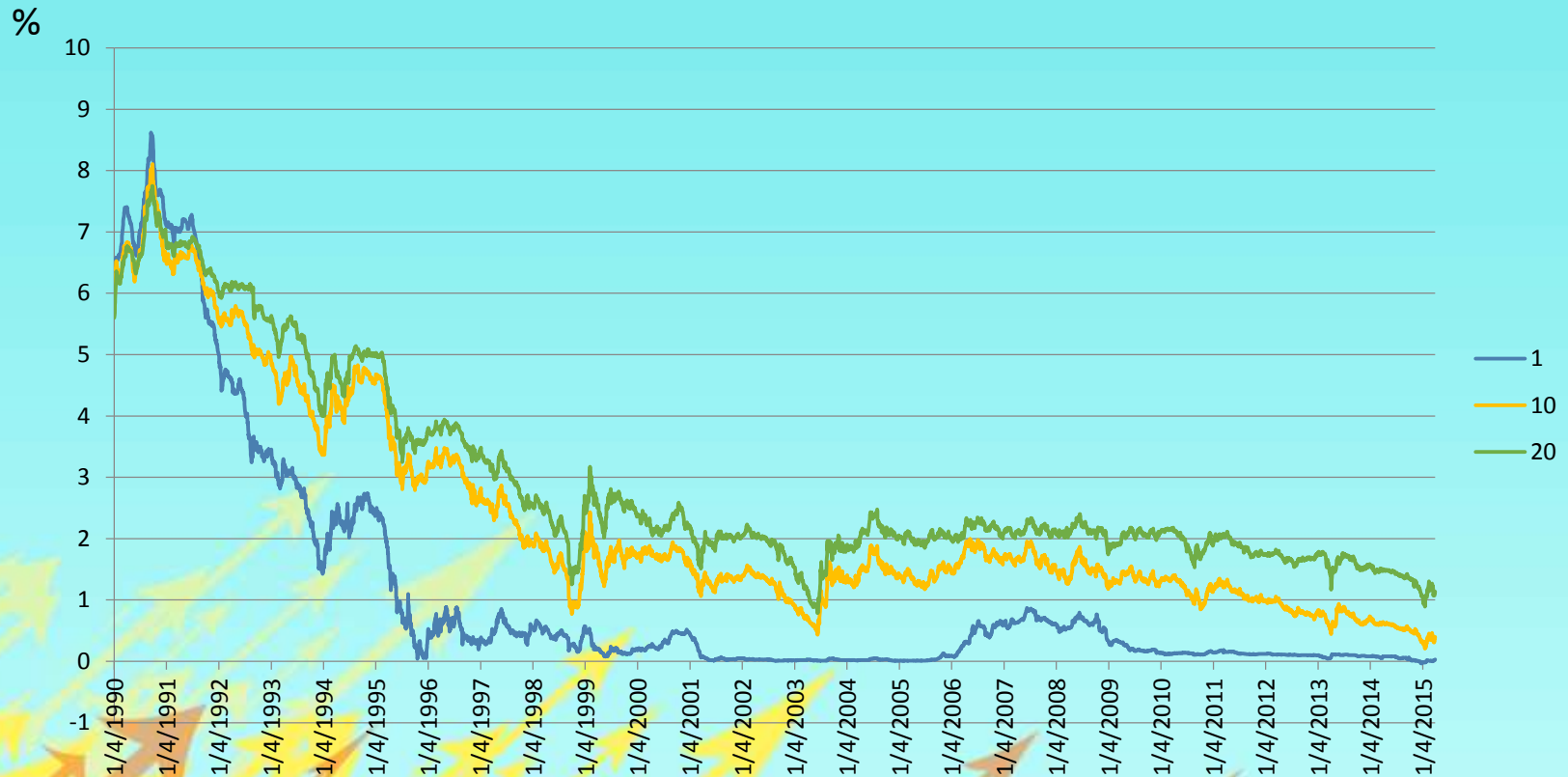


How Japanese Insurance Company Survived Under 20 years zero interest rate?

Kenichi Nogami

Japanese Government Bond yield



Abe-Kuro-Mics

▶ Bank Of Japan (BOJ)

- Expand Monetary base 2 times within two years. (30% of GDP)
- Inflation Target 2% within 2 years.
- By JGB with two times duration from 3-4 years to 7-8 years.

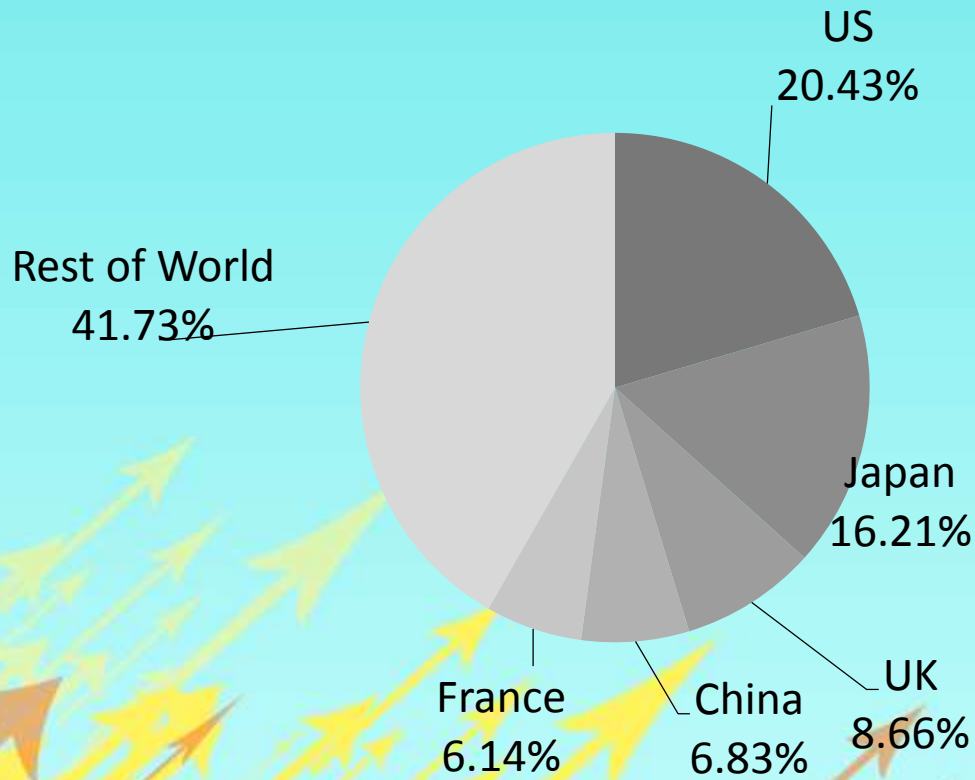
▶ Flexible Financial Policy (Heat up, then cool down)

- Consume Money for rebuilding after March 11 even in 2011.
- Consumption tax from 5% to 8% (2014) , 10% (2015).
- Revision of Social Security etc.(After election of upper house in July 2013)

▶ Deregulation and change of corporate governance, corporate tax etc.

- ROE target
- Corporate Tax<30%

World Life Market



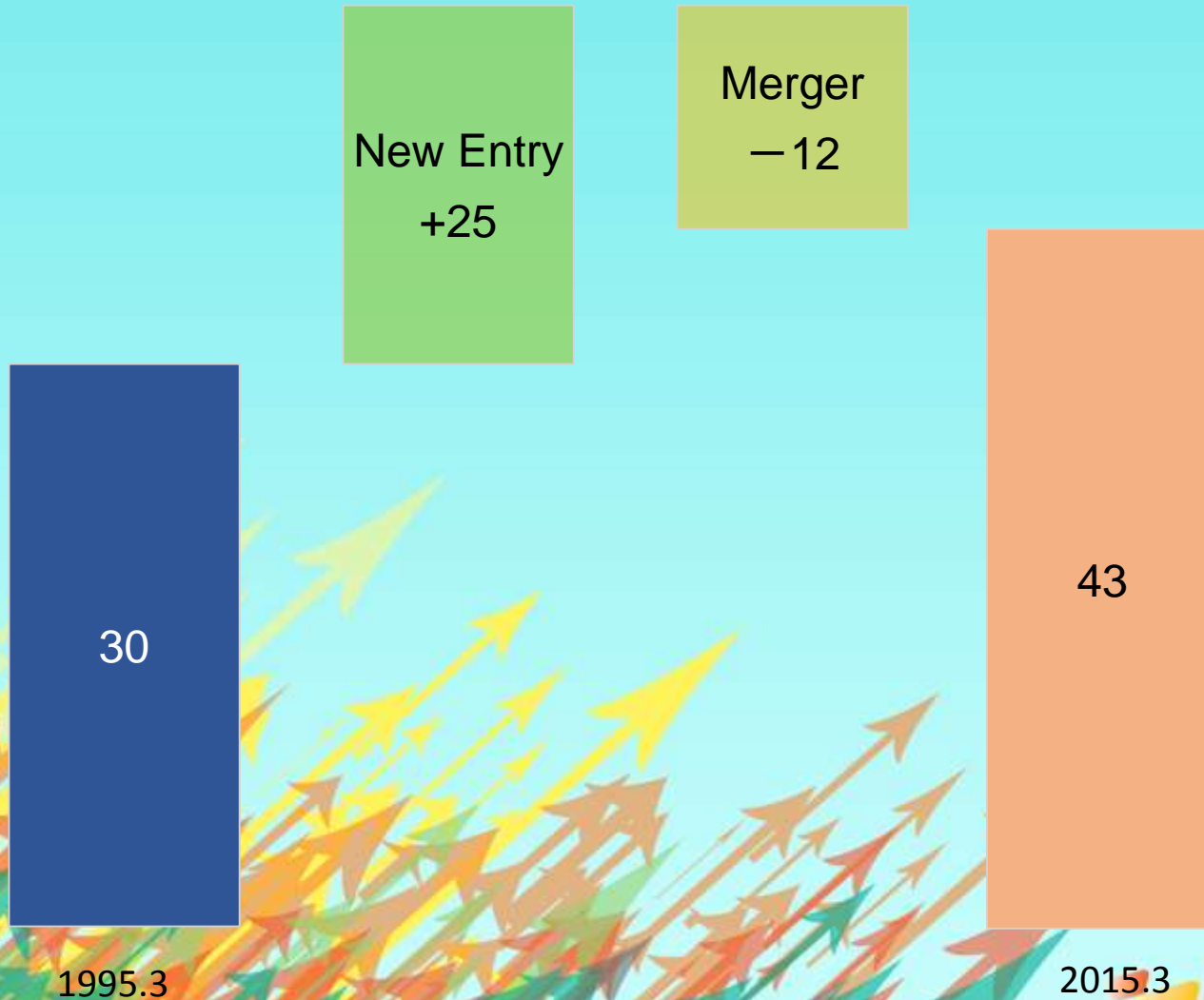
Swiss Re Sigma

SIGMA



New Entry and Merger

No bankrupt but change of owner



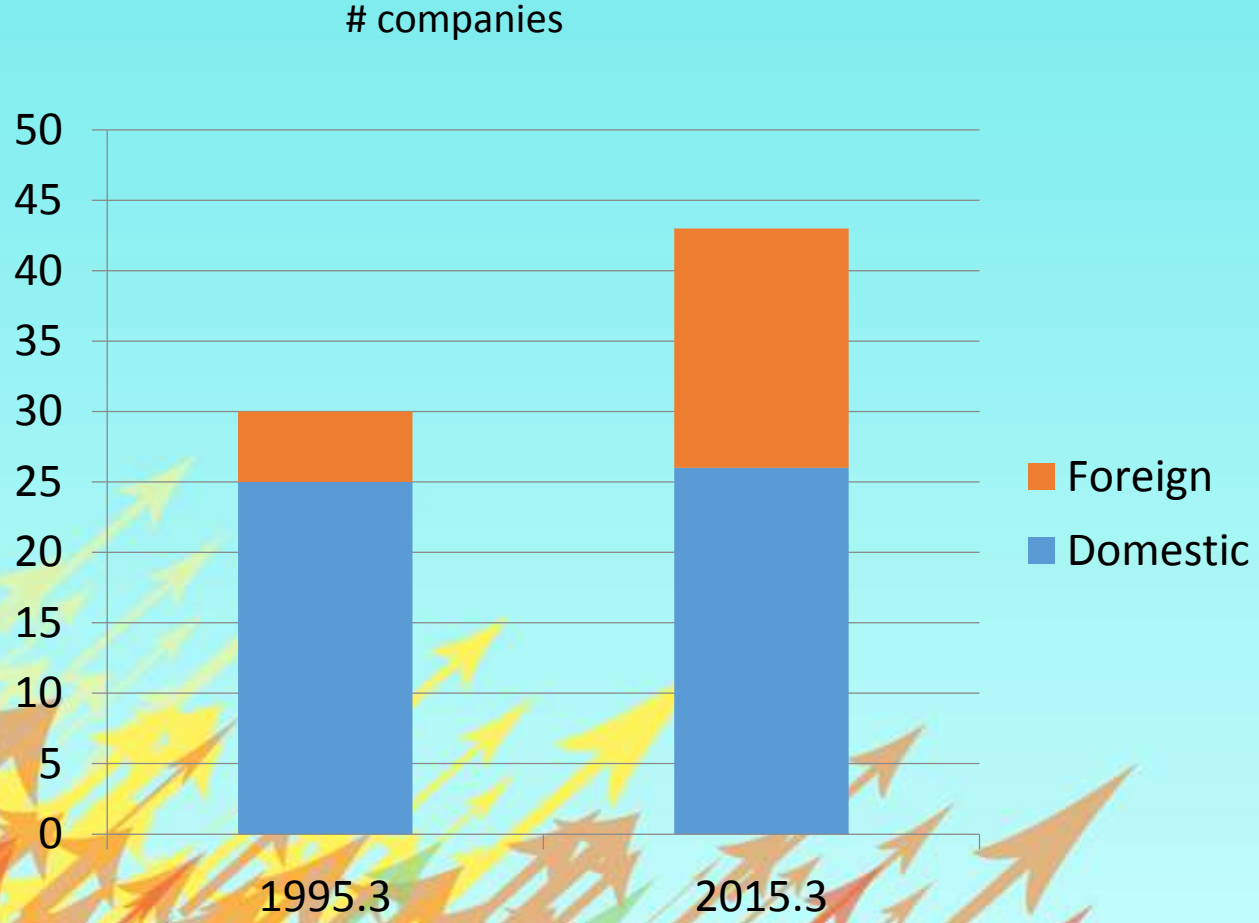
1995.3

2015.3

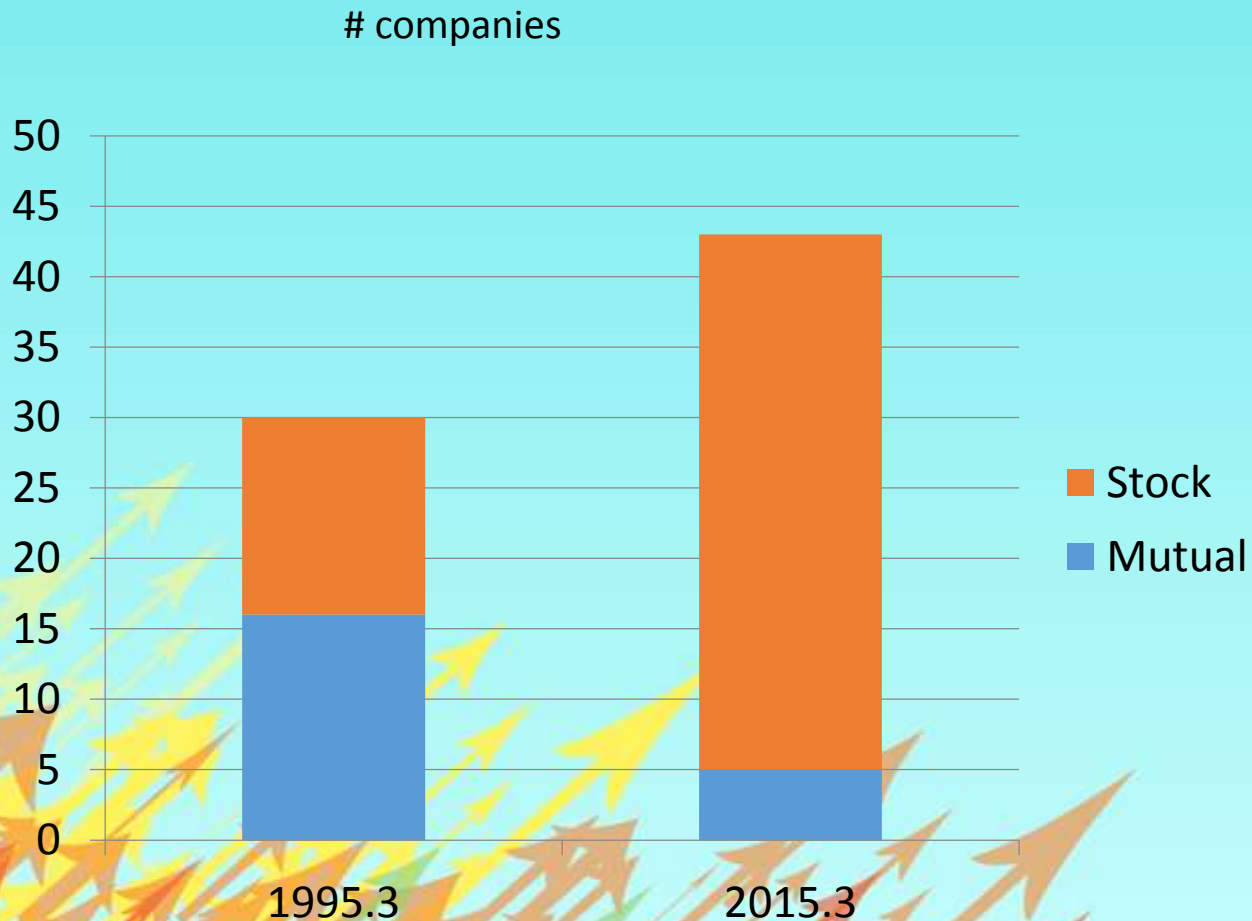
Purchase with Pricing Increase

Life Insurance Company	Year	Buyers
Nissan Life	Apr 1997	Printemps ⇒US Prudential
Toho Life	Jun 1999	AIG ⇒US Prudential
Daihyaku Life	Mar 2000	Manu Life
Taisho Life	Aug 2000	SoftBank ⇒Yamato ⇒US Prudential
Chiyoda Life	Oct 2000	AIG ⇒US Prudential
Kyoei Life	Oct 2000	US Prudential
Tokyo Life	Mar 2001	Taiyo&Daido
Yamato Life	Oct 2008	US Prudential

Expansion of Foreign Companies



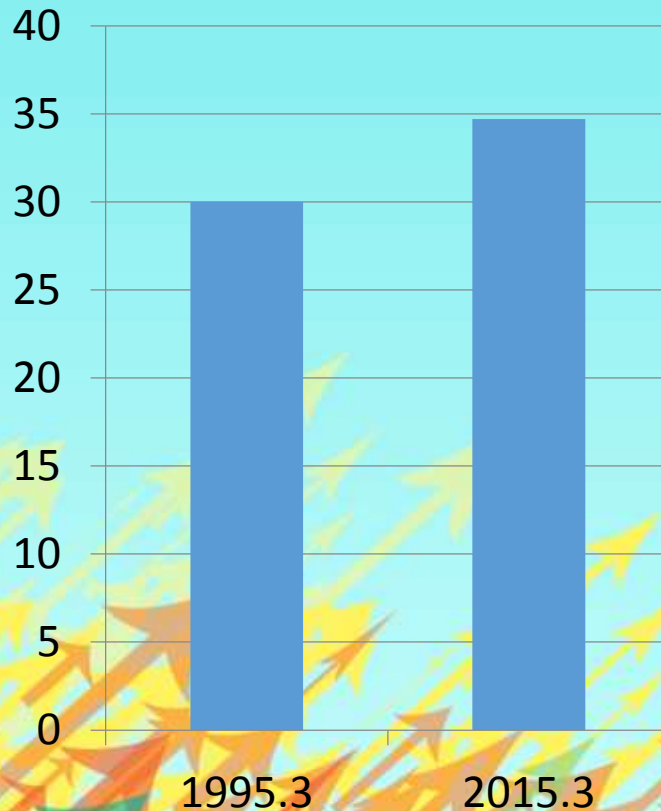
Expansion of Stock Companies



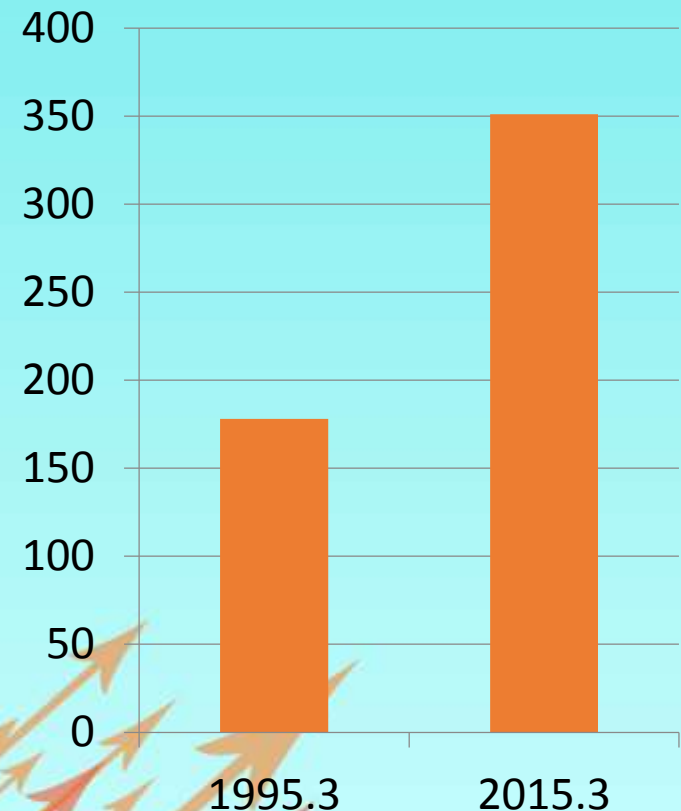
ProperPremium Expansion

Asset became 2 times

Premium (tri JPY)



Asset (tri JPY)



No Surrender Value Whole Life

► Benefit

- Hospital Cash
- Surgery
- Cancer etc. Diagnoses
- Cancer Death
- Health Expenses (out of public insurance)

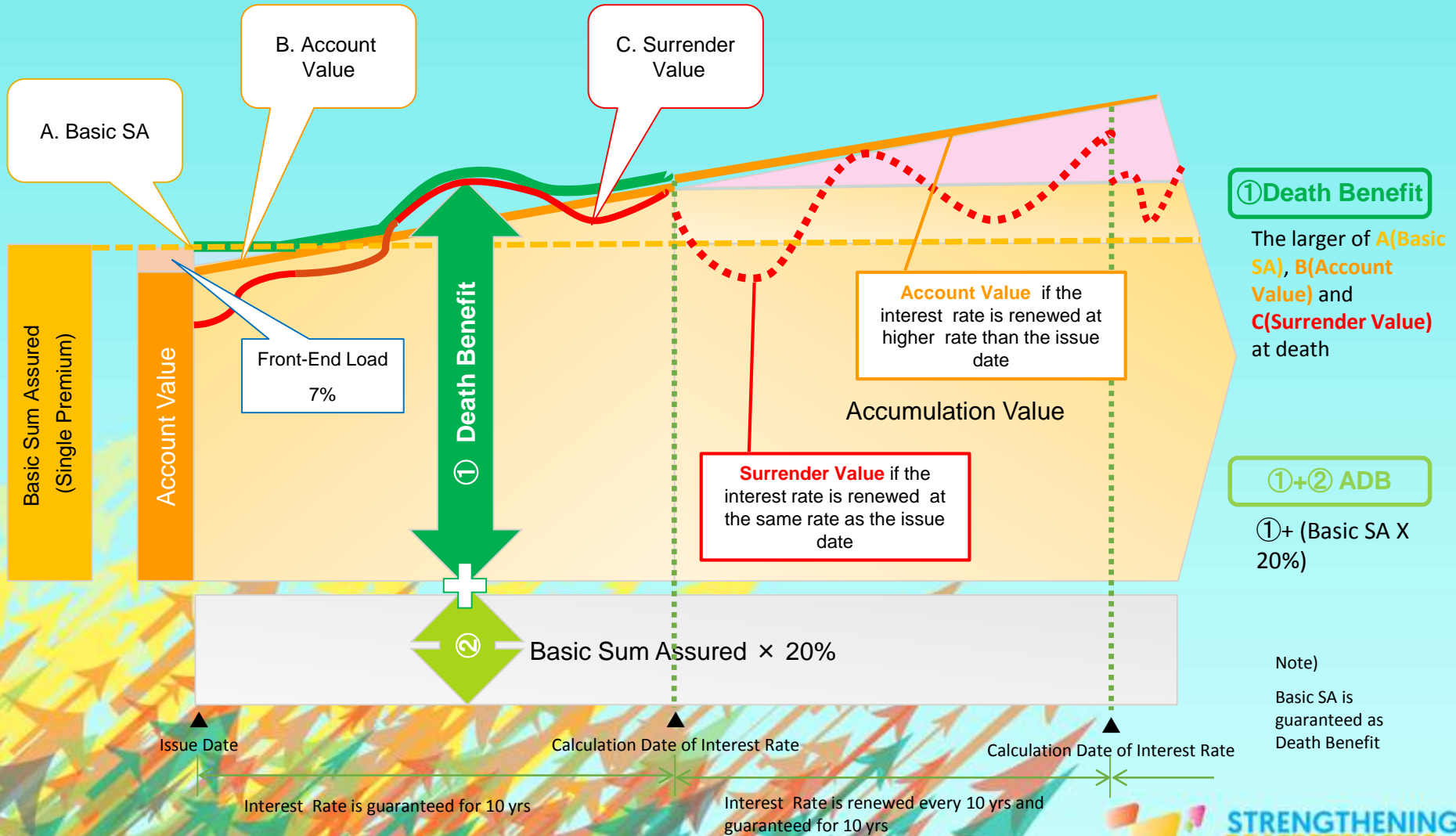
► No Surrender Value

- Economically

Lapse Rate=Interest Rate



Single Premium Interest Sensitive Whole of Life



Market Value Adjustment

- Less Surrender Value

➤ Surrender Value

$$\text{Surrender Value} = \text{Accumulation Value} \times (1 - \text{MVA rate})$$

➤ MVA rate

$$\text{MVA rate} = 1 - \left[\frac{1 + \text{Credited Interest Rate}^{*1}}{1 + \text{Interest Rate calculated at the calculation date of Surrender Value}^{*2} + 0.3\%} \right]^{\frac{\text{remaining months}^{*3}}{12}}$$

***1 Credited Interest Rate:** Credited Interest Rate at the calculation date of Surrender Value

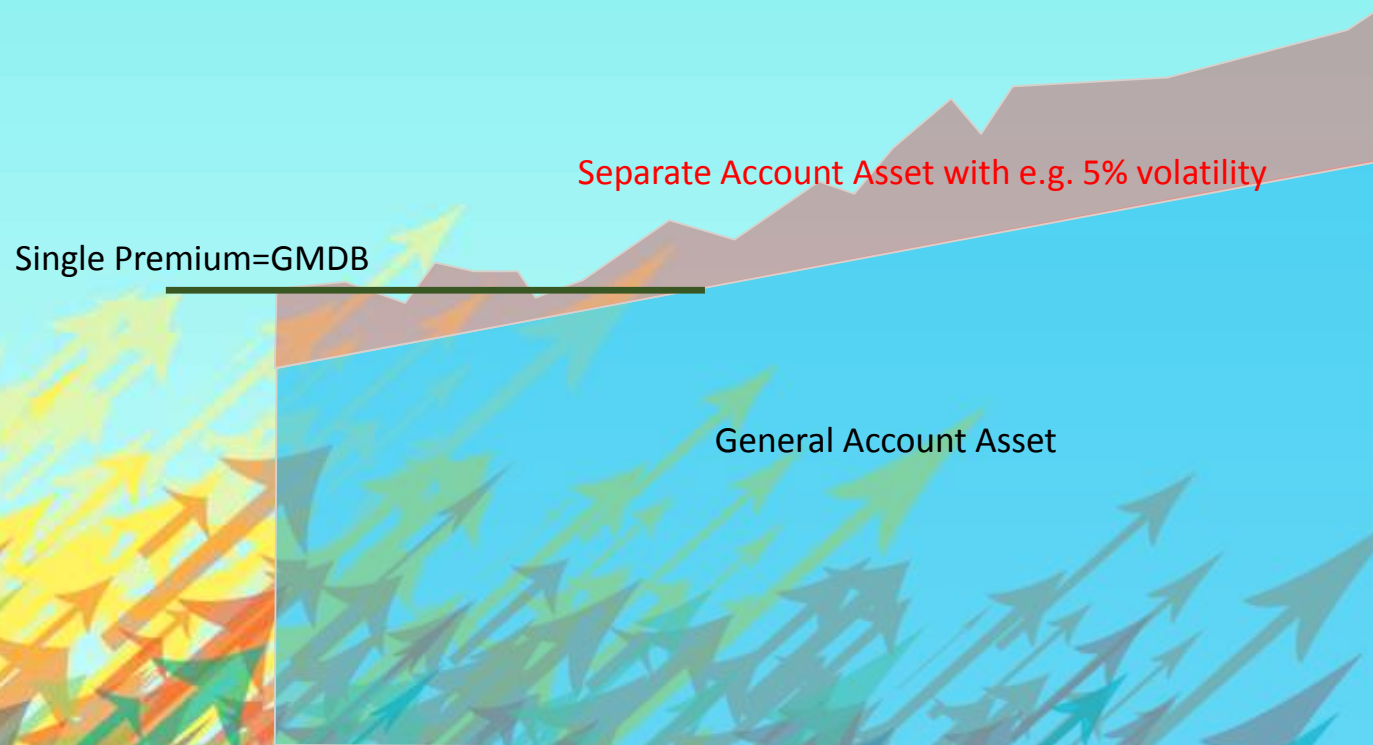
***2 Interest Rate calculated at the calculation date of Surrender Value:** Interest Rate which is applied if the policy is assumed to be issued with the same conditions as the issue date

***3 Remaining Months:** Remaining Months to the prior date to the next calculation date of Surrender Value from the calculation date

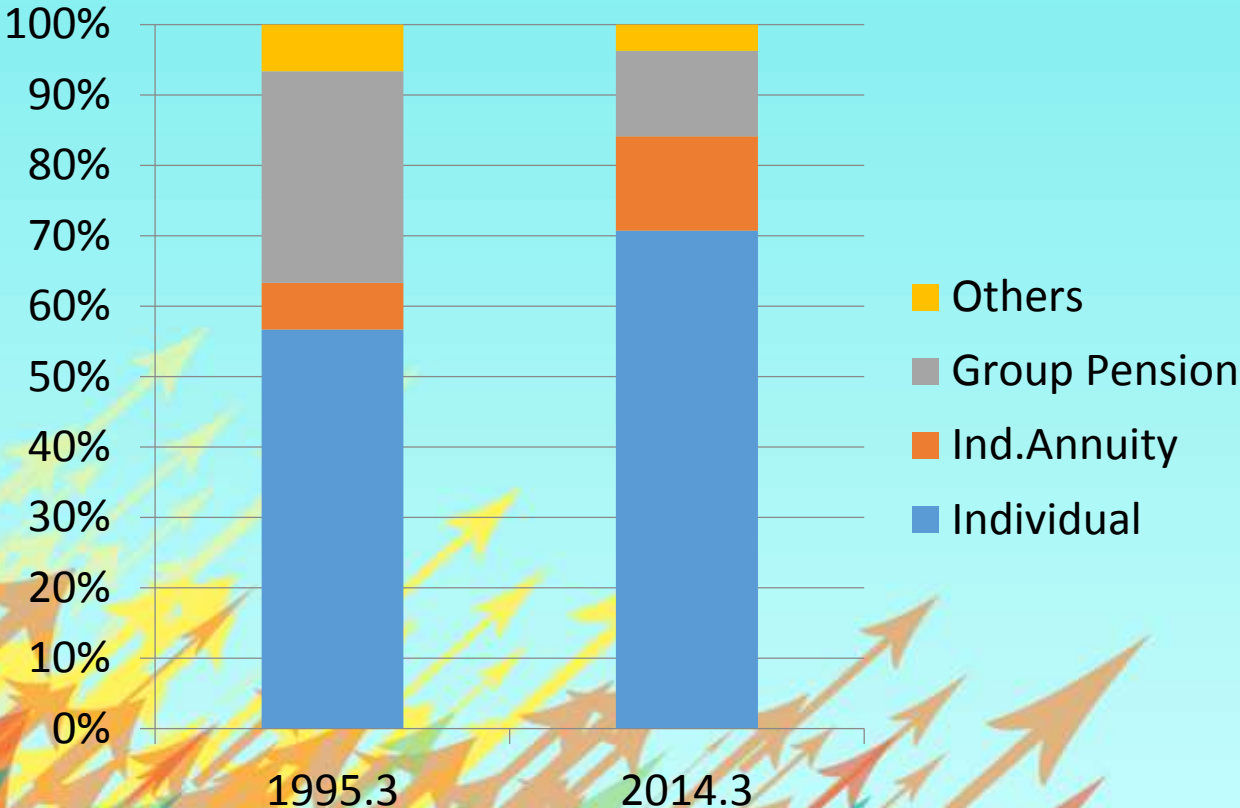
Hybrid Variable Annuity in Japan

New innovation under very low interest rate; 0.5% 10Yrs

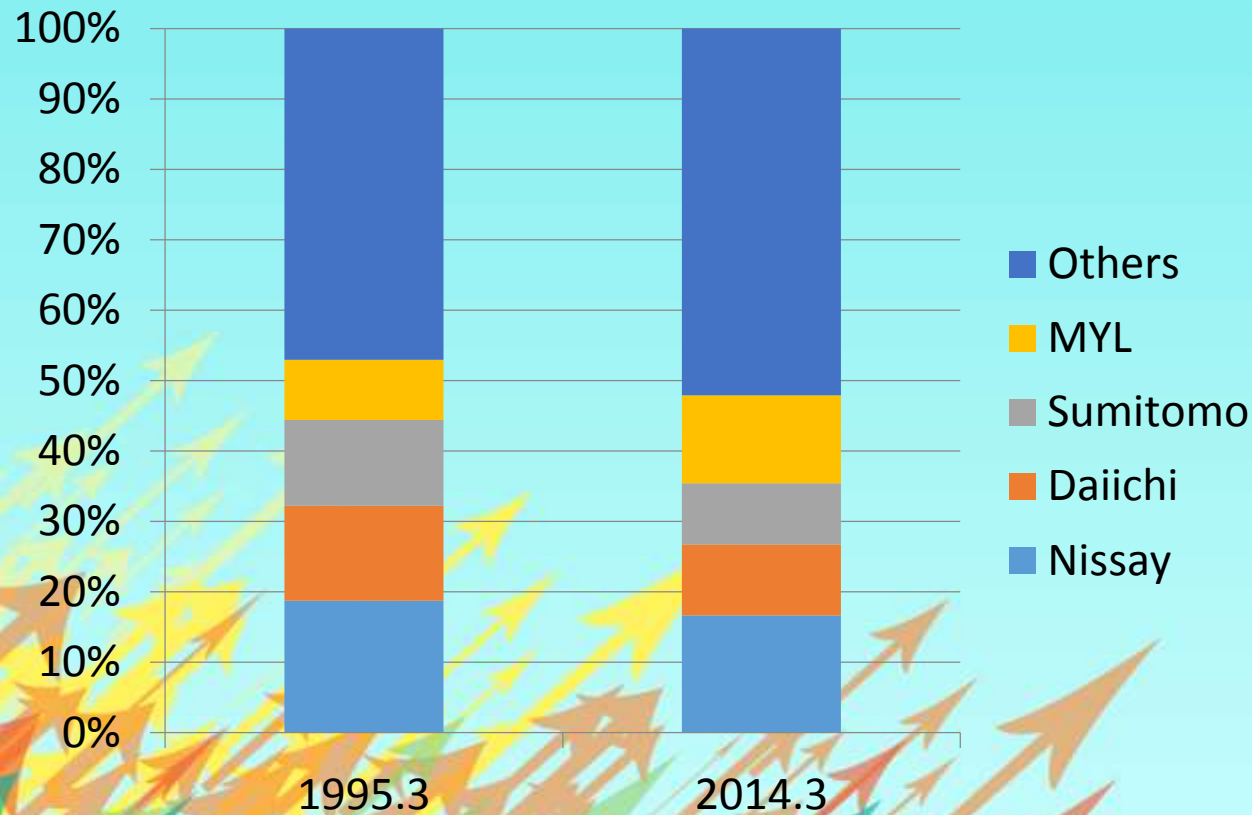
- ▶ Under low interest rate option price to guarantee GMAB is very expensive.
- ▶ Hybrid VA guarantees maturity benefit by general account (85% of single premium).
- ▶ Remaining 15% is invested to separate account with 5%/less volatility fund.
- ▶ GMDB is provided to guarantee Single Premium Level, but its cost should be very cheap.



Premium Portfolio



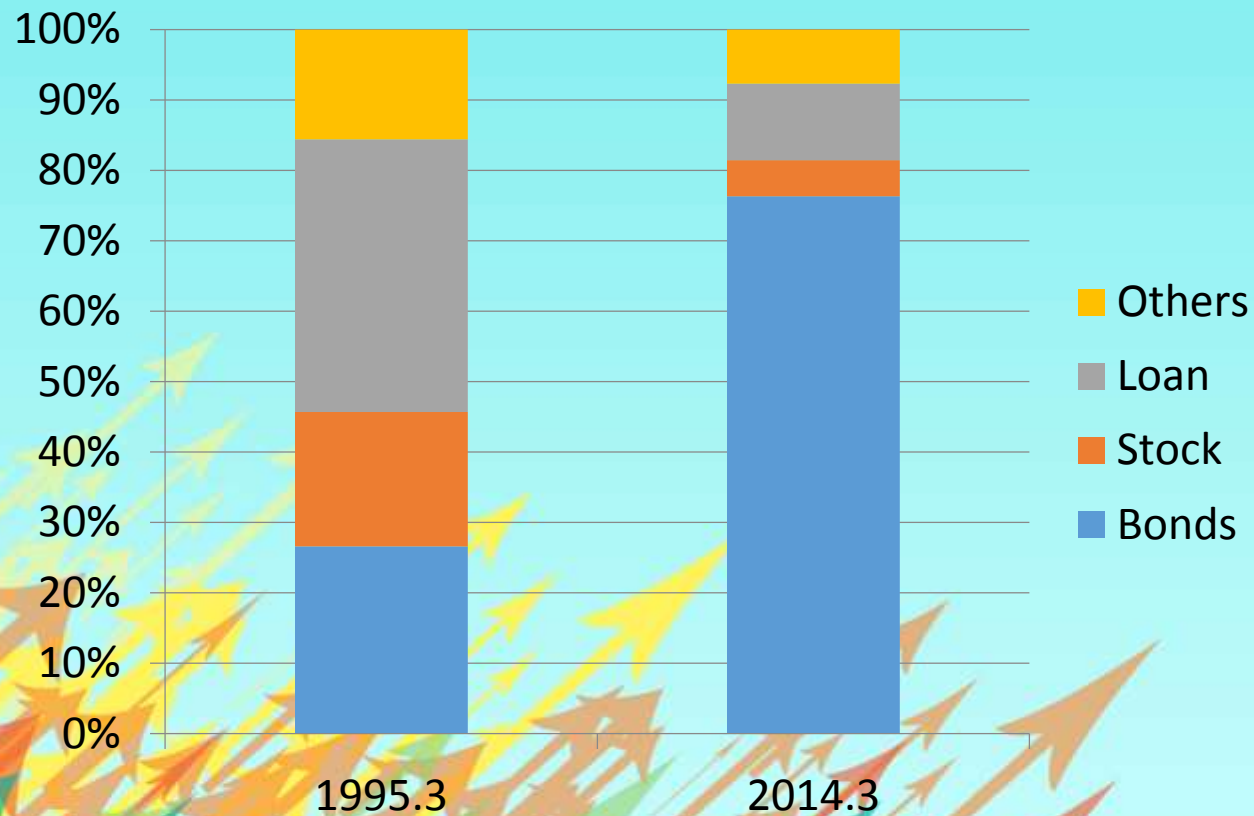
Share of Top 5 in Gross Premium



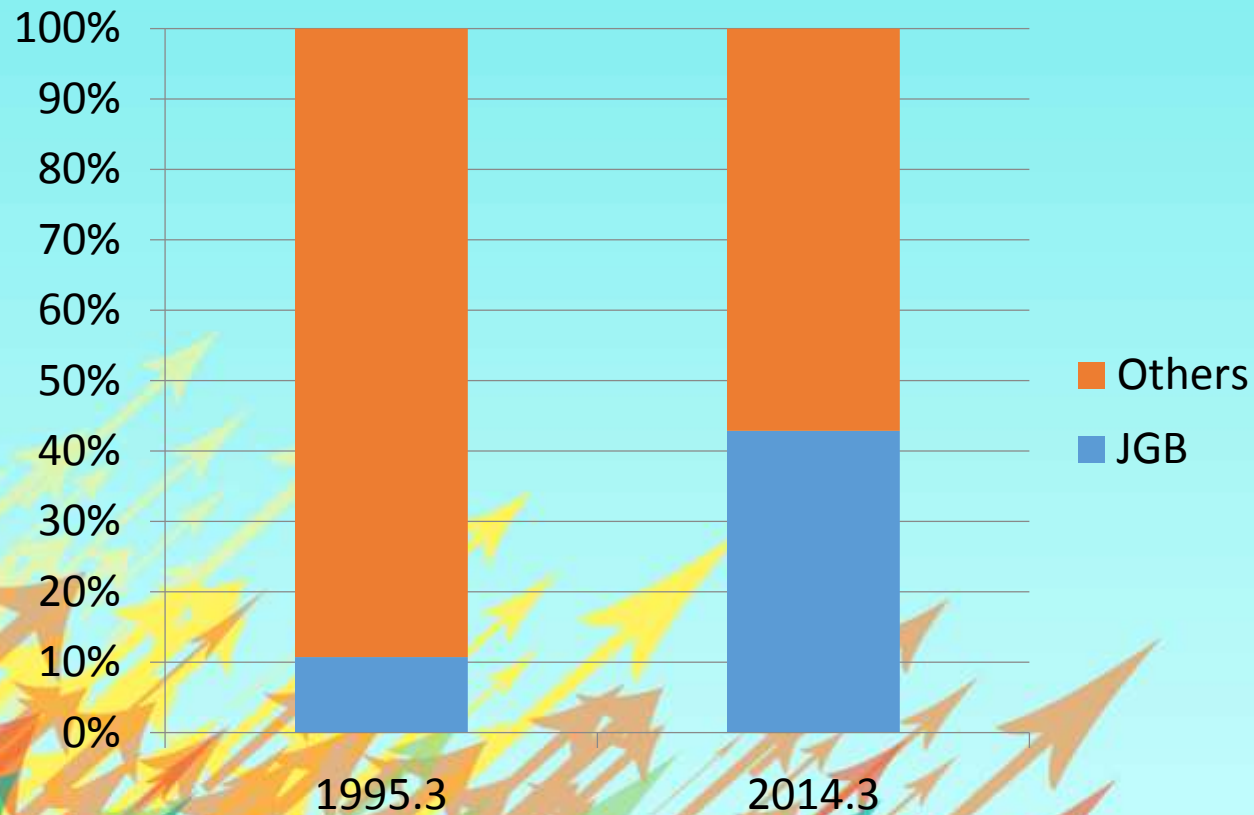
Exclude Government Owned Company



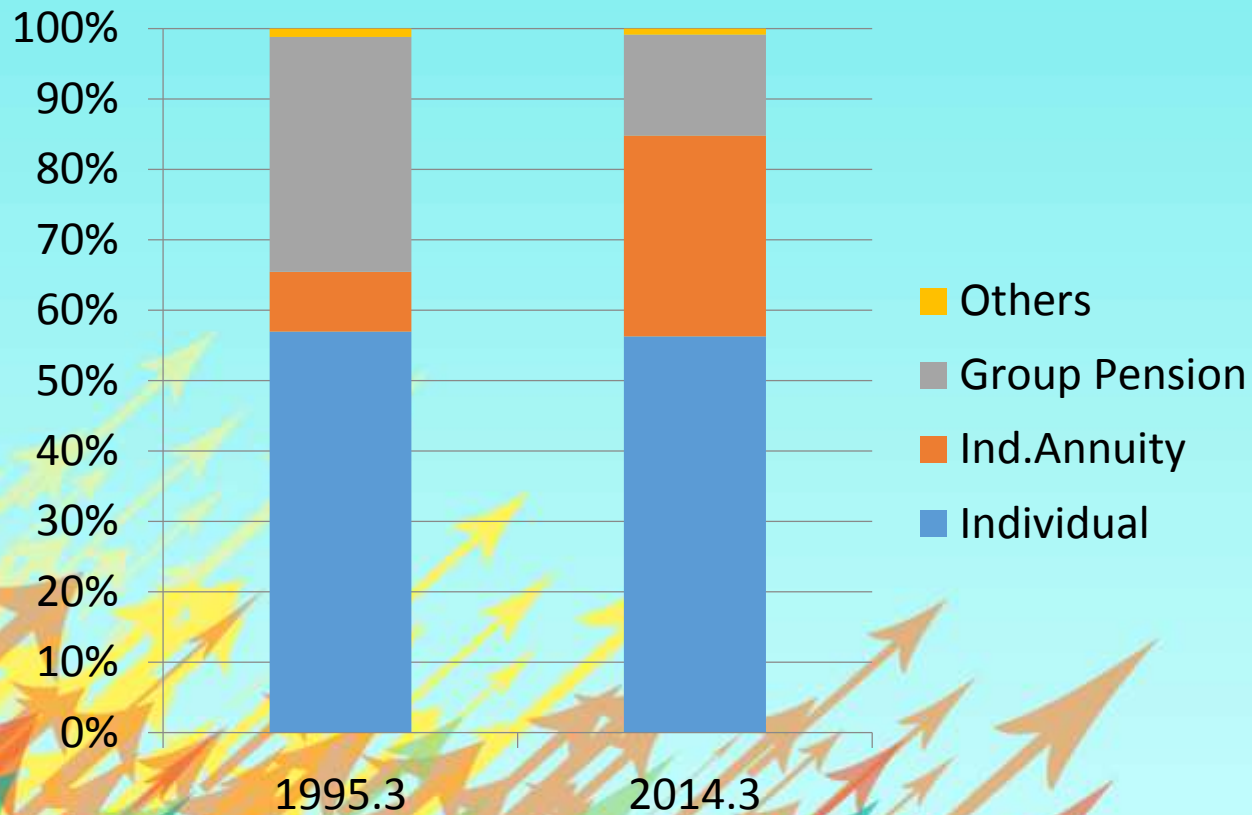
Asset Portfolio



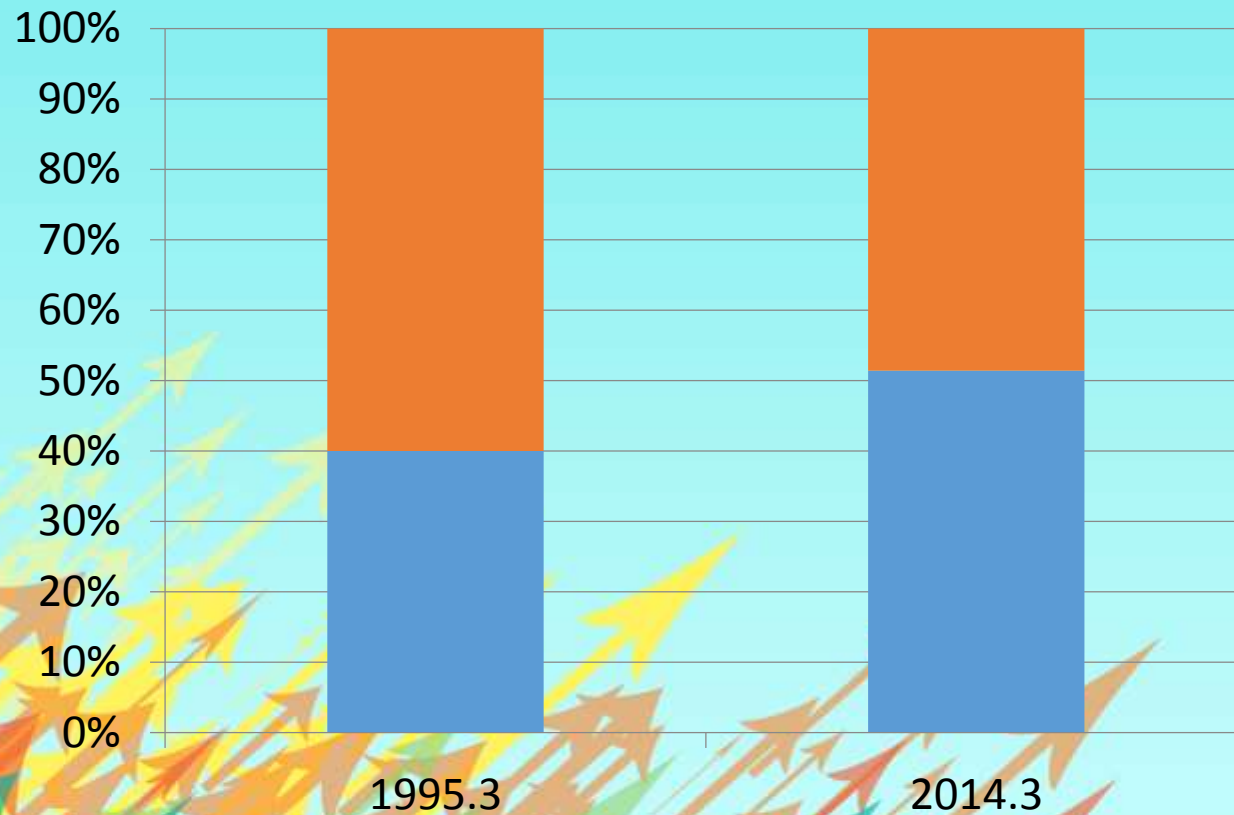
Share of Government Bond (JGB)



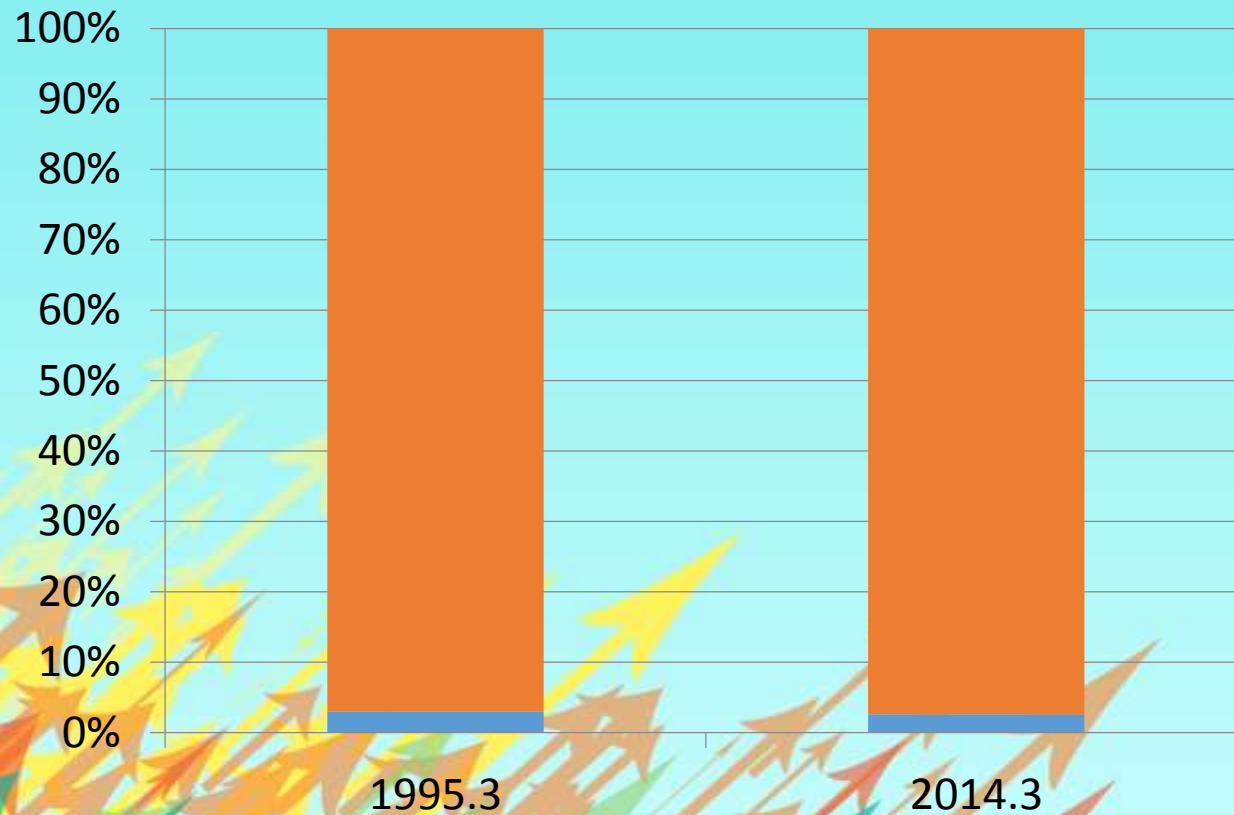
Reserve PortFolio



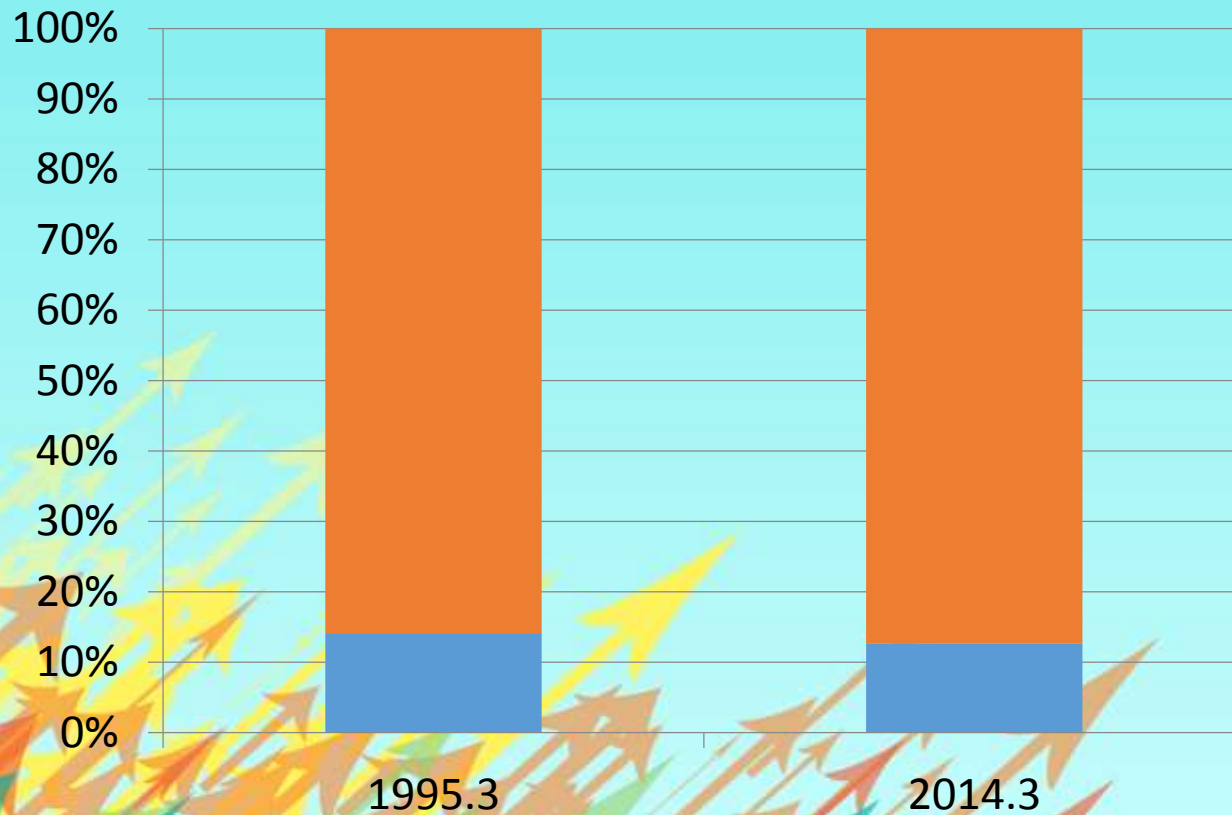
Claims/Premium



Surrender Benefit/Technical Reserve

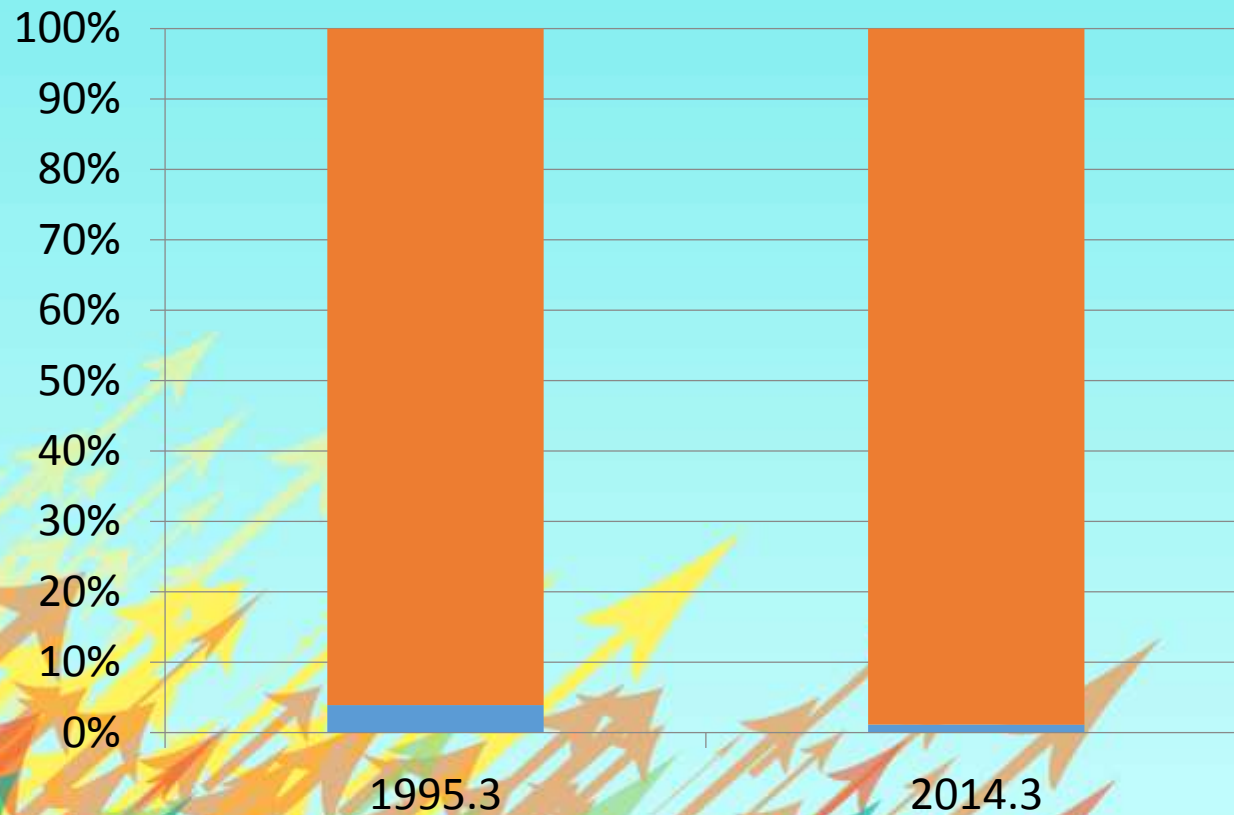


Expenses/Premium

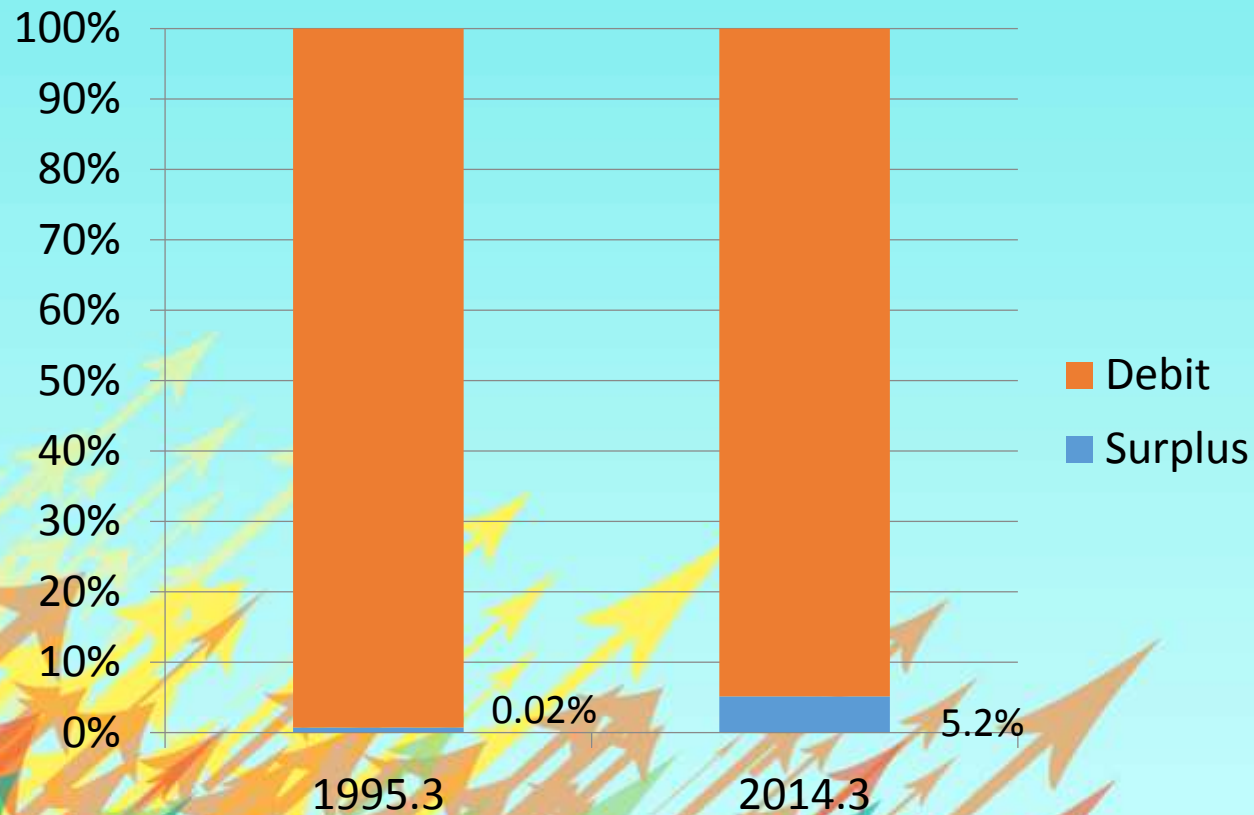


Policy Holder's Dividend/Premium

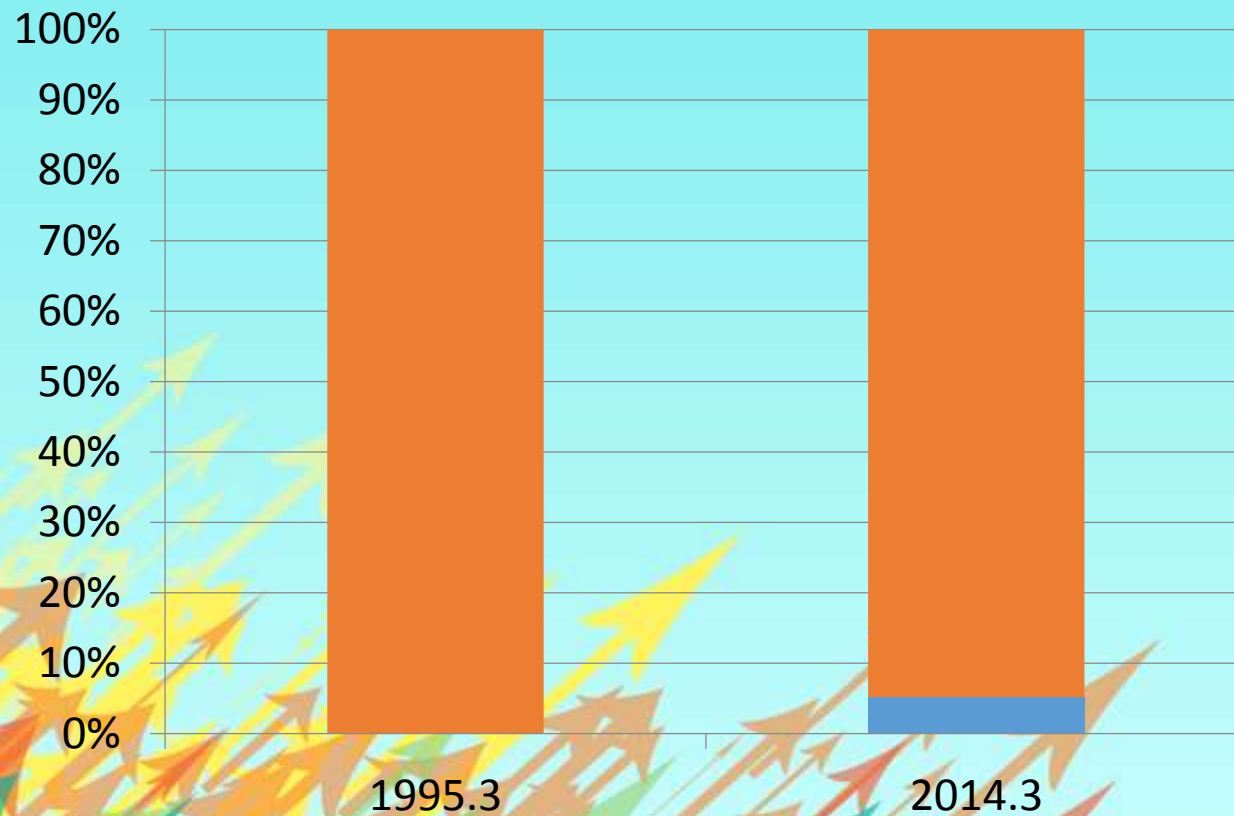
From Par to non Par



Share of Surplus



Reinsurance Premium/Premium

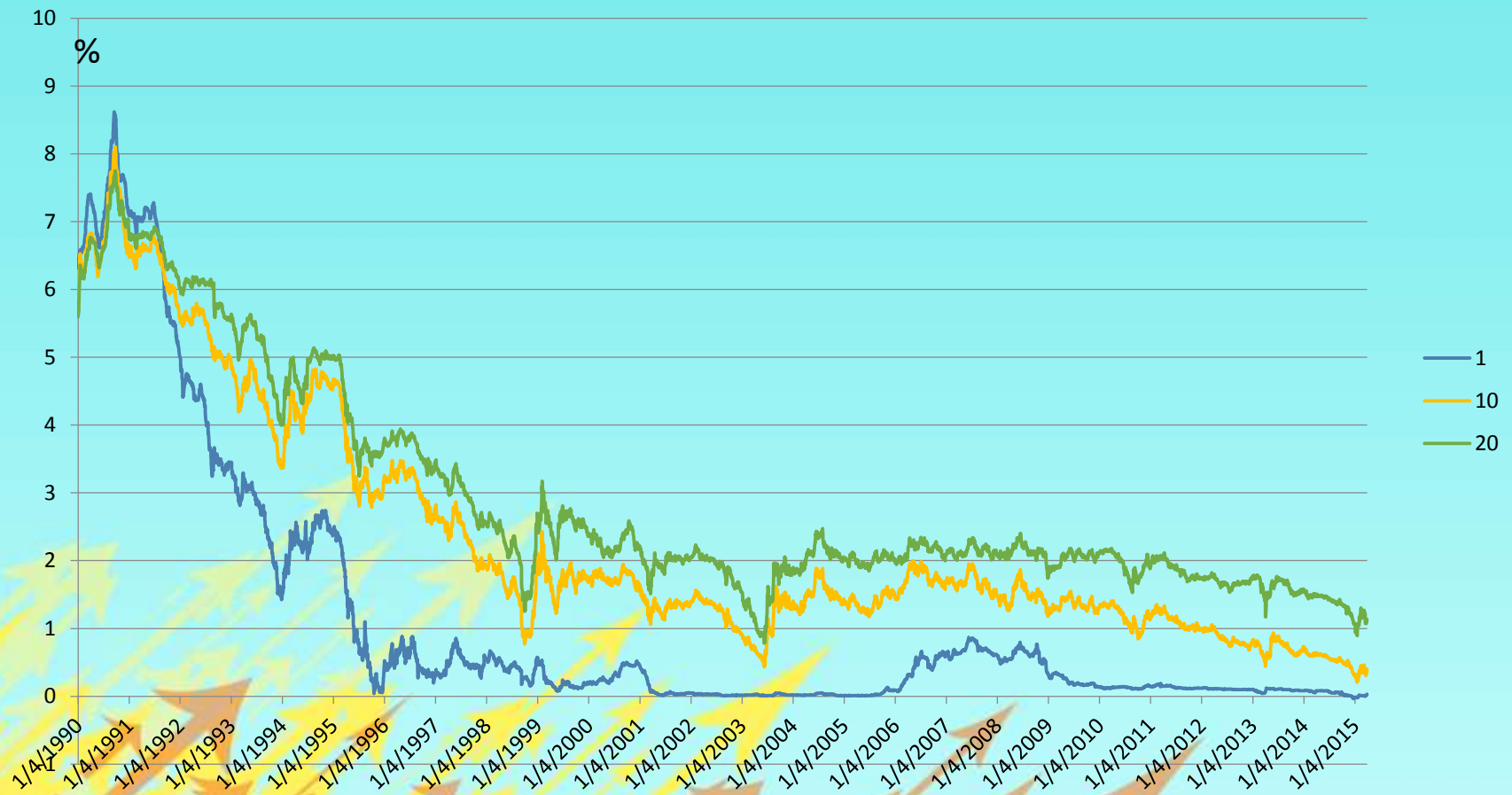


Learning Points

Clever person can learn other country's history

- ▶ Life Insurer can survive zero interest rate environment 20 years.
- ▶ Attractive Premium by Less Surrender Value
 - MVA, Lapse supporting, No surrender Value
- ▶ From Par to non-Par
 - Less Policy Holder's dividend
- ▶ Less Risk in Asset
 - Less Volatility in Asset
- ▶ Less Guarantee
 - Variable Annuity, Interest Sensitive
- ▶ More capital/surplus
 - Stock company, Foreign company can have advantage
- ▶ By More Reinsurance

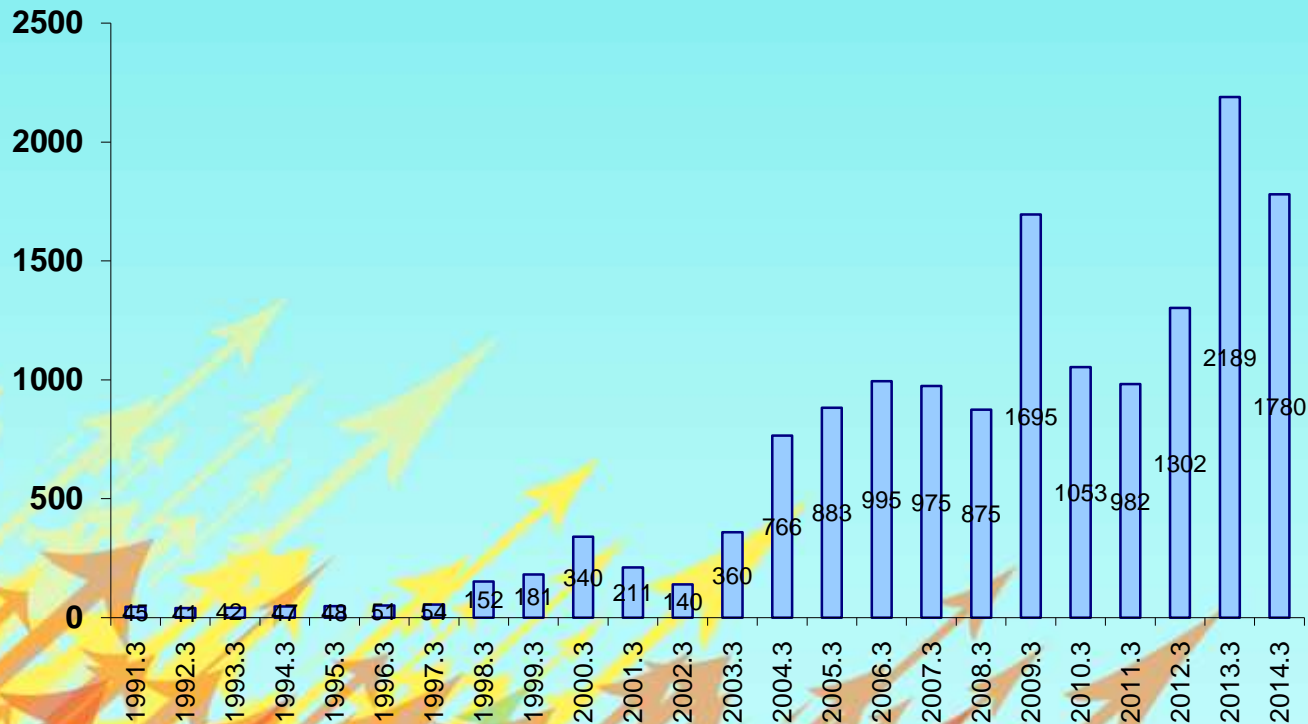
Japanese Government Bond yield



Reinsurance Premium

Reinsurance Premium Paid by Ceding Company

in billion yen



Ceding Commission is similar to Capital Injection

▶ Definition of **Stock** of Insurance Company

“Investment to Insurance company that expects return through profit of Insurance **Company**”

▶ Definition of **Financial Reinsurance** for Insurance Company

“Investment to Insurance company that expects return through profit of Insurance **Product**”

▶ Insurance Company can sell only Insurance Product by regulation.

▶ Consequently Stock and Financial Re is almost same.

Thank you so much!!

