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# THE STRUCTURE OF NONLIFE INSURANCE MARKET OF JAPAN

by

*Yutaka Maekawa*

## *Foreword*

An important problem is presently facing the Japan's insurance business. That is the problem of liberalization of insurance transaction, which seems inevitable in the course of transition of our economy toward a freed economy. The goal of liberalization of insurance transaction involves direct writing and free business by foreign enterprises. In any way the liberalization, when enforced, will naturally cause a change in the structure of our nonlife insurance market. Being confronted with such a situation, the circles are holding fears particularly on possible confusion of market and excessive competition. Serious concern is being directed to it by the business circles of nonlife insurance, on which far severer influences are foreseen than on life insurance.

The purpose of this paper is to clarify the structural character of nonlife insurance market of Japan.

Structures of a market affect determination of prices of goods or services transacted there. This makes no exemption for the price determination of insurance. The price determination in nonlife insurance is considered to be influenced by the structural features of its market, too. So this paper will make reference to the problem of price in nonlife insurance.

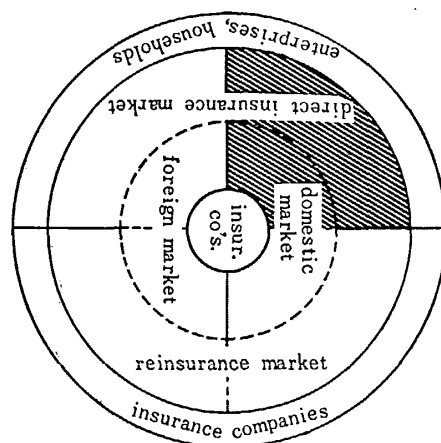
## *1. The Insurance Market*

In order to prevent confusion of argument there is a need to define the meaning of terms, though we have already used. In this paragraph the concept of insurance market will be made clear.

The insurance market, as the place of insurance transaction, is composed of the group of insureds and that of insurers. In the actual transaction on the market of course there is participation of agents beside insureds and in-

surers. Those who come under the insured group are numerous enterprises and households, as the demanders for insurance. On the other hand the insurer group comprise some corporates as the suppliers. The insurers in our economic system are insurance companies: capital stock company or mutual company. The suppliers in this market, namely insurance companies, are of business form typical in our economic system, whose behaviors are conceived to be based on the principle of profit maximization.

The insurance market includes direct insurance market and *reinsurance* market. The former is, say, a retail market while the latter is a market for transaction between insurers. Again the insurance market can be divided geographically into domestic and foreign markets. These markets may be illustrated in the picture below. The market in this paper regards the domestic direct insurance market. For our purpose the distinction between domestic and foreign may be of minor significance.



## 2. Concentration

A market is composed of the group of suppliers of goods and services, namely sellers, and that of demanders, namely buyers. And markets are theoretically classified into perfect competition, oligopoly and monopoly, according to the number of sellers. In perfect competition numerous sellers are involved who cannot alter the conditions of market, that is to say, who supply only minor portions of goods or services there. The extreme contrast to this perfect competition is monopoly administered by a single seller. And in the in-between position of the two lies oligopoly. An oligopoly market is featured with the existence of a small number of enterprises combinedly supplying a large portion of goods or services. In almost all fields to be called modern industry, the market is exhibiting a picture of oligopoly as is well known.

So the question is, in the light of such structure of market, to what a

pattern does the nonlife insurance market correspond. For the patternal identification of our market, a problem arises as regards the forms of insurance transacted there. The insurance companies sell many types of insurance each. And each type of insurance is utilized for various objects. If each type corresponds to one particular object respectively, there is no substitutability among them. In other words, speaking strictly each type of insurance forms each market. If so, the market structure must be considered with respect to each type. However, even where companies are offering various lines in each, if the composition of the lines is similar among them, they may be conceived to come under the same industry. In fact, fortunately, the types of insurance offered by our companies are almost of the same composition, and in addition the main line — automobile, fire, marine and transportation — are being carried by every company. So it is possible to treat all kinds as nonlife insurance inclusively.<sup>1)</sup> This is a significant point since theoretically industry means grouping of products, not enterprises.

## 1) Lines of Business written by Various Companies.

(as of June 30, 1965)

Company	ordinary fire	industrial fire	monthly-payment fire	monthly-payment all risks	mutual fire	building repair	replacement cost	hull	cargo	transit	auto.	accident	fidelity	(credit)	burglary	plate-grass	aviation	bonding	wind-storm & flood	animal	machinery	public liability	ship-passenger indemnity	nuclear energy	construction work	movables all risks	workmen's compensation	boiler	compul. auto. liability	
1 Tokyo	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	
2 Yasuda	◎							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
3 Nihon	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
4 Sumitomo	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
5 Dōwa	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
6 Nichidō	○	◎	○					○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
7 Nisshin	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
8 Nissan	○	○						○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
9 Chiyoda	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
10 Kōa	○	○						○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
11 Fuji	○	○	○					○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
12 Kyōei	○	○			◎			○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
13 Dai Tokyo	○	○	○					○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
14 Taisei	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
15 Taishō	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
16 Daiichi	○	○	◎					○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
17 Tōyō	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
18 Asahi	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
19 Taiyō	○	○						○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
20 Tōa	○							○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○

Source: The Statistics of Japanese Nonlife Insurance Business (Institute of Insurance Research) 1964.

Note: ◎ mark denotes companies given licenses of respective lines of business first among relevant companies. Lines with no ◎ mark were licensed to all companies at the same time.

A next problem relates to the number of enterprises to adopt for the standard of patternal identification of the market. The Japanese nonlife insurance companies as the suppliers in the market count 20. Their organizational forms are either capital stock company or mutual company in pursuant to the Article 3 of Insurance Business Law. Mutual company is a unique organization permitted to insurance business. The reason for such special permission is said to lie in the particularity of the business. The implication of the said particularity makes a problem to be examined but it will be omitted here in view of its minor importance. By the by, there is a difference of characters between capital stock and mutual companies, the former being a corporate aiming at profits while the latter not. Of the total 20 nonlife insurance companies of Japan, 18 are capital stock system and 2 are mutual. Such composition makes an inverse relation to the case of life insurance companies. One of the 18 capital stock companies is the so-called reinsurance company specialized in reinsurance transaction which must be excluded from our object of observation, i.e., direct insurance market. Thus under our definition of object the companies participating the nonlife insurance market count 19, including 17 capital stock and 2 mutual. And by the majority opinion there is no difference between the two forms in managerial and substantial terms, although legal nature differs somewhat. So by this opinion and in view of the small number of mutual companies, it may be justifiable to treat them similarly with capital stock companies. That is to say, here mutual company is regarded as profits seeking organization letting alone its mutual-aid spirit as the managerial idea.

In respect of the structural pattern and the number of participant enterprises, it is obvious that our market for nonlife insurance corresponds to oligopoly in patternal classification. A problem is, however, the degree of oligopoly if oligopoly is to be defined as an in-between position of perfect competition and monopoly. The degree administers the effect on prices in the market. It is known that generally in oligopolistic market there emerges a situation of oligopolistic coordination, in which prices tend to become inflexible. It is also undeniable, however, that enterprises behave aiming at more superior positions in a market, regardless of what a sort the market may be. Superiority in a market involves the possibility of price administration. Hence it leads to market control.

Concentration in a market is an essential factor determining market structure and again affecting market conduct and performance. It is weighed by the number and scales of enterprises composing market. The number of companies constituting the nonlife insurance market, excluding a reinsurance company as explained above, is 19. The degree of concentration is measured by the rate of market share of companies holding high-rank positions as regards scale of companies. It is not theoretically distinct what a number should be adopted for the high-rank enterprises. Usually one, four or eight

companies of higher ranks, by whose share domination of the market is examined. And to measure the share, scales of enterprises, as well as numbers, must be known. As for the indicators of scale usually are used number of employees, sales, added value, total assets and so on.<sup>2)</sup> If from among these figures one single indicator is to be selected, sales amount will be employed since it is most suitable to insurance business and easily available. The sales data of insurance business is premium received. Generally premiums mean direct writing premiums, receipts from policyholders, but here net premiums, deducting reinsurance premiums, must be taken.

On the ground of above descriptions, the concentration in our nonlife insurance market can be weighed assuming the number of participant companies as 19 and taking net premiums for the indicator of scales. Table 1 shows share rates of top one, four and eight companies for five years 1960 to 1964.

Table 1. Concentration in Nonlife Insurance Market  
Percentage of Sales by Top 1, 4 and 8 Companies

year	1	4	8
1960	17.89	43.28	70.32
1961	17.36	43.09	70.15
1962	17.20	42.61	70.05
1963	17.57	42.46	69.40
1964	17.34	42.34	68.82

Source: The Statistics of Japanese Nonlife Insurance Business, 1960 to 1964.

In Table 1 it is known that about 70% of our market is made up by high-rank 8 enterprises and the remnant 30% is divided by 11 companies. Further nearly 60% of the 8 companies' share is constituted by top 4 companies, and of this share 40-odd % by the highest one. In particular it is noticeable that the share of top one is stable for the five years while it is declining for the 4 and 8 companies. It is difficult, however, to judge the degree of concentration from these figures. Although the share of 8 companies—about half the total number—exhibits 70%, that of 4 companies—a small number relative to the total—is 40%. So even allowing for the 20% of the top one, it would be difficult to conclude a high degree of concentration on the whole. However, it may be said that the degree of oligopoly is high for the high-rank enterprises. So it seems appropriate to take that the degree of oligopoly is median, so to speak. And in view of declining shares of 4 and 8 companies, it would be unable to deduct that the present state will shift to a still higher degree of oligopoly. In this sense a fear of tendency toward monopoly may be minor. However, even if the concentration is not of so high degree, the

2) M.A. Adelman, *The Measurement of Industrial Concentration: Reading in Industrial Organization and Public Policy* (Illinois: Richard D. Irwin, Inc., 1958).

market power is another matter. Conversely in a market of high-degree concentration, market control by high-rank companies is not always possible. This is just the case with the nonlife insurance market of Japan. The reason for this is nothing but price cartels agreed within the business. Such cartels, however, are not derived from high-degree oligopoly but a fact recognized by the Insurance Business Law on the cause of the particularity of business.

Market concentration leads to price administration. Enterprises with market power can manage prices therein, and hence raise them in long run. As has been observed, the concentration in our market is, at least, not of high degree. Hence the possibility of price administration is small. And the trend of declining concentration is inverse as against other industries. So next examination has to be made on the factors producing such a tendency.

### *3. Barriers and Economies of Scale*

Other factors to determine the market structure involve product discrimination and conditions of new entry. These make also the conditions of market concentration. In this sense the discrimination on products may be included into the conditions of entry for the purpose of discussion. The entry conditions define characters of market structure in long run, and at the same time cause structural changes of market. And through such changes they affect also on market conduct and performance. The entry conditions bring about extensive changes in economy.

There are two forms of new entry.<sup>3)</sup> The one is establishment of entirely new enterprises, the other is expansion of existing enterprises. Here the entry denotes the first case. The degree of difficulty of new entry depends on the economic superiority of existing enterprises and non-economic restrictions against it. The entry conditions to determine the difficulty can be appreciated by the height of such barriers. According to J.S. Bain there are three kinds of entry barriers.<sup>4)</sup>

First, absolute advantages of costs on the side of existing enterprises constitute a barrier to new entry of enterprises. Such cost advantages are derived from various conditions.<sup>5)</sup>

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3) OEEC, Freedom of Entry into Industry and Trade, pp. 7-8.

4) Joe S. Bain, Barriers to New Competition (Cambridge: Harvard University Press, 1965).

(1) A case where existing enterprises have absolute advantages as regards costs.

(2) A case where existing enterprises have advantages on product discrimination.

(3) A case where economies of scale work on the industry.

5) Bain, *ibid.*

(1) A case where production techniques are dominated by existing enterprises.

(2) A case of imperfect market; for example, prices of production factors are lower for existing enterprises.

(3) A case that, even if new enterprises are more efficient, supplies in the mar-

The most important condition of absolute advantage of costs is ownership of techniques as is represented by patent. Such costs are likely to increase in accompany with technological changes. In the case of nonlife insurance what correspond to the production techniques of general industries are those of statistics, reinsurance and so forth, which are not suitable to patent or do not need secrecy. Again there is no evidence that manpower works as a decisive advantage on existing enterprises. The same applies to the condition of financial market. A point to note is that in Japan at least 30 million yen is required as the capital or fund for founding an insurance business. This amount is not so large yet actually a larger amount will be necessary for new entry. It is sales costs accompanying the agent system. And the larger the amount, the more difficult is entry. In case economies of scale work, the larger will be the amount. Anyhow these costs for nonlife insurance business in Japan may not be said large compared with those for other modern industries.

A next barrier is the product discrimination. It relates to the competition among existing enterprises as well as new entry. Where product discrimination exists regarding intra-industry competition, i.e., existing-enterprise competition, enterprises selling such discriminated products can afford to raise their prices or sell at lower expenses. Similarly in outside-industry competition with the product discrimination new enterprises have to check sales expenses below those of existing enterprises or to lower prices. Discrimination makes new-entry enterprises disadvantageous. It makes a barrier.<sup>6)</sup>

Now if a rational insurance buyer is assumed, he is expected to select a policy of best contents from among policies with the same aim and sold by various companies, provided the premium rates are the same. In the actual, however, such a selection is not always made. His selection is often influenced by irrational or non-economic factors. The fact that each of policyholders prefer respectively different companies of our nonlife insurance business, in which the same rate and standard policy provisions are employed, is an evidence of discrimination in our market, and shows that the discrimination depends on subjective reasons other than economic rationality. So it may be said that insurance provided by our companies clearly involves discrimination. And since in such a market rational policyholders may select

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kets of production factors are very limiter, and hence new entry causes price rises there.

(4) A case where more favorable conditions in financial markets exist for existing enterprises than for new enterprises.

6) Bain, *ibid.*

(1) Where buyers hold preference on the brands or reputations of goods of existing enterprises.

(2) Where existing enterprises govern good designs of products.

(3) Where desirable sales routes are owned or administered by existing enterprises.



existing companies in order to avoid risks inherent in new companies, the latter have to stand on an unfavored position compared with the former. In our market there is born a situation similar with oligopolistic coordination through price agreement, a state quite contrary to price rigidity due to oligopoly. In any way the market is oriented to non-price competition instead of price competition, the discrimination making the sole means of competition.

Lastly there are economies of scale as a condition of new entry. They serve also as the indicator of efficiency. Also the absolute advantage of costs and the product discrimination appear to make their ground. Then the problem is whether the economies of scale can be observed in our business. There is an opinion that the advantage of large scale cannot be obtained since in insurance business, which requires large sales expense, increases in contract cause larger sales costs. Such an opinion, however, must be rejected, e.g., by a positive study made by Hensler on American business. So this point has to be testified with respect to our business. Let us follow his method to see whether the economies of scale are working or not. His method was to extract from among many participant companies those satisfying certain standards of conditions, and with them to examine the relation between cost and scale. The standards involved (1) the same composition of lines of business, (2) the same system of sales channel and (3) the same price policy.<sup>7)</sup> In short the relation was studied with regard to companies with the same contents of business. And five-year averages were taken to eliminate short-run

Table 2. Net Premiums of Nonlife Insurance Companies, 1960~64

(in thousand yen)

Company \ Year	1960	1961	1962	1963	1964	Total	Average
A	16,916,876	19,447,833	22,000,153	27,324,890	33,113,018	118,802,770	23,760,555
B	8,942,419	10,626,526	12,153,315	14,133,571	17,591,468	63,447,299	12,689,460
C	7,107,425	8,554,272	9,675,991	11,582,939	13,476,830	50,397,457	10,079,491
D	7,134,038	8,364,371	9,644,527	11,094,000	13,065,793	49,302,729	9,860,546
E	6,080,389	7,151,532	7,790,307	9,122,804	11,093,318	41,238,350	8,247,670
F	6,808,509	7,997,881	9,674,129	11,863,108	14,747,199	51,090,826	10,218,165
G	3,846,352	4,394,520	4,860,315	5,963,107	7,037,645	26,101,939	5,220,388
H	5,300,244	6,434,679	7,198,758	8,913,336	11,275,411	39,122,428	7,824,486
I	4,954,381	5,887,239	6,686,499	8,310,624	10,605,451	36,444,194	7,288,839
J	5,569,099	6,794,095	7,990,799	10,103,600	12,756,901	43,214,494	8,642,899
K	4,309,845	4,777,515	5,321,054	6,499,780	7,901,460	28,809,654	5,761,930
L	2,965,759	3,371,427	4,047,068	5,014,228	6,525,919	21,924,401	4,384,880
M	2,972,311	4,135,980	5,013,931	6,354,899	8,194,728	26,671,849	5,334,370
N	1,463,841	1,735,660	1,983,640	2,475,885	3,051,392	10,710,418	2,142,084
O	7,936,318	9,636,622	10,680,546	12,704,468	15,414,855	56,372,809	11,274,562
P	705,279	834,239	1,029,943	1,374,951	1,751,203	5,695,615	1,139,123
Q	589,122	700,506	829,440	1,042,025	1,289,428	4,450,521	890,104
R	670,334	807,178	917,985	1,130,067	1,464,566	4,990,130	998,026
S	288,672	353,938	429,599	510,142	636,364	2,218,715	443,743

Source: The Statistics of Japanese Non-Life Insurance Business, 1960 to 1964.

7) Dor F. Hensler, *Competition, Regulation, and the Public Interest in Nonlife Insurance* (Berkeley and Los Angeles: University of California Press, 1962), p. 42.

fluctuations. Now all the said 19 companies of our market obviously conform to the standards since, as has been observed, they are almost identical in the composition of policy kinds, the sales channel of agent system and the price policy with agreed rates. Again a period of five years may be unobjectionable in view of business cycles in Japan. Table 2 presents net premiums of each company for 1960 to 1964, yearly, sum total and yearly-average. Table 3 shows expense rates of each company on the same items with Table 2. On the basis of five-year averages in the Table 2 companies were classified by a scale unit of 5 billion yen, and for each class the number of companies and the average expense rates are shown in Table 4. As is clear in the table, also in our market the expense rate declines with the expansion of scale, in other words, the advantage of economies of scale exists. So bigger companies are given ability to lower costs, which make a barrier to new entry as described above.

In the above, the conditions of new entry — as economic factors — have been examined. It is almost impossible to weigh the difficulty of entry by

Table 3. Expense Rates of Nonlife Insurance Companies, 1960~64

		(in %)					
Company \ Year	1960	1961	1962	1963	1964	Total	Average
A	34.23%	33.04%	33.59%	33.06%	30.66%	164.58	32.92
B	38.67	36.94	36.61	37.95	36.89	187.06	37.41
C	39.60	38.78	41.78	39.80	38.88	198.84	39.77
D	35.46	36.55	36.78	37.19	33.64	179.62	35.92
E	40.48	38.79	38.98	37.67	36.08	192.00	38.40
F	53.20	51.13	51.12	48.88	45.75	250.08	50.02
G	43.32	43.86	45.24	44.31	45.57	222.30	44.46
H	42.08	41.60	43.11	41.63	39.07	207.49	41.50
I	46.47	45.36	46.41	43.58	39.81	221.63	44.33
J	37.88	38.47	40.02	38.47	35.77	190.61	38.12
K	54.51	55.07	57.88	57.97	57.84	283.27	56.65
L	44.29	44.86	46.14	45.07	41.36	221.72	44.34
M	48.70	45.69	47.17	44.40	42.48	228.44	45.69
N	48.33	47.81	48.35	48.02	46.55	239.06	47.81
O	36.60	34.59	36.48	36.43	36.52	180.62	36.12
P	43.29	45.88	47.23	45.39	48.17	229.96	45.99
Q	46.77	47.10	48.68	46.38	46.72	235.65	47.13
R	46.53	47.84	48.73	47.99	45.82	236.91	47.38
S	45.84	43.53	46.02	46.76	42.72	224.87	44.97

Source: The Statistics of Japanese Non-Life Insurance Business, 1960 to 1964.

Table 4. Averages of Expense Rates by Scales, 1960~64

Average Yearly Premium	No. of Comp.	Average Expense Rate
Below 1 billion yen	3	46.49%
1 - 1 2	3 (2)	46.05 "
5 - 10 "	8	43.13 "
10 - 14 "	4	40.83 "
15 and over	1	32.92 "

note: (2) is the number of mutual company.

the above observation. It may be safe to say, however, that among the observed conditions what make relatively important barriers are the product discrimination and existence of large scale advantages, the former being more noticeable. Hence, as an overall estimation of entry conditions, it may not be right to say that the barriers are high in Japan.

On the other hand, such barriers to entry are constructed also by non-economic factors. One of them is responses of existing companies against new entry. Since in our market premiums are based on the agreed rates calculated by the Rate Making Association, there will arise no problems if a new company participates in the Association. If the new company carries business on its own rates, opposition by existing companies would be inevitable. Under our present state, where all nonlife insurance companies belong to the Association, there will emerge no case of such independent companies and, inversely, the permitted rates may make an advantageous condition for new entry since there would be no fear on future profits. Another possible factor to constitute a barrier is state control. Under the present Insurance Business Law business foundation is subject to license system and to get a license is very difficult today. It is clear that in this context the state is obstructing new entry. So it must be said that new entry in our market is absolutely impeded by state administration if the economic barriers are not so high.

### *Summary*

This paper is an approach to my study of insurance price, that is to say, a problem whether the price of insurance is justifiable from the standpoint of risk manager, namely demanders wishing lower insurance price. And the present theme of this paper has been limited to clarify the structure of non-life insurance market of Japan on the basis of recognition that the structure affects the price.

So first it has been examined to what a pattern of market our nonlife insurance market corresponds. Obviously it is oligopoly. Then it has been questioned, if oligopoly, whether it is of high degree or low. The answer to this question cannot be made so distinct. Inconclusively we have taken a median degree of oligopoly, yet a high degree of concentration is observed among upper-rank enterprises while, on the other hand, there is a trend of declining degree of concentration among the whole group of businesses. This trend indicates a direction contrary to other industries at large.

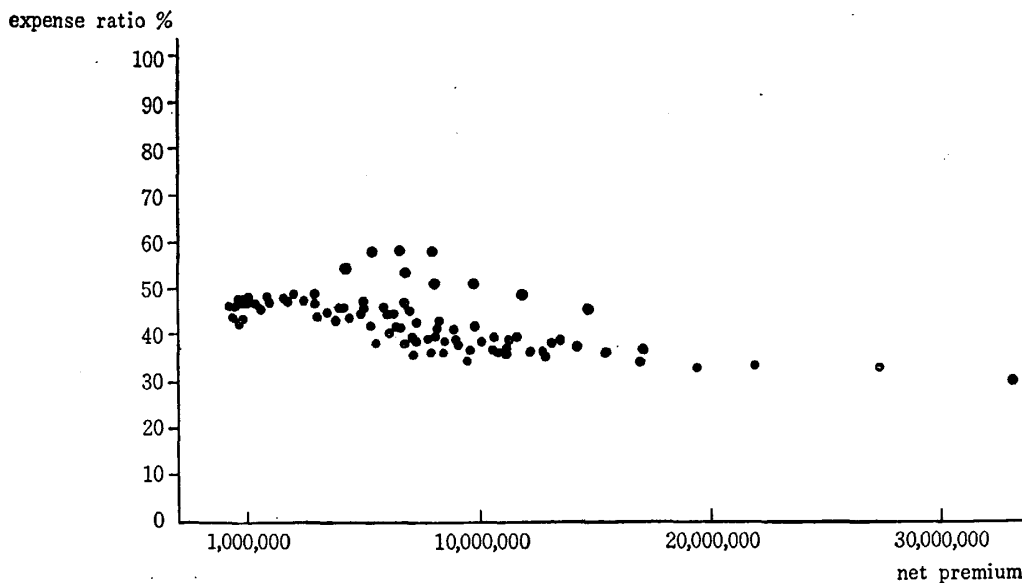
Next, the conditions of new entry, as a factor fostering market concentration, have been studied. The conditions regard the absolute advantages of costs, product discrimination, and advantages of economies of scale. Here it has been found that what is constituting an important barrier to new entry is the existence of product discrimination as well as the advantages of econo-

mies of scale. In addition there is another non-economic barrier, the state control. This factor doubtlessly has an absolute significance as the barrier.

To the above examinations we could give a logical nexus as follows. The said particular trend of declining concentration — particular in contrast to other industries — could be explained by the existence of product discrimination. For such discrimination, while constituting a condition of new entry in connection with outside-competition, involves the possibility of sustenance for small businesses. And it may be said that this possibility is being given by the impediment in new entry as a political deliberation and the price agreements.

Here some examination is necessary of the effects of state policies on the market upon the price and economic efficiency of insurance. For this aim it is convenient to derive an average-expense curve from Tables 2 and 3. Figure I, taking horizontal axis for the scales of our businesses and vertical axis for expense rates, exhibits the advantages of economies of scale as has been observed already. It shows more clearly the fact that the expense per unit decreases with the expansion of scale. This means the possibility of lower price for large-scale companies.

Figure 1. Average Expense Curve in Nonlife Insurance of Japan

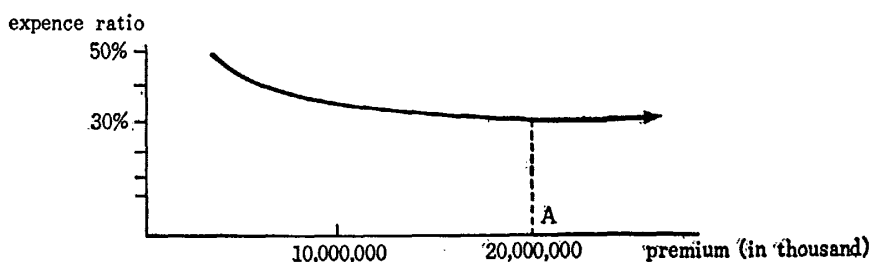


Since our business is based on permitted prices and the permitted prices are determined on the basis of the marginal business, big-scale companies can gain more profits than small-scale ones. So if our market were competitive, demanders could buy insurance more cheaply.

The curve may also serve to examine the efficiency of market. By a bold assumption in order to simplify we can draw Figure 2 from Figure I. On this figure we can say as follows. If the curve becomes parallel to horizontal axis after passing a scale A, every scale on the righthand side of A is optimal. So enterprises with a scale beyond A are all efficient. The net

premium at scale A cannot be identified exactly. But if it is taken to be 200 billion yen by Figure 1, only one company can be said efficient. Even if the amount is lowered to 10 billion yen in order to include those companies with approximate expense rates, they number only five. Of course this conclusion depends on the assumption that the curve turns parallel to horizontal axis after passing a certain point, which cannot be attested by the figure alone. It may be pointed out from this argument at least, however, that the efficiency of our nonlife insurance is low. Obviously this is resulted from the political measure of obstruction to new entry.

Figure 2



Now it is clear that few competitive factors exist in our market. It derives from the monopolistic price agreements based on a single system of rate making and the political barrier. Therein is observed a high degree of oligopolistic coordination and, if any competition exists, it is merely competition in discrimination as internal one. The results of these situations are stagnant efficiency of business and compulsion of high rates to policyholders. Under the condition of controlled competition with outsider and restricted price competition among bureau member, intensification of competition in product discrimination is logically unavoidable. Therein is involved even a possibility of inefficient use of resources.

Following the above description over a wide range, it may be necessary to examine the grounds of present state policies. This concerns the particularity and managerial Idee of insurance business. If the present policies are based on the past experiences, one of them may be the random birth of bubble companies and the excessive competition due to faults of management. Yet it must still be questioned if the avowed excessive competition really deserved to be called so, if such phenomena were not temporary, transitional ones toward equilibrium, and if a possibility of incessant excessive competition is inherent in the nature of insurance business itself. This and that of these questions must be followed by other papers.