Deregulation and Liberalization in Japanese General Insurance Market

29th October 2004

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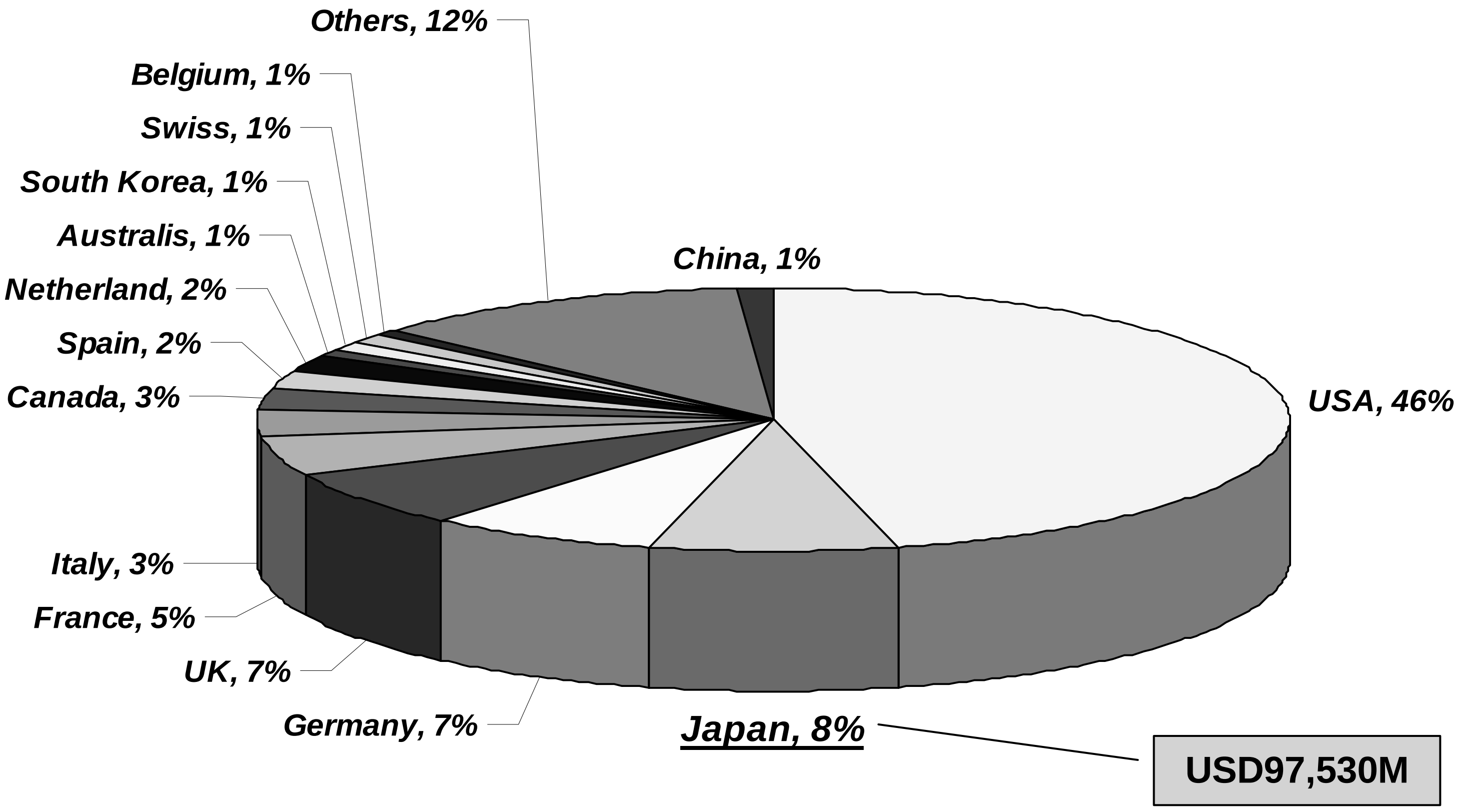
SOMPO JAPAN INSURANCE INC.

INDEX

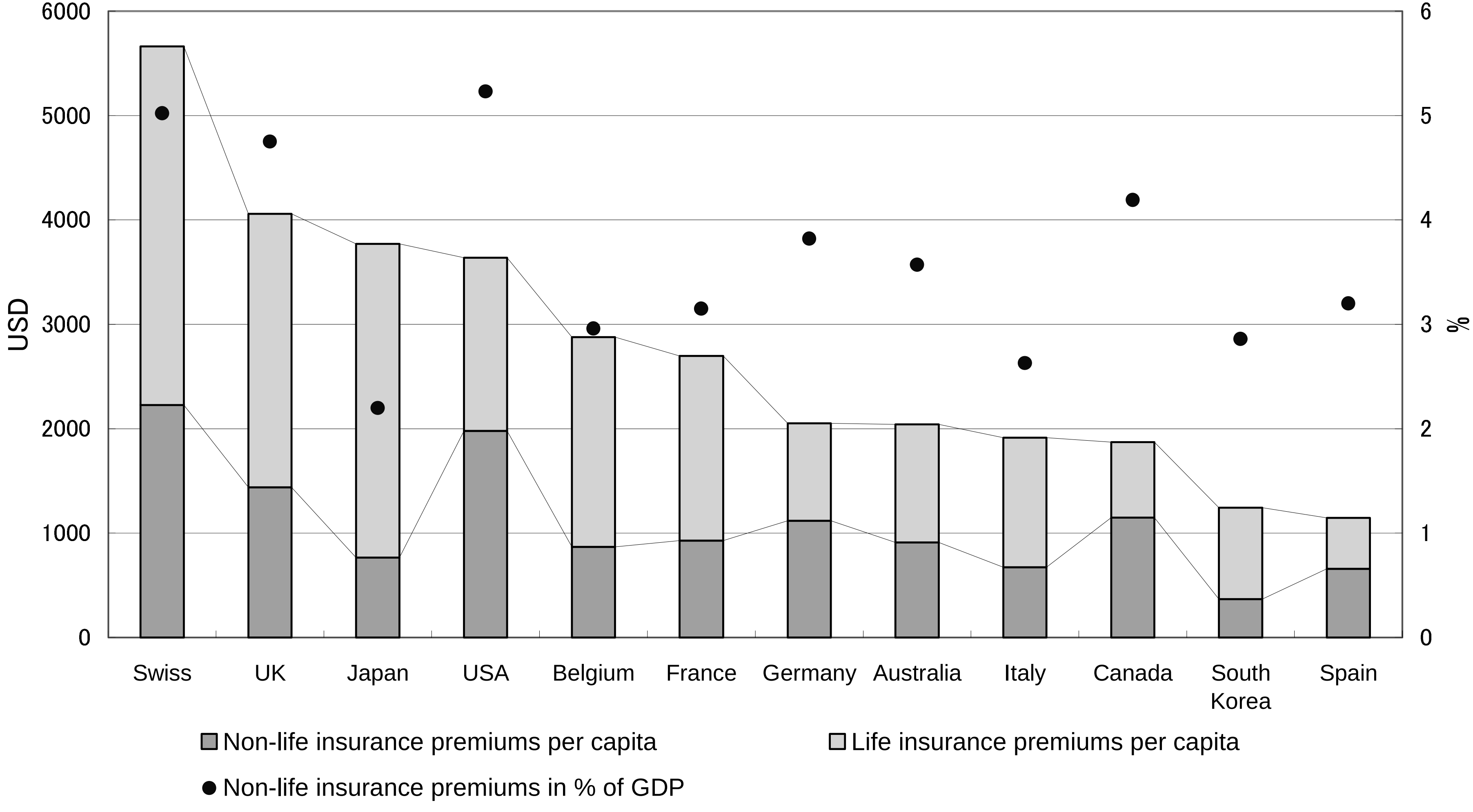
Non-life Insurance Premium by Country 2003



World Total
USD1,268,157M

Source：Swiss Re

Insurance density and penetration in selected markets, 2003



Source：Swiss Re

1. Features of Japanese General Insurance Market

Number of Companies

※as of April 2004

Domestic insurers
29

Foreign insurers
23

（Domestic insurers with Foreign Capital: 4）

※Domestic insurers: Licensed as domestic insurer
※Foreign insurer: Licensed on a branch or agent basis

Number of Directors, employees and agencies

Directors and employees：83,000
（Member companies of the General Insurance Association of Japan as of April 1, 2002）

Number of Agencies: 306,000
As of the end of FY 2003

- Full-time: 16.8%
  Part-time: 83.2%
- Corporate: 38.9%
  Individual: 61.1%
- Exclusive: 78.8%
  Multi-Rep.:21.2%

Size of Industry

Direct Premiums
8,748.1 billion yen

Savings-type Premiums
1,478.0 billion yen

※Weight of Direct Premiums

Agents 92.9% | Direct 6.9% | Broker 0.2%

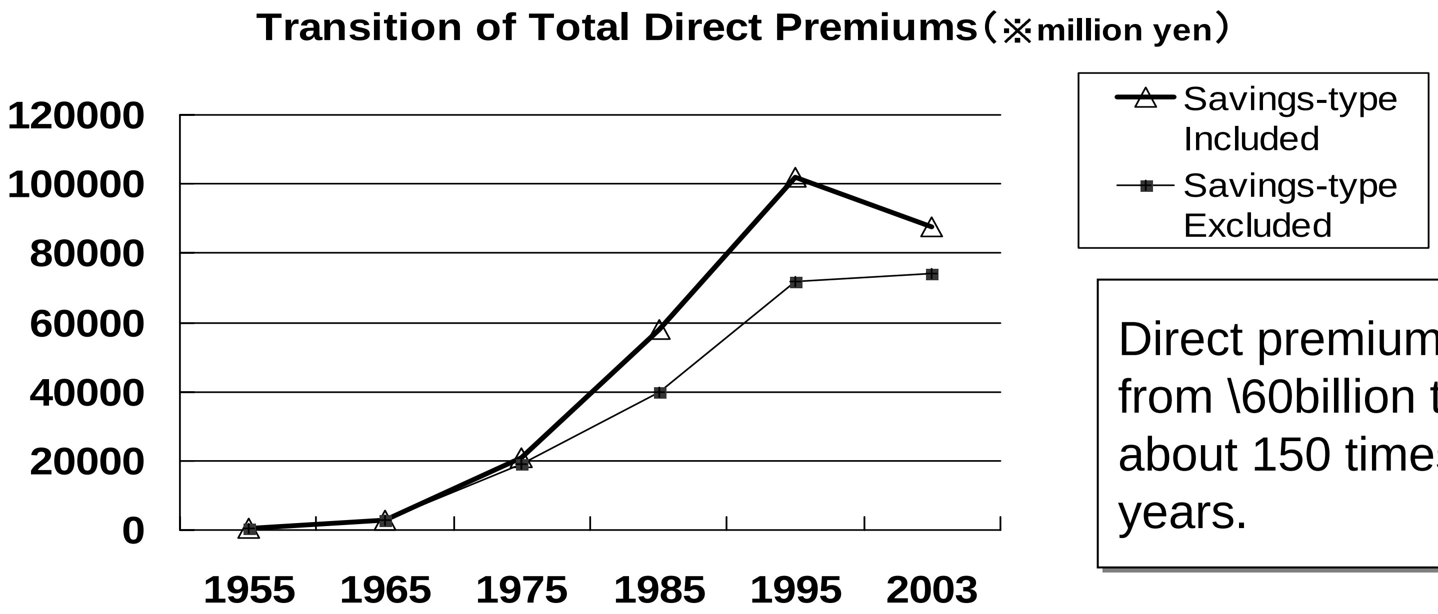
Insurance Premium per capita: 68,500 yen

Assets and Investment

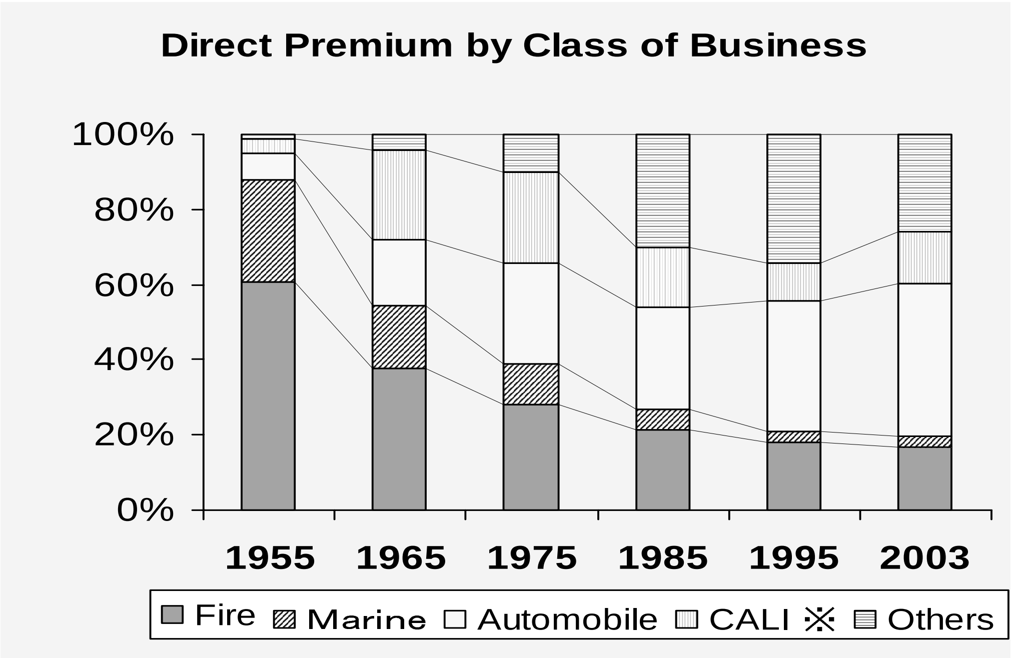
Total Assets
32,942.0 billion yen

Investment Assets
29,691.4 billion yen

※as of March 2004



Direct premium has increased from \60billion to \8,750billion, about 150 times during the 50 years.



Automobile insurance has increased remarkably.

※compulsory automobile liability insurance

Legal Reform

【1936】	Former Insurance Business Law
【1948】	Non-life insurance rating organization Law
【1951】	Amendment of Insurance Business Law and Non-life insurance rating organization Law

Liberalization of products

Rating organization provides “Advisory Rate”.

“Obligatory Rate”
Need to adhere to organization rate

【1996.4】New Insurance Business Law

- Mutual entry of life and non-life insurance companies thorough subsidiaries
- Introduction of Broker System
- Review of the tariff system
- Introduction of “File & Use” System for product development

“Reference Expense Cost”
(advisory expense cost for Fire insurance)

File & Use for 14 products

2. Development of Deregulation

Legal Reform	
【96.11】	Initiation of "Big Bang"
【96.12】	Japan-US Insurance Talks completed
【98.06】 Financial System Reform Law	･Review of the Rating Organization System ･Policyholders Protection Corporations ･Early Warning Measures
【98.07】 Amendment of rating organization Law	<Review of the Rating Organization System>
【00.05】 Amendment of insurance business Law	･OTC Insurance sales by banks (partial)

Liberalization of products	
【97.09】	"risk-segmented" automobile insurance
【98.07】	"Reference Loss Cost" (advisory loss cost for Automobile, Fire, PA)
【97.01】 【99.08】	Expansion of File & Use

1. "File & Use System" was introduced for limited classes in 1996 in accordance with Japan-US Insurance Talks.
2. Eligible class has been added up gradually since then. Remaining Prior Approval products are as follows.

Type of products still under "Prior Approval System"

- ✓ Compulsory Automobile Liability Insurance
- ✓ Earthquake Insurance on Dwelling Risks
- ✓ Third sector insurance（ Personal accident insurance, Medical expense insurance, Overseas travelers' personal accident insurance etc.)
- ✓ Automobile insurance ("Non-fleet" policyholders with less than 10 insured vehicles)

Historical Development

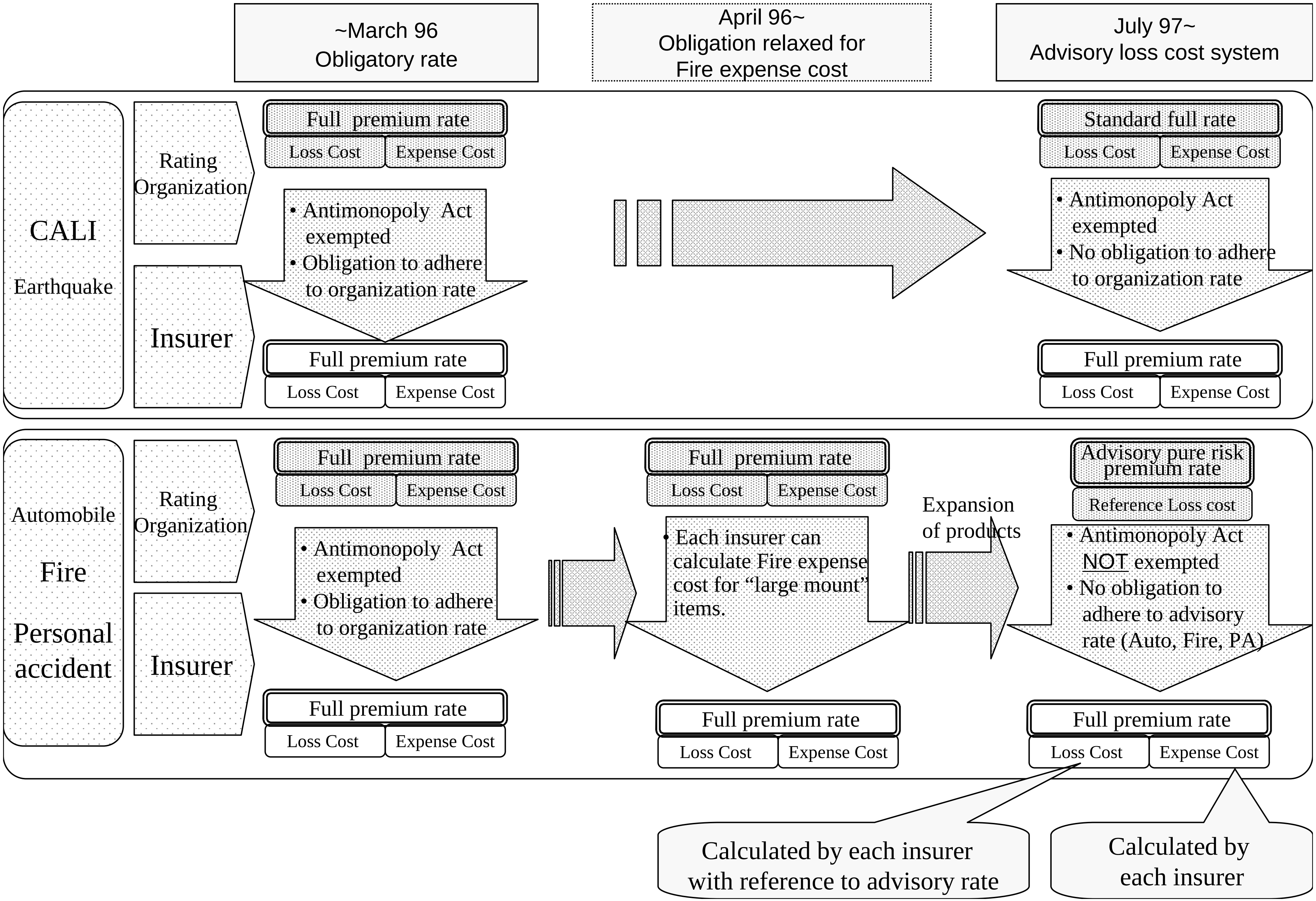
1948	Establishment of “Non-Life insurance rating organization of Japan”
1951	Organization rate became mandatory for members to adhere to.
1955	Enactment of the Automobile Liability Security Law Automobile Liability Insurance became compulsory.

1964	Establishment of “Automobile insurance rating organization”

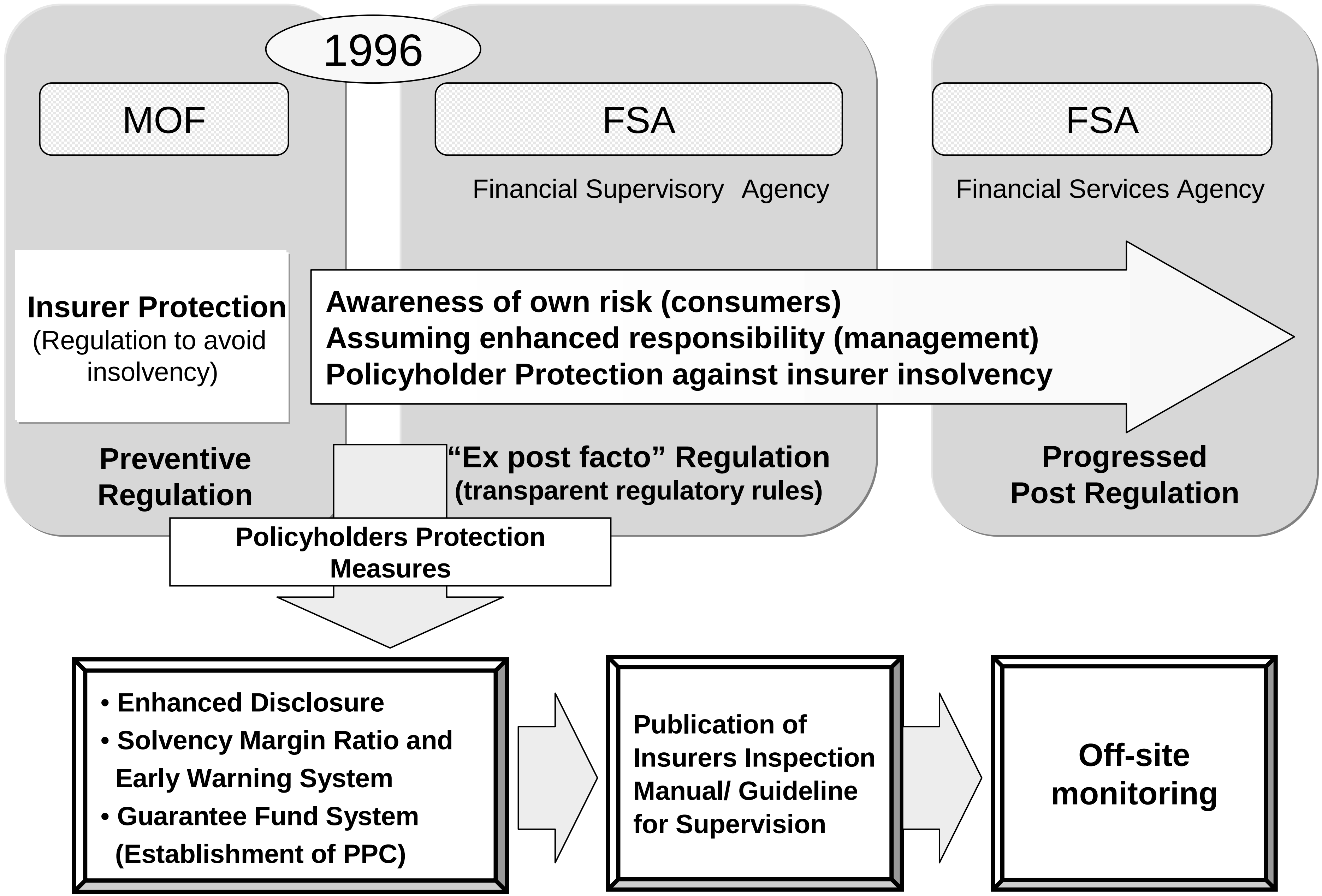
1996	Rate filing system shifted to “Notification” from “Approval”.

1998	Abolition of obligation of the members to adhere to organization rate. (with 2-year transition period)
2002	Merger of the two rating organizations

4. Rating Organization



5. Progressed "Post" Regulation

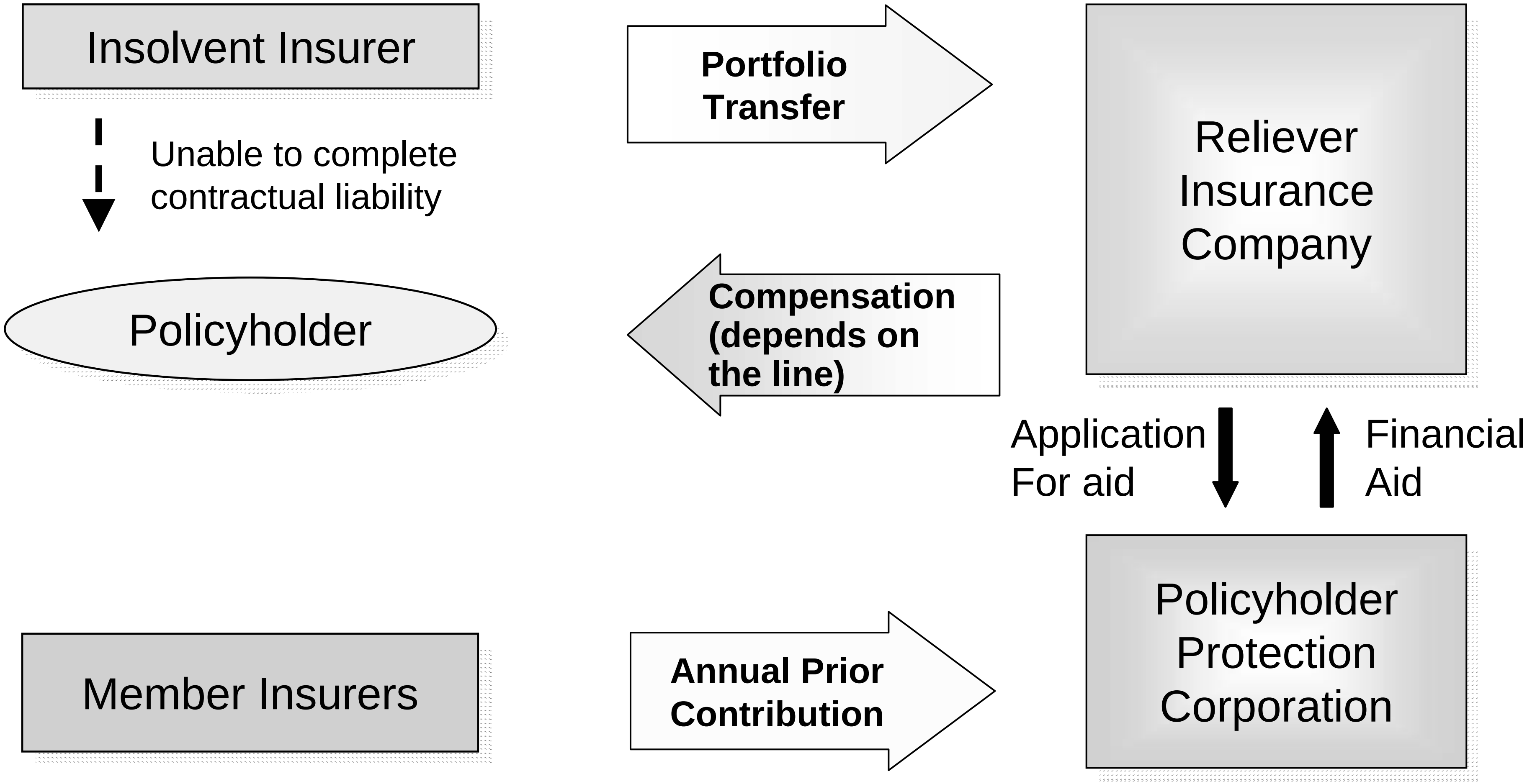


- A measure taken by the government urging insurance companies to improve their management at an early stage in accordance with solvency margin ratio
- Implemented in April 1999.

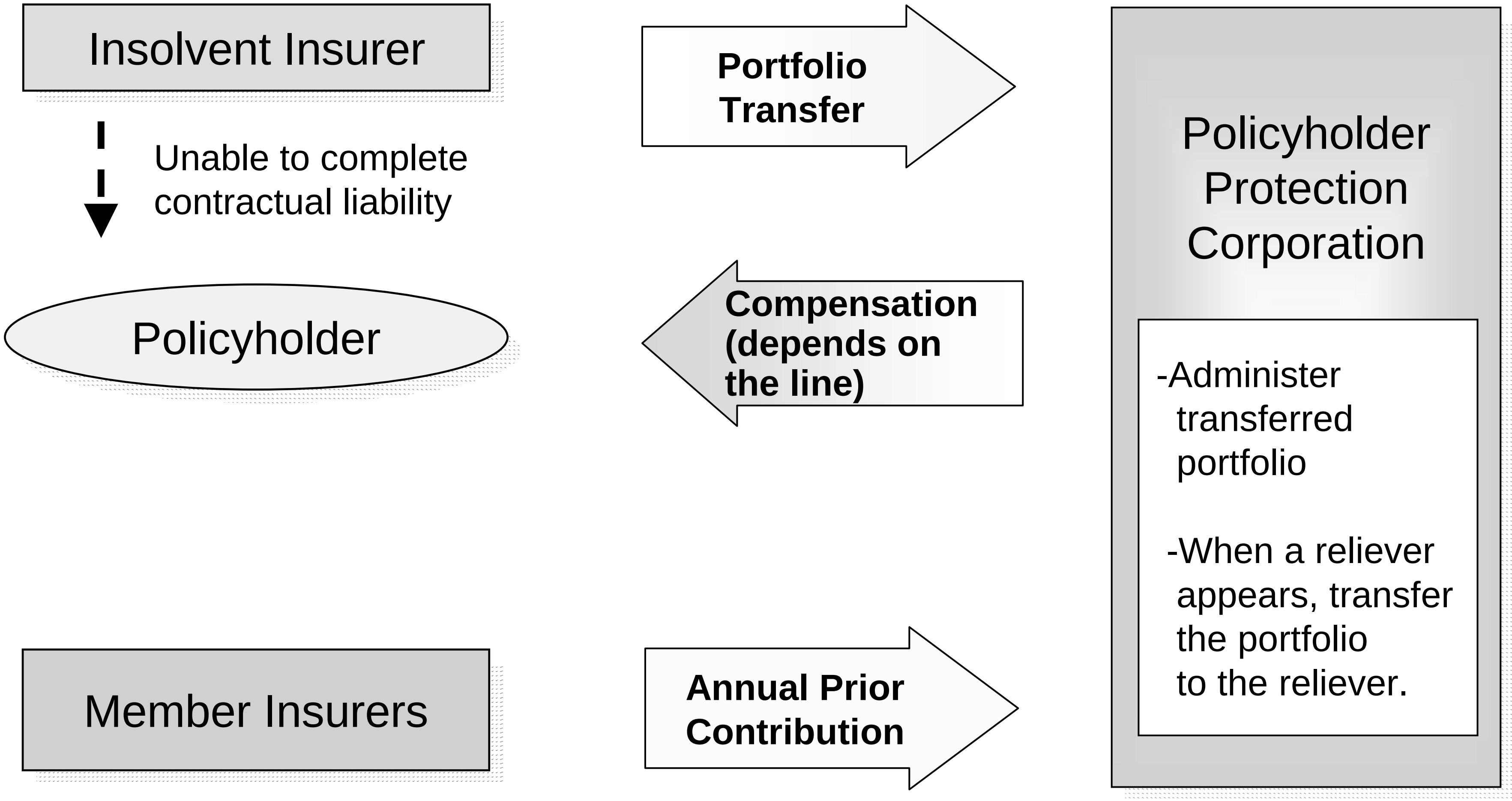
An order to submit a business improvement plan will be issued in accordance with the solvency margin ratio.

Criteria	Solvency Margin Ratio	Content of Measure
Not-applied	More than 200%	—
1st Criterion	Less than 200%	An order for submission of a business improvement
2nd Criterion	Less than 100%	・Orders for submission of plans to reinforce capital adequacy ・prohibition of dividends or executives' bonuses ・decrease in expenses cost ・a scale-down in business of subsidiaries etc
3rd Criterion	Less than 0%	An order for suspension of partial or total business operations

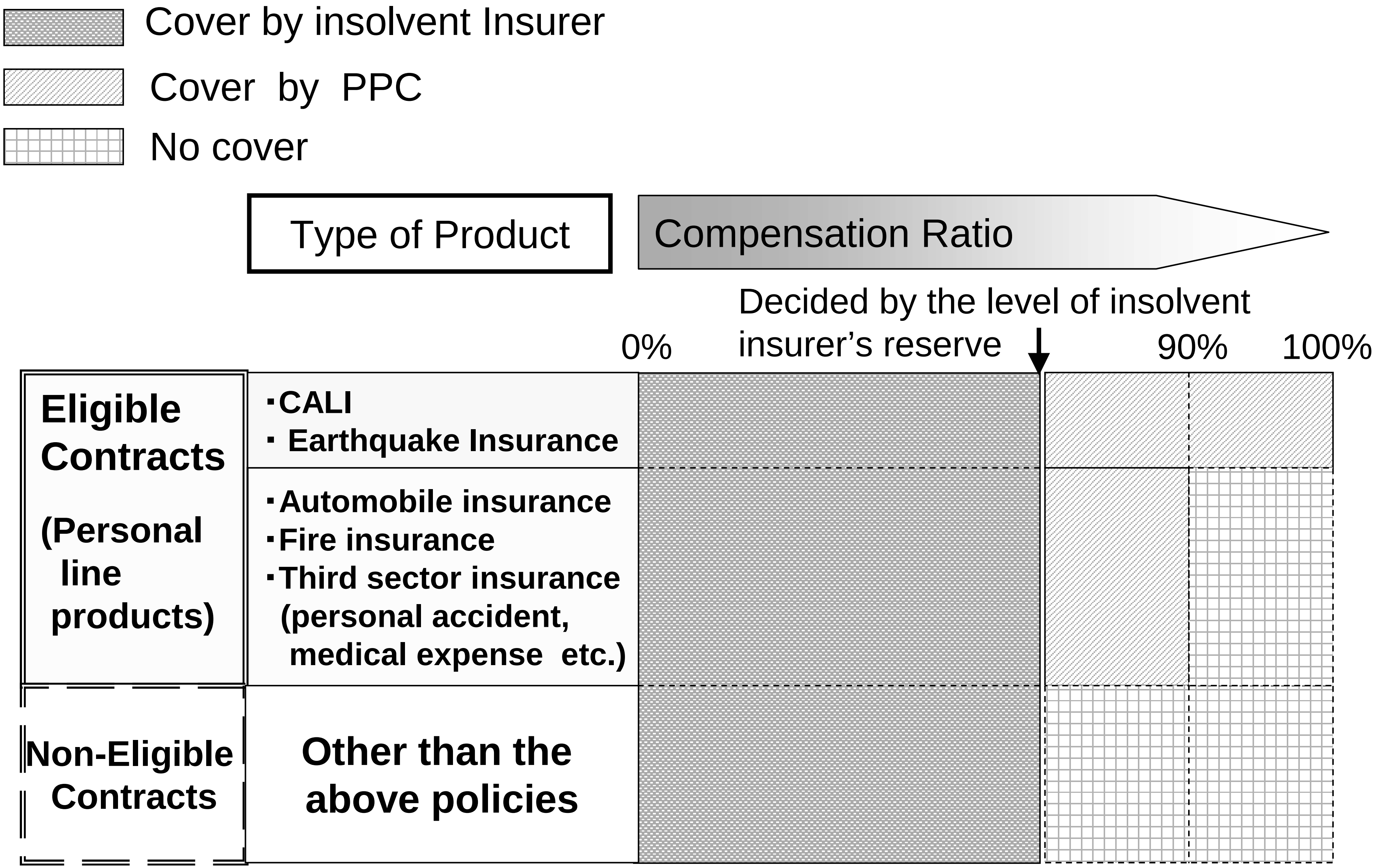
When a reliever appears..



When a reliever doesn't appear..

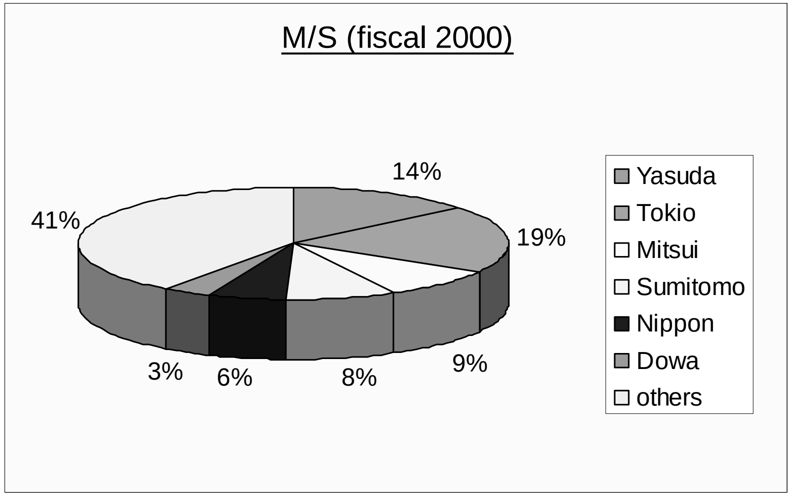


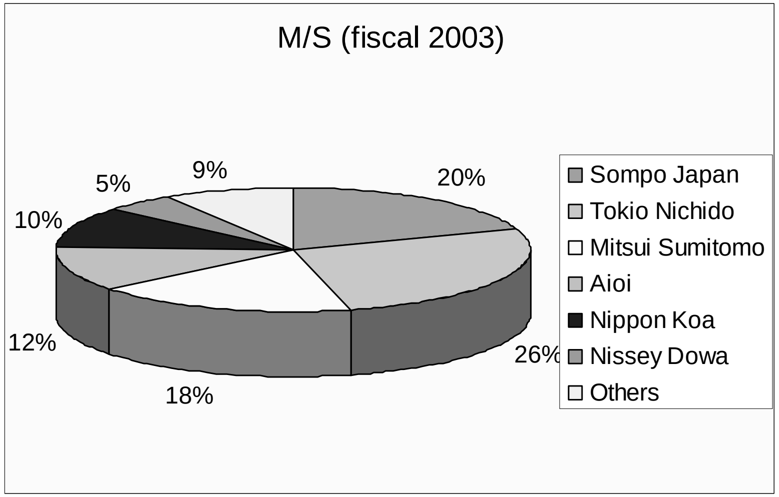
Eligible Contracts & Compensation Ratio



Number of Non-life insurers

	1985	1995	1996	1997	1998	1999	2000	2001	2002	2003
Domestic	23	26	33	33	35	35	38	33	30	29
Foreign	39	31	30	32	28	28	26	26	24	22
Total	62	57	63	65	63	63	64	59	54	51

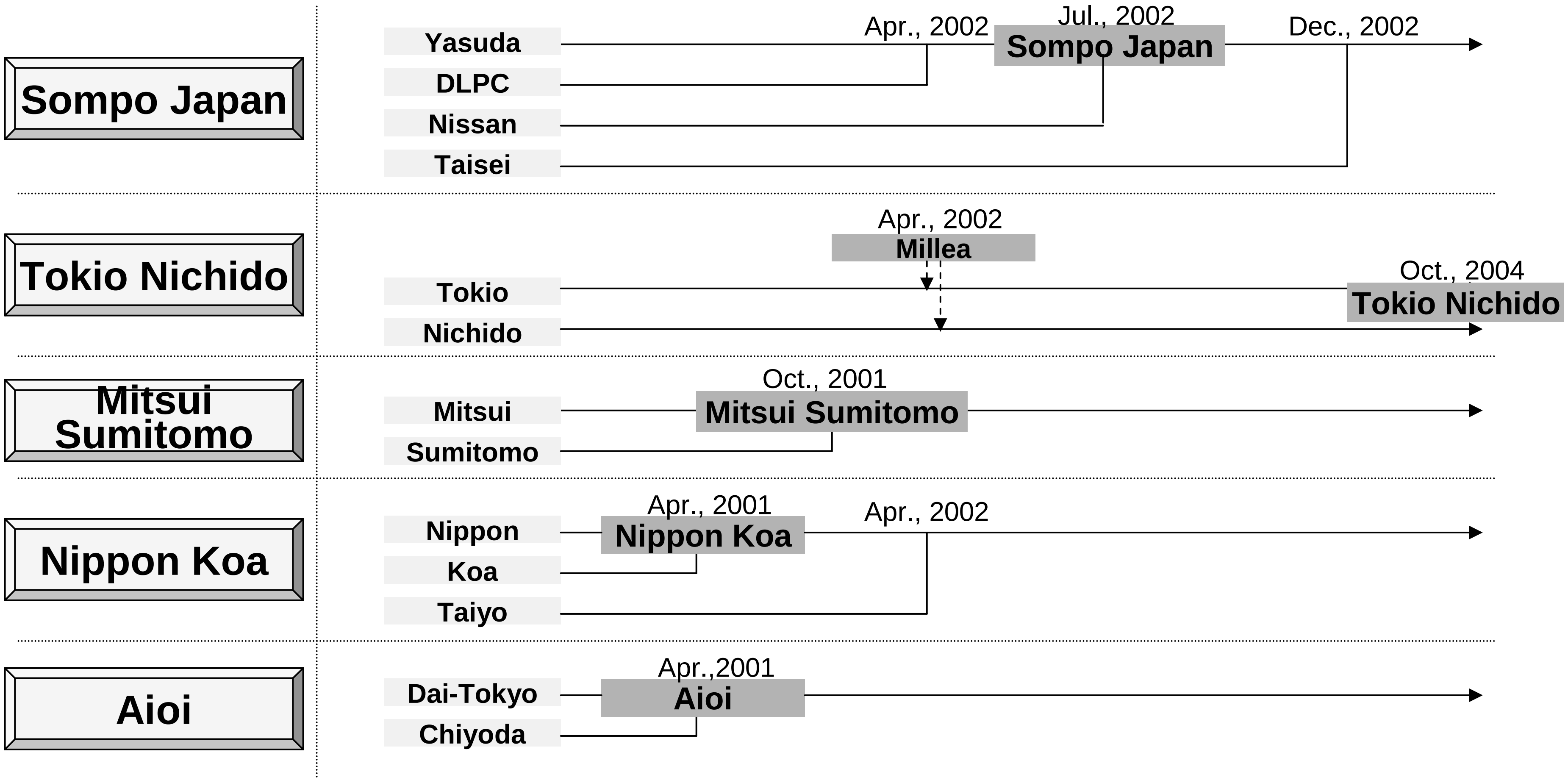




The top 6 market share:59%

The top 6 market share:91%

<<Development of mergers of the top 5>>



Indication of recovery in economy

Take off from deflation

Progress of deregulation

Rebound of stock market from the post-bubble historical low

Conversion from historically low interest rate

Banks

- Bail-out from non-performing loan problem
- Balance sheet restructuring
- Expansion of fee business
- Further consolidation

Securities companies

- Intensified competition with newcomers
- Liberalization of brokerage fee
- Expansion of on-line trading

Life insurers

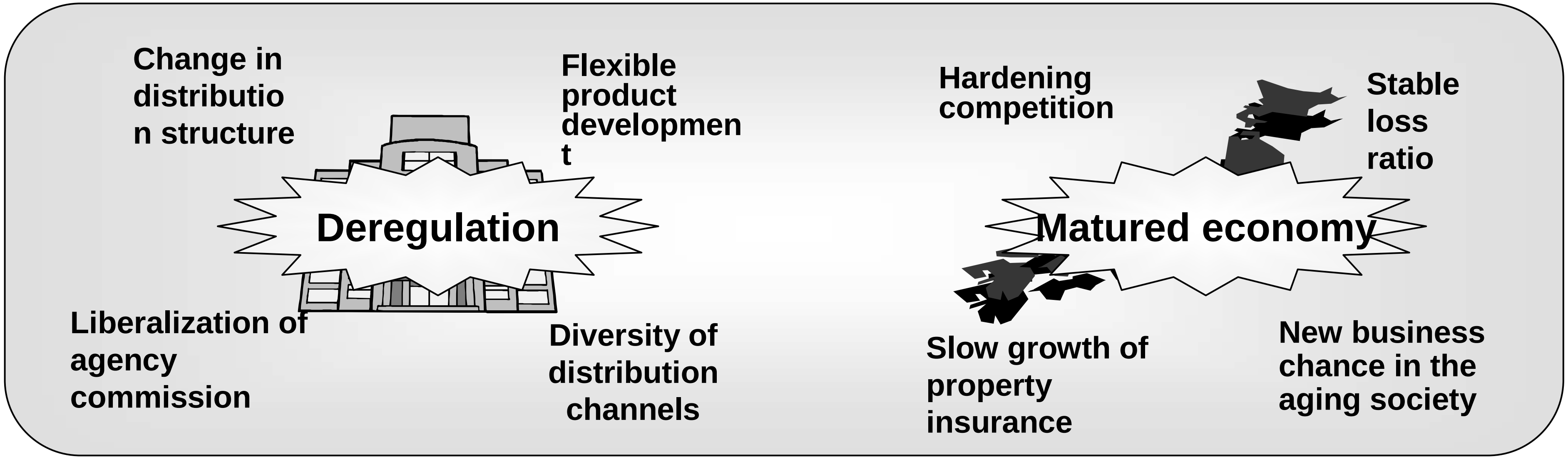
- Narrowing negative spread
- Matured market
- Expansion of consultation style sales

Non-life insurers

Relatively high financial stability among the financial sector

- 1st stage of consolidation is ending
- Matured market
- Stable underwriting profit

- Differentiated business strategy is critical
- Bipolarization to the winners and the losers



Insurers

- Lowered barrier among the financial sectors
- Reengineering of business flow (between insurer and agent)
- Diversification of profit sources
- Alliance with different sectors

Products

- New products for longevity risk
- New product with higher cost efficiency
- Bipolarization of products consultation vs. commodity
- Development of Alternative Risk Transfer solutions

Agents

- Incorporation, merger and sophistication
- Promoting cross-sales of life and non-life
- Utilization of IT
- Flight to winners in the market

Diversify profit sources through other financial and related industries where synergy is expected and risk correlation is low.