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“SECURITY” AND “FINANCE”, SIGNIFICANT FACTORS FACING INSURANCE BUSINESS IN JAPAN

— Insurance, Its Principles and Practice in Japan, second series —

by

Noriaki Niwata

1. Transition of Security and Finance in Insurance Theories

In the writings and documents of insurance study, which were published decades ago or even in the ones published just a little while ago, the wording ‘operation of insurance assets’ was generally used. But recently it has come to be changed to ‘the operation of insurance funds’. It shows the increasing importance of financial activities in the functions of insurance business. As one of such examples in recent years, the same wording is observed in “Illustrated: Life Insurance in Japan/1986 edition” (compiled by Tadao Ryuho, former insurance section chief of Finance Ministry’s Banking Bureau; revised edition, issued in March, 1986, by Zaikei-Shoho Co.). Its 10th chapter is titled, ‘The Operation of Life Insurance Funds’. In it, the section 3 — ‘Operational Structure of Assets’ explains the specific contents and operations of insurance funds.

The matter of assets is thus positioned, and handled, within the wide concept of fund operations. In the past, part of assets was grasped as a fund, but now it is understood that the fund operation itself forms assets and the assets include loans, securities and real estates. One of the characteristics of the current insurance business, therefore, is that it is grasping, and systematizing, the money flow as ‘funds — assets — loans/securities/real estates and others’. In this regard, it differs from the general concepts of assets, capital and liabilities, and from the theories of mutual positioning in business administration.

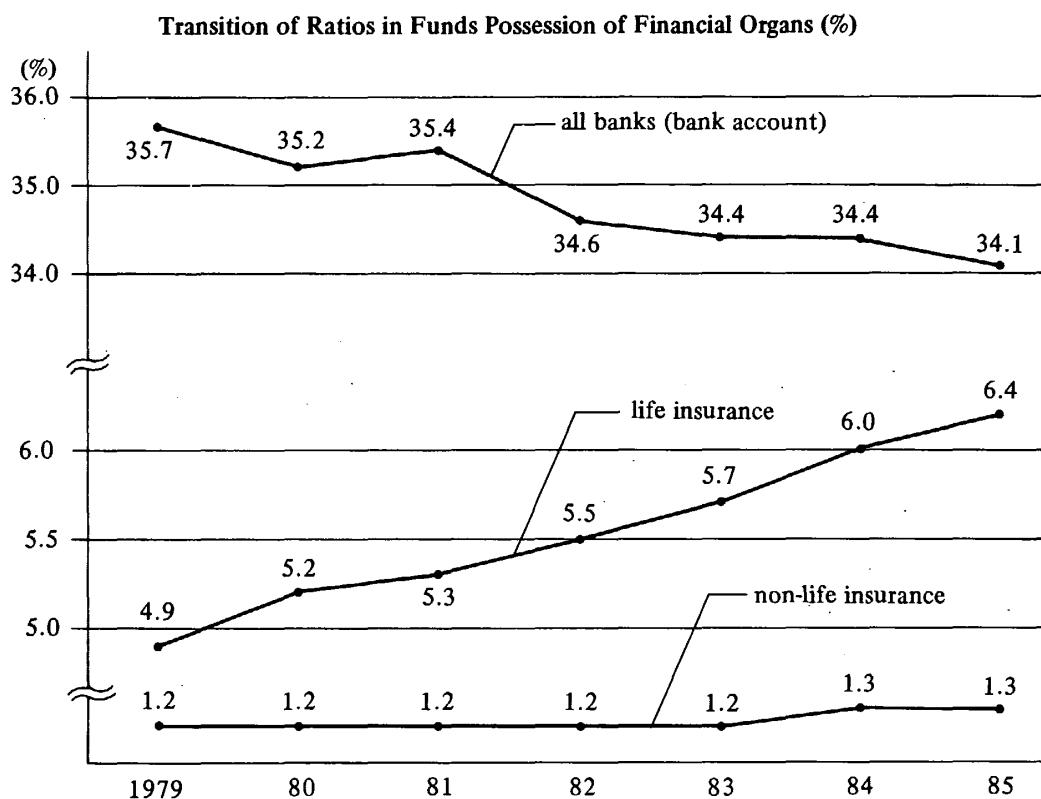
Also this book (p.136) lists the principles for fund operations as 1. safety; 2. profitability; 3. diversification; 4. realization (cashing); and 5. public interest. The factor of ‘diversification’ has not been taken up before, and the change seems to reveal the increased recognition of the importance, as well as the vitalization, of the fund operations. The insurance business is particularly obedient to the guidance and the intentions of the administrative offices, and it has carried out measures, following and sticking to the regulations. The observation of the wording, ‘the operation of insurance funds’ in the book, compiled by an official of the Finance Ministry’s administrative office, will be enough to indicate the future directions for viewing and assessing the insurance business.

Generally in the society, positive comments are being made on the evaluation of the financial features of insurance. One opinion is that “it may be a bold speculation but the

Non-Life Insurance Business - 1985 General Statement of Accounts

Item	1984		1985	
	Amount unit: ¥hundred million	Ratio against net receipts of premium	Amount unit: ¥hundred million	Ratio against net receipts of premium
Net receipts of premium (+)	37,454	100.0%	39,903	100.0%
Net payment for insurance claims (-)	20,113	53.7	21,049	52.8
Net business expenses (-)	14,556	38.9	15,532	38.9
Business balance	2,785	7.4	3,322	8.3
Receipts of reserve premium (+)	10,229	27.3	14,433	36.2
Working profits of reserve premium, etc. (+)	2,696	7.2	2,987	7.5
Maturity refund and bonus (-)	7,127	19.0	7,439	18.6
Other business balance (+)	△ 105	△ 0.3	△ 585	△ 1.5
Increase in reserve for payment (-)	1,256	3.4	194	0.5
Increase in reserve for liability (-)	6,568	17.5	11,599	29.1
Business profit and loss	654	1.7	925	2.3
Profit and loss outside business (+)	2,338		2,281	
Corporation tax and corporation inhabitant tax (-)	1,929		1,992	
Loss and profit of current period	1,063		1,214	
Surplus at the beginning of the period	316		341	
Undivided profit of current period	1,378		1,555	

unit: ¥hundred million



Note: A Bank of Japan survey; in the cases of life and non-life insurances, it shows the total of working assets.

life insurance in Japan is rather conspicuous with its tendency of putting emphasis on endowment insurance which has an element of savings, more than on mortality term insurance. Also it is evident that the non-life insurance, which used to be based on term contracts, has enhanced its growth by starting to handle reserve type non-life insurance that is rare in other parts of the world". Another opinion is that "the main function of insurance is 'security', but for the time being, it is certain that the promotion of new insurance plans, matching the people's inclination toward savings, will be actively conducted" ('Inclination Toward Savings and Insurance', Asahi Newspaper, July 22, 1986). In other words, it indicates a phenomenon which may reverse the functions of security and finance within the insurance business. It means that insurance has so much approached financing.

Such phenomenon is not exclusive with life insurance. The situation is about the same in non-life insurance. "There have been changes in the profit-gaining structure in non-life insurance business. With the stagnation in the proceeds of premium as well as in business balance under the low economic growth, the weight of the asset-working profits is increasing in the settlement profits" ('Non-Life Insurance' by Namio Miyazawa, p.145, in the Nikkei Industrial Series, published in July, 1985 by Nippon Keizai Newspaper). It shows a situation that, even in non-life insurance business circle, financial activities are now exceeding security features, and profits are being produced there.

Life Insurance Business/1985 – Receipts

	Amount	Ratio	Against the previous year
		%	%
Income from premium	154,797	69.6	119.1
Income from interest and dividend	37,024	16.6	116.1
Others	30,677	13.8	144.7
Total	222,498	100.0	121.5

unit: ¥ hundred million

non-life insurance business/profits from working assets in 1985 = working profits of reserve premium, etc. + interest + dividend = ¥645.7 billion

¥645.7 billion = profits from working assets in 1984 \times (1 + 10.5/100) = profits from working assets in 1984 + ¥61.3 billion

non-life insurance business/1985 business balance = net receipts of premium – net payment for insurance claims – net business expenses = ¥332.2 billion = 1984 business balance + ¥53.7 billion

In the insurance business and management, security function has been referred to as the primary function, or essential function, and the financial and fund operating functions have been regarded as the secondary, or derivative or incidental, functions. But, at present, such definition seems better to be reconsidered. Certainly, there was a time when the insurance business had not reached a certain level of development, and such immaturity was particularly conspicuous in non-life insurance business. During the time, the business circle generally adopted a viewpoint that the insurance means to sell a special merchandise, called insurance or security, which aims at achieving the economic security of the policyholders and the insured. In the non-life insurance business circle, the security was replaced by 'indemnity'. The 'indemnity' is defined as "1. to supplement and compensate; 2. (legal) make up for damage; specifically meaning the amount to be granted for supplementing the financial loss, caused by lawful actions" ('Kojien' dictionary, compiled by Izuru Niimura; p.1964/August, 1955, second impression of the second edition, by Iwanami Shoten). It has a strong legal connotation, and since the business circle regards the essence of insurance as making up for damage, it should be natural to understand that 'non-life insurance is the system for conducting functions of compensation'.

To confirm the priority on the security function is much significant as it reveals the essential principle within the business circle. Above anything else, the spirit of insurance starts from the 'selling' of insurance. The people in the field were rather cautious of their employees' adopting the style of financiers. They were careful not to disturb essential sales attitude or not to make the employees passive in their sales of security products. There was not enough accumulation of insurance funds, and with the consideration

Life Insurance Business/1985 – Payments

	Amount	Ratio	Against the previous year
		%	%
Insurance claims/annuity	31,522	14.2	104.7
Benefits	10,348	4.6	110.8
Bonus	21,551	9.7	114.1
Cancellation and other refunds	15,049	6.7	112.7
Business expenses	27,570	12.4	108.9
Transferred for contract reserve	76,013	34.1	139.6
Others	16,189	7.3	200.0
Payments total	198,242	89.1	124.3
Surplus of the current period	24,256	10.9	103.3
Total	222,498	100.0	121.5

unit: ¥ hundred million

toward the basic intention and required attitude, the insurance circle thoroughly inclined toward promoting security activities and marketing security products. Then, gradually, it began to take a path for enhancing the accumulation and formation of funds and its financial power. But, in midway, the war erupted, followed by defeat and economic chaos in the postwar era, and its accumulating funds came to nil, crushing all its financial power. There had never been such adversity for the insurance business which was about to strengthen and display financial functions while making its debut as a solid financial organ. As a repercussion, the insurance business came to put its emphasis on its initial actions of selling and marketing security or indemnification.

In the sales and marketing of insurance, there had been groups with affiliated capitals (referred to as ‘plutocrats’ in prewar period), represented by industrial affiliates or groups in prewar and wartime periods, continuing till a certain period of postwar era. Within each industrial assemblage, formed by affiliated capitals, business roles were divided, such as A company engaging in finance; B company in insurance; C company in trust; and D company in securities. Therefore the insurance business could stay within the sphere of security business, and most of the fund operations was done by, or put into the hands of, specialized companies within the circle. In exchange for that, each company in the circle used to buy security or get insurance from the affiliated insurance company. They were forming a relation of ‘helping each other’. Then the age of competition has arrived.

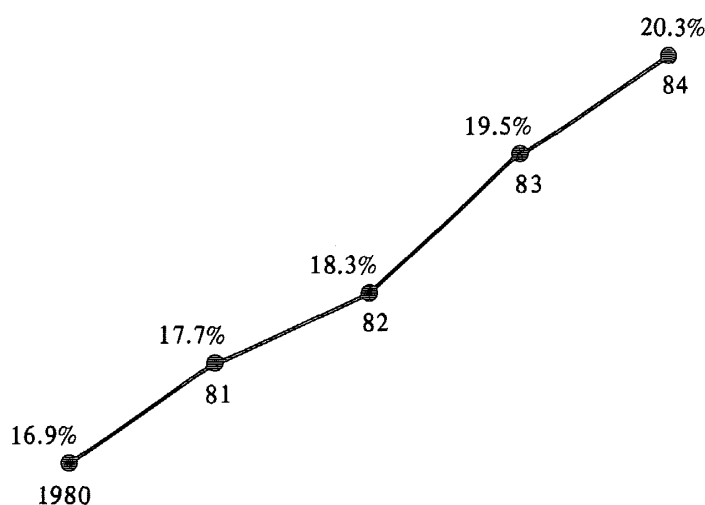
Conventional mainstay items of life or non-life insurances have already prevailed, and with the sales stagnating, the rate of additional expense is increasing for achieving sales. Herewith, the development of new products and the sales promotion become a necessity. In the aging society, annuity is the most favored subject. And, in annuity, the working of funds is extremely important, emphasizing the significance of financial skills. It will be displayed in a series of functional development, like < conventional products →

thorough circulation → appearance of new products → annuity in connection with aging society → importance of fund operations → insurance finance > . New products will be produced through the matching of security and finance, and the business will be promoted with the entwining of these factors. It is like the pursuit of business activities, seeking the unification of security and finance.

Similar situation can be observed with peripheral businesses of insurance. Peripheral business problems have thus come to be suddenly noticed. City banks, local banks, trust banks, securities companies, credit associations, and funds-related sections of the Ministry of Posts and Telecommunications, non-life or cooperative associations and labor unions, used to conduct their own financial activities, but soon they faced the stagnancy after the thorough circulation of conventional products and services. Prompted by a need to develop new kinds of financial products, they started to expand toward the security business. But, in handling insurance, they faced many regulations and obstacles. Insurance business included too specialized elements for them to participate in easily. Therefore, in choosing business fields which are with less insurance factors, their preference was directed toward annuity and annuity insurance. Thus the insurance companies and peripheral business circles came to compete in the field of annuity insurance, and it naturally escalated into the competition of fund and financial operations.

The tendency to seek multipolarization in business is quite conspicuous under the low-growth economy at the end of a century. Needless to say, business anxiety and instability constantly hover in our consciousness. But, at the same time, needs for diversified fund operations are obvious, as stated earlier. In insurance business policies, both short term and long term; fixed and variable insurances; and security-based and financial-based products came to be handled with the same emphasis. The long-term/variable/

Ratio of Various Payments Toward Social Security Benefit

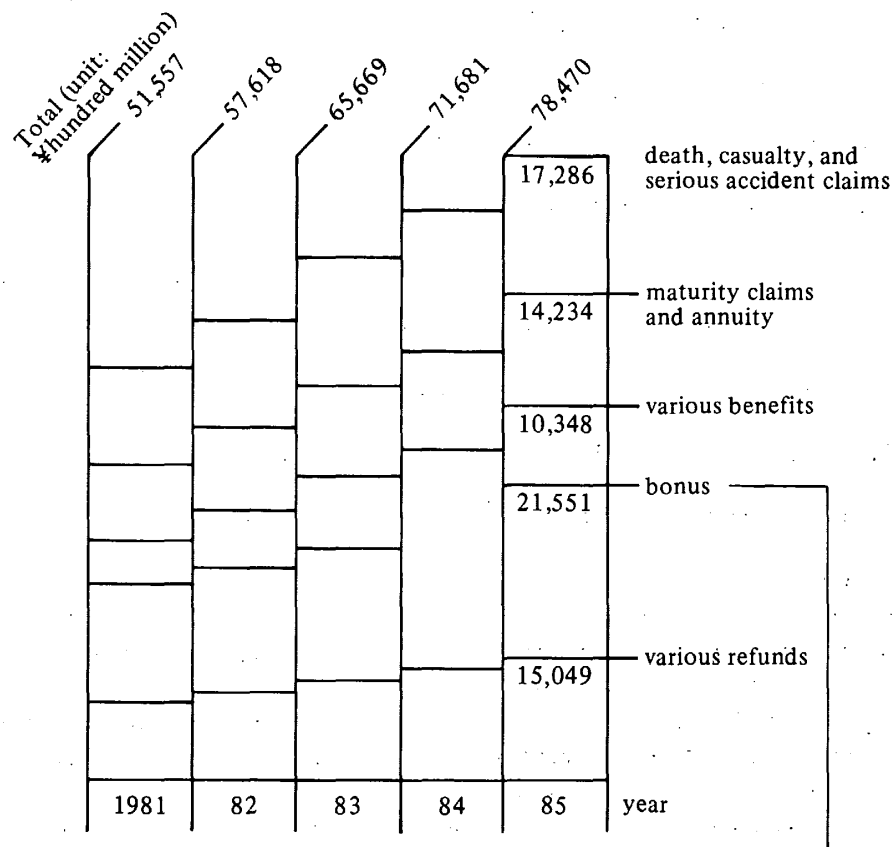


* 'Life Insurance 1986', p. 11 (September, 1986, by The Life Insurance Association)

and financial products are the ‘finance’ related products, and along with the diversified and multilateral trends, more emphasis seems to be put on financial functions, rather than on security functions.

The society observes the advance of aging population; increasing importance of annuity; appearance of long-term or super long-term insurance products; inevitability to prepare measures to cope with the reduction of security due to inflation and for maintaining substantial value of security. Also there were the creation, and later the evaluation, of variable and inflation-slide insurances, and the spread of insurance products which stressed financial advantages. Meanwhile, concerning the mission to supplement social security, various corporate annuity insurances and individual annuity insurances have been created. Since they are intended to complement or supplement, and sometimes to substitute, public annuities, financial sectors within the insurance management have remarkably enlarged. Thus the security and finance came to maintain a completely neutral relation. With the arrival of advanced information age, the results of fund operations in each insurance company are now quickly made public and conveyed. As more

Life Insurance Business in 1985: Transition of Various Payments Toward Policyholders



→ Pay attention to the fact that, among various payments, the bonus, resulted through the display of financial functions, makes up the biggest amount.

* ‘Life Insurance 1986’, p. 11

information gets released for comparison, each company pays more attention on financial functions. With the spread of information, insurance companies which initially stressed security and indemnity, are no longer able to feel comfortable by subordinating the fund and financial activities. Information society has heightened the importance of financial functions because the amount of business efforts and achievements will be clearly reflected there.

Difference in Dividends by Each Company
(in the case of ordinary 30-year endowment insurance; for a male, joining at age 30;
and ¥10 million in insured amount)

Company name	Monthly premium	Total premium (¥ million)	Matured endowment (¥ million)	Maturity dividend (¥ million)	Maturity receipt (¥ million)
Kyoei Mutual Life Insurance	¥17,500	6.30	10.00	8.81	18.81
Daiwa Mutual Life Insurance	18,000	6.48	10.00	9.11	19.11
Tokyo Mutual Life Insurance	18,000	6.48	10.00	10.00	20.00
Toho Mutual Life Insurance	18,000	6.48	10.00	12.30	22.30
Nippon Life Insurance	18,000	6.48	10.00	12.70	22.70
Meiji Mutual Life Insurance	18,000	6.48	10.00	12.70	22.70
Asahi Mutual Life Insurance	18,000	6.48	10.00	12.77	22.77
Daiichi Mutual Life Insurance	18,000	6.48	10.00	12.77	22.77
Fukoku Mutual Life Insurance	18,000	6.48	10.00	12.78	22.78
Yasuda Mutual Life Insurance	18,000	6.48	10.00	12.80	22.80
Chiyoda Mutual Life Insurance	18,000	6.48	10.00	13.03	23.03
Postal Life Insurance	17,000	6.12	10.00	?	10.00+ ?

* Concerning the Kyoei Mutual Life Insurance, monthly premium happens to be ¥500 cheaper than others, in the case of the contract age – 30.

* Concerning the postal life insurance, no prospective dividend would be available on the reason that 'insurance aims at long-term security and it should not be chosen just for the amount of dividend; also no prediction can be made about future'.

* Each company adds the proviso that 'the insurance was put on sale in April, 1985, after revising the premium, and no dividend has been actually given yet. The dividend was calculated based on the dividend paid in 1984, and will be subject to change. Therefore, it does not necessarily guarantee future payments'.

* 'How to Buy a Good Insurance to Your Advantage', compiled by NHK's Ohayo Journal, supervised by Noriaki Niwata, pp. 114–115 (published in July, 1985, by Kawade Shobo-Shinsha).

2. The Issue of Savings in Household Budget and Insurance Finance

Concerning the savings, a series of figures have been made public recently. According to the 'Public Opinion Survey on the Savings', compiled by the Savings Reinforcement Central Committee on Oct. 8, 1986, average amount of savings per household is ¥7.31 million, up by ¥430 thousand, which is 6.3% increase, over the previous year. It is equivalent to 1.59 times of average annual net income. At the same time, debts amount to average ¥5.7 million (of the households which have loans), an increase of 5.9%. Average amount of savings is ¥7.31 million, but the medium figure is ¥4.4 million. The

	Savings	Debts
White-collars	5.87	2.88
Blue-collars	4.73	2.07
Management	9.99	3.61
Agriculture, forestry and fishery people	1985 - 5.97 1986 - 8.23	1.97
Workers	1985 - 6.26 1986 - 6.18	—

(unit: ¥ million)

(a) Purpose of Savings (plural answers - within 3 items)

	1976	'77	'78	'79	'80	'81	'82	'83	'84	'85
Preparation for sickness and disaster	82.2	79.6	77.9	76.6	79.1	76.9	78.5	75.4	75.0	77.2
Educational expense for children	53.9	54.2	50.5	53.0	53.5	50.9	52.7	53.0	41.6	43.0
Fund for children's marriage	53.9	54.2	50.5	53.0	53.5	50.9	52.7	53.0	17.6	17.1
Fund for purchasing land and house	30.1	32.0	32.2	33.9	32.0	31.4	27.1	28.6	26.3	19.8
Living expense after retirement	41.8	38.5	40.2	39.8	38.4	36.4	42.1	41.0	42.1	42.5
Fund to buy durable goods	8.0	8.6	8.7	8.2	7.8	8.7	7.9	8.7	7.5	10.5
Fund for leisure	9.3	10.7	10.1	9.9	10.0	11.4	9.9	10.4	9.7	4.8
Fund for paying tax	3.5	2.9	3.9	3.8	4.8	4.1	4.6	4.9	5.2	5.4
For no particular purpose	26.3	30.2	27.6	27.2	27.2	26.5	25.8	27.1	25.7	26.4
Others	1.6	1.4	1.3	1.2	1.2	1.2	1.2	1.1	1.2	1.6

(unit: %)

(Purpose of Savings, according to ages)

20s	68.8	48.6	5.2	29.5	11.6	23.7	13.3	2.3	34.1	5.2
30s	79.5	62.1	4.5	31.3	18.9	17.7	7.0	4.4	29.6	1.7
40s	75.7	61.9	18.2	19.3	38.0	9.3	3.2	4.0	24.3	1.5
50s	76.6	25.3	31.3	16.4	56.9	7.2	3.7	5.7	22.2	1.0
60s	82.3	10.4	14.9	8.5	68.7	4.3	4.1	10.4	29.4	1.1
70 and over	73.0	18.6	10.8	9.3	60.8	5.9	4.9	6.9	30.9	3.4

Data: 1985 Public Opinion Survey by the Savings Reinforcement Committee

* 'Requests & Reference Materials Concerning the Revision of 1987 Tax System', p. 7 (compiled in Sept., 1986 by Trust Association)

(b) 'Items to Which Customers Paid Most Attention Prior to the Contract'

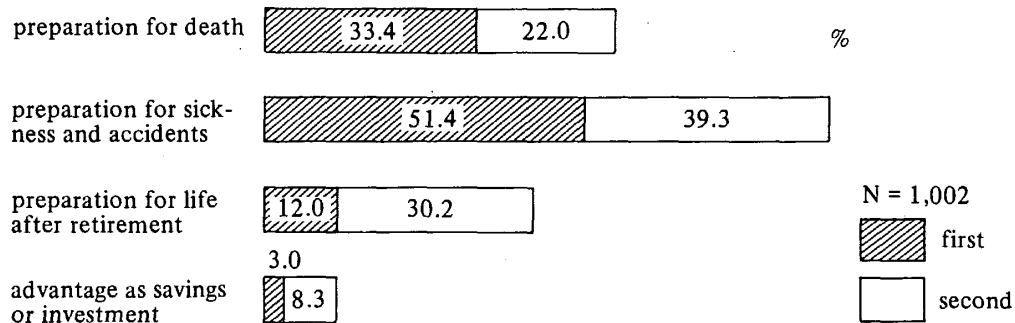
(% is the total of 'very much' and 'fairly')

	General	Agricultural cooperative association's life insurance	Private life insurance	Postal life insurance	People's mutual aid insurance
(1) The size of insurance/security at the time of death (the sum, to be received in case of emergency)	64.5	65.5	72.7	53.8	61.1
(2) The contents of security for hospitalization and medical expenses	72.7	74.5	74.8	67.4	61.1
(3) The size of matured endowment (the sum, to be received at the end of contract period)	40.2	37.4	46.1	43.2	27.8
(4) Amount of premium/installment and the feeling of good purchase	62.6	63.7	63.9	57.4	69.4
(5) The length of security (contract) period	56.5	54.9	57.8	60.3	44.4
(6) The feeling of trust and relief toward company (organization)	58.3	58.7	53.8	61.7	56.8
(7) Obligation toward solicitors/sales people	46.2	49.9	50.8	32.1	32.4
(8) The degree of welfare services such as traveling clinic service and regular medical checkups	14.6	16.9	10.1	12.7	8.3

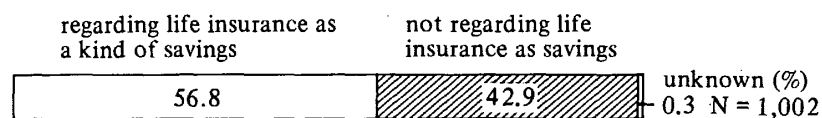
Data: Zenkyoren's 'Survey on Union Members Who Take Policies of Mutual Aid and Other Insurances' (November, 1984)

* 'Concerning the Security System for Hospitalization', p. 5 (data, distributed by the Office of Mutual Aid Installment Ratio Study Committee)

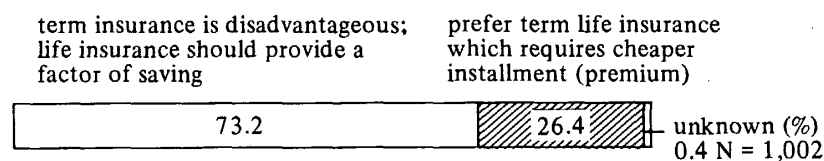
(C - 1) Expectations People Have Toward Life Insurance



(C - 2) Views on Life Insurance and Savings



(C - 3) Views on Term Life Insurance



* 'Survey on Future Life Insurance Products and Projects', p. 5
 (June, 1985 by Life Insurance Culture Center)

distribution of households, classified by savings amount, is the biggest in the group of ¥1 to ¥2 million, and it makes up 12.8% of the whole. The 35.5% of households concentrates in the range from ¥1 to ¥4 million.

Specifically, 56.8% is for deposits and savings (58.6% in previous year); 17.5% for life and non-life insurances (16.7%); 12.7% for stocks and bonds (11.8%); 5.7% for loan and money trusts (6.4%); and 3.1% for property accumulation savings (3.2%). As a tendency, deposits and savings are on decline, and stocks and bonds are on the increase. The 46.2% of all the households have debts, and averaging it with all the households, the debts reach ¥2.6 million. By subtracting the amount (¥7.31 million - ¥2.6 million = ¥4.71 million), average of net savings becomes ¥4.71 million (¥4.56 million in previous year).

The ratio of savings in household budget against net income in Japan is about 16%, while it is 12% in West Germany; 10% in France; 7 - 8% in Britain; and 4% in the U.S. It shows that Japan ranks high in its inclination toward savings. Therefore, it is said there exists almost no need for encouraging the people to save more, and rather, the high savings rate has been pointed out as a cause for large trade surplus. The savings habit now looks like a source of evil, but it may be too hasty to take such a view. According to the

'Economic White Paper 1985' by the Economic Planning Agency, the savings ratio in household budget, which reaches to more than 20% at present, will be down to about 10%, 40 years later, in this tendency for aging society, even after raising the starting age to receive annuities and controlling medical expenses. In such case, as a result of shortage in domestic savings, investment may be restrained, or the current balance could structurally deteriorate. In consideration of these possibilities, it may not be right to suggest the control on the savings trend recklessly.

With more and more people becoming salary-earners, some serious problems will

Capital Ranking of Financial Institutions

(as of end of March, 1986/unit: ¥ hundred million)

Ranking	Company name	Capital	Ranking	Company name	Capital
1	Daiichi Kangyo Bank	254,014	26	Bank of Yokohama	59,356
2	Fuji Bank	218,299	27	Meiji Mutual Life Insurance Co.	45,661
3	Sumitomo Bank	210,938	28	Asahi Mutual Life Insurance Co.	40,904
4	Mitsubishi Bank	202,884	29	Hokuriku Bank	38,102
5	Sanwa Bank	200,403	30	Chiba Bank	36,534
6	Industrial Bank of Japan	187,900	31	Joyo Bank	35,747
7	Mitsubishi Trust & Banking Corp.	156,316	32	Shizuoka Bank	35,504
8	Sumitomo Trust & Banking Co.	151,973	33	Ashikaga Bank	33,189
9	Tokai Bank	149,379	34	Bank of Fukuoka	30,687
10	Long-Term Credit Bank of Japan	145,081	35	Mitsui Mutual Life Insurance Co.	30,662
11	Mitsui Bank	142,003	36	Bank of Hiroshima	28,272
12	Mitsui Trust & Banking Co.	137,602	37	Hachijuni Bank	27,374
13	Taiyo Kobe Bank	129,245	38	Yasuda Mutual Life Insurance Co.	26,374
14	Nippon Life Insurance Co.	126,026	39	Gunma Bank	24,908
15	Daiwa Bank	124,132	40	Taiyo Mutual Life Insurance Co.	23,534
16	Yasuda Trust & Banking Co.	117,657	41	Nippon Trust & Banking Co.	22,726
17	Bank of Tokyo	104,360	42	Yamaguchi Bank	22,211
18	Toyo Trust & Banking Co.	99,150	43	77 Bank, Ltd.	20,994
19	Nippon Credit Bank	95,810	44	Nishi-Nippon Bank	20,622
20	Daiichi Mutual Life Insurance Co.	83,483	45	Chugoku Bank	20,477
21	Kyowa Bank	83,361	46	Tokyo Sogo Bank	19,361
22	Saitama Bank	74,691	47	Kyoto Bank	19,320
23	Sumitomo Mutual Life Insurance	69,882	48	Nanto Bank	18,743
24	Chuo Trust & Banking Co.	60,349	49	Hokkaido Bank	18,632
25	Hokkaido Takushoku Bank	59,840	50	Juroku Bank	18,632

* Data from the Japan Financial Newspaper; figures include the amount of securities issue for overseas deposits and trust accounts, but not include transferable deposits. Norin Chukin Bank and Shoko Chukin Bank are excluded.

* 'Insurance Information—No. 1409', p. 1 (September 12, 1986, by Insurance Information Center)

surface. Salaried workers have less savings in general. According to the survey by the earlier mentioned Savings Reinforcement Central Committee, average savings by the working class households (or it can be classified as salaried workers' households), amount to ¥6.18 million. It is ¥1.13 million less than the average of all the saving households. As compared with self-employed business households, which have savings of ¥9.22 million in average, it is ¥3.04 million less. Only the working class/salaried workers have less savings than the general average. Also 50% of those saving workers have debts.

The 'preparation for sickness and disaster' in data (a) generally matches the spirit of insurance, while the 'living expense after retirement' seeks the saving quality and it calls

Top Tens in Capital Increase

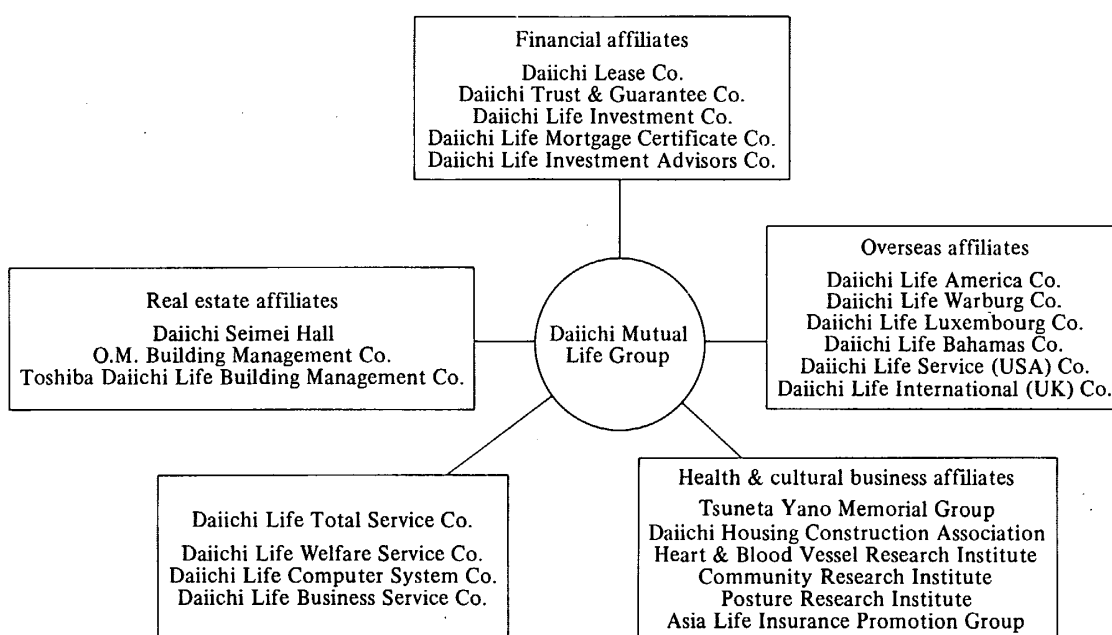
(unit: ¥hundred million)

Daiichi Kangyo Bank	26,591
Nippon Life Insurance Co.	18,717
Toyo Trust & Banking Co.	16,473
Mitsui Bank	14,326
Daiichi Mutual Life Insurance Co.	13,018
Yasuda Trust & Banking Co.	12,502
Taiyo Kobe Bank	12,355
Sumitomo Trust & Banking Co.	11,641
Sumitomo Mutual Life Insurance	11,481
Chuo Trust & Banking Co.	9,184

* Comparisons are made only among city banks, trust banks and life insurance companies.

* 'Insurance Information-No. 1409', p. 1

'Business Affiliates of Daiichi Mutual Life Insurance Co.'



* Nippon Keizai Newspaper, p. 12 (July 16, 1986)

for financial activities. In data (b), the '(1) size of insurance/security at the time of death' and the '(2) contents of security for hospitalization and medical expense' calls for insurance and mutual aid services, while the '(3) size of matured endowment' seeks the savings quality and resultant financial activities. Additionally, in data (c), the item (1) does not expect much of saving and financial functions, but the (2) and (3) overwhelmingly expect the life insurance to have the element of savings. As the course of events, it is natural to assume that the people seek active financial activities and the good distribution of results. In paying attention to these factors, it can be said that what the policyholders and the insured look for in the insurance is still flexible, and it includes instable and variable elements, mixed with hopes not simply for security, nor finance, but for both factors. And, now on the side of insurance companies, they have decidedly taken a path for becoming financial organs and been stabilizing the status.

When public organs encourage people to increase savings, there must be sufficient reasons to do so. First, such encouragement is aimed at forming industrial funds and it is most conspicuously notable in a process to establish a modern industrial nation. Secondly, savings are propelled as an anti-inflation policy. It is usually applied when inflation accelerates and seems to become a vicious inflation. Thirdly, savings are encouraged from a necessity for the reconstruction of finance, and it is considered as a measure for the government to absorb private funds. As notable examples, the government issues bonds and encourages postal savings when financial deficits increase. Fourthly, there existed a rather unusual policy, known as the raising of war expenditure. Although unusual, it was often observed and powerfully carried out in the past.

Fifthly, campaigns for recommending and enhancing savings are developed from the moral viewpoint. It starts from the ethical view that 'diligence and economizing are virtues'. It is a moral code, strongly existing in Japan, as well as in other nations. Sixthly, it is aimed at propelling, and establishing, the spirit of self-support and self-help in life. It may include a bit of ethics, but more obvious is the economic way of thinking which advocates the rationalization of livelihood economy and the preparation and promotion of living plans. This is one of the national policies which have come to be adopted rapidly along with the advance of aging population. Lastly, as the seventh reason, it is based on an academic view of economics, intended to let the people be aware of the 'monetary economics'. It is part of the measures to make the people save and increase the money, as well as to let them be familiar with the ways to handle money effectively and rationally, then to guide the people to become economically smarter.

Japanese people are considered to be particularly eager to increase savings, and the trait is admitted by the people themselves. What is the cause/reason for such nature? Various researches have been made on this point, and the following explanations are now given.

(1) In the analysis, based on the life cycle hypothesis, Japan is rapidly becoming a nation with more aging population. But, at present, it is still a young growing nation as compared with other advanced nations. The people experienced the period of unprecedented high economic growth. And the high level of savings was achieved. In the Japanese history, however, there had been periods with low economic growth, and even

Transitions of Savings / Saving Inclination / and Choosing Yardstick

	Savings (unit: ¥ten thousand)			Saving inclination (%)	Choosing Criteria							
	Annual average increase during 1981-1985 (%)		Expecting profits (%)		Expecting safety (%)		Expecting liquidity (%)					
	1980	1985	1980		1985	1980	1985	1980	1985			
Average	482	688	7.4	18	15	24.8	32.9	40.5	27.1	22.9		
Classified by annual income	Less than ¥2 million	281	317	2.4	14	12	16.7	21.7	39.9	37.6	33.5	36.6
	Less than ¥2 ~ 3 million	326	398	4.1	16	13	20.9	27.7	42.4	42.0	30.5	27.8
	Less than ¥3 ~ 4 million	443	531	3.7	18	14	28.2	34.8	39.8	41.2	24.6	22.9
	Less than ¥4 ~ 5 million	578	684	3.4	19	15	32.3	33.2	38.1	42.8	23.6	22.0
	Less than ¥5 ~ 7 million	799	880	2.0	21	16	29.9	38.6	38.8	43.8	23.9	15.7
	More than ¥7 million	1,027	1,586	9.1	24	18	26.2	37.5	42.2	47.5	20.4	13.5
No reply	356	667	13.4	17	15	18.1	24.5	43.5	52.3	24.6	19.4	

* 'Expecting profits' goes for 'good yield + future profit'; 'expecting safety' goes for 'guarantee of principal + trust and assurance'; and 'expecting liquidity' goes for 'easy to cash + free to deposit or withdraw'.

Source: '1985 Public Opinion Survey on Saving' (data from Saving Reinforcement Central Committee)

Kinds of Savings People Favor Most

(unit: %)

	1977	1980	1981	1982	1983	1984	1985
Ordinary deposits	68.1*	67.9	71.1	68.5	65.3	56.9	8.6
Time deposits							48.3
Employee deposits	5.0	5.0	4.9	4.0	4.9	3.8	3.3
Loan and money trusts	7.5	5.8	6.1	7.4	8.3	9.5	6.8
Life and non-life insurance	2.5	2.3	2.5	3.2	3.4	2.3	2.9
Postal annuity and other reserve annuities	0.7	1.0	0.9	1.4	1.1	1.3	1.9
National bonds	1.2	1.2	1.9	2.5	2.8	1.5	1.3
Bank bonds	0.3	0.3	0.3	0.3	0.6	1.4	1.1
Corporate bonds	0.8	0.7	0.7	0.7	0.6	0.4	0.4
Stocks	3.0	2.5	3.5	2.3	2.8	3.1	2.2
Investment trust	0.9	0.5	0.6	0.8	0.9	5.3	4.1
Property accumulation savings	2.2	3.2	3.2	4.4	5.0	4.7	3.5
Products associating with national bonds	—	—	—	—	—	0.9	0.4
Others	2.1	2.0	1.4	1.2	1.5	1.3	0.8

* For 1977 – 1984, the figures show the total of 'postal savings' and 'deposits with banks'.

Source: '1985 Public Opinion Survey on Savings' (data from the Savings Reinforcement Central Committee)

during those periods, a certain high level of savings had been maintained. So, this hypothesis could not explain it all. Furthermore, despite the recent economic situation which maintains stable growth, or sometimes low growth, savings rate still keeps a high level, and the hypothesis that the economic growth rate affects the savings rate does not necessarily apply. If the national economy and the people's household budgets exceed a certain level and reach the category of 'affluence', the savings rate would not drop even when they face depression, low growth periods, or the stagnation of household budget. Rather, savings rate may rise at such times.

(2) In the analysis, based on the bonus hypothesis, we cannot dismiss a special social custom — the granting of bonus — in Japan. The temporary big income earned under the custom makes it possible for the people to deposit a big amount of money and it heightens the savings rate accordingly. But even in months when the people receive no bonus, savings are conducted within their means. Also with bonus, the people return debts and loans. Such 'shifting of household expenses' seems to be routinely carried out.

Therefore, this hypothesis is not enough to explain it all.

(3) In the analysis, based on the hypothesis of low-level social security, it is true that this has certainly played a leading factor for causing high savings rate. But Japan's current social security level and the contents have come to match the international status, and in some cases, may be even better. And the savings rate is still higher. So, this hypothesis won't be sufficient to explain the current high savings rate, although it could explain the phenomenon in the past.

(4) In the analysis, based on the hypothesis of preparing a fund for buying a house, or in some cases on the conventional hypothesis of soaring land prices, these hypotheses may be somewhat on the mark. But, nowadays, only by preparing a certain 'key money', people are able to secure houses, and for the remainder, people take loans. Therefore the situation may be a little different, even though the certain amount of 'key money', withdrawn from the savings, is the one, clearly intended for buying houses. But, recently, more people came to consider the style of living in 'rented houses all through life', and the possibility that they use money for consumption is much higher. With the recent unusual upturn of land prices, the obtaining of land and house has become hopeless, thus reducing the significance of these hypotheses.

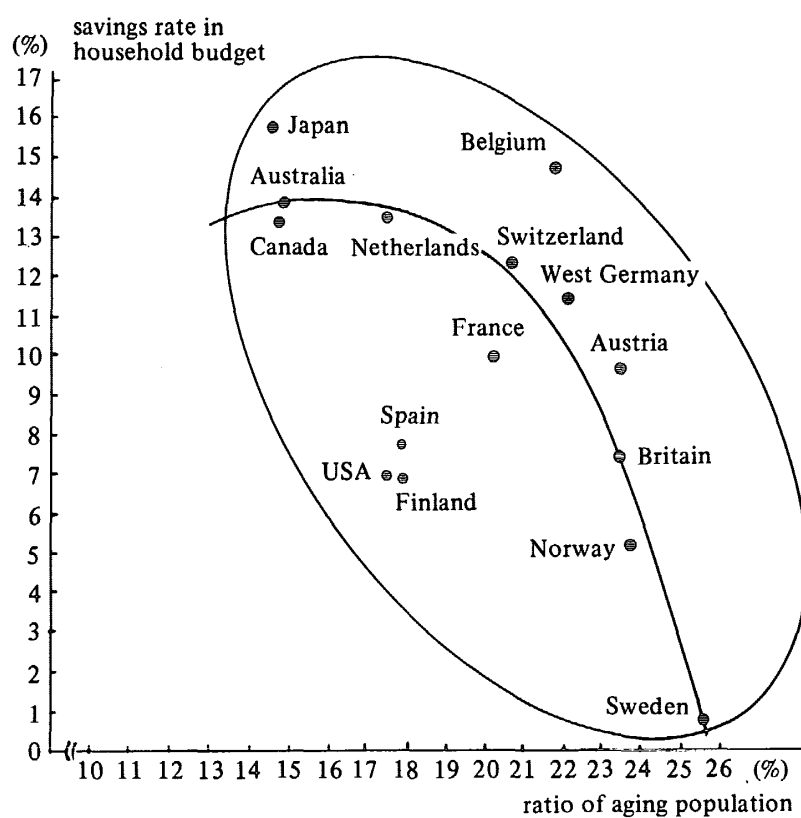
(5) In the analysis, based on the hypothesis of custom formation, it can be assumed that the custom and the idea of diligence and economizing which have been molded through the people's long history of living, would drive up high savings. Accumulation of wealth and savings have been conducted in preparation for fire, fatal and natural disasters, such as storms and earthquakes. These factors worked on the people effectively in raising savings rate to a certain degree. But it is not certain that such assumption of people's laudable custom of economizing and saving would directly apply to the cases of the young people in the current age who are regarded as 'new species of human beings'.

(6) In the analysis, based on the permanent income hypothesis, it can be assumed that, through the repetition of inheritance transfer from parents to children, the 'home' has been maintained, and with the succession of family system, a sort of long-term income has been created in the form of legacy and assets which are intended to enrich the living of offsprings. It formed a special savings actions, based on or centered around, or relied upon, the family system. Gradually such system is changing or transforming into the parental act of 'purposefully storing up money', as they give consideration from earlier stages to the future needs of children, in the forms of education fund, marriage fund, self-support fund and business-starting fund. It is a 'sort of virtue', displaying the degree of 'parental care toward children'. It is now hard for the parents to leave property, so they try to make up for it by giving sufficient attention to the children's needs.

(7) In the analysis, based on the hypothesis of a distrust against the government, it is true that the distrust against the government and politics exist among the public. People have latent, persistent and wide distrust against the government and recently concerning the revision of pension system and the medical security reforms, their distrust has blown up in various ways.

People's sentiments are clearly and widely expressed by comments such as 'we won't be eligible for pension after all'; 'we have to pay installments now, but it's unsure if we

(a) Ratio of Aging Population and Savings Rates



Note 1

Nation	Savings rate in household budget	Ratio of aging population	Nation	Saving rate in household budget	Ratio of aging population
	%	%		%	%
Japan	16.1(1984)	14.6(1984)	Austria	9.8(1984)	23.5(1981)
Belgium	15.0(1984)	21.9(1981)	Spain	7.8(1981)	17.9(1981)
Australia	14.1(1983)	14.9(1981)	Britain	7.6(1982)	23.5(1982)
Netherlands	13.7(1983)	17.5(1981)	USA	7.0(1983)	17.5(1982)
Canada	13.6(1984)	14.7(1983)	Finland	7.0(1984)	17.9(1981)
Switzerland	12.4(1984)	20.7(1982)	Norway	5.3(1984)	23.8(1982)
West Germany	11.6(1984)	22.1(1982)	Sweden	0.7(1984)	25.6(1981)
France	10.1(1984)	20.3(1983)			

Note 2

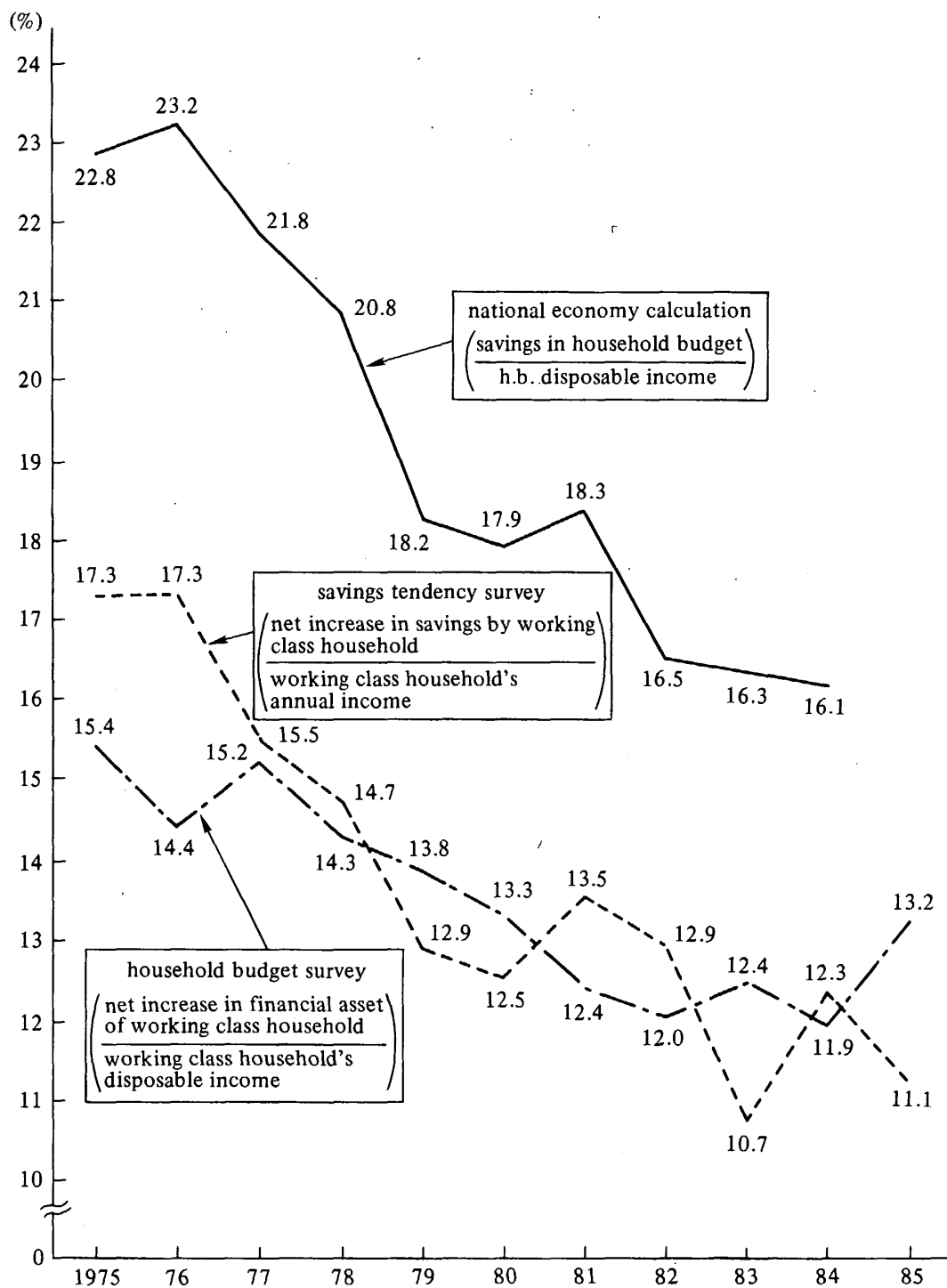
$$\text{Savings rate in household budget} = \frac{\text{h.b. net savings}}{\text{h.b. disposable income}} \times 100$$

$$\text{Aging population ratio} = \frac{\text{population above age 65}}{20 - 30 \text{ age group population}} \times 100$$

(Data) OECD Economic Outlook (OECD), included in the Yearbook of Basic Data of Aging Society, by the Aging Comprehensive Study Center

* The chart, with some addition by the author, is from the 'Savings and Japanese Economy', compiled by the Savings Economy Research Center (October, 1986), p. 364.

(b) Transition of Savings Rates in Japan

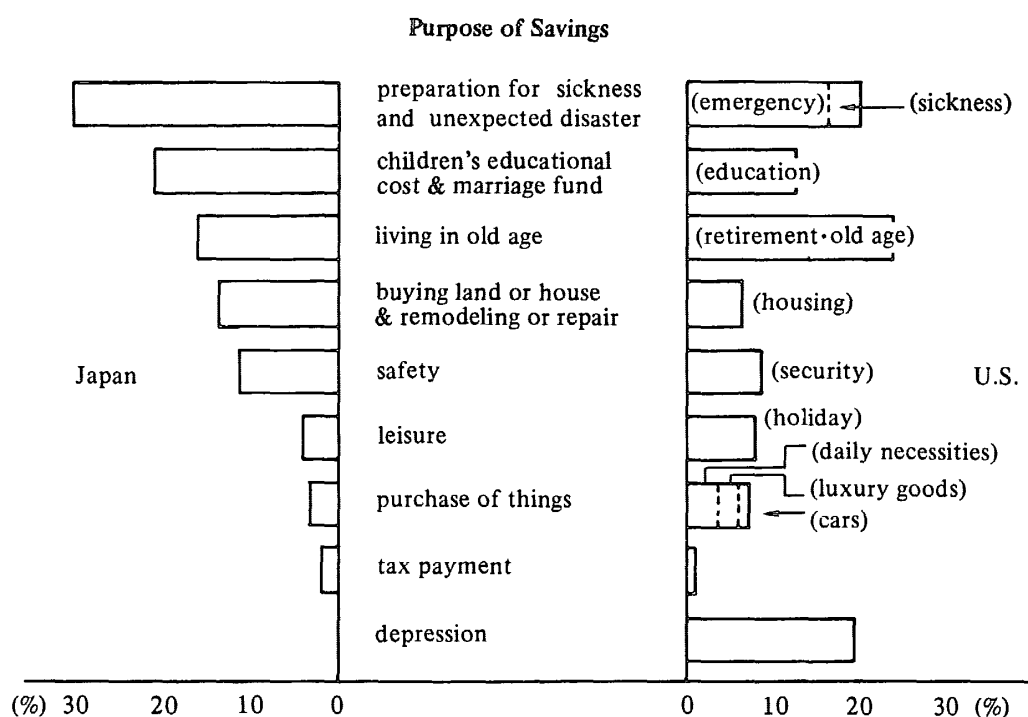


* 'Savings and Japanese Economy', p. 362

can really get the pension'; 'social security won't be enough at the time of sickness'; and 'health insurance does not provide all'.

The act of savings is based on distrust toward the government and politics, but it can be modified as 'an effort of self-help'. It looks like both the government and industrial circles are taking too much advantage of the people's goodwill and gentleness. Through the detailed maneuverings using the information network, the government repeatedly revised various measures as observed in the following examples: 'Achieving international level in pension → controlling benefit level and adjusting benefit contents'; 'bestowing 100% benefit with health insurance → increasing self-burden to about 10 to 20%'; 'setting preferential treatment in tax system for savings → abolishing and withdrawing preferential tax system'; 'preserving and protecting national environment → easing the standard'; and 'tight control on pollution → easing control'. These repetitions of changing measures have helped creating self-supporting instinct among the people, and such sentiment seemed to be further enhanced and stabilized. In this stage, high savings rate surfaced and now stays among the people as a sort of economic self-defense measure. Therefore the high savings rate, based on this hypothesis, should be understood, not as a virtue, but rather the display of sad and hard-pressed feeling of the people.

(8) In the analysis, based on the hypothesis of advance into the aging society, the aging phenomenon looks like progressing too quickly and seriously against the good efforts by

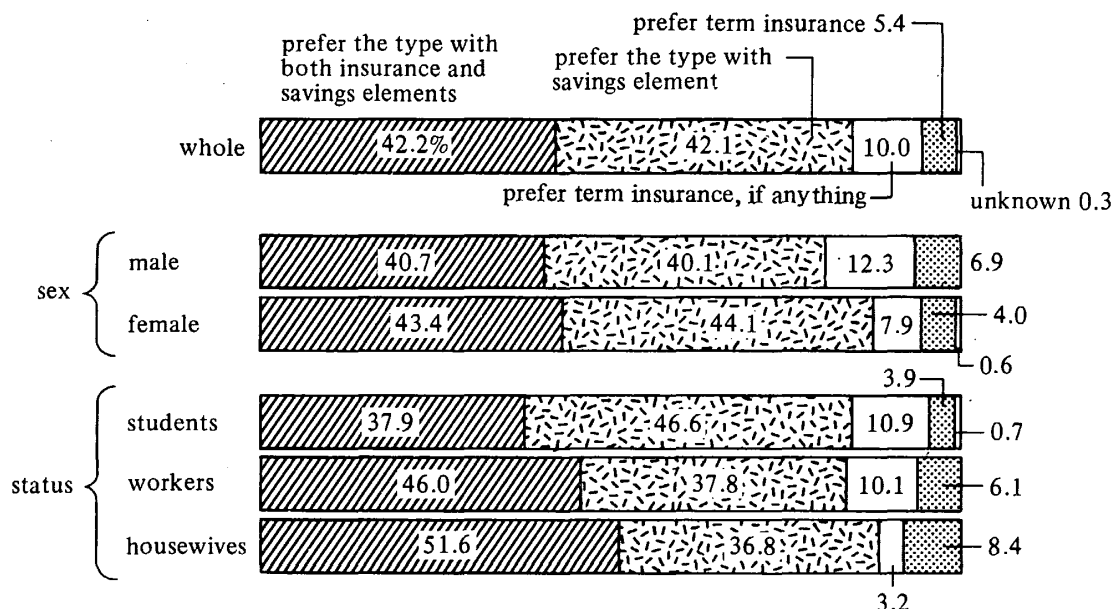


Note: "Most Stressed Purpose of Savings Among the Japanese People"

Data: 'Japan-Public Opinion Survey Concerning Savings' (by the Savings Reinforcement Central Committee, 1979)
On the U.S., it is from a survey by the Life Insurance Association (1978).

* 'Savings and Japanese Economy', p. 369

Young People's Views on Life Insurance and Savings



*A survey by Life Insurance Culture Center (conducted in September, 1985, with 2,000 people in ages 16-25; valid replies from 1,520 people)

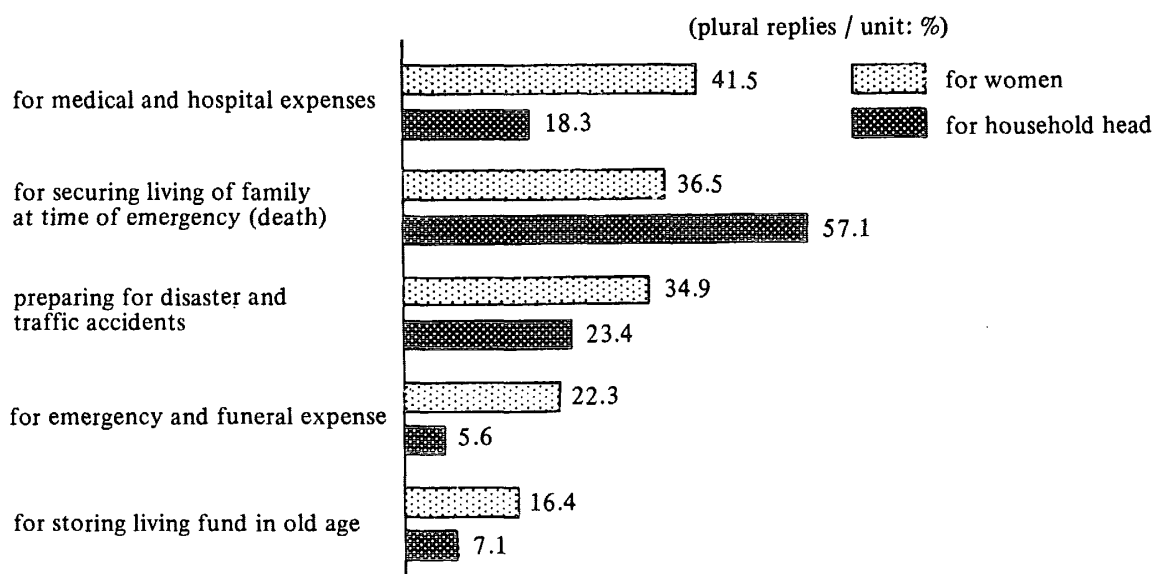
*'Life Insurance Business Circle, Aiming at Integrated Financing' (Nippon Keizai Newspaper's special edition on life insurance, Nov. 1, 1986)

the government, coming up with measures of social security, pension system and medical security. Therefore it will be indispensable for each person to prepare his own living plan for his old age. That seems to be the main reason, supporting the high savings, and such tendency is most conspicuous in Japan. It is 'particularly outstanding' characteristic of the Japanese people who contributed to this unusual high level of savings above other nations.

From an international point of view, a big difference exists between Japan and the U.S. in the purpose of savings. In Japan, savings are markedly intended for sickness or unexpected disasters, but almost no intention exists to prepare for depression. On the other hand, in the United States, more savings are intended in apprehension of depression, and generally the purpose of savings is diversified. Particularly noteworthy is that, in spite of the great attention to the aging society, the savings for 'living after retirement' are not too high among the Japanese people, while it is the highest among the American people. Japanese people seem to give serious consideration to old age, but in reality, are they not much afraid of facing problems in the aging society?

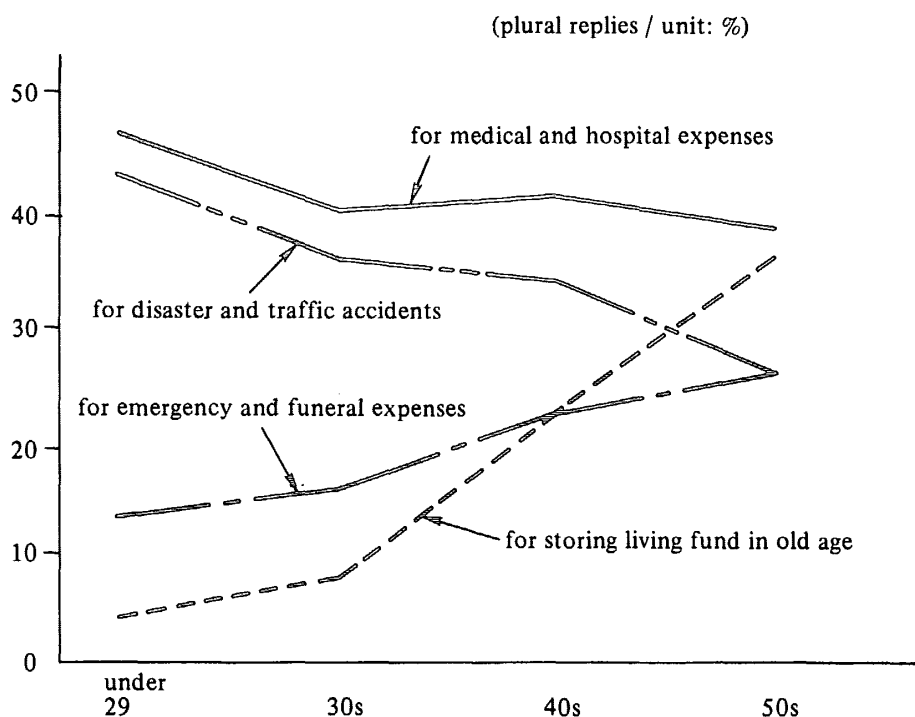
In studying the young people's view toward life insurance, it is clear that they strongly seek the element of savings in life insurance. In other words, they do not like term insurance, and it is revealed as their inclination toward the unified types of security and savings. As their ages advance, it is natural they come to prefer savings. Also, men

(a) Women's Purpose for Taking Life Insurance Policies



Data: For women — 'Changes of Women and Life Insurance'
 For household head — '1982 National Fact-Finding
 Survey on Life Insurance',
 both by the Life Insurance Culture Center

(b) Women's Purpose in Taking Life Insurance Policies, Classified by Age



*Both (a) and (b) are taken from 'Information Now', Vol. 1 (October, 1986, by Daiichi Mutual Life Insurance PR department's social public section), pp. 3-4

more than women seem to regard saving functions seriously.

In looking at the women's purpose for taking life insurance policies, the factor for 'saving living fund in old age' is sharply increasing, but as a whole, it does not seem to be too important. Meanwhile, ratios for medical and hospitalization expenses and for securing living of the family in case of emergency, or death, are higher and that, in turn, shows that not many are afraid of living in old age.

As a way of thinking, it seems possible to turn a considerable part of savings for insurance, and if other functions are skillfully merged into insurance as special contracts or services, it will become an integrated product. In other words, it will be described as a combination of insurance and other functions, or the offering of integrated service of security and others. Such movements are visible not only on the side of the insurance companies, but also on other financial institutions which adopt a series of new sales tactics by combining insurance factor with their own merchandise. Thus the barrier between insurance companies and other financial institutions is getting lowered and someday it may be totally removed. Similarly as insurance companies which are active not only in security activities but in financial ones, other financial companies are actively and daringly launching activities to provide security.

“Major Financial Products and Services, Offered by Local Banks, Mutual Financing Banks, and Credit Associations”

- * ‘Out Town Loan’ (Yamagata Bank) – It is intended for shop owners, unincorporated enterprises and medium and small enterprises. Three kinds of courses are available, such as lending ¥5 million as equipment and operating funds without collateral.
- * ‘Reserve Deposit for Viewing Seoul Olympics’ (Chiba Sogo Bank) – Tying up with Kinki Nippon Tourist Co., it provides 2 courses for 4 days and 5 days; reserving ¥10,000 a month for 2 years.
- * ‘Fund Operation Account’ (Daiichi Sogo Bank) – It is a special deposit account, combining pension-type time deposit, national bonds and maturity-designated deposit.
- * ‘My City 50-Year Loan’ (Sugamo Shinkin Bank) – It is a super long-term loan for three generation family, covering buildings, apartment houses, and planning, designing and tax matters.
- * ‘Landscape Gardening Loan’ (Hokuriku Bank) – Tying up with Ishikawa Prefectural Landscape Gardening & Planting Construction Association, it covers landscape gardening or planting works, conducted by member gardeners.
- * ‘Time Deposit with Medical Insurance’ (Fukui Bank) – Tying up with American Family Life Insurance, it guarantees ¥3,000 a day for hospitalization; ¥600,000 for death by accident; premium is paid from deposit interest.
- * ‘Installment Deposit Plan, named Dream’ (Hachijuni Bank) – It provides five plans, including the ones for single ladies, young men and families; cards are issued for discount rate services of trips and movies.
- * ‘Health Deposit, named Good Health’ (Matsumoto Shinkin Bank) – Tying up with the U.S. INA Life Insurance, it combines cancer insurance and time deposit.
- * ‘Gold Coin Purchase Loan’ (Yaizu Shinkin Bank) – It finances the people who have winning tickets to buy ¥100,000-gold coins, so that they don't have to withdraw money from deposit; expecting to attract 1,000 customers.
- * ‘Dream Club’ (The Hyakugo Bank) – It is an automation installment time deposit for young people, combining various loans, with discount rate services at hotels and shops.
- * ‘Capital Loan’ (Bank of Osaka) – It finances medium and small enterprises in paying for newly

issued shares or for repurchasing from outside shareholders.

* 'Prompt Receipt of Travel Coupons' (Chugoku Bank) – Under the tie-up with Japan Travel Bureau and Nippon Travel Agency, travel coupons of both agencies will be deposited promptly into the accounts of travel agents without commission (usually it costs ¥600 per case).

* 'Health Time Deposit' (Awa Bank) – Tying up with Alico Japan, it combines one-year time deposit and insurance for sickness, injury and hospitalization.

* 'Speed Loan' (Ehime Sogo Bank) – It provides a loan a day after the application; a driver's license will be enough to get a loan less than ¥1 million, and no seal-impression certificate is necessary; the purpose of loan won't be questioned.

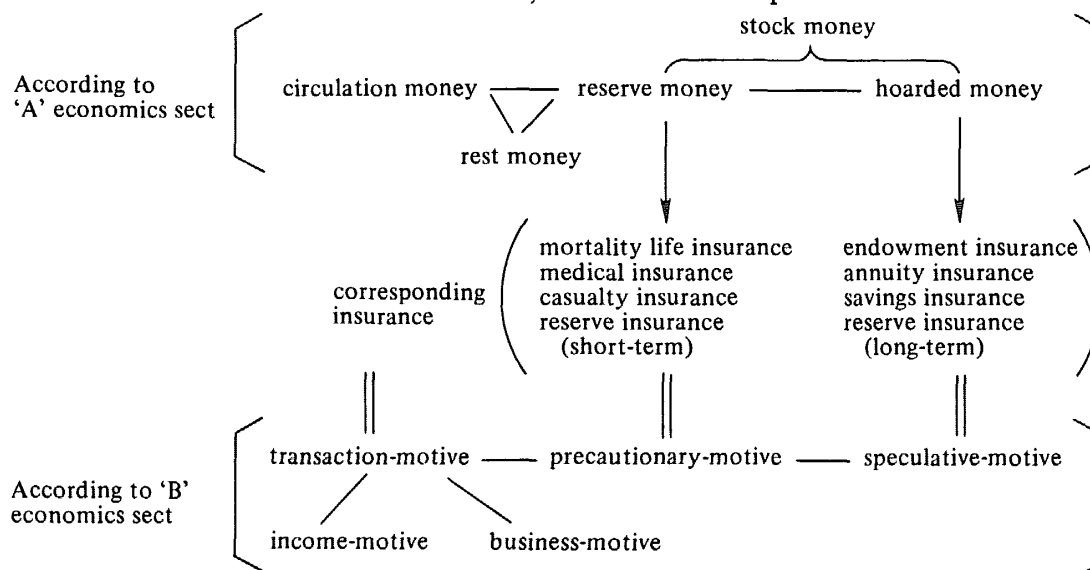
* 'Happy Circle' (Nishi-Nihon Bank) – Tying up with the Fukuoka Medical Association, it is intended for the customers who hold annuity pay-in accounts; providing services at cut-rate charges for using health facilities of the medical association, or for getting hearing aids, massage, buying buddhist articles, or for receiving at-home nursing services.

* 'Loop' (Kyushu Sogo Bank) – Tying up with Nippon Automobile League, the 'Loop' (combination of installment time deposit and card-loan) allows the users to join the JAF with cut-rate admission fee.

* From a newspaper article on 'local financial organs; their various attractions to draw customers, vying with city banks; involving distribution industry; with services spreading to marriage counseling, tour guide, and other fields' (Nippon Keizai Newspaper, November 4, 1986).

3. Financial Activities of Insurance Companies in Weak Yen Situation

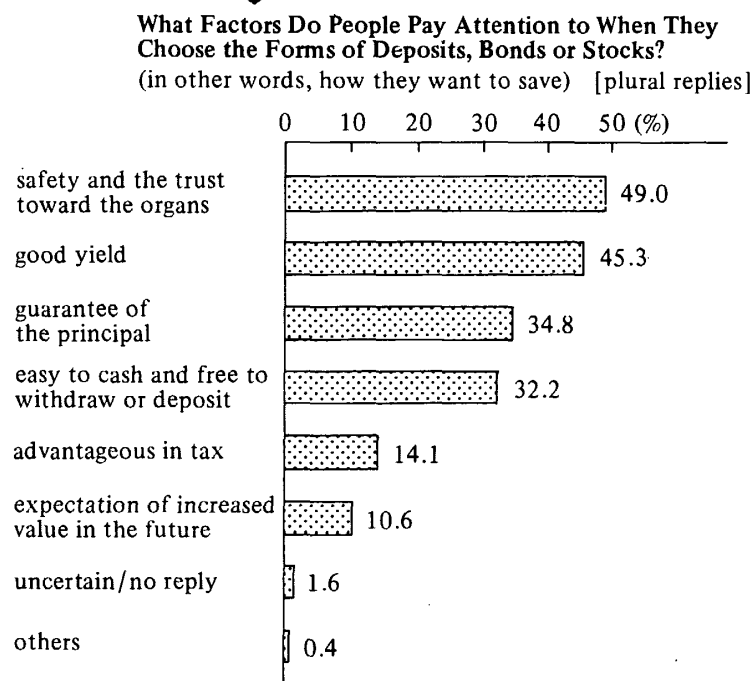
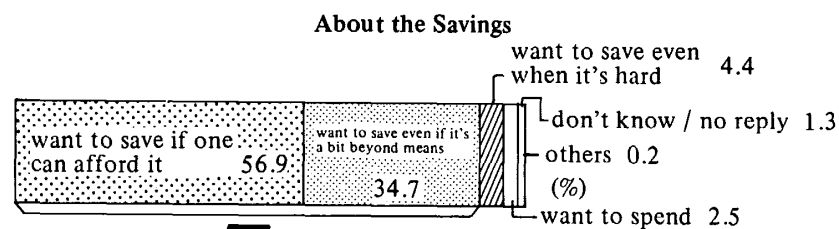
There is no room for doubt anymore that insurance system is deeply connected to finance in its very essential part. Its relation with finance will be quite decisive as insurance comes to handle a lot of annuity palns. Some scholars made comments like – 'With the arrival of the reserve insurance, insurance finance began', and similar remarks. But such understanding is not correct. It should rather be grasped that 'with the arrival of the insurance finance, the reserve insurance began'. It is true that multilateral factors exist in the sales of the reserve insurance, and due to the popularity of this reserve insurance, the financial quality of insurance has been further propelled. But, if the arrival of the insurance finance was not so imminent, the insurance companies would not have been



so thoroughly or actively involved in the promotion of the reserve insurance which is a new type of insurance. The main thing is that the social economic movements come first, followed by the movement of insurance companies, and it is rather secondary to assume that the movements of insurance companies come first and the social economy would respond.

In analyzing and classifying the monetary functions, as well as the significance of developing functions in society, the grouping can be made as ‘circulation money, rest money, reserve money, and stock money (sometimes called store money or hoarded money). Reserve money is often in the form of short-term deposit, though it naturally pursues interest. On the other hand, stock money is a long-term deposit and the pursuit of interest is a very important matter. Circulation money and rest money are flowing in reverse to the flows of merchandise, commodity and services, and even if they are deposited, they will be super-short term deposits, or will only be a temporary monetary pool.

The motives for monetary possession are roughly classified as transaction-motive, precautionary-motive and speculative-motive. The transaction-motive will be further divided into income-motive and business-motive. Both income-motive and business-motive signify the need for spending, and the former is the monetary possession, corre-

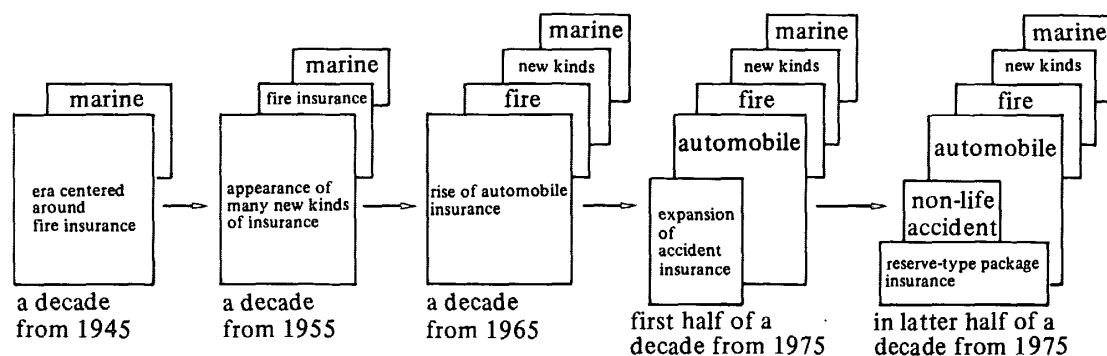


‘Public Opinion Survey’, July, 1986 by the Prime Minister’s office

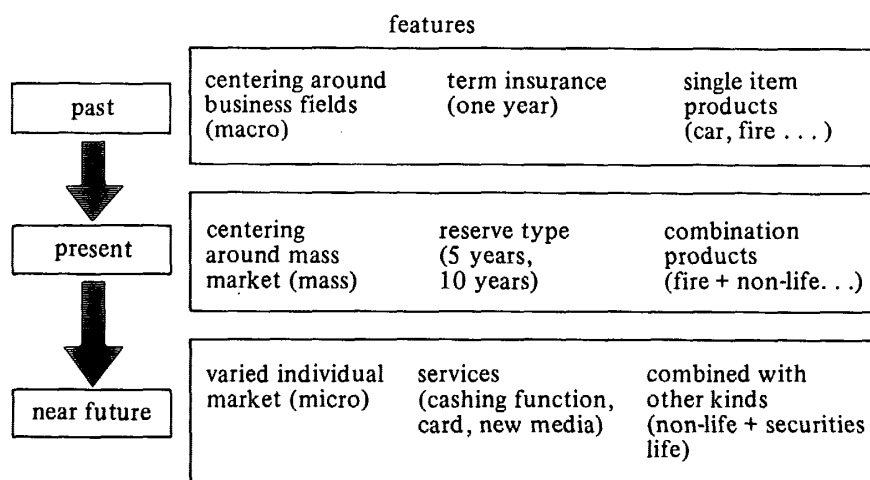
sponding to consumer spending, while the latter corresponds to business spending. The precautionary-motive can certainly be grasped as the one to prepare for unexpected spending at home or companies. But the money, possessed under the precautionary-motive, can sometimes be grasped as belonging to income-motive or business-motive. The amount of money, possessed under the speculative-motive, generally depends on the level of interest rates. It is the major part which contributes to savings. Now, as we look at the reasons which encourage savings, it comes clear that the big weight is put on the 'good yield'. In other words, the factor most emphatically sought in savings is the display of financial functions.

In entering the era of liberalization of interest rates and financial revolution, what sort of changes will appear in insurance business? First, besides the conventional security (in the case of life insurance) or indemnity (in the case of non-life insurance), more emphasis would be put on financial functions, and more efforts would be made to develop annuity insurance in the case of the former, and the reserve insurance in the case of the latter. Then, these financial functions will come to include some new plans, such as

Transition of Non-Life Insurance Products



Prospect of Non-Life Insurance



* 'Information System for the Management at Meiji Mutual Life Insurance Co.' by Shigeo Saito and Hideo Usui, p. 42 (FACOM Journal, Vol. 10, No. 12 - whole number 117 - 'Financial Liberalization and Future Progress of Services', December, 1984, by Fujitsu Ltd.)

combining consumer loans, or tying up with credit cards. Naturally, tie-ups with other businesses would be possible. It may tie up with peripheral financial organs such as securities or trust, or with distribution business or other networks. Needless to say, it could tie up with mutual aid enterprises (business tie-up, reinsurance tie-up, or sales network).

New development of insurance may extend to property accumulation, annuity and medicine in the case of life insurance, and non-life insurance can be directed to develop new kind of products or new system products (adoption of new contract methods). Also it may be possible to develop financial activities, not directly related with insurance, such as the sales of national bonds. Besides them, various service activities would be launched as associated with the sales of insurance. They could be offered in the forms of disaster prevention campaigns and assistance or preventive consultant services. As service activities, there will be the offering of cooperation for the risk management at offices and at home. It will be necessary to provide insurance information; develop insurance education; offer medical and housing consultation and marriage information; provide living and design guidance; give financial and interest information; and supply information for education or studying abroad. These services could be offered along with the display of insurance functions, and some of the profits, gained through the pursuit of security and financial activities, must be used in the form of returning profits to customers. The activities which were pursued to assist and strengthen the display of security functions are now being developed and evaluated simply for the sake of the activities themselves. Furthermore these various activities will become individual projects. In other words, they can shift from ‘security cooperation/profit-return projects’ to ‘independent projects, involving other businesses’. Unmistakably, the main factor in other businesses mean the financial business, and it may sometimes have a power overwhelming the main-lined security projects.

Under the lower yen quotation and low interest rate, the insurance business would have been able to concentrate in security business as before, and the financial business could be continuously carried out as a subsidiary business. Insurance possesses exclusive functions and they are sufficient to attract general public, consumers or contractors. Also it was not likely that other businesses or financial organs would enter into insurance field without good reason. Concerning the operation of insurance funds, emphasis was put on safety and it was the forefront principle. For securing that, detailed regulations were set up for the working of insurance funds and insurance assets and the utilization of property. There has been no need to be too conscious of competitions with other financial organs, and the existence of such operational regulations, or the encouragement to follow them, was not much of a concern. The problems concerning the ‘Article 86 of Insurance Business (Act) — Reserve Fund’ did not result in any serious, over-heated situation. Insurance companies were content to be holding a status of institutional investors.

There the era of high interest rates began to be predicted. People will choose products of high yield and compare the rates among financial organs. The phenomenon of high interest rates will decisively influence the insurance management.

Outline of Utilization Methods of Assets

-
- a. Deposits
 - b. Call loan transaction
 - c. Loans no limit on sum total
 - * Loan on security within 30% of total assets
 - * Loan on real estate, movable property and foundation within 50% of total assets
 - * Loan on registered securities within 5% of total assets
 - But, in the case of loan secured by deposits no limit
 - * Loan secured by banks, long-term credit banks, foreign exchange banks, mutual loan and savings banks, credit associations and Shoko Chukin Bank no limit
 - But in the case of loan secured by corresponding financial organs within 10% of total assets
 - * Loan secured by Credit Guarantee Association no limit
 - * Loan toward public bodies within 20% of total assets
 - * Loan toward public corporations and agencies within 10% of total assets
 - * Unsecured advances toward companies meeting a standard for unsecured loan within 25% of total assets
 - * Loan toward associated companies within 5% of total assets
 - * Loan toward non-residents within 10% of total assets
 - * Housing loan no limit
 - * Consumer loan within 5% of total assets
 - * Loan with prescribed limitations for voluntary investment within 1% of total assets
 - * Loan of securities within 3% of total assets
 - * Loan for the same person within 3% of total assets
 - d. Securities
 - * Stocks within 30% of total assets
 - * Bonds and debentures no limit
 - * Foreign securities within 10% of total assets
 - e. Foreign commercial papers and CD within 3% of total assets
 - f. Real estates within 20% of total assets (including real estates abroad)
 - g. Trust
 - * Money trust within the limit set for each investment object
 - * Money trust for working investment of securities (excepting government bonds, municipal bonds and government-guaranteed bonds) within 3% of total assets
 - * Securities in trust within the limit set for each kind of securities

These are the regulations, set for securing the safety (or dispersion of danger) and liquidity of investment and financing. Life insurance companies are under these regulations and they prepare documents for utilization of property and, receiving approval of the competent Minister on these fundamental documents, conduct actual investment and financial activities.

* 'Illustrated – Life Insurance in Japan, 1986', pp. 136 ~ 137

On the Utilization Methods of Assets in 1980

Item	Before revision	After revision	Life insurance's utilization of assets (for reference)
[Liquid assets]			
Cash			
Deposits	Following enforcement rules (but regulation exists on the deposits of credit associations)	Same as left	Following enforcement rules
Call loan	20% of total assets	No limit, under notification	No limit, under notification
Money trust	Following enforcement rules	Same as left	Following enforcement rules
Securities			
Government bond	No limit	No limit	No limit
Municipal bond	Within 10 - 20% of total assets		
Special corporate bond	Within 10 - 40% of total assets	Following enforcement rules	Within 50% of total assets
Industrial bond			
Stock	Following enforcement rules	No limit, under notification - ditto -	Following enforcement rules Within 10% of total assets
Foreign securities	Within 5 - 20% of total assets		
Loan trust	Within 10% of total assets	Upper limit 5%, under notification	No limit, under notification Within the range of stocks
Securities investment trust	Within 1 - 5% of total assets		
Loan			
Loan secured by stocks and bonds		No limit, under notification	Within 30% of total assets in the case of loan secured by stocks and bonds But within 20% in the case of loan secured by stocks and securities investment trust
Loan secured by real estate (floating mortgage)	Within 10 - 20% of total assets		
Loan secured by ships			
Public body loan			
Loan under provisions			
[Fixed assets]			
Real estate	Within 10 - 20% of total assets (but within 80% of owned capital)	Following enforcement rules (but within 80% of owned capital)	Within 10% concerning business purpose

(1) In order to win in the competition against peripheral financial organs, it is vital to succeed in fund operations. It will be necessary to develop and provide, as quickly as possible, insurance products of high interest rates.

(2) Term insurance or time insurance policies, with lower premium, will be popular, and people will seek security with insurance, as well as moneymaking quality and high interest rates with deposits.

(3) There will be many policyholders/insured who would cancel policy and receive cancellation return, or who would attempt to buy high interest rate products, by withdrawing funds from insurance companies in the form of policyholders' loans. And it may result in an unfavorable phenomenon, called 'negative interest rate spread' between insurance companies and banks or other financial organs. It may even produce a situation that insurance companies come to face the shortage of funds for cancellation returns or policyholders' loans, and have to borrow funds from banks or other financial organs.

(4) At the current stage, it is undeniable that insurance companies are a step behind from other financial organs in the matter of financial and fund operational power. Their network and structure are weak due to the lack of experience in collecting financial information and of skills in fund operations. Under such situation, it is likely that, as a management measure, the strain will be shifted onto the sales people. Attempts will be made on improving or strengthening the salesmen system, or constructing their commissions. It is to cut down sales expenses. Then, on the back-office forces, measures will be taken to economize office expenses or personnel expenses, by tightening office work or promoting mechanization.

(5) Under the wave of high interest rates, insurance companies will be forced to choose either high dividend system or low premium system for their new products. Until now, low premium system has been certainly preferred. From now on, while they expect the premium lowering with the further expansion of average life span, they would have to make efforts in reducing the difference in interest rates as compared with other financial organs and in allotting the profits from high interest rates toward high dividend.

4. Financial Activities of Insurance Companies in Strong Yen Situation

Regardless of the financial situation of Japan, it is certain that insurance will make inroads into various related businesses, prompted by factors embedded within the insurance itself, and with the development and sales of integrated and multilateral products, it will attempt to expand and infiltrate into social functions. It will be a result of the fact that the society comes to seek more diversified and versatile effects from insurance. Also it will be safe, advanced and match the new era for the insurance business to combine security and finance, and to add other functions in order to integrate the management itself. Similar situation can be observed with various peripheral financial organs. As their interests are common, many business tie-ups have been realized. Particularly, tie-ups are conspicuous between insurance and banks, or insurance and security corporations.

Tie-Ups Between City Banks and Life or Non-Life Insurance Companies

City bank – life, non-life insurance	Product combination	Time of sales
Fuji Bank – Yasuda Mutual Life Insurance	Time deposit and single premium endowment insurance	October, 1984
Fuji Bank – Yasuda Fire and Marine Insurance	Time deposit and medical insurance	Undecided
Fuji Bank – Nichido Fire and Marine Insurance	– ditto –	Undecided
Mitsui Bank – Mitsui Mutual Life Insurance	Time deposit and single premium endowment insurance	March, 1985
Sanwa Bank – Alico Japan (insurance)	Government bonds and single premium endowment insurance	Sept., 1985
Sanwa Bank – AIU Insurance (non-life)	Special public bond account and ordinary personal accident insurance	Sept., 1985
Tokai Bank – Chiyoda Mutual Life Insurance	Time deposit and single premium endowment insurance	November, 1985
Sumitomo Bank – Nissan Life Insurance	Time deposit and cancer insurance	January, 1985
Sumitomo Bank – Sumitomo Marine and Fire Insurance	Government bonds and comprehensive insurance of carrying movable/personal liability insurance	January, 1985
Mitsubishi Bank – Omaha Life Insurance	Time deposit and medical insurance	August, 1986 (scheduled)

* ‘Ongoing Trend of Tie-Ups Between City Banks and Life or Non-Life Insurance Businesses; Insurance Contracts at Bank Counters’ (Nippon Keizai Newspaper, July 30, 1986)

But, concerning the competitions between insurance and other peripheral businesses, the situation is a little different. The opponents face no barriers in entering the market, or even if there are, barriers are not tough as they are to insurance business. As it were, they are ‘experienced veterans’ and have gone through ‘many hardships’, but such factors are often likely to work against them as the insurance business used to be under administrative regulations and protection. Therefore, those peripheral companies often confess that, if they could enter free competitions, they would not lose. Actually, in the history of finance, the insurance has lost many battles in peripheral factors. Herewith the voice for reexamining insurance administration has become louder. At the present stage, insurance administration and also the Insurance Business Law emphasize, not plus-factors in protective sense for the insurance industry, but minus-factors in regulative or restrictive sense against business activities. It certainly produces unexpected disadvantages to insurance in its peripheral competitions. As an example, the existence of ‘Article 86 of the Insurance Business Law on Reserve Fund’ creates a considerable difficulty for insurance business to vie in financial activities, funds operations and dividend competition. Most of all, we must not forget that insurance puts priority on security functions (‘starter’ in security field) and the ‘late-comer’ in the matter of financial functions.

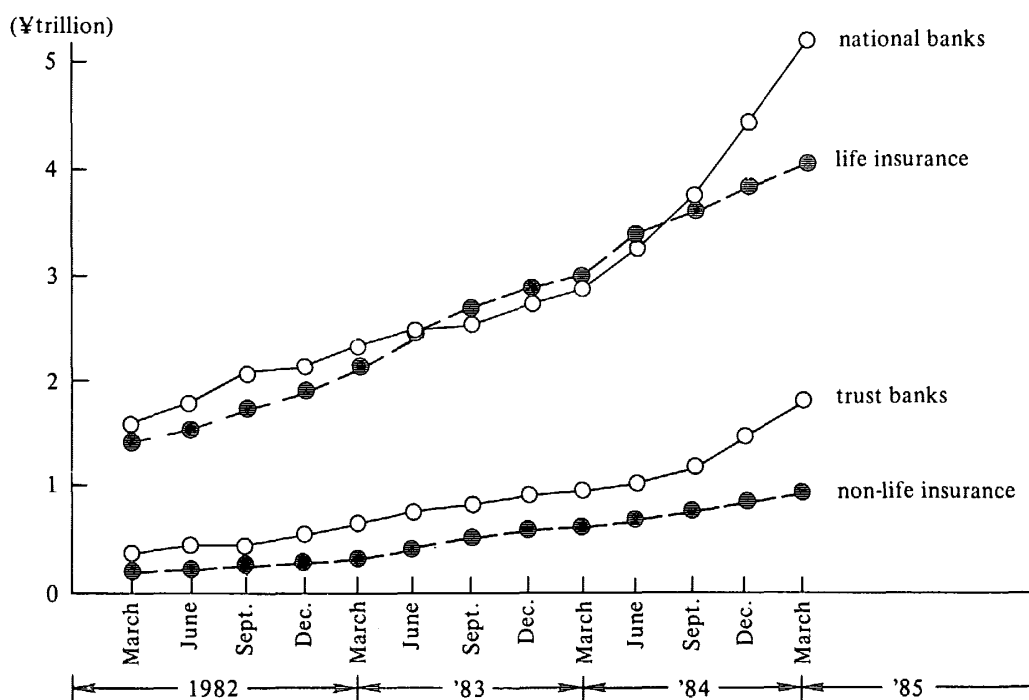
Present Amounts of Classified Property Accumulation Savings

(1985) – property accumulation holdings of working class household

Kind of savings	Present amount of property accumulation savings unit: ¥thousand	Component ratio	Rate of increase against previous year
		%	%
Property accumulation total	1,271	100.0	20.1
Time deposits	1,019	80.2	18.9
With post office	129	10.1	101.6
With bank	637	50.1	28.4
Others	253	19.9	△14.8
Life Insurance	81	6.4	9.5
Postal life insurance/ Postal annuity	20	1.6	81.8
With life insurance companies	60	4.7	△ 4.8
Securities	171	13.5	34.6
Bonds	37	2.9	146.7
Bond investment trust	45	3.5	136.8
Loan Trust/Money trust	89	7.0	△ 5.3

* 'Property Accumulation, Progressing under System Improvement/Spiritless Results of Life Insurance/Only 3% Share for Life Insurance' ('Insurance Information – No. 1413', October 10, 1986, by Insurance Information Center)

Holdings of Foreign Securities by Major Financial Institutions



* 'Rapidly increasing overseas securities investment/Life insurance makes active inroads/ Finance Ministry requests healthy operation' (Asahi Newspaper, July 2, 1985)

Settlement of Accounts of 7 Major Life Insurance Companies

(unit: ¥hundred million, figures in parentheses are % against previous year)

	Nippon Life Insurance	Daiichi Mutual Life Insurance	Sumitomo Mutual Life Insurance	Meiji Mutual Life Insurance	Asahi Mutual Life Insurance	Mitsui Mutual Life Insurance	Yasuda Mutual Life Insurance	Total
Premium receipts	{ 32,931 (20.9)	22,239 (17.8)	19,754 (20.3)	13,501 (22.3)	10,964 (22.8)	8,883 (19.1)	7,431 (9.0)	115,707 (19.6)
Exchange loss (foreign currency deposit, etc.)	243	395	909	268	1	2	109	1,930
Loss on assets sold (foreign bonds, etc.)	673	316	435	251	213	214	416	2,521
Property valuation loss (foreign bonds, etc.)	622	837	493	379	296	179	58	2,867
Yield on total assets	{ 7.65 (-0.25)	8.03 (+0.02)	8.05 (+0.11)	7.36 (-0.17)	7.70 (+0.16)	7.43 (+0.07)	7.77 (+0.01)	7.75 (-0.06)

* ‘Seven major life insurance companies / 1985 – all lower dividend rates / Good business results, not shared by customers’ (Asahi Newspaper, June 20, 1986)

‘The core of the problem is in a fear that, in the case of considerable foreign exchange fluctuations, the currently healthy contents of accounting and management of the insurance companies may be seriously affected and dissociated if the reckoning, or not the reckoning, of exchange loss is subjected to the judgement of each company.

At the same time, it seems they could not lightly dismiss a possibility that the total reckoning of exchange valuation loss would lead to the reduction of corporate assessable income. . . .

From the new fiscal year, the investment limit for foreign securities will be expanded twice, and the fact prompts each company to reexamine measures to deal with exchange risks.’ (Hirai)

* ‘Opinion – the Problem of Exchange Loss in Life Insurance Business’ (‘Life Insurance Edition, No. 3215’, March 20, 1986, by Insurance Institute)

Receipts of Premium from Single Premium Endowment Insurance

(unit: ¥hundred million/%)

	1985	1984
Nippon Life Insurance	5,494 (54.5)	2,284 (36.5)
Daiichi Mutual Life Insurance	3,456 (52.8)	2,179 (46.7)
Sumitomo Mutual Life Insurance	4,036 (56.9)	2,333 (47.8)
Meiji Mutual Life Insurance	2,572 (59.9)	1,266 (46.3)
Asahi Mutual Life Insurance	2,332 (65.5)	928 (45.6)
Mitsui Mutual Life Insurance	1,267 (54.7)	396 (30.6)
Yasuda Mutual Life Insurance	745 (45.8)	620 (45.0)

Note: Figures in parentheses are ratios of premium from single premium endowment insurance, in each company's premium receipts of all the new contracts.

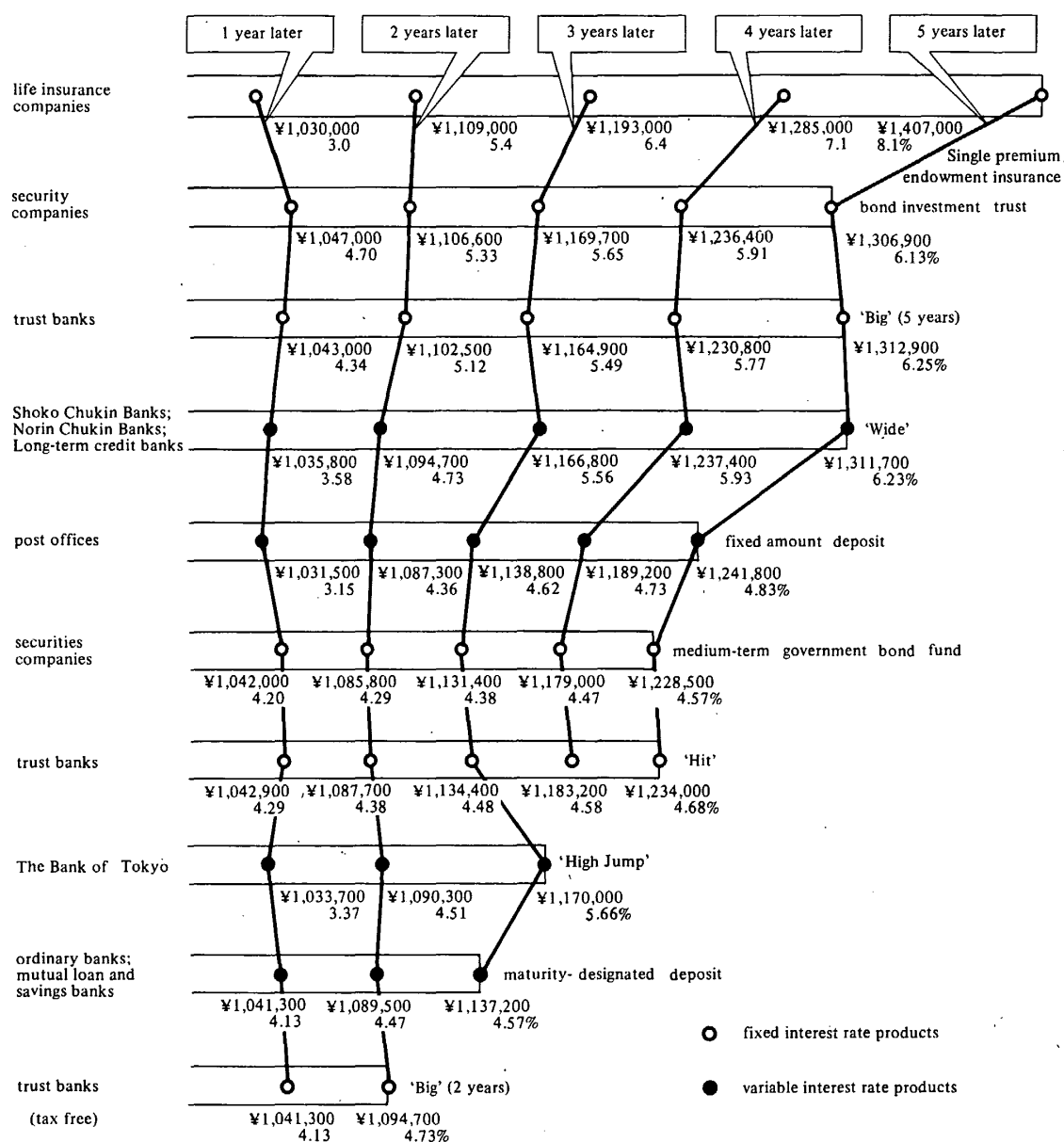
* 'Single premium endowment insurance is selling too much/Apprehending the decline of sales tactics?' (Nippon Keizai Newspaper, June 21, 1986)

When the insurance business had started engaging fully in financial activities, there were not many attractive investment items domestically, although heated competitions were inevitable against peripheral and trust businesses. Under such situation, in order to push back trust business in the race for grasping industrial annuity, it was necessary for insurance to raise the working yield as much as possible. Also not much time has passed since the liberalization of overseas securities investment and there existed a strong preference for increasing the ratio of foreign securities in the total of fund operations. The insurance circle, therefore, made inroads actively into overseas securities investment, and it looked as if the international era for the insurance financing arrived. But, there was an unexpected 'pitfall' and it was the danger accompanying exchange risk and fluctuation. Falling in the trap, the insurance business experienced a great setback. That is, due to the influence of high yen quotation, it had to accept a large scale exchange loss. For handling the loss and making the ends meet, each insurance company lowered dividend rate and, after all, passed the loss onto the policyholders.

Financial activities are very risky. As far as the security activities are conducted after severely calculating the tariff, based on death rate and expectancy rate, the insurance business is quite safe and stable as it is guarded by the special principles, skills and systems. And from a broad point of view, the insurance system is decisively secure in regards to principle and technology. But, in the points of operation and management, it isn't so easy. As in other businesses, business risks always exist. Particularly in financial factors, such as overseas investment and financing, such risks are not small.

Under the special financial phenomenon of Japan, like higher yen quotation and low interest rate, insurance products, particularly single premium endowment insurance, sold tremendously. And there are reasons for that popularity. First, in the low interest situation, this insurance maintained a high rate. Besides, it appealed as a tax-saving product. It brought very good business results, changing the image of the conventional insurance sales. Insurance had been sold by sales people, but this product was so popular

Single Premium Endowment Insurance (5 years)



* 'Overall Comparison of Interest Rates in Investing ¥1 Million' (evening edition of Asahi Newspaper, October 25, 1986)

that people came to buy it themselves. Some insurance people even commented that 'they are embarrassed as it sells so well'. It was a revolutionary phenomenon happened in the insurance sales. Generally insurance has been considered with low interest rates, basically keeping stable and low growth. And this amazing popularity of the product can be explained as follows.

1. It is a high interest rate product (single premium endowment insurance) in the general low interest situation. But recently each company has begun to say that 'they will maintain natural attitude' on the matter of this particular insurance, and it seems that

they now predict a little bit of problems ahead. "Concerning this single premium endowment insurance, each company takes a careful attitude, like 'maintaining a natural attitude' (Nippon Life Insurance Co.). As the interest rates on savings are going down, its high yield attracts the customers, and insurance companies are unable 'to predict how much the contracts will increase'. They intend to take passive attitude like 'accepting contracts when customers requested' " ('Good opportunity to sell variable life insurance/ Ready to boost sales with increasing popularity', Nippon Keizai Newspaper, November 9, 1986). It now looks like they are considering to sell variable insurance products, after the circulation of single premium endowment insurance.

2. It is a tax-saving product: Insurance companies often put on sale products which have tax-saving or tax-free benefits, and such attractions help promoting the sales. But, recently, as referred to in 'The Crisis of Overall Collapse of Life Insurance Tax System' (Insurance Information, No. 1417), Nov. 14, 1986 by Insurance Information Center, the Tax System Study Council has advised to review, and possibly to abolish, preferential treatment in taxation on insurance.

In the category of personal income taxation, the matters which are to be reexamined are:

- Life insurance premium exemption/non-life insurance premium exemption
- Earned income exemption with private enterprise annuity
- Enhancement of special corporation tax in private enterprise annuity
- Preferential tax treatment of retirement allowance which becomes financial resources of private enterprise annuity
- Taxation on interests of private annuity
- Preferential tax treatment toward private annuity premium
- Tax-free system of property accumulation annuity savings
- Preferential tax treatment of single premium endowment insurance

In the category of taxation on assets, the following is to be reexamined:

- Preferential tax treatment of sum payable at death

3. It is an overall operation of insurance funds. Overall operation is an expression, opposite to separate operation. The people in the field often substitute them, generally as 'joint operation – individual operation'. They refer to the investment methods, adopted by each company, in which all the premiums are consolidated and grasped as an unified insurance fund. It will be collectively invested under uniform interest rate. But, in the case of trust banks, they have a system, called 'joint account', and even though the operation of overall fund in private enterprise annuity is considered as an individual operation, it could also be regarded as a joint account. The joint operation, in the insurance side (this author prefers the wording, overall operation), helps in adjusting interest rates among insurances to some degree, and in some cases, it makes it possible to provide higher interest rates than other general financial organs. The interest rates of insurances, in the category where peripheral competitions are hard, are generally set at higher level, but it can also be explained that such higher rates are possible under the sacrifices of other business sections. In other kinds of insurance, it will be reflected as higher-than-reality tariff, or lower dividend.

Total of Latent Assets				
Company name	Total of latent land and stocks (¥hundred million)	Ratio against total assets	Possession rate of latent assets among 5 companies	Possession rate of total assets among 5 companies
Nippon Life Insurance	61,476	86.5%	29.5%	23.6%
Daiichi Mutual Life Insurance	27,421	61.4	13.2	14.8
Sumitomo Mutual Life Insurance	26,031	70.1	12.5	12.3
Meiji Mutual Life Insurance	19,019	75.6	9.1	8.4
Asahi Mutual Life Insurance	18,061	75.3	8.9	8.0
Total of 5 companies	208,213	69.2	100.0	100.0

* ‘Special edition – Era of low interest rate and property accumulation by life insurance business/ Why life insurance can maintain high interest rate? / The mechanism of deciding interest rate in life insurance’, p. 27 (‘Zaikai’, Vol. 15, May issue, May, 1986, by Property Accumulation Research Center)

4. It is the release of latent assets. Concerning the operation of insurance funds, there exist severe regulations to maintain safety up to now. Therefore it had been difficult to realize a high yield, but on the other hand, insurance companies could possess good assets in abundance. By releasing/diverting these ‘latent assets’, it would be possible to realize high interest rates, not inferior to other peripheral financial organs, and to lessen exchange loss. Incidentally, although the companies suffered exchange loss, it has been sufficiently possible for them to fill up the loss by earning high interest rates in overall/ joint operations, overseas investments and financing, as well as by disposing a part of latent assets. In addition to that, if the smooth sales and high earnings of single premium endowment insurance and variable insurances are maintained from now on, the tendency could be easily sustained.

5. It offers long-term compound interest calculation. Some of the life insurances offer conspicuous high interest rates. It is because calculations are made under long-term compound rates. As a most typical example, there is property accumulation annuity insurance.

According to the ‘1986 Settlements of Accounts’ of 7 major life insurance companies, announced on June 16, 1987, assets in foreign currencies, such as foreign bonds and foreign currency deposits, were eroded, and the exchange loss, including appraisal loss and loss on sale, of 7 major companies totaled more than ¥1.7 trillion. Meanwhile, premium receipts from variable insurances, which were first put on sale in October, 1986, totaled ¥144.3 billion for 7 companies, with more than 130 thousand contracts. On the whole, it seems customers were attracted to the savings quality, rather than to simple life insurance. Thus, Japan ranked top in the world in the life insurance amount per person (concerted at ¥200 per dollar). As of the end of 1986, ranking is – 1. Japan

Comparison Between Variable Insurance and Fixed Amount Insurance

Contract example: Permanent life insurance / Principal sum – ¥10 million / Male /
Contract age 40 / Premium payment ending at age 65 /
Ordinary monthly premium

(unit: ¥ ten thousand)

Special account investment yield	Lapse of year	3 years	5 years	10 years	20 years	40 years
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Variable insurance = Premium ¥18,800

9%	Sum payable at death Cancellation return	about1011 36	about1032 79	about1131 218	about1551 676	about3591 2800
4.5%	Sum payable at death Cancellation return	1001 33	1003 70	1008 173	1017 414	1026 797
0%	Sum payable at death Cancellation return	1000 30	1000 62	1000 137	1000 252	1000 81

Fixed amount insurance = premium ¥16,400

—	Sum payable at death Cancellation return	1001 26	1004 59	1021 164	1146 501	2787 2525
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* 'Will there be reforms? / Does it sell well or not? / With variable insurance, 10% in new business is satisfactory?' (Insurance Information, No. 1410, Sept. 19, 1986, by Insurance Information Center)

Sales Results of Variable Insurance, A Month After the Start of Sales

1. Meiji Mutual Life Insurance	5,740 cases
2. Nippon Life Insurance	4,912
3. Sumitomo Mutual Life Insurance	1,677
4. Daido Mutual Life Insurance	1,060
5. Daiichi, Asahi, Yasuda and Mitsui Mutual Life Insurance companies	200 ~ 500

* 'Variable Insurance / Difference in sales attitude of each life insurance company' (Nippon Keizai Newspaper, Oct. 30, 1986)

Variable insurance / Sales target according to the estimate by Insurance Information

Nippon Life Insurance	250 thousand – 300 thousand cases / per month
Daiichi Mutual Life Insurance	10 thousand cases / per month
Sumitomo Mutual Life Insurance	5% in N-ratio
Meiji Mutual Life Insurance	5,000 cases / per month
Asahi Mutual Life Insurance	5% in N-ratio
Yasuda Mutual Life Insurance	—
Mitsui Mutual Life Insurance	One case in every 2 months / per sales person
Kyoei Mutual Life Insurance	—
Chiyoda Mutual Life Insurance	6,000 cases / per 6 months
Daido Mutual Life Insurance	7,000 cases / per 6 months
Daihyaku Mutual Life Insurance	4,000 cases / per 6 months
Sony Pruco	20% in N-ratio

* ‘How much can the characteristics of variable insurance be understood? / To be put on sale after much complications’ (Insurance Information, No. 1411, Sept. 26, 1986, by Insurance Information Center)

1986 Settlements of 7 Major Life Insurance Companies

(unit: ¥ hundred million, %)

	Receipts of premium	Yield on total assets	Exchange loss	Investment yield of variable insurance
Nippon Life Insurance	39,499 (19.9)	7.09	5,111	37.2
Daiichi Mutual Life Insurance	28,760 (29.3)	7.38	3,658	42.1
Sumitomo Mutual Life Insurance	24,648 (24.8)	7.49	3,044	44.5
Meiji Mutual Life Insurance	16,192 (19.9)	6.62	1,743	30.7
Asahi Mutual Life Insurance	12,684 (15.7)	7.22	1,784	34.2
Mitsui Mutual Life Insurance	10,121 (13.9)	6.93	893	54.3
Yasuda Mutual Life Insurance	8,838 (18.9)	7.15	830	32.9
Total	140,742 (21.6)	—	17,063	—

Note: Figures in parentheses are rates of increase against previous year.

Yield of Total Assets of 7 Major Life Insurance Companies

(unit: %)

	1981	1982	1983	1984	1985
Nippon Life Insurance	7.78	7.77	7.81	7.90	7.65
Daiichi Mutual Life Insurance	7.79	7.81	7.73	8.01	8.03
Sumitomo Mutual Life Insurance	7.97	8.09	7.95	7.94	8.05
Meiji Mutual Life Insurance	7.54	7.58	7.59	7.53	7.36
Asahi Mutual Life Insurance	7.53	7.60	7.48	7.54	7.70
Mitsui Mutual Life Insurance	7.29	7.42	7.46	7.36	7.43
Yasuda Mutual Life Insurance	7.65	7.75	7.75	7.76	7.77

Possible Change of Yield of Financial Products

(Starting Oct. 1, unit: %)

		Current yield	After revision
Single premium endowment insurance	(5 years)	8.14	6.51
'Big'	(5 years)	6.00	4.80
'Wide'	(5 years)	5.98	4.78
Bond investment trust	(5 years)	5.89	4.66
'Ritto-High Jump'	(3 years)	5.436	4.254
Fixed amount deposit	(5 years)	4.391	3.512
'Big'	(2 years)	4.34	3.47
'Hit'	(5 years)	4.23	3.38
Maturity-designated time deposit	(3 years)	4.172	3.337
Medium-term government bond fund	(5 years)	4.12	3.30
Discount government bond	(5 years)	4.064	3.955
Time deposit	(1 year)	3.76	3.01
Discount bank bond	(1 year)	3.369	3.284

Note: 'Current yield' means tax-free yield 'After revision' means after the abolition of 'Maruyu' (non-taxable savings system); but discount government bond and discount bank bond are under 16% taxation currently (as of January 12).

* 'Changing Taxation, No. 7 / Abolition of 'Maruyu' System / Investors face trial' (Nippon Keizai Newspaper, Jan., 16, 1987)

(1) Ranking of Yields After the Introduction of Uniform Separate Taxation

Amount – ¥1 million / Period of deposit – 5 years / Tax rate – 20%

	Amount to receive	Yield %
1. Single premium endowment insurance (5 years maturity/age 40/ after reduction of dividend)	¥1,378,700	6.04
2. ‘Hi Pack’ (10 years government bond + bond investment trust)	¥1,256,060	5.12
3. ‘Double’	¥1,254,290	5.09
4. Government bond & discount bond account (10 years government bond + discount bank bond)	¥1,251,320	5.03
5. ‘Big’ (5 years maturity)	¥1,240,170	4.80
6. ‘Wide’ (5 years maturity)	¥1,239,150	4.78
7. Government bond (10 years maturity)	¥1,233,800	4.68
8. Loan trust compound interest method (6 years maturity)	¥1,233,780	4.68
9. (Miscellaneous) mortgage certificate (5 years maturity)	¥1,232,000	4.64
10. Bond investment trust (cancellation on demand)	¥1,228,350	4.57
11. Money trust compound interest method (5 years maturity)	¥1,227,630	4.55
12. Discount government bond (5 years maturity)	¥1,223,220	4.46
13. Government bond time account (government bond 60% + maturity-designated time deposit)	¥1,219,410	4.39
14. Loan trust interest payment method (5 years maturity)	¥1,212,800	4.26
15. Interest-bearing bank bond (5 years maturity)	¥1,212,000	4.24
16. ‘Ritto High Jump Course’	¥1,211,000	4.22
17. Money trust interest payment method (5 years maturity)	¥1,207,200	4.14
18. ‘Ritto High Jump’ (3 years)	¥1,203,700	4.07
19. Interest-bearing bank bond (Ritto – 3 years maturity)	¥1,194,000	3.88
20. ‘Big’ (2 years maturity)	¥1,177,070	3.54
21. Loan trust compound interest method (2 years maturity)	¥1,175,870	3.52
22. Discount bank bond	¥1,175,340	3.51
23. (Postal) fixed amount deposit	¥1,172,490	3.45
24. Maturity-designated time deposit	¥1,172,150	3.44
25. Money trust compound interest method (2 years)	¥1,171,270	3.43
26. ‘Hit’ / new type money trust	¥1,166,500	3.33
27. Loan trust interest payment method (2 years maturity)	¥1,163,400	3.27
28. Medium-term government bond fund	¥1,162,030	3.24
29. Money trust compound interest method (1 year maturity)	¥1,161,000	3.22
30. 1-year time deposit compound interest investment	¥1,159,730	3.20
31. Money trust interest payment method (2 years maturity)	¥1,159,400	3.19
32. 2-year time deposit (without the investment of interim interest)	¥1,157,440	3.15
33. Money trust interest payment method (1 year)	¥1,150,400	3.01
34. 6-month time deposit compound interest investment	¥1,127,140	2.54
35. Interest fund	¥1,112,330	2.25
36. 3-month time deposit compound interest investment	¥1,072,810	1.46

Note: With the scheduled introduction of 20% uniform separate taxation, and also with the 0.45% reduction of dividend from the difference of interest, the single premium endowment insurance will be greatly affected.

* ‘How will it be with 20% taxation? / The single premium endowment insurance is literally the champion of financial products, but it will not be tax free any more’ (Insurance Information, No. 1428, Feb. 20, 1987, by Insurance Information Center)

— ¥7.26 million; 2. USA — ¥5.07 million; and 3. Canada — ¥4.19 million. It is a surprise that Japan exceeds others so largely.

Incidentally, the yield on total assets of 7 major life insurance companies, for 1981 — 1985, will be shown as below. At the same time, apprehensions have been often voiced as the yield on single premium insurance is too higher as compared with other financial products. In fear of too much popularity of the product, various concerns were expressed, such as 'the yield on single premium endowment insurance may be misunderstood as fixed yield'; 'it is difficult to maintain high interest rate of the product, and with the occurrence of fund shift from deposits and others, they may receive complaints from banks'; and 'the yield of the product is much higher than on other products, but dividend may be reduced in 1985 and thereafter'.

(2) Present Interest Rates and Yields According to Terms (as of April 12)

		Annual interest rate prospective distribution rate (%)	Average annual yield (after commission, %)		
			1 year	2 years	3 years
Time deposit	1 year	3.39	3.39	—	—
Maturity-designated	1—3 years	—	3.39	3.774	—
Time savings	1 year	3.39	3.39	—	—
Fixed amount savings	half year—10 years	—	2.404	3.809	3.953
☆ ‘Hit’	1 year	3.51	3.54	—	—
☆ ‘Big’	5 years	4.32	3.31	4.21	4.76
‘Wide’	5 years	4.30	2.350	4.206	4.742
* Discount bank bond		—	3.060	—	—
☆ Medium-term government bond fund		3.358	3.410	3.527	3.650
☆ Bond investment trust		4.80	3.80	4.67	5.04
Long-term government bond	10 years	4.7			4.736
* Discount government bond	5 years	—		—	
☆ Single premium endowment insurance (male — age 40)			—	7.36	8.14
Mortgage certificate			4.4	5.0	—

Housing loan (bank) { fixed rate type 6.48
variable rate type ☆ 5.5

(☆ means variable interest rate; * means 'after 16% separate taxation'; others — tax free)

- * 'Money & Life' — "What will become of 'reserve-type non-life insurance' and 'endowment insurance' with the lowering of interest rates? — Expected interest rate from the operation of reserve-type non-life insurance premium will be 1% down; while the single premium endowment insurance's bonus will be 0.45% down in principle" (Mainichi Newspaper, April 13, 1987)

(3) Guide to Major Financial Products

Classification	Name of product	Interest rate % (* is yield)	Points
Bank	Time deposit	1 year 3.39 2 years 3.64	After the deposit, it cannot be withdrawn for certain periods, but because of that, interest rates are higher.
	Maturity-designated time deposit	* after 2 years 3.706 * after 3 years 3.774	It gives the highest yield among bank deposits, with compound interest calculation, made every year. Maximum term is 3 years / Only for tax-free savings.
	Installment savings	2.28	This is to reserve certain installments every month, and receive benefit (interest) on date of maturity.
	Mutual installment	1 year 2.76 2 years 2.96	A special product, offered only by mutual loan and savings bank. A certain amount is installed every month. As a service, collectors visit customer's home.
	Interest-bearing bank bond	4.3	Six banks including long-term credit banks issue this every month. It is a bond with coupon for receiving interest every half year.
	'Wide'	* 5 years 4.742	This is a high-yield saving with a lump-sum payment of interest, utilizing interest-bearing bank bond. On the date of maturity, 5 years later, principal and interest, calculated every half year in compound interest method, will be paid in bulk. It is a special tax-free product, and only individual customers can use this.
	Discount bank bond	* 3.659	It is a one-year discount bond, offered by 6 banks which issue bank bonds. It can be purchased at a price, after the reduction of discount fare which is equivalent to interest. Tax is 16% at the time of issue, and even after the abolition of 'Maruyu' (tax-free system), only 18% separate tax withheld at source will be applied.
	Foreign currency deposit		It is a saving in foreign currency, like dollar or mark. Interest rate will be based on overseas rates, but subject to change depending on currency, banks and amount of deposit. It accompanies exchange risk.
	Government bond time account		Interest, at each half year, of medium and long term government bonds will be reserved and invested in date-designated time deposit automatically.
	Government bond / discount bond account		Interests, at each half year, of medium and long-term government bonds, will be invested in discount bank bonds. It is handled by 6 banks which issue bank bonds.
	'High Jump'	* 3 years 4.316	It is a high-yield product, with interest paid in bulk, utilizing 3-year interest-bearing bank bonds. It can be considered as '3-year Wide', a special tax-free (Maruyu) product. Only The Bank of Tokyo offers this.
Trust	Money trust	1 year 3.39 2 years 3.69	The money, entrusted by customers, is invested in loans or stocks and bonds. It's a high-yield product, with terms or date of deposit freely set by customers. The Daiwa Bank handles this, too.
	Loan trust	2 years 3.84 5 years 4.32	It is a money trust, with investment made mainly on loans to enterprises. It has the highest yield among the savings which guarantee principals. It is the top attraction of trust banks. Terms are for 2 years and 5 years.
	'Big'	* 2 years 3.95 * 5 years 4.76	It is a loan trust, under 'Maruyu' tax-free system. It will give a high yield as the interest, every half year, is reinvested in loan trust.
	'Double'		It is a combination of government bond and money trust. The interest, every half year, of government bond is invested in compound interest system on money trust.
	'Hit'	3.51	It is a new-type money trust, put on sale in December last year, by 7 trust banks including The Daiwa Bank. After one-year deposit, cancellation can be made at will, and the yield is better than one-year time deposit.
Security corporation	Medium-term government bond fund	3.358	Thirty days after the deposit, it can be withdrawn freely. As the interest rate is at the level of time deposits, it is very popular.
	Bond investment trust	4.5	It is invested on public and corporate bonds such as municipal and bank bonds. At the minimum unit of ¥10 thousand, it can be purchased, or cashed, anytime.
	Stock investment trust		It is invested on stocks and public and corporate bonds. It may accompany a risk, different from bond investment trust, but may provide higher yield.
	'Hi-Pack'		It automatically reinvest interests from medium and long-term interest-bearing government bonds into bond investment trust, and increase the principal at compound interest.
	Long-term government bond fund		It is a new-type bond investment trust, with investment made on domestic and overseas public and corporate bonds. Yield depends on investment results, and it accompanies a risk. It is a 'Maruyu' (tax free) saving.
	Industrial bond		It is an interest-bearing bond, issued by electric power companies and other excellent companies. It has varied terms and interest rates.
	Convertible bond		It is a corporate bond, to be changed into stocks on timing. It offers yield higher than stocks, and similarly as stocks, profit from price hike can be expected.
	Industrial bond with warrant		It is a corporate bond, with warrant to buy new stocks at certain prices. A difference from convertible bond is that you will still retain corporate bond after carrying out your right to accept new stock.
	Zero-coupon bond		It is a long-term discount bond in foreign currency, issued overseas. Being a discount bond, it has no nominal interest rate (coupon). It gives higher yield than domestic bond, but carries exchange loss
Security corporation; bank; trust	Interest-bearing government bond	* 10 years 4.141	It is a government bond, for long-term (10 years) and medium-term (2 - 4 years).
	Discount government bond	* 5 years 3.859	It is for the term of 5 years. At the time of purchase, you pay an amount, with interests for 5 years reduced from the face-value. Profit from redemption is 16%. After the abolition of 'Maruyu' (tax-free system), it is under 18% separate taxation withheld at source.
	Public-offering municipal bond		It is an interest-bearing bond, issued by local public bodies. The term and yield are the same as the government-guaranteed bond.
Life insurance company	Single-premium endowment insurance	* after 5 years 7.55	It will have no installments of premium. It is a single-premium savings-type high-yield life insurance.
	Variable insurance		It is a life insurance, with maturity and 'sum payable at death' subject to the investment results. It is a life insurance, equivalent to investment trust.
Non-life insurance company	Reserve family traffic accident insurance		It is a non-life insurance, covering traffic accidents of the policyholder and his family. It includes a popular plan to invest the maturity payment and bonus into bond investment trust.
Post office	Fixed amount postal savings	3 years and more 3.64	The maximum deposit time is 10 years. It is a high-yield product with half-yearly compound interest system. Interest rate is higher as the term gets longer till 3 years. The maximum deposit is ¥3 million.
	Housing reserve savings	3 years 4.20 4 years 4.44 5 years 4.68	It is a monthly saving for housing construction or purchase. After the completion of installments, customers can receive loan from the Housing Loan Corporation through the mediation of Posts and Telecommunications Ministry. The saving limit is ¥500 thousand.
Others	Mortgage certificate		It is a free interest-rate product. Mortgage certificate companies sell mortgage certificates divided in small lot, for mortgage settled on real estates. It offers high yield and free to cash.

* 'Financial technics in the era of low interest rates/Prefer steady investment or challenge risks?' (Yomiuri Newspaper, May 1, 1987)

(4) Yields, Classified by Terms, of Main Financial Products

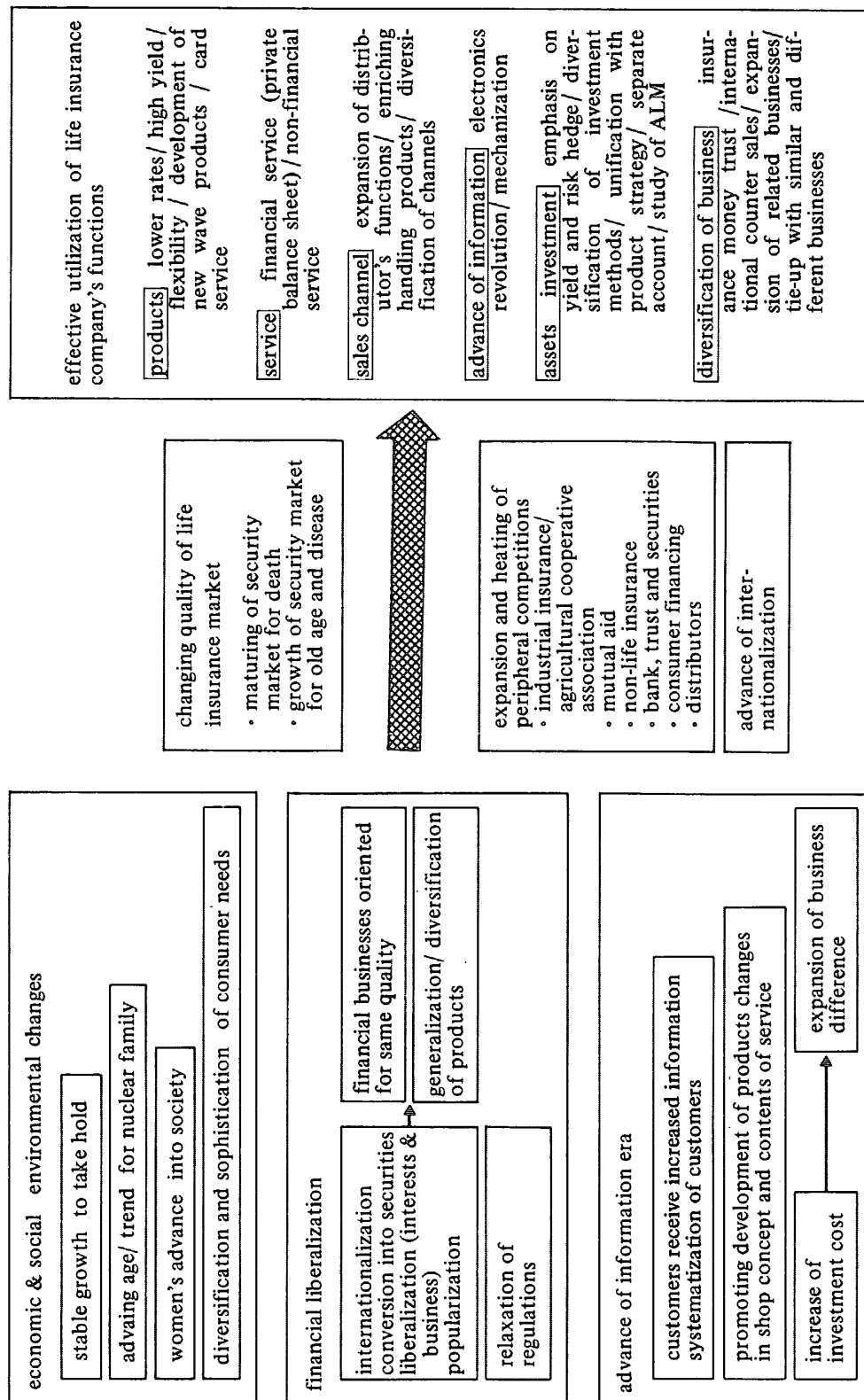
(as of June 10, 1987 / unit: % / ☆ is for variable type)

1 year	Time deposit (saving) – 1 year	3.39
	Money trust – 1 year and more	☆ 3.418
	Loan trust – 5 years	☆ 3.62
	Hit	☆ 3.54
	Big – 5 years	☆ 3.66
	Medium-term government bond fund	☆ 3.410
	Discount bank bond	3.659
2 years	Time deposit – 2 years	3.64
	Maturity-designated time deposit	3.706
	Fixed amount saving	3.582
	Money trust – 2 years and more	☆ 3.793
	Loan trust – 2 years	☆ 3.84
	Big – 2 years	☆ 3.95
	Loan trust – 5 years	☆ 3.82
	Big – 5 years	☆ 3.94
3 years	Single premium endowment insurance – 5 years	☆ 5.22
	Maturity-designated time deposit	3.774
	Fixed amount saving	3.809
	Loan trust – 5 years	☆ 3.88
	Big – 5 years	☆ 4.09
	Interest-bearing bank bond – 3 years	3.8
	High Jump	3.986
	Wide	3.873
	Bond investment trust	☆ 4.09
	Single premium endowment insurance – 5 years	☆ 6.12
5 years	Fixed amount saving	3.953
	Money trust – 5 years and more	☆ 4.236
	Loan trust – 5 years	☆ 4.02
	Big – 5 years	☆ 4.40
	Interest-bearing bank bond – 5 years	4.0
	Wide	4.38
	Bond investment trust	☆ 4.41
	Single-premium endowment insurance – 5 years	☆ 7.55

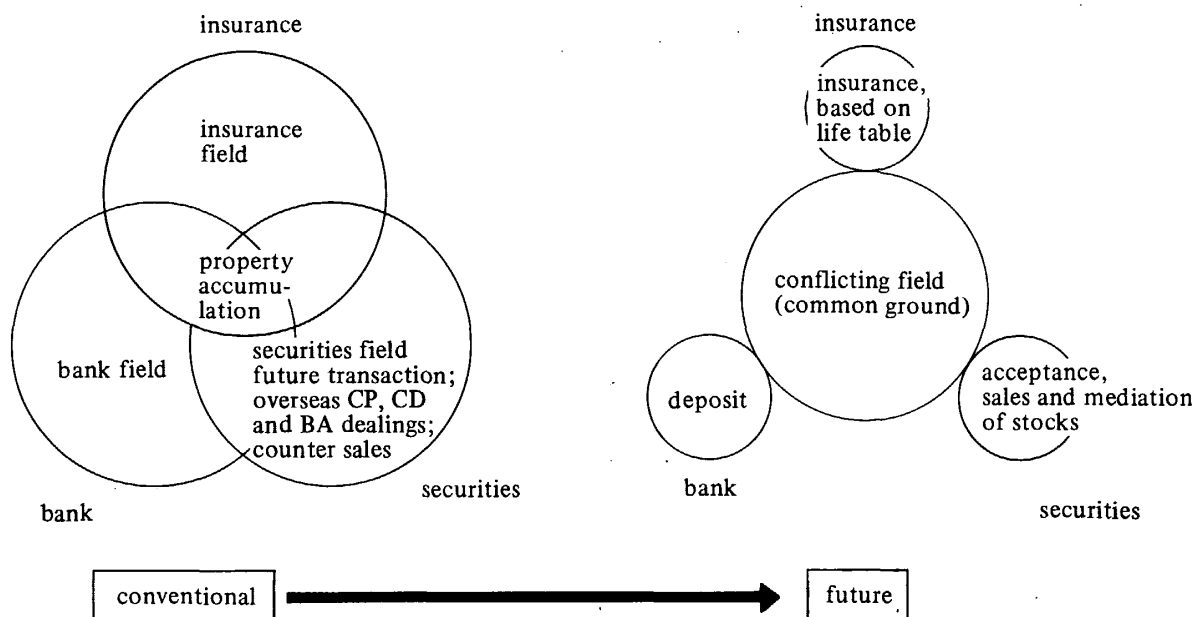
Note: For bond investment trust, it's on and after 22nd.

* ‘Difficult era for savings’ – What to choose? / ‘Long-term and short-term products’ – Little difference in interest rates / With the interest rates of savings lowering to the minimum level in the postwar period, we enter ‘the difficult era for savings’ as the possible abolition of ‘Maruyu’ (tax-free small amount savings system) is being discussed at the Diet’ (Yomiuri Newspaper, June 11, 1987)

(a) Environmental Changes Surrounding Life Insurance Business and How to Cope with Them



(b) Business Field Image of Financial Institutions



* Both (a) and (b) are from 'Life Insurance' by Fumio Shoda, of Nikkei Industrial Service, pp. 131 and 169 (July, 1985, by Nippon Keizai Newspaper)

6. Consideration is given to the expectation for possible longevity/extension of average life span. As a result, premium can be reduced and dividend may be larger. Also higher interest rate may be possible.

7. There exist advantages as a newly developed product. Insurance companies used to adopt comparatively careful and discreet business policies, and even at that stage still possessed room to develop new products. It is true that a new product can sell rather smoothly at the time of its development, then for a certain period after that. Because of that good sales, they can economize on new contract expenses or extra premium, and the saved amount can be turned for dividend or transformed into higher interest rates.

8. Financial activities were actively carried out, supported by smooth insurance sales. Backed by good sales and smooth and growing business situation, maintained for a long time, active and bold fund investment has been conducted by somewhat adventurous 'new breed of young investors'. It brought a success and helped realizing high interest rates and dividend.

The themes for future insurance financing will be found around variable insurances and heated competitions would follow. Variable insurances are the ideal financial products, matching the spirit of insurance, and in this field, each company's fund operational and financial abilities will be clearly manifested. Also superiority or inferiority of insurance companies in financial ability, as compared with other financial organs, will become apparent. The era of insurance financing began with the appearance of private enterprises annuity, followed by the development and sales of personal annuity and reserve insurance. The era seems to be decisively characterized with the appearance of variable in-

Balance and Percentage Change of Personal Savings in 1986
 (unit: ¥hundred million; figures in parentheses are percentage
 change against previous year; ▼ shows minus)

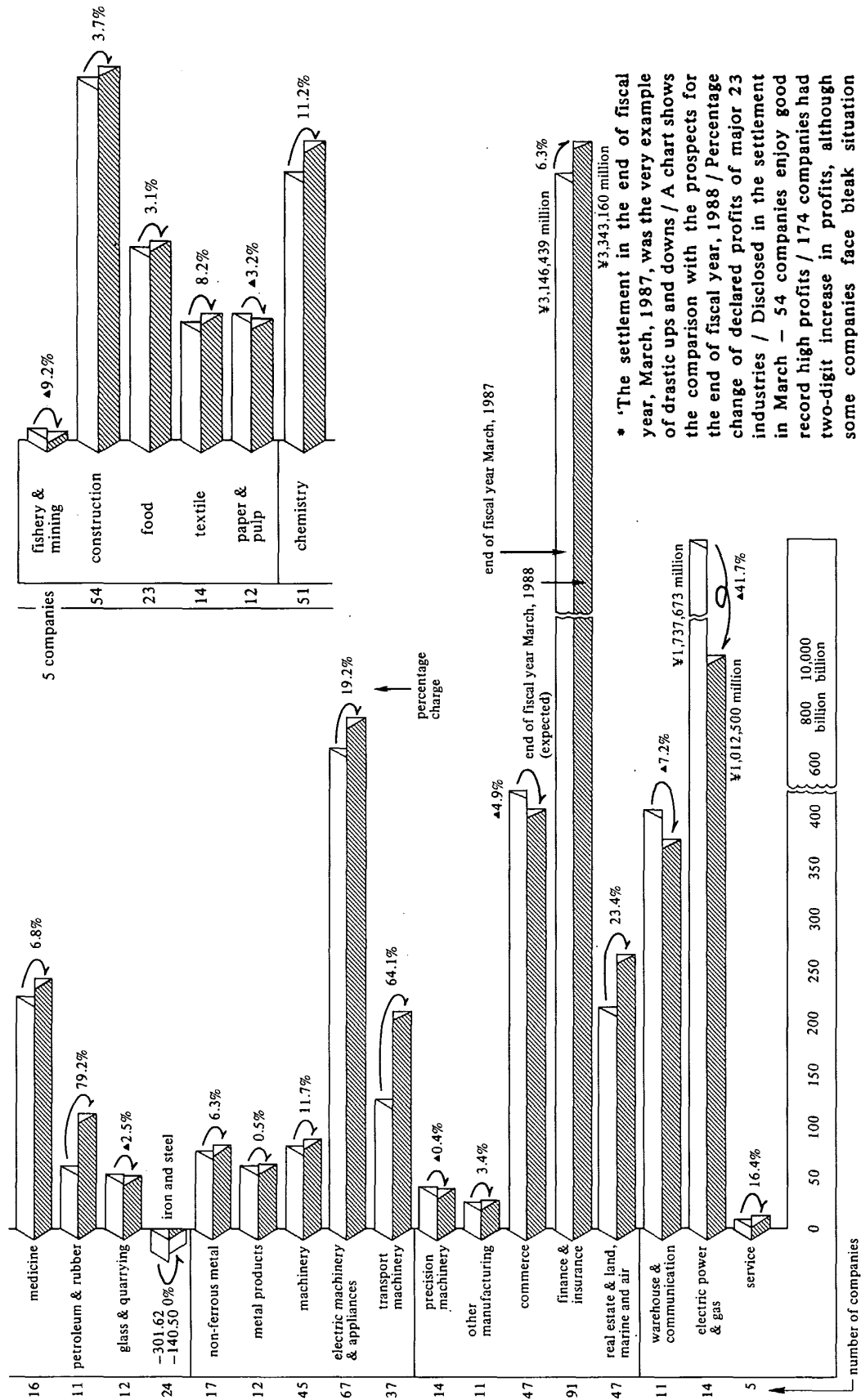
	Balance at end of 1986	Percentage change in 1986
Bank deposit	2,298,606 (6.9)	148,531 (0.3)
Postal saving	1,097,456 (6.6)	67,477 (▼24.7)
Trust	273,954 (3.5)	9,358 (▼30.7)
Bonds	467,983 (4.9)	21,738 (▼34.0)
Investment trust	240,829 (46.1)	75,975 (x5.2)
Insurance	1,163,688 (18.9)	184,704 (38.7)
Total	5,542,516 (10.1)	507,783 (17.6)

Note: Bank deposits include deposits with credit associations, agricultural and fishery cooperative associations and laborers' credit cooperatives.

* 'Personal savings prefer good interest rates/Average savings amount to ¥4.62 million (1986; increase of 10.1%)/Insurance exceeds postal savings for the first time' (Yomiuri Newspaper, June 19, 1987)

surances. The amount of funds became affluent during the period and the skills to invest these resourceful funds clearly affected the business results. At this stage, the insurance financing had already taken its own course. But on the surface, the start of the insurance finance can be observed just at the point when annuity insurance, reserve insurance, variable insurance and annuity began to attract customers.

On this matter of insurance finance, it was theoretically clarified in the past with the study of insurance finance, made by Dr. Ryuzo Maitani who gave consideration to two conceptions, internal finance and external finance. Under his theory, external finance was considered conventional and formal finance, while internal finance was just monetary operation or transaction, and could not be acknowledged as finance. But, at present, since insurance companies actively engage in financial activities and financial functions of insurance are so closely, inseparably, largely and decisively related to security functions, even internal finance looks like transformed into an ordinary finance. At this stage where all kinds of products — private enterprises annuity, personal annuity insurance, property accumulating annuity insurance, reserve insurance, variable insurance and variable annuity insurance — are on the market, it would not be possible to make distinctions, as security and finance extend to all of them. Even in the so-called internal finance, the monetary flow always accompanies interests, and it can't help presenting a sort of financial phenomenon. It is an inevitable fact that insurance continues to get closer to finance, and insurance companies become further resembled to



• 'The settlement in the end of fiscal year, March, 1987, was the very example of drastic ups and downs / A chart shows the comparison with the prospects for the end of fiscal year, 1988 / Percentage change of declared profits of major 23 industries / Disclosed in the settlement in March - 54 companies enjoy good record high profits / 174 companies had two-digit increase in profits, although some companies face bleak situation caused by strong yen' (Weekly Diamond, Vol. 75, No. 23, June 13, 1987, pp. 38-39)

a. Dividend of Endowment Insurance (¥)

Contract age – 30; maturity – 30 years; male; annual payment;
for each ¥1 million of the insurance sum

Contract year (year lapse)	Annual premium	In case of continuation (dividend)	In case of maturity/death (insurance sum + dividend)
1982 (5 years)	21,670	2,500	(death) 1,003,000
1977 (10 years)	22,900	7,100	(death) 1,012,240
1972 (15 years)	26,100	17,300	(death) 1,074,174
1967 (20 years)	26,800	27,100	(death) 1,177,110
1962 (25 years)	28,900	40,200	(death) 1,363,725
1957 (30 years)	28,900	—	(maturity) 1,712,400

* 'Life Insurance ABC (second installment)' (Asahi Newspaper, June 21, 1987)

financial companies.

The plan to abolish the 'Maruyu' (small amount tax-free savings/tax-free postal savings) is based on various economic circumstances and a lot of explanations have been given to back up the plan. But the ordinary people find it hard to understand and are emotionally unable to agree to the plan (even though the government officials and scholars and critics who are often quoted by mass media insist that the system revision is the right thing to do and it's inevitable). Also if the single premium endowment insurance is to be affected by this abolition plan of tax-free savings, the public will find it difficult to support the plan rationally or emotionally. Herewith, along with the administrative proceedings, the public are forced to have a conversion in consciousness, since this single premium endowment insurance has unmistakably been judged as a financial product, rather than a security product. In some of the insurance products, the element of security is relatively, or considerably, constricted within the functions of the products, against that of finance. From now on, more insurances will come to possess both security and financial functions, and in some cases, the security factor may be added to the finance factor. In fact, all the insurance circles and insurance companies unanimously insist on the 'financial advantages', and are developing marketing activities with emphasis on financial attractions.

With consideration to the recent insurance movements and the prospects, we observe three elements ahead and possibly a new direction may be found in the combination of the following three.

(1) The enrichment of security (a term mainly in life insurance business) and indemnity (a term mainly in non-life insurance business):

b. Variable Insurance Investment Yield & Sales Results of 11 Companies

Company name	Annual rate (%)	Number of cases
Nippon Life Insurance	37.27	49,893
Daiichi Mutual Life Insurance	42.18	3,667
Sumitomo Mutual Life Insurance	44.54	31,779
Meiji Mutual Life Insurance	30.70	33,125
Asahi Mutual Life Insurance	34.25	3,365
Mitsui Mutual Life Insurance	54.30	9,181
Yasuda Mutual Life Insurance	32.93	3,322
Chiyoda Mutual Life Insurance	40.79	2,938
Daido Mutual Life Insurance	31.49	10,618
Daihyaku Mutual Life Insurance	31.94	1,205
(a)	80.02	3,431
Equitable (b)	59.69	
(c)	9.42	

Note: Equitable's special account offer three types at the policyholder's choice: (a) is the Japanese stock type; (b) is the U.S. stock type; and (c) is the financial market type.

* 'Life Insurance ABC (second installment)' (Asahi Newspaper, June 21, 1987)

There are opinions that the insurance would change its subject from tangible one to intangible one, and not only cash payment but also allowance in kind will be possible. Such are describing the situation well. Naturally there will arise a need for the integration of contents of insurance products, or for quality changes, but what we should put in mind here is that the enrichment of security or indemnity contents does not necessarily bring good results to the life and non-life insurance businesses. It often turns into 'a burden' due to the deterioration of balance or the increase of liability. It is because the security or indemnity often come to be enriched from the social and welfare viewpoints and sometimes the companies don't have enough statistical figures for the accident occurrences. Also the supervision and control by the administrative offices are too strong sometimes and it is likely that consumerism presents strong requests. Therefore it may not be able to keep satisfactory equality of a benefit and a benefit in return.

(2) Enhancement of financial functions:

This is the main theme of not only life insurance business circle, but also of non-life insurance business circle. But, first of all, it is an undeniable fact that insurance industry is 'a step behind' or 'a little inferior' at present as compared with conventional financial organs such as banks, trust banks and securities companies, in displaying financial functions. It is revealed in one recent example of huge exchange loss they suffered.

Examples of Investment Results of Single-Premium Whole-Life Type

(unit: ¥ ten thousand)

▽ In the case of 9%	3 years	5 years	10 years	20 years	30 years
Insurance sum for death or serious accident	about 1130	1230	1521	2323	3551
Cancellation return	328	380	549	1130	2252
▽ In the case of 4.5%					
Insurance sum for death or serious accident	1000	1000	1001	1003	1006
Cancellation return	289	308	360	486	636
▽ In the case of 0%					
Insurance sum for death or serious accident	1000	1000	1000	1000	1000
Cancellation return	253	245	224	165	69

Note: 40-year-old male; principal sum – ¥10 million; premium – ¥2,832,000

* 'Money Guide- Variable Insurance' (Nippon Keizai Newspaper, June 21, 1987)

Also, due to the radical changes of financial circumstances and amid the upheaval of interest rates, the insurance finance has been seriously affected. But the situation has been reflected too quickly in the forms of the hike of premium rates or the reduction of dividend rates. And, over a long period, it will certainly damage the people's trust toward insurance. Actually, the everchanging yield of the single premium endowment insurance, as so far explained, seems to have dazzled the general customers, policyholders, the insured, the beneficiary and even the premium-payer. From a long-ranging viewpoint, it is too risky to conduct sales with emphasis on financial functions; to hold excessive expectation for financial functions; and to incline the insurance business toward financial activities.

(3) The multipolarization of incidental services:

Merchandising a product by combining several security & indemnity functions equals the integration of the insurance product. But besides security and indemnity functions, it will be necessary to provide other functions as well. In this era of advancing information, there exist significant elements which make it possible. The information from each sector and field can be quickly obtained and utilized, and multipolarized businesses could get united and integrated into a big channel to pursue a new possibility. Among various incidental services in insurance, the important ones are the presentation of living & management information and consultant functions. But, hereafter, not simply the presentation of information is sufficient, but it will be required to offer specific services.

It is important to provide services in travels and leisure activities; to assist in medical fields; give benefit in kind; to construct annuity homes for the aged and assist in their entry; to send or introduce helpers. Besides these, it will be required to engage in hotel management, reserve rooms and transportation tickets. The services will also have to include the compilation of travel and leisure plans, and clearing or sharing risk-management. While the insurance industry is engaging in multilateral business management, it should also offer various diversified services. Some examples are the lending of funds to policyholders and the introduction of card and loan systems, along with the insurance service. We now notice the introduction of both firm-banking and home-banking elements. But with such multipolarization of incidental services, insurance business itself looks like being alienated from the essence of insurance. It means that the insurance management cannot be going on, depending simply on conventional management theory.

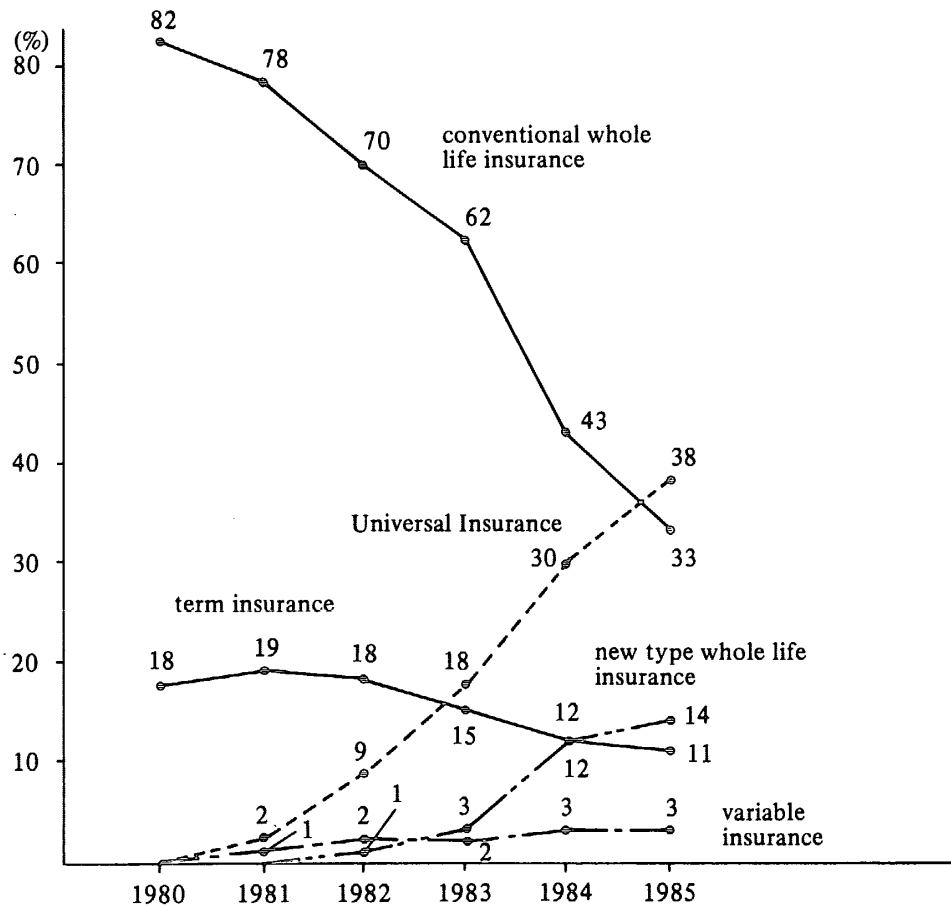
Hereupon, the business faces a profound question or subject to be inquired, and it should be thoroughly studied before reaching an answer. "Should insurance company/insurance business continue to be centering around security and indemnity? If the answer is no, how the combining of incidental services and security/indemnity must be made? Also, when combined, how the mutual ratio should be?" Furthermore, the question would be, "How, and to what degree, the essential & conventional functions of security/indemnity should be combined with incidental services which are increasingly required, to display the mutually-enhanced functions? At least, how could each function refrain from restricting or interrupting others?" It seems like the situation could not be handled just by simply suggesting or pointing out needs for incidental services from the viewpoint of welfare.

As the most advanced product which combines security and finance, variable insurance comes first. It is sold smoothly and numerously, or rather it may be apt to say, 'being bought popularly'. But within the business circle, there are doubts if 'too much popularity of variable insurance is appropriate'. Currently the interest rates are bringing in smooth profits and the working yield reached a phenomenal level. But the variable insurance is essentially a long-term product under a long-term contract, and during the period, the yield will go through 'ups & downs'. By averaging them, it will gradually settle into a reasonable level. Therefore, the people who experienced, or witnessed, the current high yield, may feel 'disappointment' or 'discouragement' at the time they finally receive the insurance sum. It would be better if the feeling stays in that level, but it will be a serious problem if they come to feel like 'tricked', 'betrayed', or 'cheated'. That's the reason why the people in the circle now voice the self-restraint in the sales of variable insurances.

As something which predicts the occurrence of future troubles, there is an example of a rumor that a company was forced to increase the yield of the single premium endowment insurance in trying to meet the expectations of its customers. The company had to suffer negative interest rate margin. It is a likely story. Whatever the analysts may say, the situation clearly reflects the reality. All the more, concerning the variable insurance which attracts people for rosy prospects of high-return, it is certain that there will arise troubles or emotional conflictions on the difference between expectation and reality of

Universal Insurance, Playing the Leading Role in the American Life Insurance Business

new contract rate, as classified by insurance kinds in the U.S. (initial premium base)



Data: Best's Review, February issue, 1987

The yield of the variable insurance, put on sale last October, is taken up largely by mass media for reaching 30% or 50% in annual rate. But in the United States, where it has a history of 10 years in the business, the share of the variable insurance is the lowest with 3% (initial premium). As in the chart, it makes only 30% of the new-wave product, 'Universal Insurance'.

* 'Mutual Aid & Insurance/ whole volume-341- Vol. 29, No.6' (Mutual Aid Insurance Study Group, June, 1987), p. 6

working yield. At that time, the argument of ‘high risk/high return’ won’t be enough to appease the ordinary people. The explanation of the system of variable insurance is not easy, and, with this added apprehension about the future troubles, the sales people are said to be a bit reluctant to campaign for it. But the main reason for their passive sales attitude may be that the commission is smaller than in selling other insurances.

Another problem surrounding the variable insurance is the tax. The variable insurance’s interest and dividend are treated as temporary income similarly as in the case of the single premium endowment insurance. It will be tax free if the interest and dividend are less than ¥500,000 after the premium is deducted from the matured endowment, or the cancellation return. A half of the amount which results after exceeding ¥500,000 will be subject for taxation. According to the Finance Ministry’s tax system revision plan, in the case of products with more than 10 years in maturity, the interest and dividend will be regarded as a temporary income, as they are now, even after the revision. But if the insurance is canceled after a short period like 5 years, or if the variable insurance is set for 5 years, the profit will be under uniform separate taxation of 20%. Thus, the five-year type variable insurance will not sell well, or be bought well, any more after the revision. Here is a problem of interest and dividend as related with the taxation issue which would betray the people’s expectations. Even though it may be inevitable under the environmental changes, it is certain to damage the people’s trust toward insurance.

The variable insurance is regarded as the ‘life insurance version of investment trust’. Such observation is made from factors, describing its features such as ‘high risk/high return’ or ‘self-bearing the risk/self-receiving profits’. The variable insurance is not simply the ‘insurance’ any more. It closely resembles investment trust. Therefore, when the funds investment is smooth and produces high yield, people purchase it in large volume under the single-premium payment system. And, when the situation changes for bad, they unanimously cancel it and receive a big cancellation return. When a person is involved in an accident during the insurance period, he can receive security. Only at that point, it provides insurance functions. It means, therefore, the system and the expectation the customers have do not match the conventional image of insurance.

The insurance functions get multipolarized in the era of money games and the business results are expanding at a high pace. The ‘Jan. – March activity index of the tertiary industry’, announced by the Ministry of International Trade and Industry on June 8, 1987, was set at 130.3, an increase of 2.4% against the previous term (126.7 in 1986), reflecting the unprecedented stock-investment boom. It was the highest rise since 1973 when the index was compiled. As compared with the same period of the previous year, it had an increase of 6.4%. As classified by trade, the largest expansion, as compared with the previous term, was observed with financial and insurance businesses. They increased by 7.4% (19.8% in non-life insurance). It exactly reflects the prosperity of those businesses, while truly and honestly revealing the situation and position of the insurance business in this society.

Even the variable insurance, which began a favorable start in Japan, will lose its popularity in the long run. Actually, in the American life insurance circle, the leading product is the Universal Insurance, and the variable insurance reaches only about 30% of

it in the new contract rate. As classified by the kind of insurance, it takes the lowest rank in the U.S. Japan's variable insurance will face the similar situation ten years later. Then, insurance may depart from financing and return its course back to security. Nevertheless, the insurance business will continue to display the combined attraction of security and financial functions, and it is the fundamental and unshakable principle the Japanese insurance will pursue.