first Oil Shock in 1973, Japan economy ended its miraculous growth and entered the steady growth period. The 20% annual growth of life insurance business also dropped to below 10% in 1950's. During this era, while the hyperinflation eroded the practical value of policies issued in past years, life insurance companies one after another built modern buildings in the downtown of large cities all over Japan. This practice generated social criticism that life insurance companies were making too much money.

As growth of new business slowed down, the mainstream of insurance sales shifted from the endowment with term products to more protection-oriented whole life with term products. Also, not only the life protection but also the medical protection such as hospitalization and surgery benefits started expanding. Many companies developed medical riders to attach to WL with term products, medical insurance products focused on hospitalization and surgery benefits, and cancer products.

While big-sized life insurers that play mainly in the captive agent channel sold the WL with term insurance attached with medical riders as the key product, foreign companies and some middle-sized companies sold the medical and cancer insurance through the agency channel. In the same period, the individual annuity insurance focused on the long-term saving feature became more popular. However, the distribution channel of domestic life insurers, which used female sales agents as its core, hardly had any changes.

One of the roles of the regulator in this period was to correct the disadvantages suffered by policyholders due to the absence of enough information and knowledge. Actually, the reduction of premium rates and increase/introduction of policyholder dividends significantly reduced the actual costs of insurance. This basic stance was succeeded without major changes even when the government started discussing innovation of the financial system.

As for improvement of sales practice, the "3-year Plan for Improvement of Life Insurance Solicitation Process" started in 1976 for the purpose of improving the quality of life insurance agents. The plan included more stringent recruiting standards and reinforced education system for sales agents as well as improvement of new business persistency, all of which encouraged more efficient business management of companies.

### 3.4. Bubble Economy Period (1985 – 1995)

The Plaza Accord in 1985 has been regarded as the trigger that started the Bubble Economy in Japan. Yen appreciation advanced quickly, the government reacted and lowered interest rates, equity and real estate prices shot up. The expansion of economy started in December 1986 and continued until February 1991[5]. As the Restriction on Loans Related to Lands and Related Assets (restriction on the total volume of land trading) was announced in 1990, the Bubble Economy started bursting. Under this essay, the Bubble Economy includes both expansion and burst of the Bubble Economy.

As the economy expanded, the life insurance business also started growing, with more than 10% annual increase of new business. Supported especially by saving type products like single premium endowment and individual annuity, the total assets achieved a huge growth of 20% annual increase for several years. With the abundant cash, Japanese life insurers so-called "the Seiho" had a dominant presence in London and New York during this period. Also, companies that started selling

[5] Period of expansion under the diffusion index

these types of saving products earlier than others quickly expanded their business,, which changed the long-standing business ranking of companies.

After the bubble burst, the investment yield on assets of insurance companies rapidly declined reflecting the downward market, and the "negative spreads" of the high interest rate products that had been sold during the Bubble Economy period surfaced. The reduction of the statutory valuation interest rate was executed in 1990 for the first time, followed by additional reductions to the low level continuing until today. Still it didn't help the struggling management of life insurers. During the period between April 1997 and March 2001, seven out of twenty Japanese life insurance companies went bankrupt.

The keyword regarding the finance administration in this period was the financial liberalization and globalization. The Japanese Financial Big Bang initiative announced in 1996 was to make the financial administration transparent according to the market principle and to execute a structural innovation of market itself. The government reviewed the financial administration and rules for each financial industry, then promoted mutual entries between different businesses and healthy growth of capital market.

Also in the area of insurance administration, the Insurance Business Law was revised in the same year. The key revisions were: (1) promotion of competitions and market efficiency by deregulation, (2) sustaining soundness and protection of policyholders' benefits in the case of management crisis, and (3) ensuring fair business management.

## 4. Analysis of Factors of Business Growth

As described in the Chapter 2, the size of life insurance business made a dramatic growth in 50 years after the WWII, i.e. 8,000 times in business in force and over 10,000 times in total assets. In terms of actual growth rate that excludes the impact of overall economic growth, it was 21 times in business in force and 30 times in total assets, which demonstrates a far larger growth than Japan's economy.

In this chapter, we will use the actual growth rate converted by the GDP growth rate in order to identify the factors of growth other than the overall economic growth. For the purpose of avoiding an excessive complication of analysis, the new business in this analysis is limited to that of individuals, and the premium income excludes corporate pension. Also, the observation period is limited to the begging of the high growth period in 1959 and after.

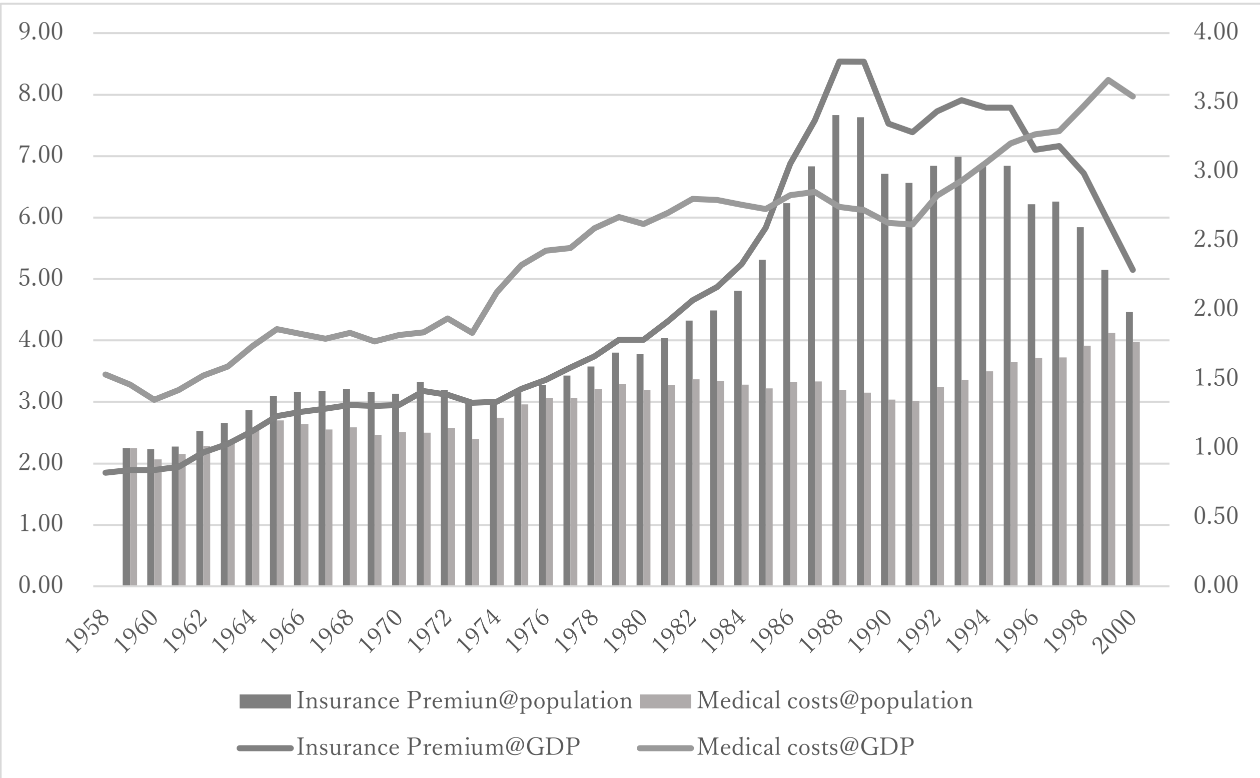
### 4.1. Comparison between Life Insurance Premium and National Medical Expenditure

First, I observe the cost borne by household. (Graph 6) show the trend of the ratio of each of premium income and national medical expenditure to GDP, and indices of premium income and the national medical expenditure per citizen (the number in 1959 defined as one, and numbers in each year indexed by the growth rate of GDP, hereafter in this chapter the same shall apply).

During the observation period, the ratio of national medical expenditure to GDP constantly increased, from 3.3% at the beginning to 8.2% at the end; the growth was 2.5 times. The indexed medical cost per head, however, grew to 1.5 times in the high growth period but stayed flat afterwards. Since part of medical expenditure is paid by households, it is reasonable that the more income households gets, the more medical cost it pays. Still, per-head medical cost stopped growing. This indicates that the growth of medical expenditure until the steady growth period was due to the increase of population.

On the contrary, the ratio of life insurance premium to GDP tripled from 1.9% to 5.9% during the period until the steady growth period. In this period, the trend of premium follows that of the medical expenditure, at 60% approximately. In the later of the steady growth period, however, it started growing at a higher pace than medical cost and exceeded it in the Bubble Economy period. As the Bubble Economy busted, the premium income dropped dramatically. The trend of premium during the Bubble Economy was different from that of medical cost, which indicates that the premium income includes the increase/decrease of saving type products such as individual annuity and single premium endowment, etc. In other words, when savings products are excluded, the life insurance cost borne by households assumedly shows the same trend as the medical cost.

(Graph 6) Historical ratios of premium income and national medical expenditure to GDP and indexed per-citizen spending




(Note) Left axis: ratio to GDP, right axis: indexed per-person expenditure based on the figure in 1959 as one

(Source) For population, Every 5-Year National Census by the Ministry of Internal Affairs and the Annual Demographics Stats by the Ministry of Health, Labor and Welfare; for national medical expenditure, the Overview of National Medical Expenditure by the MHLW http://www.mhlw.go.jp/toukei/saikin/hw/k-iryohi/02/toukei1.html

### 4.2. Historical Trend of Average Face Amount and Case Count of New Business

Next, I analyze the historical trend of new business volume. As the new business volume is the average face amount multiplied by new business case count, I divide the new business volume into the average face amount and the new business case count, and analyze which one of the two was more responsible in growing the new business volume.

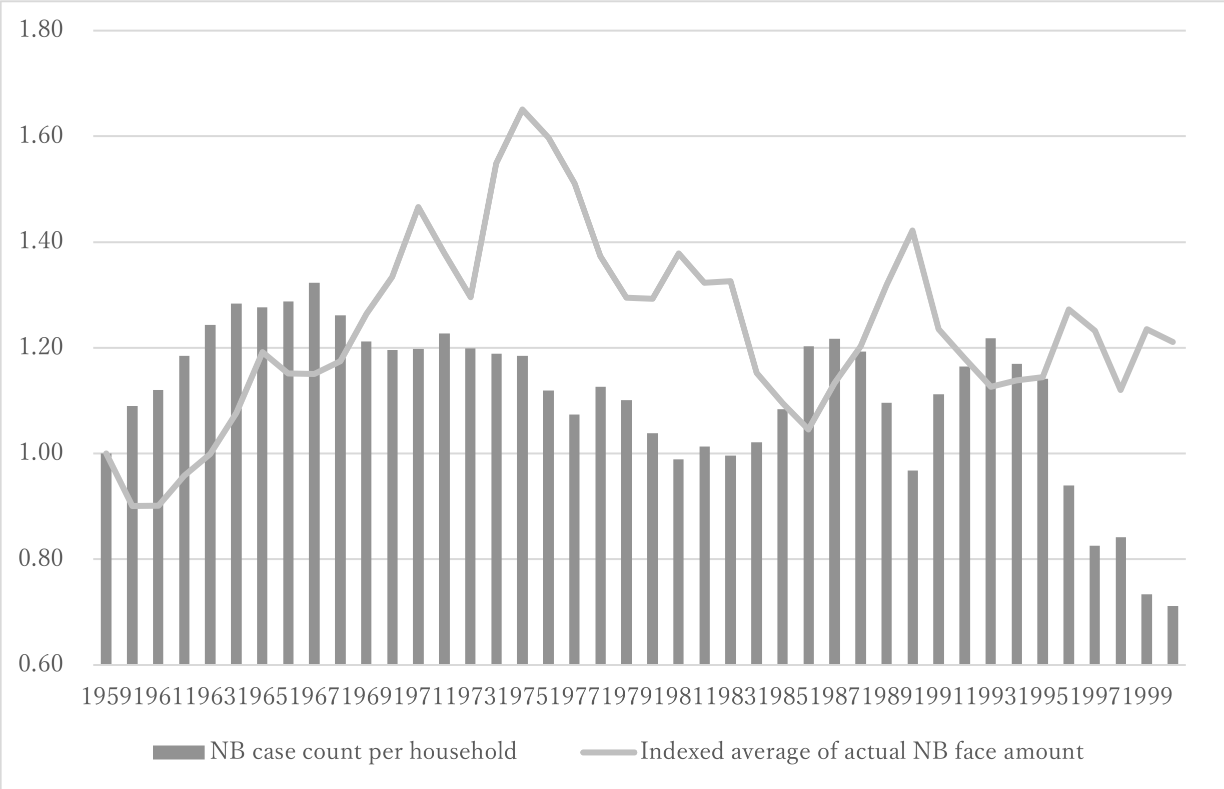
(Graph 7) shows the historical trend of the indexed average of actual NB face amount and indexed NB case count per household (NB case count / number of households). The graph tells a different story from the dramatic growth of life insurance business demonstrated in the Chapter 2.

The per-household NB case count increased to 1.3 cases in the high growth period but continued a slight decrease ever since, which ultimately dropped to 0.7 cases after the bubble burst. In other words, the current per-household NB case count is 30% smaller compared to the beginning of the high growth period. On the other hand, although not shown in the graph, increase of the number of households exceed growth of population, especially from the high growth period through the steady growth period.

Also, the indexed average of actual NB face amount increased to 1.7 in 1975, the last year of the high growth period, but have been around 1.2 since then. I suppose that the shift of business from the savings to protection, i.e. from endowment products to endowment with term products to whole life with term products, as well as the decrease in per-face amount premium as a result of reduction of premium rates were the reasons of the increase of the average face amount in a pace exceeding the GDP growth during the high growth period. As demonstrated earlier, the cost of people during this period didn't increase compared to other periods. This indicates that the increase in the average face amount during this period was accomplished by product updates that were repeated in response to the increased demand of people for insurance protection.

Also, during the Bubble Economy in late 1980's, the average face amount decreased while the case count increased, which I assume is the impact of single premium endowment products. At the time of the bubble burst in late 1990's, there was a dramatic decrease of case count, which I think was a result of damaged trust of people in life insurance business due to a series of bankruptcies of middle-sized life insurers.

(Graph 7) Historical trend of indexed average of actual NB face amount and indexed NB case count per household




(Note) Numbers in 1959 defined as 1

(Source) Number of households based on the every 5-year National Census by the Ministry of Internal Affairs. For years with no data, the numbers were prorated based on the every 5-year numbers.

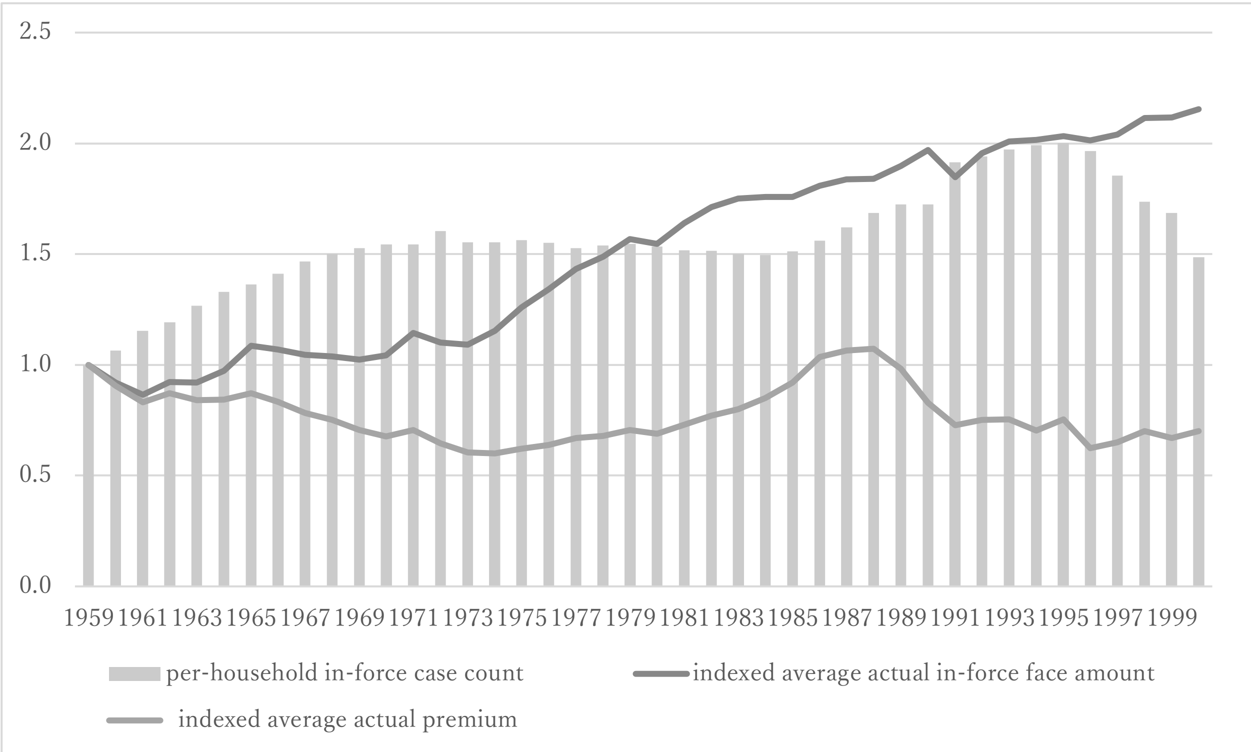
4.3. Historical Trend of In-force Case Count and Per-household In-force Case Count

As the policy period of life insurance is as long as 30 years or even lifetime, people can have only one policy is their life unless they surrender the policy and buy a new policy, or buy multiple policies. In this section, I analyze the historical trend of business in force following new business.

(Graph 8) shows the historical trend of the indexed average actual in-force face amount, indexed average actual premium, and per-household in-force case count (in-force case count / number of households). The case count increased by 1.5 times (from 1.5 cases to 2.3 cases per household) over the 10-year period since 1959 which is the earlier period of high economic growth. Afterwards until the Bubble Economy period, the case count basically kept flat. Meanwhile, the number of households increased by 1.5 times over the 10-year period from 1959 and kept increasing afterwards. Over 20 years from 1975, the increase rate was 1.6 times. In other words, what caused the growth of life insurance NB market was the increase of households, and the growth of in-force in the earlier period of high economic growth exceeded the increase of households. The increase in the Bubble Economy period is attributed to single premium endowment products.

During the observation period, while the average face amount increased double, the average premium decreased by 30％, which was the impact of development of more-protection oriented products and reduction in premium rates as described earlier. Although the impact on business in force delayed from that on new business, after 1975 when premium rates were lowered dramatically, the average face amount kept increasing at a significant level. In the light of average face amount and premium, I suppose the development of more protection-oriented products and decrease of premium rates are assumed to be the growth factors of protection products.

(Graph 8) Historical trend of indexed actual average in-force face amount, indexed actual average premium and per-household in-force case count




(Note) Numbers in 1959 defined as 1

## 5. Summary

During a half century period that started with the post-war confusion, the Japan economy achieved a miraculous recovery and advancement. During 1949 and 2000, the life insurance business supported the recovery/advancement of Japanese economy from the financial aspect through its tremendous growth, i.e. more than 8,000 times in business in force and 10,000 times in total assets.

Through analyzing the business trend over the one-half century, I have recognized that the growth of life insurance business exceeds the growth of Japanese economy by far, as its actual growth is 21 times in business in force or 30 times in total assets. In other words, although the largest causal factor of the growth of life insurance business in the post-war period was the expansion of Japan economy, there are some other contributing factors.

The second largest causal factor of the expansion of life insurance market after the economic growth was the increased number of households. Also, the reason why the life insurance business grew at a larger scale than the increase of households was the improvement in people's literacy for insurance, i.e. understanding of the necessity for insurance. The cause that increase of households exceeded the increase of population during the high growth period was the increase of nuclear families. The increase of nuclear families was due to the increase in urban population, which diminished the function of mutual help within families and local communities. This social change is assumed to have made people believe a household needs at least one insurance policy. The trend must have been accelerated by a series of product development that supported people's self-help efforts as well as reductions in premium rates.

Moreover, there is a belief that the government's convoy system for financial institutions created the myth that the banks and insurance companies never go bankrupt. Actually, the myth was supported by the fact that there were no major cases of bankruptcy dung this period. The basic stance of the regulator during the recovery period was to build public confidence in the financial system but not to promote free competition. The appropriateness of the regulator's policy has been proved by the fact that life insurance companies kept growing in a far larger scale than Japanese economy with no failure cases during the period when the utmost priority was the country's recovery. Still, the fact that the regulator kept controlling the price was nothing but inhibition of free competition, and created one of the reasons why life insurers failed to maintain the financial soundness during the bubble burst period.

(Reference)

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