

A History of Insurance in Japan

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Introduction

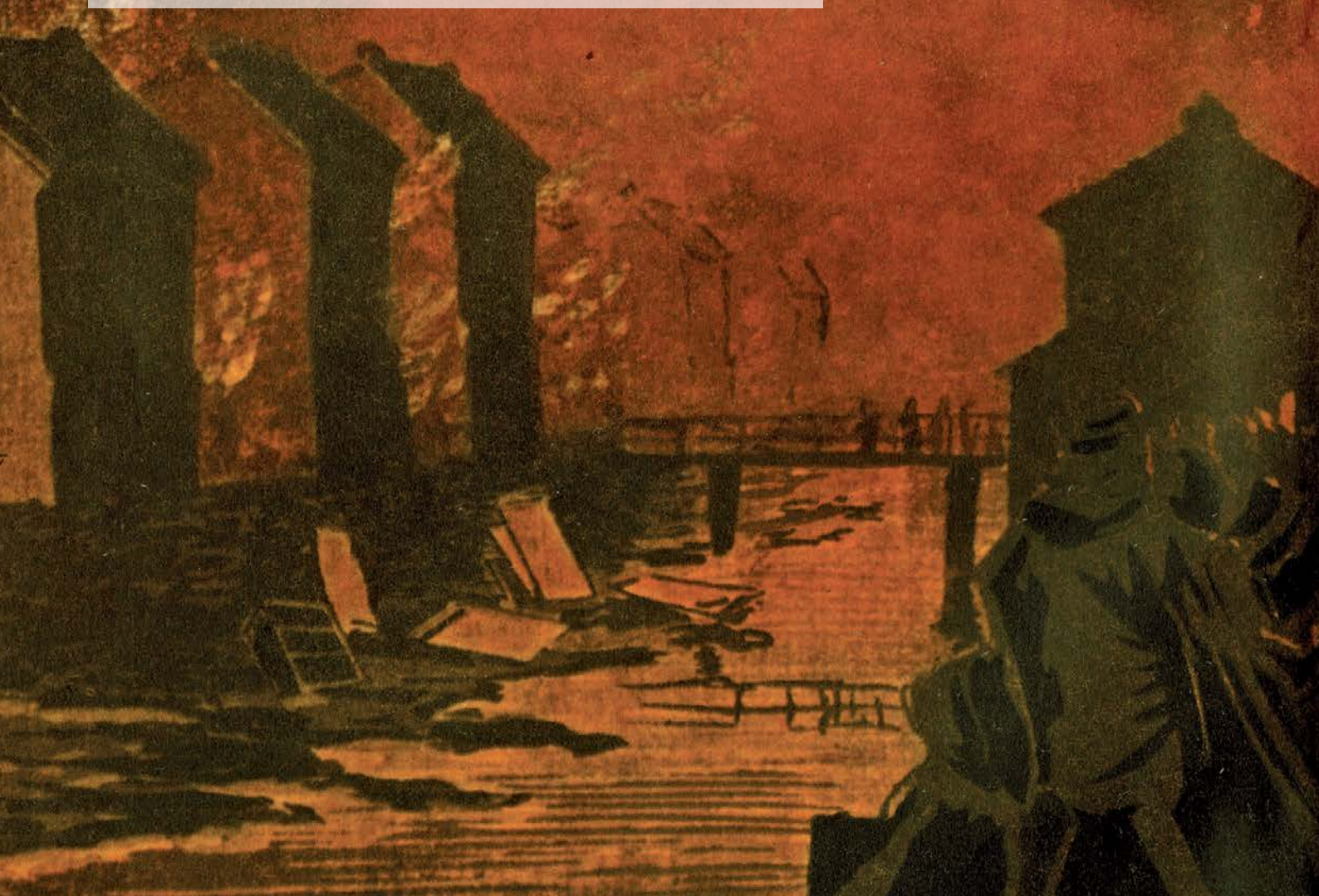
Today, Japan is one of the world's largest and most sophisticated insurance markets, a remarkable achievement given the relatively late arrival of insurance to its shores.

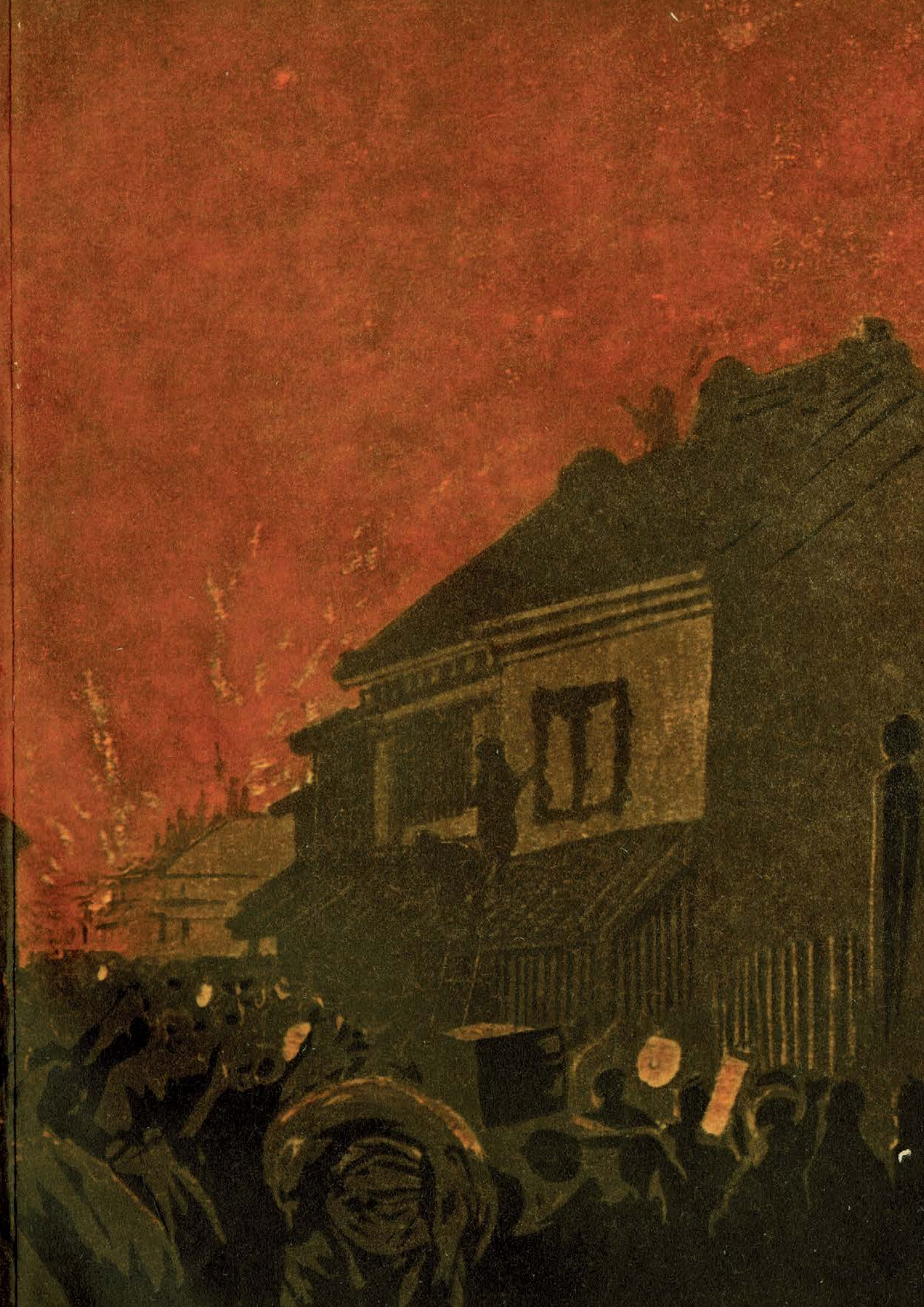
Insurance first came to Japan around the same time Swiss Re was founded in Zurich in 1863. And much like Swiss Re, its development has been shaped by natural catastrophes, financial crisis, periods of rapid growth and foreign expansion, and more recently market liberalisation.

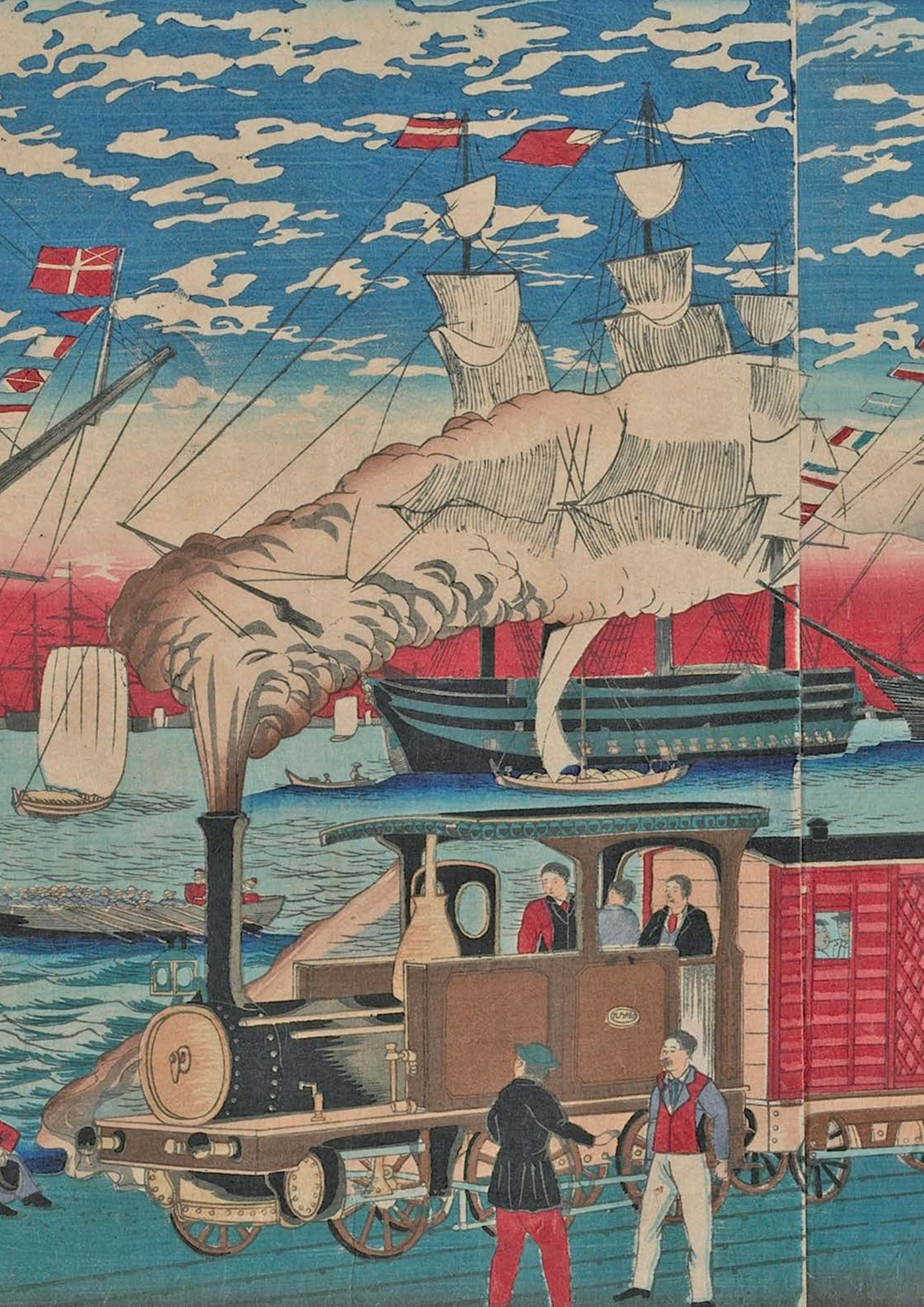
Within a few decades of the Meiji Restoration in 1868, the first Japanese insurers were established. By the turn of the century, they were a force to be reckoned with at home and were expanding overseas.

Unlike other Asian countries, the insurance market in Japan was not to be dominated by foreign insurers. Japanese insurers developed long-standing relationships with European and US insurers and reinsurers to increase their capacity and expand their product offering, but the domestic market developed along distinctly Japanese lines.

After decades of successful growth and expansion overseas, the past two decades, in particular, have been tough for the sector, but structural change and market liberalisation have left Japan's insurers in a stronger position.









Embracing insurance: The remarkable growth of the Japanese market

Japan experienced the benefits of insurance when the country embraced the concept under the Meiji Restoration. It did so with incredible efficiency and determination, establishing a domestic insurance market more rapidly than other countries and went on to create a group of companies capable of expanding overseas and playing a full role on the global stage.

Tokugawa Shogunate – early forms of insurance

Various mutual aid systems existed in Japan before foreign companies introduced insurance in the 1870s. The oldest of these were the ancient agricultural mutual benefit systems - believed to have existed in ancient times, from around 3 BCE – and ‘five families mutual aid’ in 652 AD. More developed forms of marine insurance, and fire and life assistance, also existed during the Tokugawa Shogunate age (1603–1867).

In 1639, Japan adopted a policy of Sakoku Rei, a self-imposed seclusion from the outside world. With a few exceptions,

Japan limited trade with Europeans – and therefore was not widely exposed to the developments elsewhere in marine insurance. Prior to isolation, the Portuguese introduced a basic form of marine insurance known as nagegane at the beginning of the seventeenth century, while traders from Hakata and Sakai provided marine accident cover for ship owners and merchants as part of financing.

As shipping business developed along the coast, a system of marine contracts, known as kajjou ukeoi, emerged. These contracts were issued by shipping agents who attached a risk fee onto shipping charges to cover potential damage to cargo in transit.

Preceding pages:

The Great Fire of February 1881, in Yanagicho, Kanda ward. From Swiss Re’s collection of disaster prints.

Left:

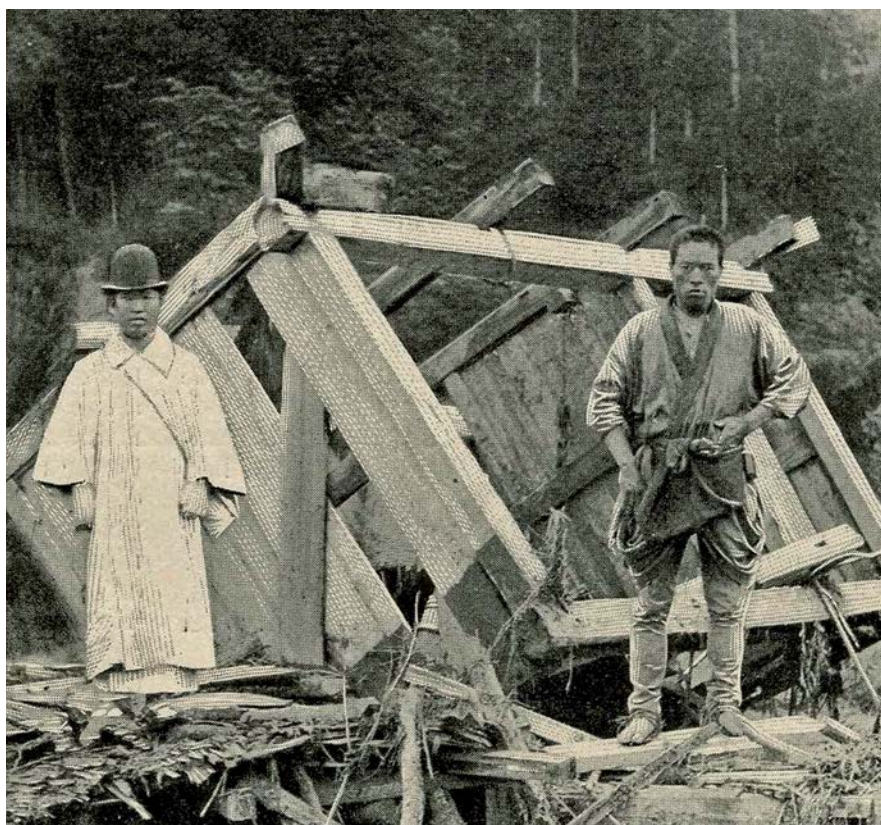
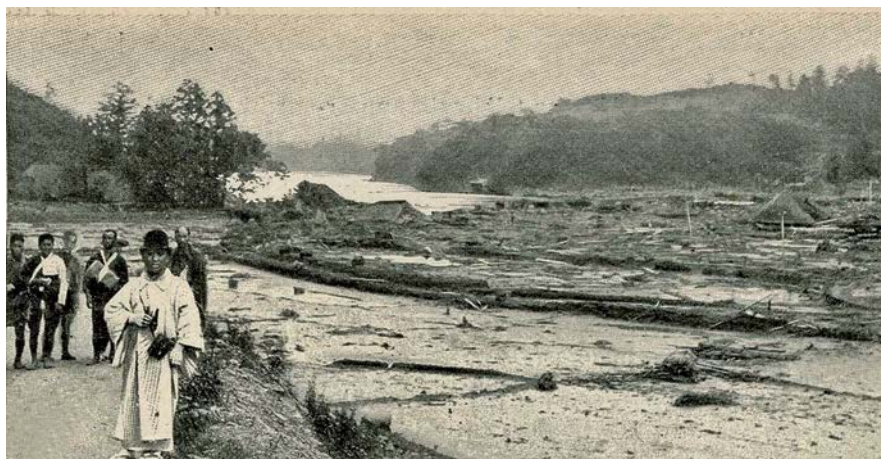
Picture of a locomotive along the Yokohama waterfront, Meiji period, around 1874. Hiroshige III, (1841–94).

Meiji Restoration – transition to a modern insurance industry

The insurance industry only flourished in Japan after the Meiji Restoration in 1868, when economic and social reform led to a period of accelerated industrialisation. This resulted in the creation of Japan's own modern shipyards, iron mills, railways and financial institutions.

As ports began to open in the decade leading up to the Restoration, non-life insurance was imported alongside foreign traders. Initially, European insurers made no effort to focus on the needs of Japanese companies, restricting themselves to insuring European and American lives and commercial interests. But the benefits of insurance in managing the risks of economic expansion and stabilising losses were made apparent. Young Japanese leaders were sent to Europe and America to learn how insurance operated and how it could be adapted to work within Japanese culture and practices. This was one example of how the ending of isolation renewed Japan's contact and interests with developments elsewhere.

The first truly Japanese insurance company, Tokio Marine, was established in 1879, founded with the encouragement of Shibusawa, the father of Japanese capitalism. Early clients for Tokio Marine included Mitsui & Co. and Yusen Kisen Mitsubishi, companies that grew to control networks of interest through banking, industry and countless subsidiary companies.



Right:
The seismic wave disaster of 1896 in the Miyagi prefecture. The tsunami is said to have reached a height of 80 feet.

Opposite:
Eiichi Shibusawa (1840–1941). As head of the Kaisei Kakari, or office of the Ministry of Finance in charge of reform, Shibusawa spearheaded the creation of utilities, transport, finance houses, industrial operations and educational establishments that would shape modern Japan for decades. Among the over 500 companies Eiichi Shibusawa helped create was Tokio Marine.



Early fire insurance



Japanese society has a long experience of dealing with the risks of fire. The first fire service was founded in the early Edo period and known as hikeshi. Fire towers were constructed to spot the source of a fire and alarm bells used. The main task of hikeshi was to reduce the risk of the fire spreading through the wooden built houses by tearing down surrounding properties. They used sophisticated multi-layered but also decorative coats – sashiko, doused in water to get closer to the fire and were also equipped with gloves hats, ladders and hooks to pull away timbers.

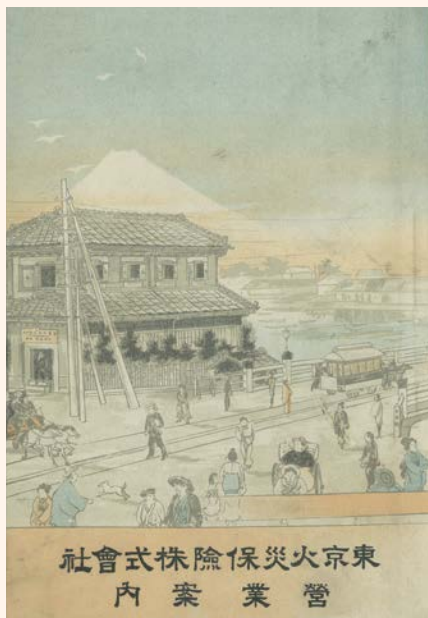
These fire-fighting skills became even more important as the major cities of Japan industrialised and the scale of potential factory and warehouse fire grew. As the scale of risks grew, fire insurers needed to find ways of diversifying the risk through the use of foreign reinsurers. This led to the first reinsurance treaty between Meiji Fire and Phoenix in 1906. Unlike the relationship Tokio Marine made directly with the London market for reinsurance, domestic fire insurers continued to either pass on some of the risk they faced to fellow insurers or make individual reinsurance agreements.

For almost two decades, there were long discussions and various attempts to create a rate agreement in the fire insurance sector. These first emerged after concerns that competition for business from spinning factories at the turn of the century was reducing rates to an artificial level. Competition for fire business was always

fierce. Before 1900, under-capitalised new entrants had reduced rates to win market share, but many of these were closed after the recession in 1900 and the introduction of the Insurance Business Act led to disclosure of reserves.

At the same time, the new insurance laws had made operating as a foreign insurer in Japan more expensive and some players looked at new models to operate in the market. Once the Okura-gumi, a powerful Japanese business partnership agreed to be the general agent for Commercial Union and Norwich Union in 1905, and others, such as Sun and New Zealand, joined, a powerful new force emerged in the fire insurance market and further pressure on rates ensued. The insurance department Okura-gumi grew to have a near monopoly on foreign insurance for a time in the next decade.

A first association formed between Tokyo Fire, Meiji Fire, Nippon Fire, Yokohama Fire and Kyoudou Fire in 1907. But the competition for sustainable rates became so fierce that customers ended up buying less fire insurance. By 1914, sixteen major Japanese companies wanted to agree a uniform rate, but they also needed to include the foreign companies with a large share in the fire insurance market. By 1917, the domestic and foreign insurers associations had set uniform rates and created the Japan Coalition Fire Insurance Association. This now included Tokio Marine, which entered the fire business in 1914. The immediate effect of the agreement was to stabilise the market.



Top:
Daifuku Marine & Fire Insurance leaflet from the 1920s showing an Edo period fireman.

Above:
Tokyo Fire Insurance leaflet.



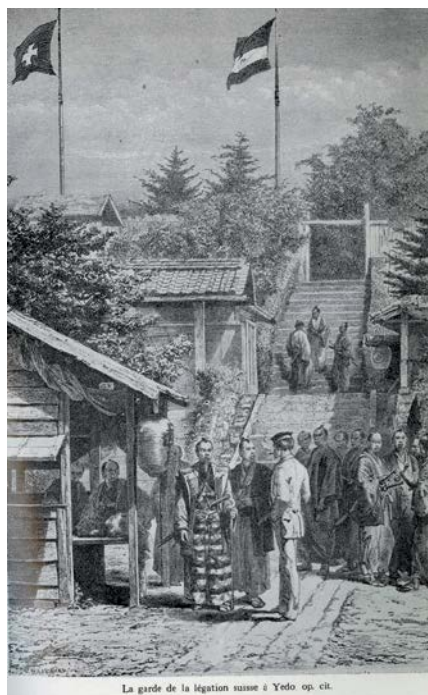
Top:
Edo-period firefighters by Hiroshige.



Middle:
The Great Fire of Yoshiwara, Tokyo, 1911.



Bottom:
Firefighters perform the Hashigo Balancing Act.



La garde de la légation suisse à Yedo op. cit.



Top:

A Swiss delegation of diplomats visiting Edo (Tokyo) in 1863. Switzerland later opened an embassy in Edo.

Above:

Kenkichi Kagami (1868–1939). He joined Tokio Marine in 1891 and was chairman from 1925 to 1939.

Tokio Marine was soon joined by other domestic players – in 1893, three more marine insurers were established: Nihon Kairiku Insurance, Teikoku Marine Insurance and Osaka Insurance. Within a decade after Tokio Marine opened its doors, the Japanese had their first fire insurance company in Tokyo Fire. Initially, these young insurers had much to learn from the foreign operators, for example, Tokyo Fire used rating tables and insurance regulations from Britain and Hong Kong when first developing products.

Following the example of Tokyo Fire (est. 1887, starting business 1888) Meiji Fire and Nippon Fire entered the fire insurance market in 1891 and 1892, respectively. Many others soon followed and by 1896 there were six fire insurance companies, growing to over 20 by 1900.

The first Japanese life insurers

For a period, modern life insurance co-existed with older forms of mutual assistance – tanomoshi and mujin, especially in rural areas. The first Japanese insurance company was Meiji Life, established in 1881 through the initiative of Taizo Abe. Again, collaboration with experts from Europe was critical as new statistical methods had to be applied with Nippon Life introducing the first Japanese mortality tables after it was founded in 1889. The first mutual life insurer Dai-ichi Life was established in 1902 and went on, with Chiyoda Life to become a powerful influence in the market before 1940. It was also at this time that the Association of Life Insurance Companies of Japan – now the Life Insurance Association of Japan – was established in 1898 to develop the sector along sound grounds and preserve consumer trust.

Overseas contact

In these early decades, Japanese insurers made use of overseas insurance and reinsurance markets like London in order to offer the products and limits needed by the fast growing economy. But a number of Japanese insurers, supported by leading Japanese companies were also quick to see opportunities in the international insurance market.

Tokio Marine’s international presence was to prove vital for its later dominance of the domestic market. It had strict coverage limits for shipping insurance and followed a clear policy of buying reinsurance from foreign companies operating in Yokohama such as China Traders, Yangtze and Canton Insurance to maintain reserves and not exceed its limits. Within a year of opening, the insurer commissioned agents at branches of the Mitsui in Paris, London and New York, though these were mainly for insuring Japanese citizens. A full-scale overseas operations was launched in 1890. The insurer’s expanded operations in Britain grew quickly – marine premiums increased by approximately 25 times between 1889 and 1891, with more than half coming from agents in Britain. Tokio Marine also commissioned an agent in San Francisco in 1893, although business performance was poor and the operations were closed in 1899.

By the mid-1890s, it was clear that rapid expansion had produced new challenges for Tokio Marine’s overseas operations and Kenkichi Kagami was dispatched to London. He reorganised the business in London, closing the branch office and reaching an agreement with Willis Faber & Co that would see the insurance broker act as an agent for the Japanese insurer. Kagami also agreed that Willis Faber and Tokio Marine would develop cargo coverage – known as the ‘London cover’ for the insurer’s business in Japan. This innovation allowed Tokio Marine to be part of the international network of insurance markets and offer their benefits to Japanese clients in their domestic market – because it was hedging its risks with cheaper reinsurance purchased in London. This contributed to it becoming the dominant force in the Japanese marine insurance market over the coming decades. An example of the long-standing relationships Tokio Marine developed internationally is seen with Swiss Re.

Early life and health insurance



Within a decade of the British offering Japanese citizens life cover in 1876, the first Japanese life insurance company was established. Meiji Life was founded in 1881 by Taizo Abe, a student of the Japanese enlightenment and social philosopher Yukichi Fukuzawa who had studied in Europe and the US and was the author of the bestseller “The State of the West” (Seiyo jijo).

Meiji Life was followed by some powerful competitors – Teikoku Life (now Asahi Life) was founded in 1888 and Nippon Life in 1889. In the five years following the formation of Nippon Life in 1894, more than ten life insurers were established – seven of which survived until 1925.

These early companies held an important position in the life insurance market until the development of the mutual insurance companies Dai-ichi Life in 1902 and Chiyoda Life in 1904 and the establishment of the so-called big five insurers after the war. As with non-life insurance, Japan’s early life insurers referenced Western insurance practices and knowledge. At first, Japanese life insurers had to use mortality tables from English insurers as no such statistics existed in Japan. The first Japanese mortality table was made available in 1889.



Top:
Yukichi Fukuzawa (1835–1901).

Above:
Nippon Life royal commemoration sales, 1928.





Early insurance markets to 1945

Just over two decades after the first Japanese insurer had been established, the domestic market was in a strong position in early 1900s, pushing foreign insurers to the margins and expanding overseas.

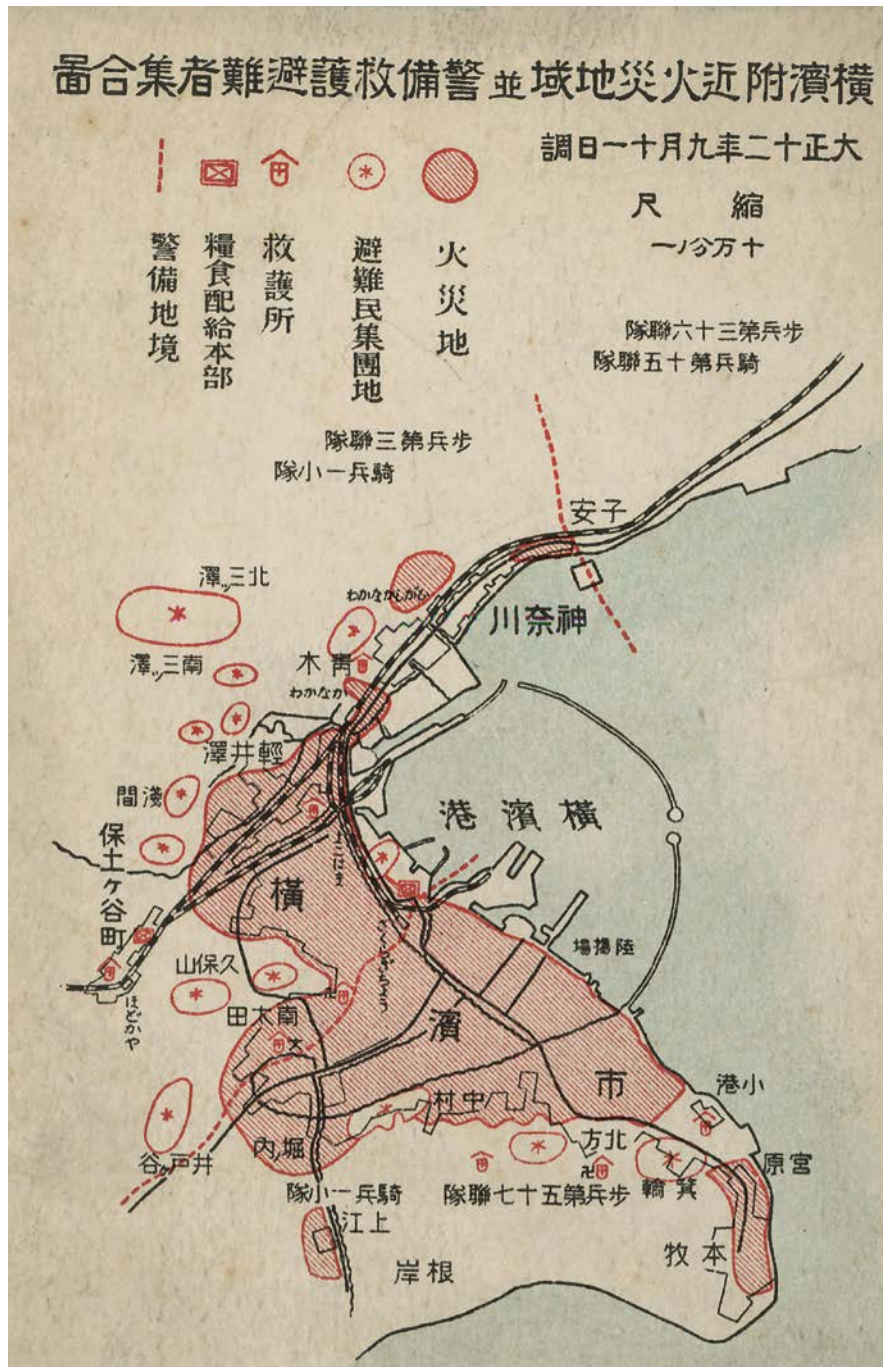
However, the Japanese market was soon tested, first by the devastating Great Kanto earthquake, then by the financial crisis and war. However, the sector was able to recover from these disruptions with surprising speed, and went from strength to strength in the booming post war economy.

New regulation

In common with many markets internationally, Japan introduced a strong regulatory framework for insurers at the turn of the century designed to protect policyholders and create a stable insurance industry. The Insurance Business Act of 1900, emphasised the need for sufficient capital reserves and company disclosure. The need to make domestic deposits in Japan tested the resolve of new foreign entrants to the market who preferred to keep their capital in their own market and some withdrew. This was despite Japan adopting the Gold Standard in 1889, which led to greater foreign confidence in long-term investment in the Japanese economy.

The new Insurance Act coincided with a recession at the end of 1900 and the combination of greater supervision and poor economic performance led to a clearing out of the insurance market and the closure of many speculative insurers. This was one of the reasons the market share of foreign life insurers dropped from 15% of premium revenues in 1906 to around 1% in 1937. The major marine insurer Nihon Kairiku Insurance was also made bankrupt by the liabilities it had taken on in the London market exceeding reserves.

Left:
The great flood of 1910.



Above:
Yokohama Map showing the extend of the Great Kanto earthquake.

Opposite:
Cover of a French newspaper on the Great Kanto earthquake.

Overleaf:
The great flood of 1910.

As the economy grew and the structure of the market stabilised, the new century was overall a positive time for insurance. Insurers expanded their product range with new lines and made new multi-line offerings. Fidelity insurance was introduced in 1904 and Japan's first boiler and engine insurer opened for business in 1908. Between 1911 and 1916, personal accident, burglary and motor insurance were underwritten as a side-line by a number of Japanese insurers.

Great Kanto earthquake

Immediately after the First World War, Japan, like many other countries, suffered a period of economic decline. However, the period between the First and Second World Wars was also marked by one of Japan's most devastating natural catastrophes. The Great Kanto Earthquake struck on Saturday, September 1, 1923, causing some 105,000 deaths and extensive damage to Tokyo and surrounding areas. The 7.9 magnitude quake was the most devastating ever in Japan, and until the 2011 Tōhoku earthquake, the most powerful recorded.

The total insured amount of fire policies was estimated at ¥ 3.26 billion from more than 650,000 policies, well beyond the total assets of fire insurance companies in Japan at the time. Although Japanese fire insurers were not obliged under their policy wordings to pay claims for damage caused by the earthquake or resulting fire, they were under pressure to compensate policyholders. Japanese insurers agreed to make compensation payments to fire insurance policy holders totalling ¥ 73 million, although most companies were only able to do so through a loan from the government.

Learning from the San Francisco earthquake of 1906 – where ambiguity and a lack of standard wordings led to uncertainty of coverage – foreign insurers and reinsurers had also excluded earthquake risk in Japan. However, many agreed to contribute towards compensation. Swiss Re voluntarily paid one year's premium on affected cessions. Much like the San Francisco earthquake, the Great Kanto Earthquake showed how exposed the still young Japanese insurance sector could be in the face of a severe natural catastrophe, as well as demonstrating the important role of reinsurance in spreading large catastrophe risks internationally.

12 Pages

12 Pages

Le Petit Journal

HEBDOMADAIRE
61, rue Lafayette, Paris

illustré

PRIX : 0 fr. 30
16 Septembre 1923



Le Japon dévasté

Le plus effroyable cataclysme de l'Histoire vient de se produire au Japon. Les deux capitales de l'empire nippon, Tokio et Yokohama, ont été détruites par un tremblement de terre, que suivit un formidable incendie. Les victimes de ce, désastre sans précédent se comptent par centaines de mille. Mais, déjà, les Japonais se sont mis au travail, donnant un exemple sublime de courage devant l'adversité.



Dreadful Flood, Karuisawa, Shinshiu, August, 1910. 狀



明治四十八年八月信州輕井澤大水害之慘

Aftershocks

The Great Kanto earthquake contributed to a period of economic uncertainty, which included a banking crisis in 1927 and the Showa Depression of 1930–32. This was one of the deepest economic downturns in Japanese history. The depression was triggered by a combination of government policy and the 1929 Wall Street crash. From 1929, government policy was seeking to return the economy to the pre-World War I gold parity through deflation, including the elimination of weak companies and banks. Despite the global economy faltering, domestic prices falling and the rural economy going into free-fall, the government stood by its belief that the Japanese economy needed harsh medicine to return to real growth. The crisis caused the failure of a number of life insurers, although non-life insurers

fared better because of the subsidies from government and the strong premiums in the aftermath of the quake. It also deeply affected the overseas expansion plans of Japanese fire insurers. As the government changed in 1932, and the yen depreciated on an open float, the Japanese economy began to recover. It was the first economy to overcome the global depression of the 1930s and continued to grow until 1936, the last year before the adoption of a war economy.

Foreign reinsurance supplies are cut

With the outbreak of World War II, the activities of foreign insurers came to an end, effectively ending overseas reinsurance cessions until 1950. In fact, a shift in market relations was already underway before the war. On a visit to Japan in 1937, Swiss Re manager William Habicht said that Japanese fire and

marine insurers were loosening ties with brokers and reinsurers in London in response to anti-British feeling and war rates charged by British insurers during the 1937 war with China. Swiss Re was also affected. Shortly before the Second World War, Swiss Re counted 35 insurers in Japan as clients – ten reinsurance treaties with Japanese companies and seven retrocessional treaties, with the balance from foreign insurers in Japan. Of the 28 foreign fire insurance companies in Japan at that time, Swiss Re had connections with 26. Mr Habicht also reported that the tightening of foreign exchange controls were also limiting Japanese insurers, ability to make reinsurance arrangements with overseas reinsurers. For large insurers this had a major affect with reinsurance with foreign companies falling in some cases from 70% in 1931 to 20% by 1940.

Above:

Ten yen note from 1930.



USHIGOMI

定

橋

Yadatsuki-kyo



4 山

町 *Foyama-cho*
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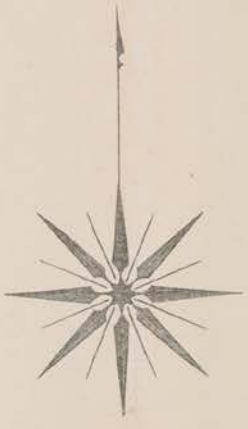
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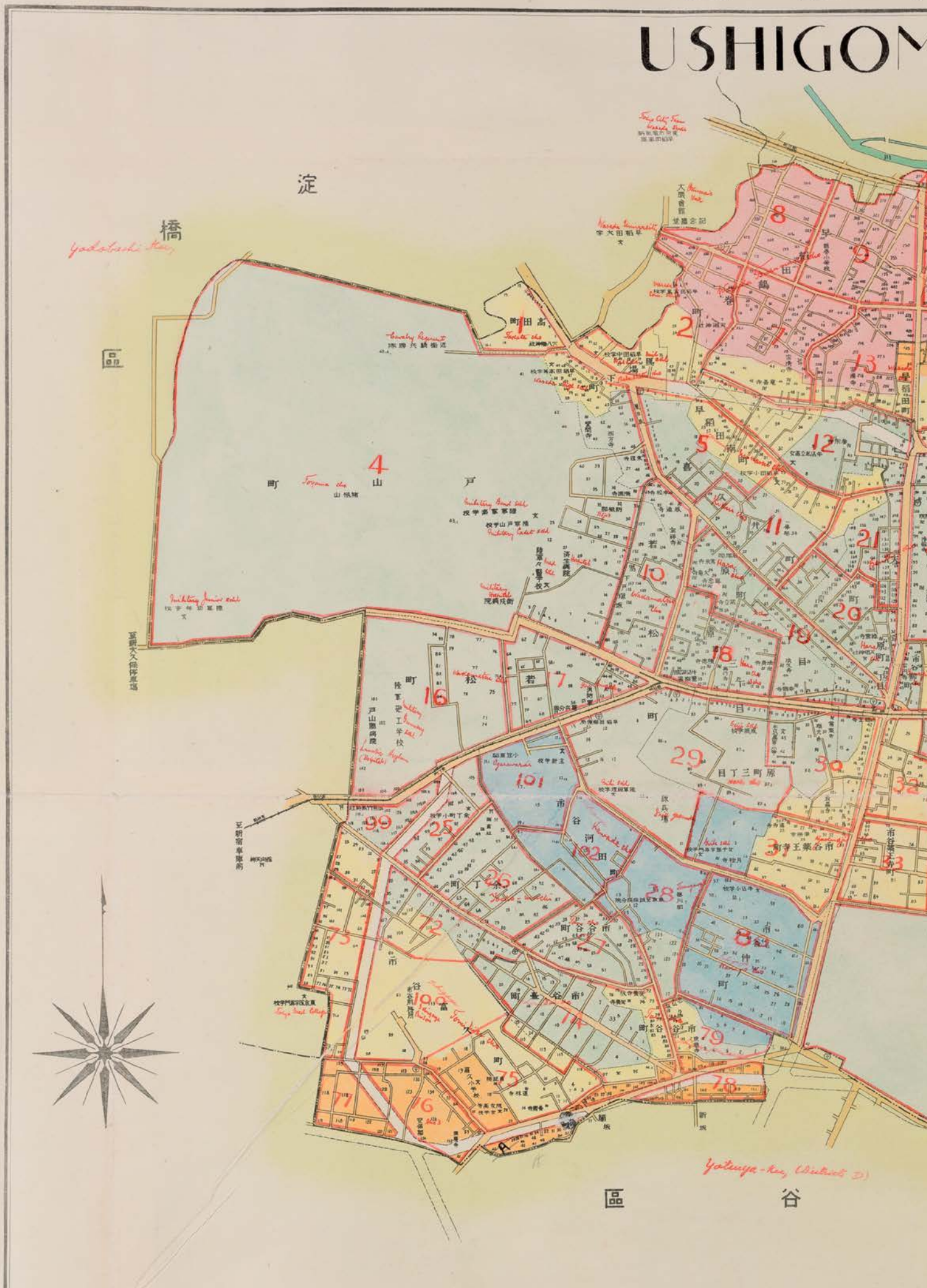


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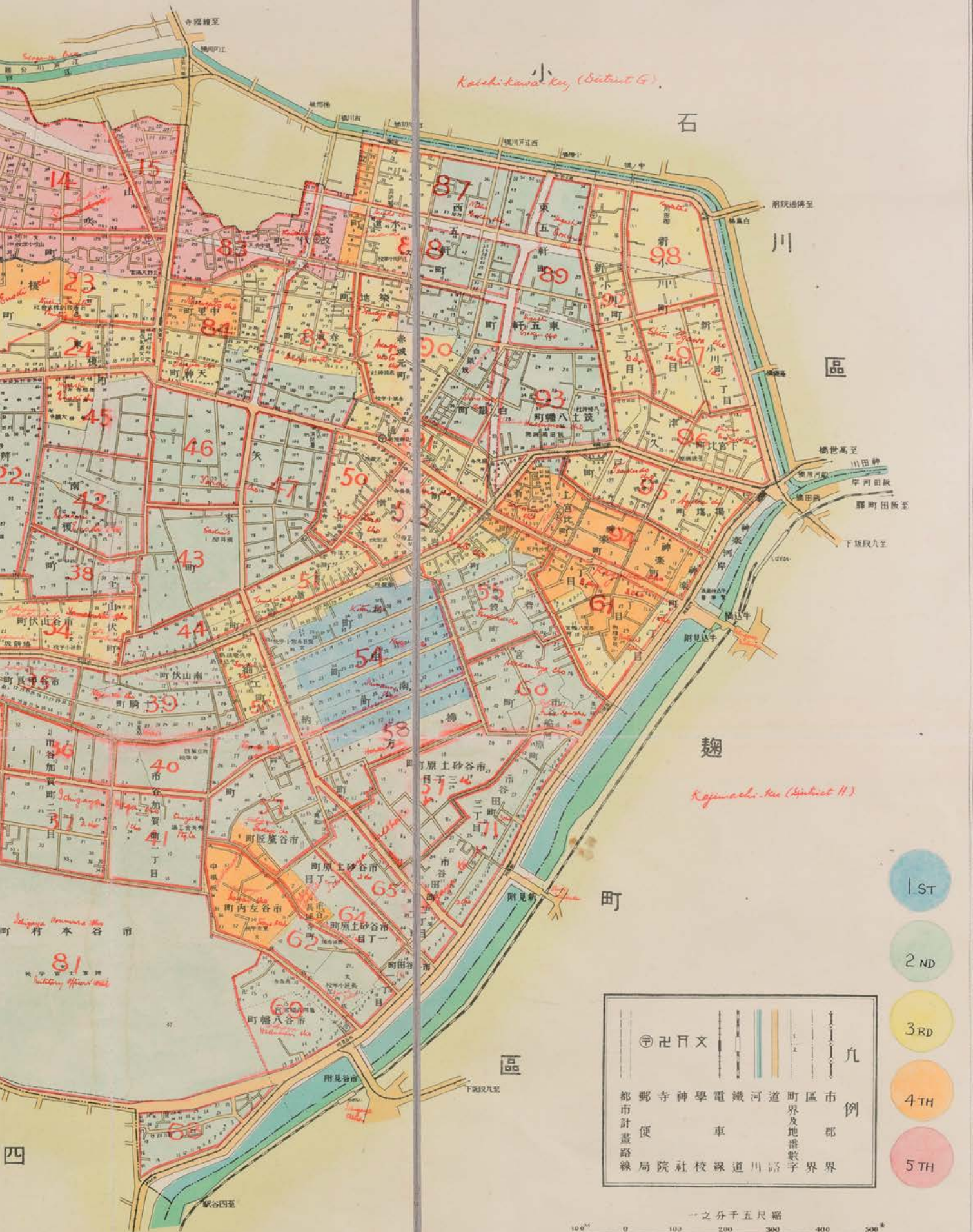
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Difficult recovery for Japan's insurers

The end of the Second World War left Japan in a devastated condition. It remained the largest insurance market in Asia, but the fire sector was in a shambles, the destruction of the marine fleet reduced marine insurance and high inflation was driving the life insurance market to the edge of collapse. Japan had lost its overseas territories and was controlled by US occupational forces wary of allowing the resurgence of Japanese industry and wanting to maintain trade restrictions.

Initially, the US Supreme Commander of the Allied powers banned reinsurance, but eventually the Allies had to recognise that a strong financial services industry like insurance would be instrumental to Japan's future success. The war years had seen the insurance industry consolidate, but the allied occupational authorities introduced measures aimed at increasing competition leading to the founding of four new firms. However, by 1952 the measures were reversed and the formation of new companies was severely restricted. In this context, the long economic boom from 1955 onwards that Japan enjoyed is even more astounding.

Foreign insurers return

From 1947, the period of occupation allowed many British and US insurers to re-establish their positions in the Japanese market, followed by insurers from India, the Netherlands and the Philippines. Initially, insurers provided insurance to occupational forces, but in 1948 they were authorised to offer reinsurance to Japanese companies. They also enjoyed temporary control of the cargo insurance market because of restrictions on foreign exchange.

Foreign reinsurers were among the first to re-engage with the Japanese insurance market. Swiss Re manager William Habicht visited in 1949 to resume contact and Yasuda Fire entered its first overseas reinsurance contract with Swiss Re in April 1950. In 1952 Sumitomo Marine followed as well as Taisho Marine in 1954. In 1957, after another visit to Japan, Swiss Re underwrote fire reinsurance with Chiyoda and Nichido, as well as small treaties with Toa Re.

Below:

Life after the war.

Opposite:

Foreign insurers such as New York Life started coming back to Japan after the war.



謹賀新年

舊年中は御愛顧を
蒙り忝く奉深謝候
尚本年も不相變御
引立の程偏に奉願
上候 敬白

一月一日

名古屋市東區東外堀町二丁目
紐育生命保險會社代理店

代理店長 黒川耕作



紐育生命保險會社本
建築價壹千圓

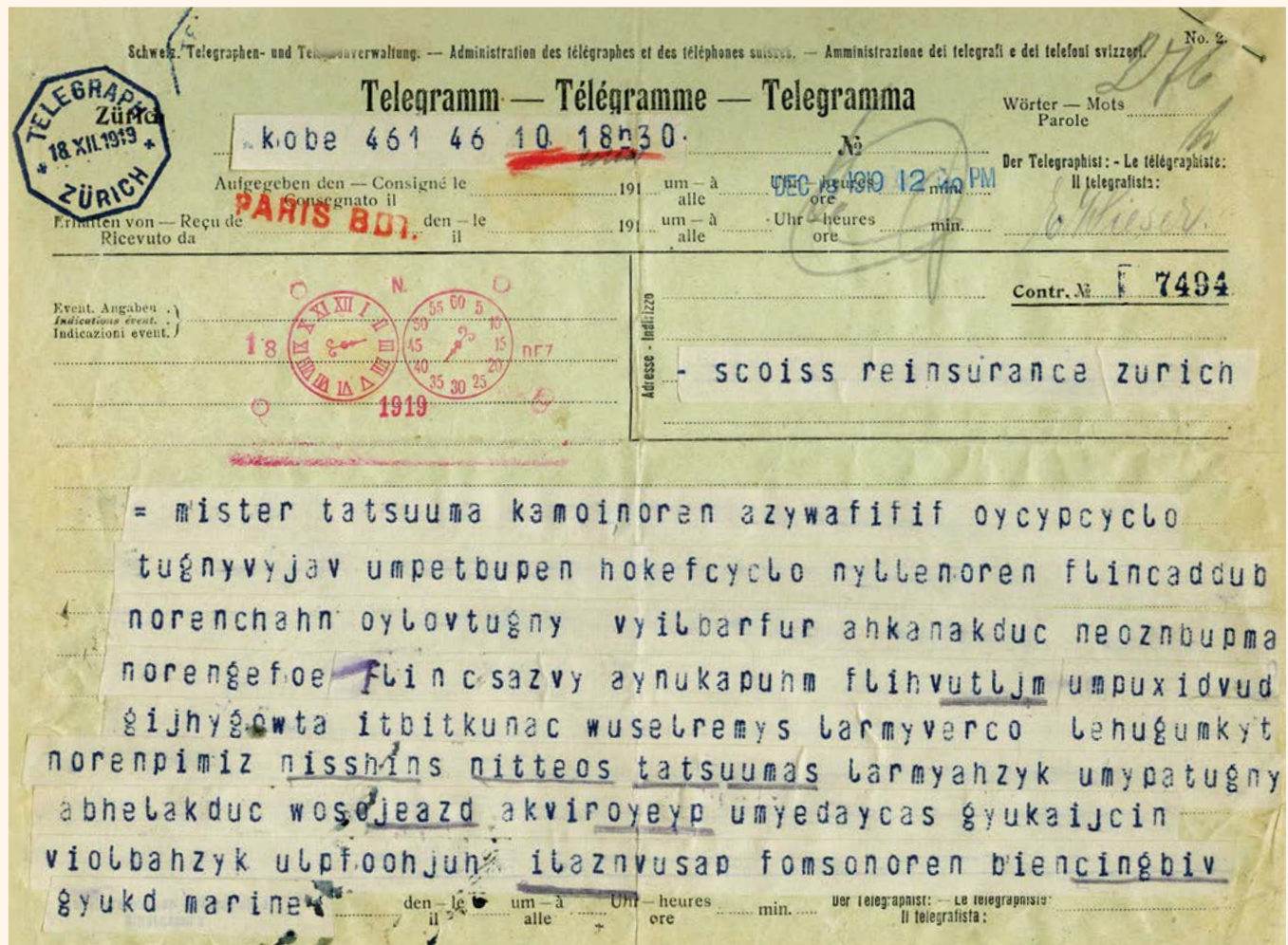
Reinsurance – early involvement of Swiss Re in Japan

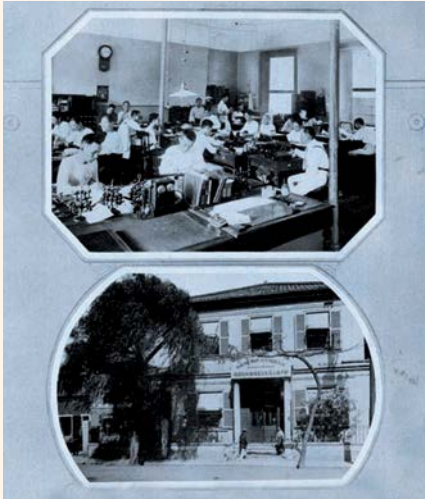
The fast pace of industrialisation at the turn from the nineteenth to the twentieth century created new challenges for the young domestic insurance sector in Japan, with the new factories, machinery and warehouses requiring considerable underwriting expertise and high limits. Initially, Japanese insurers underwrote large limits through co-insurance and reinsurance contracts with other Japanese firms and foreign insurers. For example, early marine business was ceded to foreign companies with branches or agents in Yokohama or Kobe, including Canton Insurance, Yangtze, China Traders and Union Canton.

Meiji Fire was one of the first Japanese insurers to buy reinsurance when it purchased facultative reinsurance with

the Phoenix Assurance in October 1891. The following year, Meiji received an application to underwrite machinery and cotton stocks at a factory owned by Kanebo in Tokyo. At the time, domestic Japanese fire insurers were not large enough to underwrite high-value factories, but Meiji Fire was able to provide cover to Kanebo after it negotiated reinsurance with Phoenix and co-insured with other domestic insurers. Meiji frequently acquired reinsurance from Phoenix and in 1906 became the first Japanese company to purchase treaty reinsurance from a foreign reinsurer, again Phoenix.

By the early 1900s, Tokio Marine had gained a competitive advantage by buying its reinsurance abroad, and gradually stopped ceding reinsurance contracts to

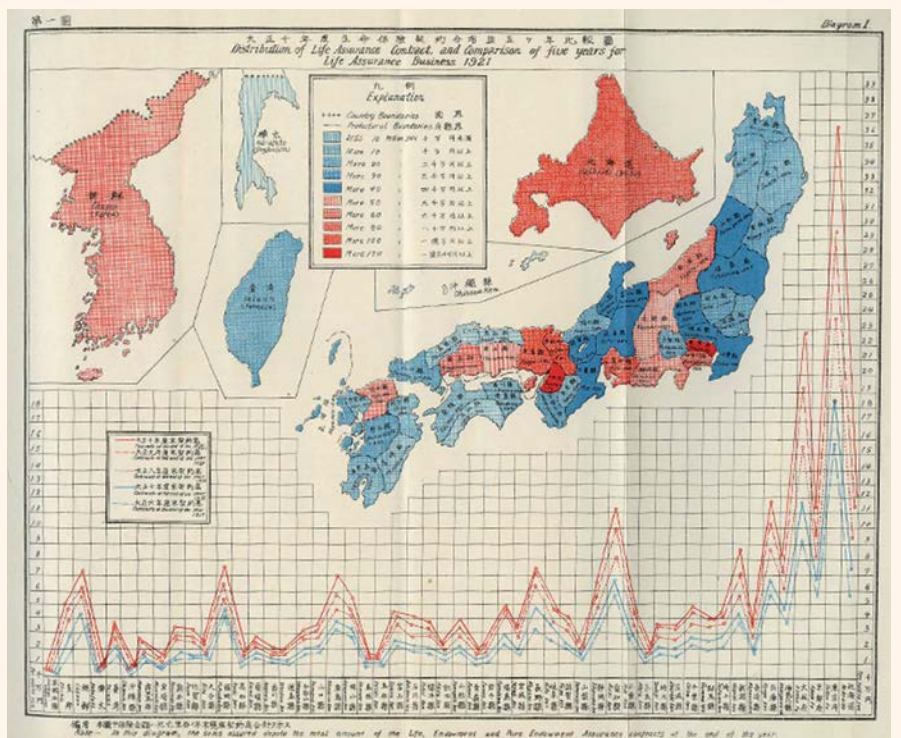




local firms in favour of ceding all reinsurance to London. Around this time Japanese insurers began buying cover from the specialist reinsurers that had emerged in Europe in the mid-1800s.

Exactly 100 year ago, Swiss Re signed its first contact in Japan. The reinsurer underwrote its first fire reinsurance contract in Japan with Kobe Marine Transport & Fire Insurance (Kobe Kaijo Unso Kasai Hoken Kabushiki Kaisha) in 1913. Personal contact was finally made when a member of Swiss Re's board visited Japan in 1919. T. Okazaki, then president of Kobe Marine, also visited Switzerland at the end of the First World War, together with the insurer's managing director, Mr Mikumo.

These visits were followed three years later in 1922 when Swiss Re manager, Paul Alther, toured Japan visiting the country's insurers, promoting the Swiss Re brand and learning more about the market.



Opposite top:
Okazaki, Esq. of Kobe Marine Insurance (1856–1927).

Opposite bottom:
Encoded telegram sent from Swiss Re in Zurich to Kobe in 1919. Codes were used to shorten the messages and reduce costs.

Clockwise from top left:
Kobe Marine offices.

Charles Simon, Swiss Re's general manager at the time the company started doing business with Japan.

Map from a travel report of Swiss Re representative Paul Alther in 1922.

Post Office Insurance

By the 1880s, a comprehensive government postal service had been developed connecting the major towns and cities of Japan, which included a savings service. A Postal Life Insurance Service or Kampo was then launched in 1916 and proved a popular form of state-run life insurance for the lower and middle classes. The maximum amount insured was fixed, originally at ¥ 250, growing to ¥ 450 by 1926. When the proposal came to increase this to ¥ 1000 in 1937, this was opposed by private life insurers concerned for their own operations.

With its low-cost access to customers and an implicit investment guarantee from government, the Kampo has continued to be a unique feature of the Japanese insurance market. It had a 22% market share of the Japanese life insurance market in 2010, where the top five life insurers shared 64% of the market. As part of Japan Post, it was also named in the top 15 of global Fortune 500 companies.

More recently Kampo has been part of an on-going political debate after the Liberal Democratic party included a commitment to privatise Japan Post in its landslide 2005 election victory. It started selling diversified types of insurance, including

health, as a separate company within Japan Post Holdings after partial privatisation in 2007. In 2012, the upper house of the Diet scrapped the need for the services to be fully privatised by 2017 and cleared the way for it to compete with new services in the insurance market using its network of post offices even if the state sells off only half of the institution. This move reflected the deep attachment of many Japanese, especially in rural areas, to the integrated services the postal services offer, but left the private insurance companies concerned that payout limits may again be increased, harming fair competition.

Below:
1930s advertising of Post Life Insurance explaining how to use premiums.



Great Kanto earthquake

The Great Kanto earthquake was the most devastating ever to hit Japan, causing a massive loss of life in 1923. It levelled parts of Tokyo and Yokohama, causing widespread damage throughout the Kanto regions.

The resulting fires that swept through the city, which consumed over 400 000 properties, caused many of the deaths and much of the damage. The quake is thought to have led to insured damage of over ¥ 3 billion from more than 650 000 fire policies which included earthquake risks.

Even though fire insurance contracts did not cover earthquake risks, the government pressured domestic insurers to pay policyholders 10% of the insured sum. At first, foreign insurers refused to pay compensation to policyholders that were not covered under their contracts, and Lloyd's suspended all reinsurance until the situation was clarified. Eventually, 28 foreign insurers in the Japan Coalition Fire Insurance Association agreed to make a goodwill payment in the form of one year's premium, while some Japanese insurers decided to make self-determined payments.

The earthquake also exposed weakness in the Japanese insurance market, with only a few companies – like Tokio Marine and Toyo Fire – able to make the 10% payment without government aid.

Japanese marine underwriters faced fewer difficulties than their colleagues in fire, even though they were clearly liable for damages to cargo from earthquake. There were fewer ambiguities over the coverage and losses did not exceed the expectations of Japanese marine insurers. Total insured marine losses were much smaller.

Japanese insurers had not reinsured internationally to cover the major risks they faced at home. Of the ¥ 750 million of reinsurance available, just 10% was with foreign reinsurers. Swiss Re voluntarily paid a year's premiums back to its cession clients.



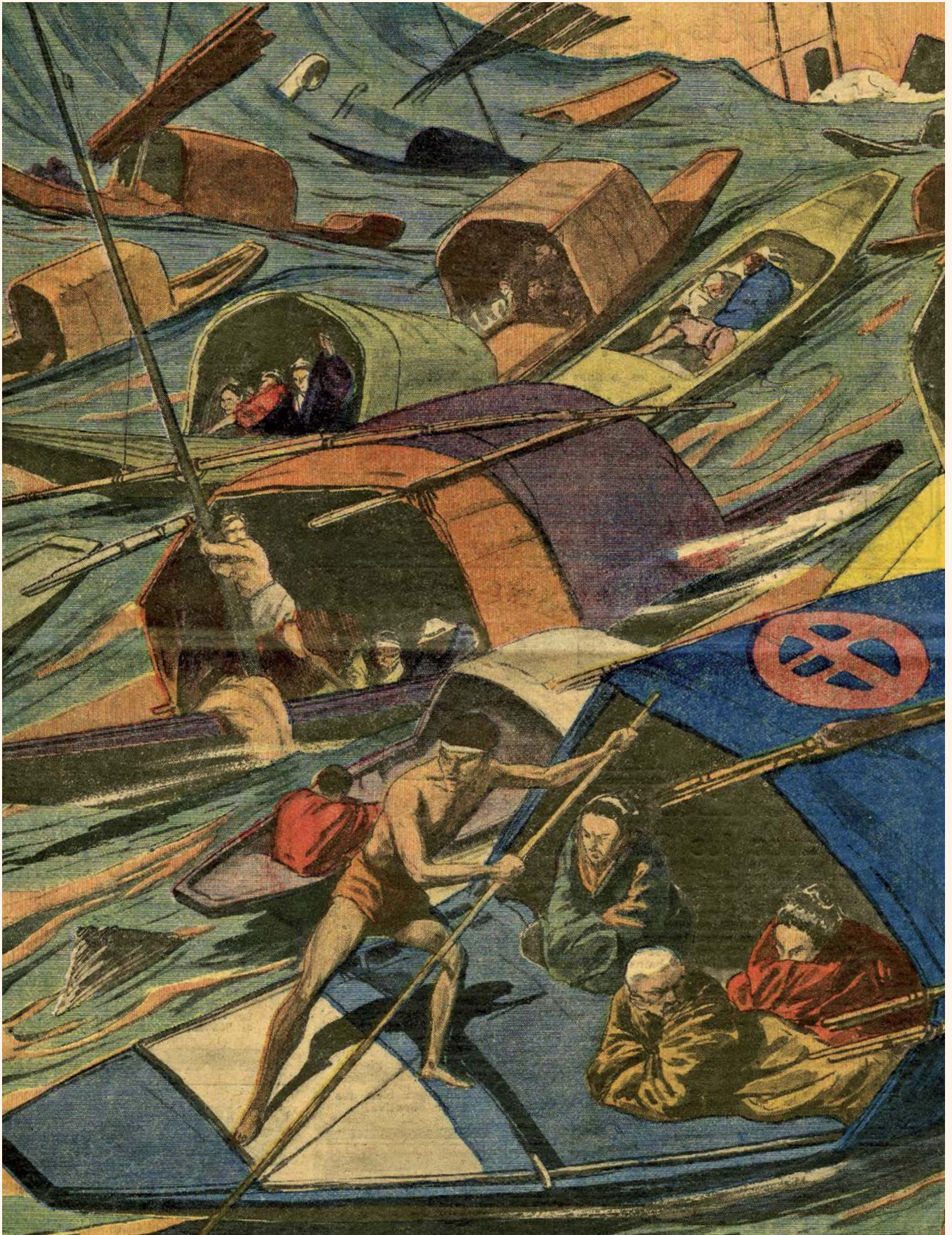
Right:
The aftermath of the Great Kanto earthquake:
Aerial view of the devastations.

Blocked road.



Top and above:
Hibiya crossing in fumes and just after the earthquake
(near Tokyo Memorial Hall and the Memorial Hall of Reconstruction).

Opposite:
Depiction of tsunami after the earthquake in the French newspaper "Le Petit Journal" 1923.



Swiss Re History

The evolution of a global risk expert

Swiss Re's rise to become the global expert in taking and managing risks mirrors the dramatic social, economic and political development of the last 150 years. Swiss Re was established in 1863 to meet demand for an independent reinsurer that would spread risk in a rapidly changing world. The following 150 years, a period of unprecedented change driven by a revolution in science and technology, have seen Swiss Re become a leading international provider of reinsurance capital and risk expertise.

Rising from the ashes

Rapid industrialisation and urbanisation throughout the 1800s were creating concentrations of risk, requiring insurers to diversify their exposures. A clear role was emerging for independent reinsurers that could shoulder and spread insurers' risks, develop expertise and provide capital when it was critically needed.

The world's first dedicated and independent reinsurer, Cologne Re, was established in the aftermath of the Hamburg fire of 1842. Swiss Re was to be the first such company outside of Germany.

Swiss Re's beginnings are often associated with the devastating fire that destroyed the thriving Swiss town of Glarus in May 1861. The fire, which hit some local insurers with claims five times their reserves, highlighted the threat of major catastrophes to the Swiss insurance industry and demonstrated the need for reinsurance to provide protection for events with a low frequency but a yet unknown severity. Immediately after the fire, the insurance industry discussed setting up a cantonal reinsurance pool but the plans never materialised.

Instead, the St. Gallen-based insurer Helvetia set up a new fire insurance company and shortly after its director Moritz Ignaz Grossmann proposed that a Swiss Reinsurer should be founded in Zurich. The main reason for doing so, Grossmann wrote, was to keep reinsurance premiums in Switzerland rather than reinsuring with French and English insurers.

The Swiss Reinsurance Company first opened its doors in Zurich on 19 December, 1863, with CHF 6 million of share capital raised from a diverse group of investors, including two Swiss banks.

Below:

Swiss Re's offices in 1983.





Fundamentals of success

Swiss Re's early leaders established the sound principles of reinsurance that have been followed by successive generations of Swiss Re managers ever since. From the very start, Swiss Re was to be an international reinsurance company that spread its risks geographically, built strong client relationships and developed access to a diverse capital base.

The early years were difficult for Swiss Re – reinsurance was a new concept that lacked the sophisticated risk management tools of more recent times. The primary insurance market was far from transparent. As a consequence, client relationships had to be rooted in trust and “utmost good faith” rather than knowledge and facts.

In these first challenging years, Grossmann turned to Giuseppe Besso, a member of the famous Besso family associated with the Italian insurer Assicurazioni Generali. Besso accelerated Swiss Re's international diversification and continued to build the company as a financially robust and independent reinsurer.



Clockwise from top left:

Giuseppe (Josef) Besso (1839–1901), brother of Marco Besso from Trieste, director of Generali Insurance. Giuseppe Besso was general manager of Swiss Re from 1865 to 1879.

Charles Simon (1862–1942), general manager of Swiss Re from 1900 to 1919 and later chairman of the board of directors.

Erwin Hürlimann (1880–1942), the first Swiss general manager of Swiss Re from 1919 to 1930. Later chairman of the board and honorary chairman.

Moritz Ignaz Grossmann (1830–1910), director of Helvetia Insurance and founder of Swiss Re.

Diversified from the start

Right from the start, Swiss Re had an international outlook, with only two of its 18 early contracts written with Swiss insurers.

By the turn of the 20th century, Swiss Re was already reinsuring risks in Europe, the US, Latin America, Russia and Asia. It was also beginning to establish a global network, opening an overseas office and looking to underwrite directly in key international markets.

The reinsurer also looked to spread risk across an increasing number of lines of business, writing its first contracts in marine reinsurance in 1864, in life reinsurance in 1865, in accident and health reinsurance in 1881, and in motor reinsurance in 1901.

The form of reinsurance contracts also evolved – in 1890 Swiss Re underwrote its first excess of loss contract, a type of reinsurance that pays claims above an agreed level of losses, rather than a proportion of all an insurer’s losses.

This change in approach would enable reinsurers to focus on the less frequent catastrophic risks. In a sense, the modern age of reinsurance had begun.

Catastrophe losses

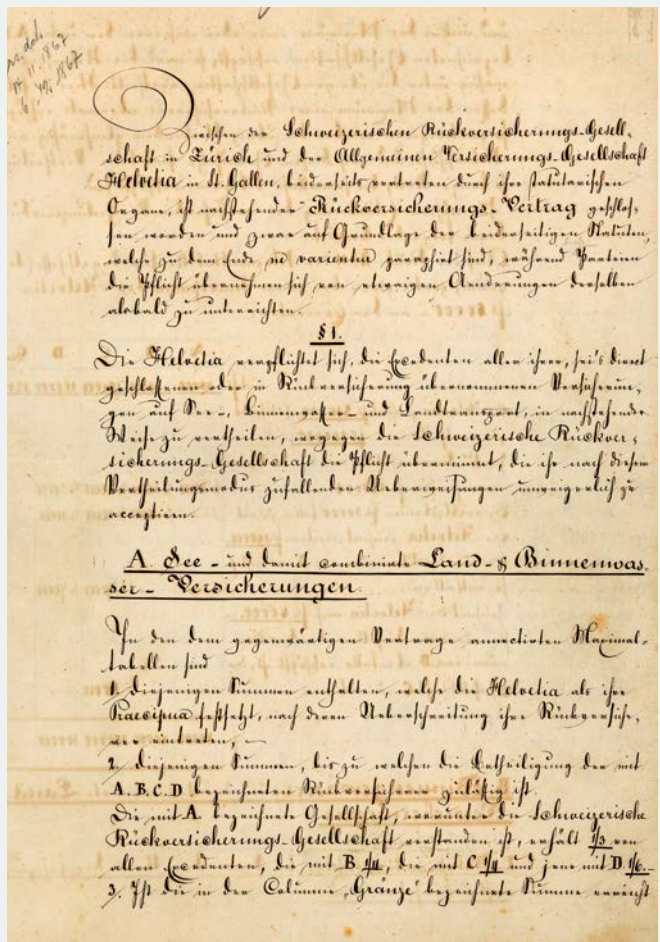
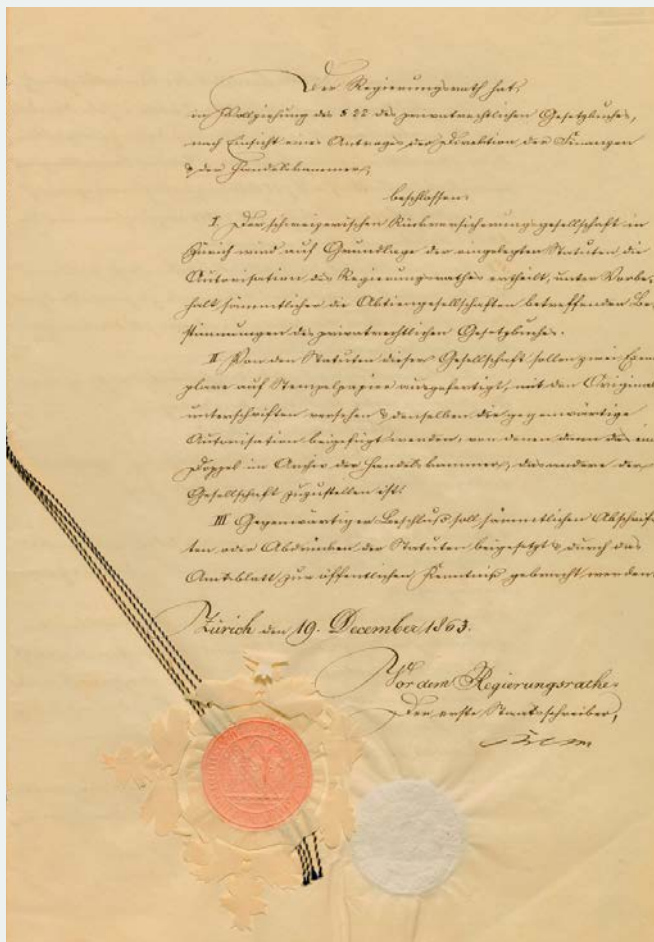
The first few decades of the 20th century were marked by growth in both international exposures and single large risks – demonstrated by the Spanish Flu epidemic in 1918, which led to a CHF 1 million loss for Swiss Re, and by the sinking of the Titanic in 1912, also reinsured by Swiss Re.

Below left:

The company’s articles of association were approved on December 19, 1863, and signed by the famous Swiss author Gottfried Keller as a clerk of the Canton of Zurich government.

Below right:

Swiss Re signed its first reinsurance contract with Helvetia, one of its founding companies, in 1863.



However, it was the catastrophic 1906 San Francisco Earthquake that was to be the insurance and reinsurance industry's wake-up call. The earthquake and subsequent fire that swept through San Francisco was a market-changing event. The extent of the damage made insurers rethink the potential size of losses, as well as the importance of seeking well-capitalised counterparties.

Within three years of the quake, San Francisco had been largely rebuilt thanks to payments made by the insurance and reinsurance industry. The majority of claims were paid by foreign companies, demonstrating just how globalised the industry had already become.

For Swiss Re, the earthquake generated the biggest single loss as a percentage of net premiums in the company's history, but reinforced Swiss Re's reputation as a financially secure and reliable counterparty in the US and the UK where the reinsurer honoured its contracts to cedants.

Global market access

Above all else, the San Francisco earthquake highlighted the need for further geographical and product diversification, leading Swiss Re to make a number of acquisitions.

Acquisitions were to feature early on in Swiss Re's history, and continue well into modern times. In addition to helping spread risk internationally, acquisitions give access to new business, particularly where strong relationships between local insurers and reinsurers make it difficult to grow.

Early acquisitions saw Swiss Re gain footholds in the all-important UK and German markets through stakes in Mercantile and General Insurance Company (M&G) in 1915 and Bayerische Rückversicherung of Munich in 1924.

Financial crisis

The 1929 stock market crash in the US and subsequent Great Depression showed insurers and reinsurers for the first time that they were exposed to significant risks on the asset side of the balance sheet.

The crash led to write-downs of assets at Swiss Re amounting to almost CHF 26 million, although the company was saved by its accumulation of special reserves – some CHF 30 million were taken from these reserves in 1931 to cover record losses. However, Swiss Re learnt valuable lessons, and the crisis marked the birth of a more prudent asset liability management at Swiss Re, an important risk management tool that continues to be used by insurers today.

Redrawing the map

While German and Russian reinsurers were expelled from international business around the time of the two world wars, Swiss Re was able to capture a market-leading position in the US. However, the radically different world that would emerge after the Second World War constrained reinsurers' ability to spread risk.

A number of markets were now off-limits – with those in Central and Eastern Europe slipping behind the Iron Curtain. Others, such as Brazil and India, became state-owned. At the same time, other markets were enjoying a boom in consumer spending, leading to higher concentrations of risk in markets like the US and Europe.

Swiss Re continued to seek geographical and product diversification, developing a leading presence in new markets, including Canada, Australia, South Africa and then Asia.

Post-war boom

The technology boom and growing concentration of risk in mature markets after the Second World War led to growing demand for risk management, and for greater expertise from insurers and their reinsurers. In response, Swiss Re looked to share its risk expertise through training and communication, a key part of the reinsurer's business culture and brand ever since.

It opened the Swiss Insurance Training Centre (SITC) in 1960 to provide technical training, particularly to insurers in emerging markets. Swiss Re's *sigma* unit began publishing its trademark economic research in 1968, and the unit continues to generate some of the most valued data and analysis available on the insurance market.

Focus on core business

In response to the growth in risk management and the trend towards greater self-retention in the 1980s, Swiss Re began expanding its range of services, acquiring insurance service companies, as well as increasing its participation in the primary insurance market.

However, although dependent upon each other, Swiss Re discovered that the actual management of a primary and a reinsurance company had little in common.

In 1994, a new management team refocused the company's operations back on reinsurance, reinvesting the proceeds from the sale of its primary insurance businesses in achieving its strategic goal of becoming the world's largest reinsurer. Growing catastrophe exposures and an increasingly complex and globalised risk landscape were beginning to drive demand for large, highly rated managers of capital and risk.

Swiss Re History

Swiss Re sought to grow its life reinsurance business, headquartered in London, and develop its insurance-linked securities offering. It also developed its direct corporate insurance unit and further globalised its non-life reinsurance operations.

In the 1970s, Swiss Re had been one of the first reinsurers to recognise the importance of emerging markets. Later, it began opening offices in key markets, seeking to build strong relationships and expertise through a local presence – Swiss Re obtained licenses in Korea in 2002, China in 2003 and Japan and Taiwan in 2004.

During the 1990s, Swiss Re took on much of its current corporate form – it adopted a single brand operating from one global capital base, providing the highest levels of financial strength, expertise and tools to clients whilst remaining attractive to a wide range of capital providers.

New risk frontiers

Following Hurricane Andrew in 1992, which was the largest insurance industry loss at that time, Swiss Re began working with Swiss bank Credit Suisse to develop alternative financial and risk transfer solutions.

Developments in actuarial modelling and a growing interest in hedging risk in the 1980s led Swiss Re to explore developments in capital markets and bring new financial products to existing and new clients. The growth in Swiss Re's financial products business helped forge lasting relationships between reinsurers and capital markets that had not really existed before.

A new era was beginning, and capital markets had been opened up as a source of additional and complementary capacity. Innovative products were also being developed, including some of the first insurance-linked securities and public-private partnerships.



Above: Swiss Re's first office on the first floor of Schoffelgasse 1 in Zurich (house in the middle).



Top:
Mythenquai 60 in Zurich, Swiss Re's first purpose-built offices, opened in 1913.

Above:
Swiss Re's new office building at Mythenquai 50 in Zurich, planned for 2017.

Market consolidation and expansion

With strategy firmly fixed on its core reinsurance operations, Swiss Re strengthened its position by buying competitors in a number of markets during the 1990s and 2000s.

The company made a series of acquisitions in the life reinsurance market between 1995 and 2001, mostly in the US but also reacquiring M&G. These acquisitions formed the basis of Swiss Re Life & Health, the company's global life reinsurance business centred in London, which includes AdminRe®, an operation specialising in the acquisition and administration of run-off business.

Swiss Re's largest acquisition was the USD 7.6 billion deal in 2006 for GE Insurance Solutions, the fifth largest reinsurer at that time. The transaction reinforced the reinsurer's leading position in the US reinsurance market, but also in other markets such as the UK or Germany.

Challenging times

The opening decade of the 21st century was challenging for global insurers and reinsurers, including Swiss Re.

The terrorist attack on the World Trade Center in 2001 not only cost three thousand lives and billions of dollars in property damage, it also changed insurers' thinking about the possible size of losses and the interconnectivity and accumulation of seemingly unrelated risks.

Swiss Re in London underwrote half of the USD 3.5 billion coverage for the WTC, and insurance claims from the attack contributed to Swiss Re's first net loss since 1868. It took five years before a New York jury ruled in favour of Swiss Re and other insurers in the largest insurance litigation process ever, confirming the attack was one event and not two, as the owner of the WTC had claimed.

The first decade of the 21st century put into question the insurability of some large risks. Hurricane Katrina, which produced the highest damages of any natural disaster in history, cost Swiss Re USD 1.2 billion. Although it demonstrated the ability of the industry to absorb devastating losses, within six years the toll of the 2005 hurricane season was equalled by a string of natural catastrophe events in the Pacific region. It started with floods in Australia, which were followed by a sequence of earthquakes first in New Zealand and later in Japan, followed by a tsunami, and the year finished with yet another flood in Thailand.

The financial crisis of 2008 was also tough on Swiss Re. The company made a loss of CHF 864 million in 2008, mainly the result of investment losses and the performance of two credit default swaps.

By de-risking its asset portfolio and concentrating on its core reinsurance business, the company emerged from the crisis as a leading participant in the reinsurance market.

Preparing for the future

In 2011, Swiss Re implemented a new legal structure to support its strategic priorities and refine its business model. It created three separate business units, namely Swiss Re's existing reinsurance business, along with two new entities for Corporate Solutions and Admin Re®.

The company also continues to invest in the future. In 2003, Swiss Re opened its award-winning St Mary Axe building, affectionately known as the Gherkin, while work began on a new building at Swiss Re's headquarters in Zurich in 2012.

By staying true to the fundamentals of reinsurance championed by Swiss Re's early leaders – the importance of diversification and long-lasting client relationships – Swiss Re has weathered many storms in its 150-year history, continuing to provide its clients with a secure partner in risk.

The history of the company shows the pivotal role reinsurance has played in the management of risk. And with Swiss Re at the forefront, it remains well-positioned to carry on doing so.



Above:
30 St Mary Axe, London, was opened in 2004.



17
新潟県
佐波汽船

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Golden age for insurance

With a growing population and rising incomes, the insurance industry was well positioned, but its success was also due to a vast increase in the number of products available. As the asset base of the industry also grew and the yen appreciated, insurers found themselves uniquely placed to follow other leading Japanese companies and expand overseas. This was indeed a golden age for insurance.

Post-war boom

From 1955 Japan entered a period of rapid growth, paving the way for the “Golden Sixties”, the decade most associated with the Japanese economic miracle. The outlook for Japan and its insurers was bright. Gross domestic product grew from ¥ 8 trillion in 1955 to ¥ 240 trillion in 1980.

One result of the Japanese economic miracle was the huge popularity of the motor car, which saw the importance of motor insurance grow exponentially. Indeed, from the 1960s, motor insurance accounted for the majority of business for most Japanese non-life insurance companies. In contrast, the relevance of marine insurance dropped significantly and today it only accounts for some 3% to 5% of new premiums. Another development that set Japan apart from other mature insurance markets was the popularity of non-life linked savings products. These products, which required insurers to reserve against savings premiums, reduced demand for reinsurance.

Between 1965 and 1971, the non-life insurance market grew considerably, reflecting the rapid growth in the motor market. However, with the regulatory restrictions imposed on new companies, after the war the number of direct non-life insurance companies remained stable and relatively small at 20 until 1981. On a visit to Japan in 1989, a Swiss Re Manager found a country bursting with activity. He also found a country in which risks were well managed, noticing that earthquake perils had been prudently thought through.

Demand grows for expert reinsurers

Economic development, international expansion of Japanese corporates and large new risks with car manufacturing factories and petrochemical plants required additional reinsurance capacity, which was mostly met by overseas reinsurers like Swiss Re, one of only a small number that were actively engaging with the market at the time. Japanese insurers also continued the long tradition of giving international experience to talented executives, sending employees abroad for periods of up to 18 months to gain experience of overseas insurance markets like London, as well as attending Swiss Insurance Training Centre (SITC) courses in Zurich.

Left:

Unidentified photo from Swiss Re’s collection. Probably showing the effects of the Niigata earthquake in 1964.



Golden age for insurance

As well as providing reinsurance in the post-war period, Swiss Re assisted Japanese clients with reducing administrative costs and expense ratios. The reinsurers helped many companies reorganise their administration and introduce data processing machines, sharing the experience of insurers on a global basis.

In the turbulent post-war years, Swiss Re first opened an office in Hong Kong, serving Japan from there. However, there was talk of establishing a Japan office as early as 1961. In recognition of the changing needs of Japanese insurers, Swiss Re opened its first representative office in the Dowa Building in Tokyo in 1972 to perform service and information functions. Soon after the Tokyo office was opened, Swiss Re underwrote its first Japanese life reinsurance treaty with

Below:
Global distribution of Nihon Fire Insurance.

Opposite:
The Asahisan Maru caught fire in the port of Karachi in 1954.

The Tōya Maru sank during typhoon Marie in 1954.

Nippon Life in 1975, followed by Mitsui Life in the same year. The office was established with the help of Dowa Fire and, in 1981, was renamed Swiss Reinsurance Company Representative Office Tokyo.

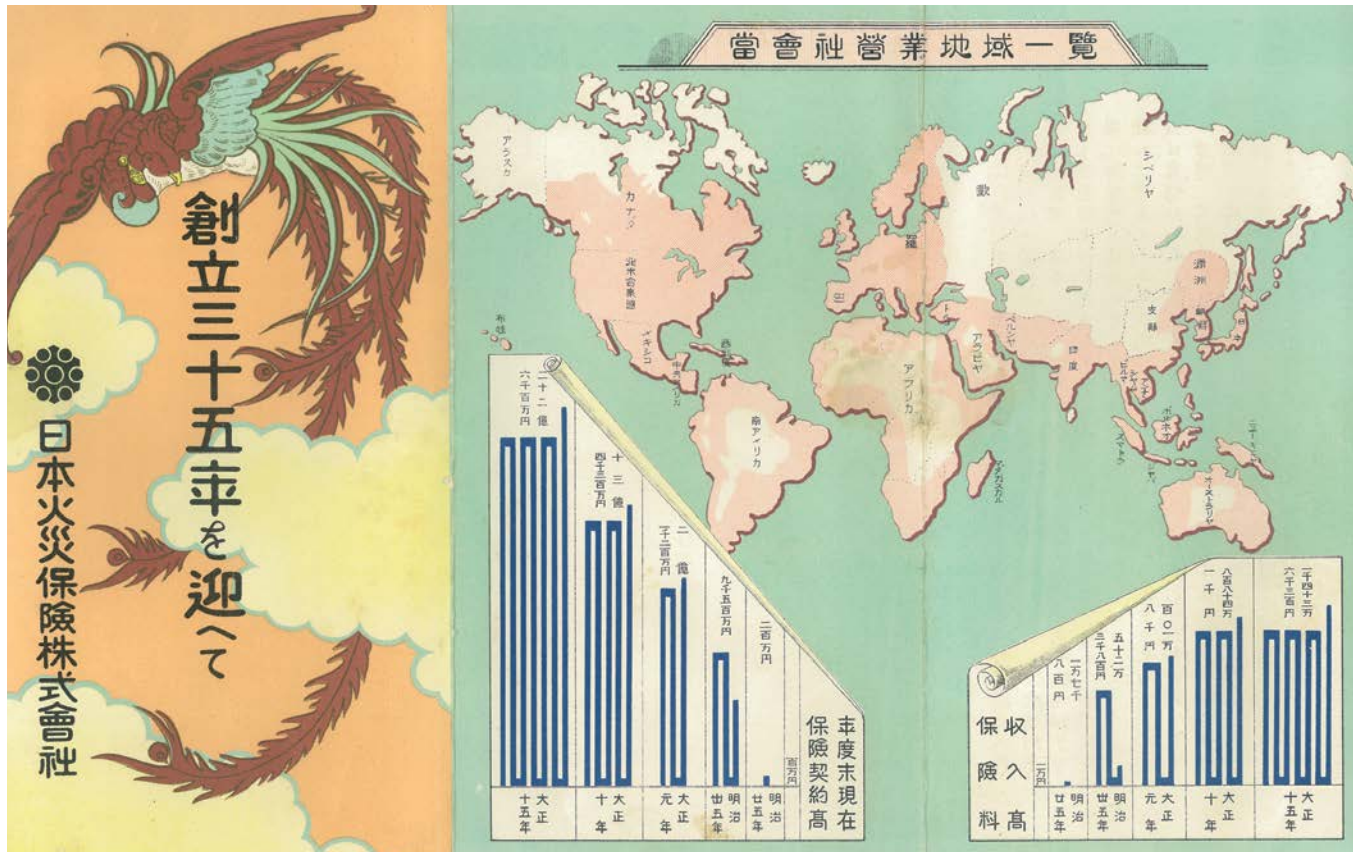
Japanese insurers expand overseas

The expansion of Japanese industrial companies overseas continued through the 1970s and accelerated in the 1980s. With the sharp appreciation of the yen, foreign direct investment overseas increased and Japanese insurers supported the success of Japanese industry by also expanding in Europe and the US. The number of subsidiaries established overseas by Japanese non-life insurers in 1971 was only nine, increasing to 56 in 1978. Overseas business of Japanese non-life insurers saw insurance premiums received from overseas tripling to ¥ 219 billion between 1971 and 1978, while premiums ceded overseas doubled. Japanese insurers also expanded into overseas reinsurance in the 1970s and 1980s, in particular through the London market. However, they eventually withdrew from the US and London reinsurance market after suffering large losses from US casualty business in the liability crisis.

Reinsurance market

Despite the size of the non-life market and exposure to natural catastrophes, there were just two domestic reinsurers – Toa Fire & Marine Reinsurance and the government backed Japan Earthquake Reinsurance – during the post war period. A major feature of the reinsurance market since the war is that the bulk of reinsurance is retained within the market through a variety of pooling arrangements and exchanges. For example, the government insured 60% of compulsory motor insurance in the late 1990s, with the remaining 40% ceded to the Compulsory Automobile Liability Insurance Pool. All residential property earthquake risk is reinsured to Earthquake Re.

As a result, the involvement of foreign reinsurers in catastrophe reinsurance for much of the post war period was mostly limited to industrial earthquake risks and Kyosai risks that fall outside Earthquake Re. For example, Swiss Re was one of the largest reinsurers of the Zenkyoren earthquake programme, providing reinsurance to the Japanese Agricultural Co-operative.





Typhoons



Above:
Typhoon Marie, 1954.

Below:
Typhoon Ise-wan in Kiso, 1959.

Every year, the Japan coastline faces the threat of typhoons, tropical cyclones with speeds above 62kph, reaching landfall. Approximately 11 typhoons reach within 300 km of the broad Japanese archipelago and an average of 2.6 reach the shores.

The worst typhoon in recorded history was 1959s Typhoon No. 15, later named the "Ise-wan" (Ise Bay) Typhoon by the Meteorological Agency. The colossal storm, which at times generated wind speeds of more than 180 kph, made landfall in Wakayama Prefecture on Sept. 26. It took over 5 000 lives and left nearly 39 000 people injured, while 40 000 houses and buildings were completely destroyed. It was the largest number of deaths caused by a natural disaster in Japan until the 1995 Great Hanshin Earthquake killed 6 434 people.

The Tokyo bay region with its tremendous concentration of wealth, population and insurance exposure is at less risk from typhoons because the surrounding sea is not warm enough to create the storms seen in central Japan between Osaka and Nagoya, the second and third largest metropolitan areas. Okinawa alone faces an average of seven typhoons a year.

Flood prevention and improved planning and construction have reduced the number of deaths and destruction caused by typhoons. Japan has continued to improve and develop world-leading methods for both predicting typhoons and their effects on tides and flood patterns. It has also developed special response teams to deal with the immediate effects of the storms including power outage and landslides.



Japan Earthquake Pool

The Japan Earthquake Pool was established in 1966 following the Niigata Earthquake of 1964. The Niigata earthquake struck in June 1964, with an epicentre 50 km north of the city and a magnitude of 7.5 on the Richter scale. A major source of damage in the city was the effect of liquefaction that caused buildings to shift and subside as the loose under-soil lost its structure and strength. Over 1900 houses were destroyed and a further 20 000 damaged.

As fire insurance tends not to cover fire-related losses caused by earthquake, eruptions or tsunamis, it was recognised a different solution was required with government involvement to underpin the scale of potential losses. The earthquake policy was non-compulsory for homeowners with the premium being discounted for buildings that were constructed to be resistant to seismic shocks.

Under the public private partnership, insurers pay the majority of smaller losses, but the government steps in to meet 50% of the industry's losses between 115 billion to just under ¥ 2 000 billion, and then 95% beyond this. Today, ten major insurers own 99% of the company's stock.

The combination of government and private insurance means that earthquake risk remains affordable for policyholders.

It also means that insurers can continue to offer the cover as the pool protects their balance sheets. Earthquake Re does not, however, protect industrial risk, and this role falls to private reinsurers like Swiss Re. Historically, cover is tightly controlled and primary insurers only offer cover selectively and on a limited basis in the most exposed areas.



Top:

Liquefaction caused by the Niigata earthquake, 1964.

Bottom:

The Showa Bashi Bridge after the Niigata earthquake.

Great Hanshin earthquake, Kobe

The Great Hanshin, or Kobe, earthquake claimed over 6 000 lives when it struck on 17 January, 1995. 150 000 buildings were ruined and there was major disruption to infrastructure including the electricity supply. The economic cost of the quake was ¥ 9 600 billion, although the insured loss was relatively small at ¥ 78.3 billion, reflecting the relatively low take up of earthquake insurance by homeowners and the limited availability of cover to corporates.

Commercial reinsurers had little involvement with the loss because earthquake risks are excluded from standard homeowners policies. Homeowners can buy earthquake insurance but this is ultimately reinsured through Earthquake Re with the government.

Before the Hanshin earthquake (December 1994), only 7.3 % of households had purchased earthquake insurance – as low as 3% in the Hyogo prefecture. After Tōhoku, however, the country wide average for Japan grew to 27.8%, as of March 2013. The earthquake also led to more investment in all areas of risk management, from early warning systems, through improved construction techniques to specialist response teams. These improvements were seen in the more effective response to the 2004 Chuetsu earthquake.



Above and opposite:
The devastation of the Great Hanshin earthquake in Kobe.



US liability crisis

Japanese companies enjoyed a period of enormous success in the 1970s and 80s, both in expanding investment overseas and exporting goods, particularly to the US. As the yen shifted to a floating system in 1973, it went through a period of appreciation that supported an unprecedented period of mergers, acquisitions and investment in new products. Japanese non-life insurers followed the other sectors of Japanese industry abroad, especially to the US arriving just as the phenomenon of enormous compensation payouts for asbestos, medical malpractice and product malfunction transformed US liability insurance into a source of enormous losses for all involved.

By the mid-1980s, the scale of the losses in the US meant that reinsurance companies internationally were also deeply affected. As global reinsurance capacity shrank, premiums increased for Japanese insurers at home, just as losses on product liability of Japanese goods increased in the US.

As well as creating difficult business conditions for insurers, these events marked a new period in which the influence of global systemic factors could be decisive for the performance of businesses in Japan. A new age of globalisation was underway.

Below:

Asbestos mineral. A large part of the claims during the liability crisis were asbestos-related.



Catastrophe exposures

Japan is heavily exposed to earthquakes, with the highest seismic hazard coinciding with the highest population concentration in the Tokyo Bay area. In the twentieth century alone, there were 26 major earthquakes, including the Great Kanto earthquake of 1923 and the Kobe earthquake of 1995.

Tsunamis triggered by seismic activity are also a threat to the entire coastline, and are more prevalent on the Pacific coast.

Japan is also exposed to a significant windstorm risk through tropical cyclones or typhoons. Typhoon Mireille was one of the most costly typhoons in recent years, with insured losses of ¥ 568 billion, while Typhoons Bart and Songda generated insured losses of ¥ 387 billion in 1999 and ¥ 315 billion in 2004 respectively. On average, three typhoons hit each year, although the most severe categories five and six are rare.

Flood risks are also present in Japan, mostly as a result of heavy rain in the summer months. Late summer and autumn can see flooding from heavy rain and storm surges associated with typhoon, while the plains of Tokyo, Kumamoto, Niigata, Osaka and Sendai are exposed to river flooding.

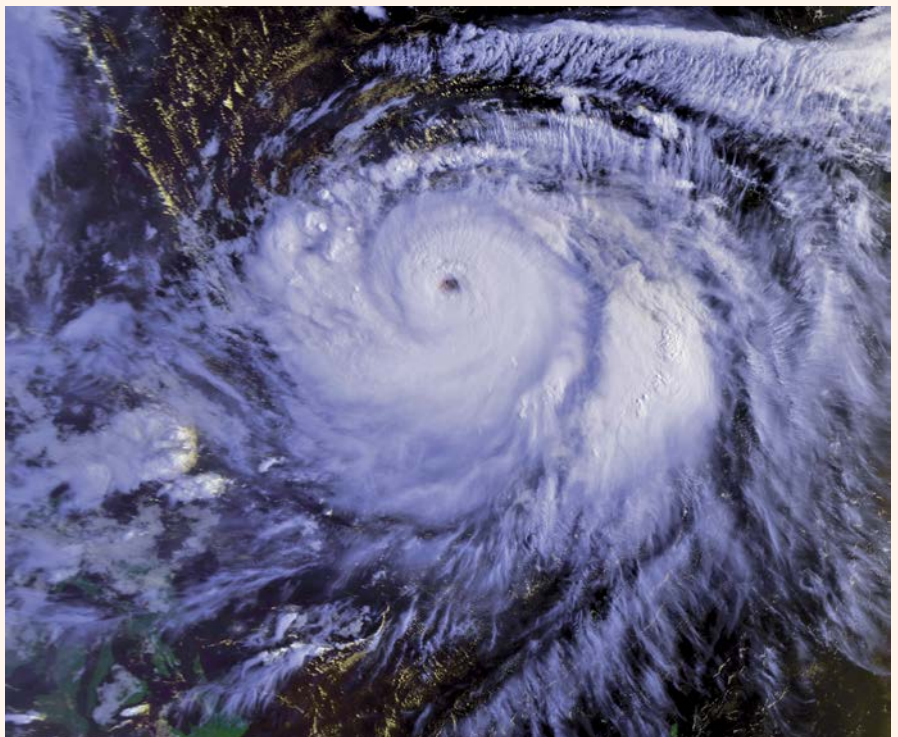
Flash floods and mudflows are frequent and may occur almost anywhere, although southern parts of the country are most affected. The Tokai flood in 2000 cost Japanese insurers ¥103 billion, the most costly flood in modern times.

Top:

Unidentified photo from Swiss Re's collection. Probably showing flooding after the Niigata earthquake in 1964.

Bottom:

Typhoon Mireille, 1991.







Consolidation and the future

The remarkable economic engine which had fuelled Japan's economic miracle stalled in 1989 as stock and property markets overheated, and the next two decades sorely tested the insurance sector as it weathered financial crisis, a devastating earthquake and low premium growth. Faced with sustained low economic growth, an aging population and increasing competition from emerging economies, Japan has adopted a policy of liberalisation, restructuring its insurance industry into a smaller number of powerful players.

A vast market

By 1990, Japan was the second-largest insurance market in the world in terms of premium income – in life insurance it was on par with the US - and occupied the number one spot for insurance penetration. With stock and property markets booming, the assets of insurers had grown and were the envy of insurers in Europe and the US. At the end of December in 1989, the Nikkei index reached an historic peak, and the economy stalled, marking the beginning of prolonged economic hardship, tipping off industry deregulation and declining investment returns.

Trials of life

Japan is home to some of the world's largest life insurance companies but the industry was facing challenges in the 1990s. Growth in new business was hampered by weak economic fundamentals, combined with rising bad debts in insurers' asset portfolios. Life insurance premiums in the first decade of the twenty-first century fell by 14% while the country's insurance market penetration – the percentage of GDP spent on insurance – at 10% had slipped to eighth in the world, behind South Korea, Hong Kong and Taiwan.

Left:
Nagasaki at night.

Consolidation and the future

As equity, bond and real estate portfolios lost value in the crash, life insurers saw their own capitalisation shrink alarmingly, and low interest rates meant that they sustained heavy losses on business with guaranteed returns. The hostile environment resulted in insufficient investment returns and caused a number of life insurers to eventually fail while some were ordered to suspend part or all of their activities by the regulator over solvency concerns. Further stock market volatility in 2000, triggered by the bursting of the bubble in technology shares, caused the bankruptcy of several more life insurance companies.

First non-life failure in 50 years

Initially, growth in the non-life market remained stable, but in the late 1990s the economic slump reduced demand for insurance. In 1997, premium growth turned negative for the first time since 1981 and failed to improve until the effects of deregulation were felt in 1999. In May 2000, the first Japanese non-life insurer became bankrupt since World War Two.

Market liberalisation

Faced with major technological innovation and changes in regulation elsewhere, the Japanese government saw the need for a number of years to liberalise the financial sector, prompted by changing customer needs and the globalisation of finance. This eventually led to Japan pursuing a policy of trade liberalisation, which included accession to the World Trade Organisation in 1995 and the Japan-US Agreement of Insurance Deregulation. Liberalisation had a big impact on the Japanese insurance market, increasing competition, dismantling pricing regimes, consolidation and the presence of foreign insurers.

In 1996, Prime Minister Hashimoto announced the Japanese 'big bang' with wide-ranging plans to re-regulate the financial services market by 2001, modelled on similar reforms in the UK. Insurance regulation shifted away from the structured European insurance system followed since 1945, in favour of a more liberalised insurance market. The 1995 Insurance Business Act (the Act) incorporated the spirit of liberalisation, which led to the increased presence of foreign life insurers and sparked a period of massive consolidation and restructuring of the non-life market.



Top and Above:
Swiss Re's offices in Tokyo.

The Act saw industry regulators take a more principles-led approach with a greater focus on policyholder protection. For example, it required all insurance companies to calculate their solvency margin in a similar way to the risk-based capital model operated in the US.

One of the biggest changes resulting from market liberalisation was the relaxation of fixed insurance rates in 1998. This prompted insurers to compete more on price and service, with a more diversified product offering. In July 1998, insurers of fire, personal accident and voluntary motor were no longer required to use the premium rates provided by the rating associations.

The changes also saw the creation of a safety net to protect policyholders should an insurer go bankrupt. At first the fund was established for life insurers, but following the failure of two non-life insurers in 2000 it was extended to non-life insurance companies. The revised Act also permitted non-life insurers to enter the life insurance market through a subsidiary. As a result, 11 new companies were formed by 1996 to offer traditional life products, although they were not allowed to cover third-sector insurance.

Under the reforms of the 1990s, non-life insurers faced greater price competition and responded with a series of mergers and acquisitions.

Reinsurance boost

Deregulation and the end of tariffs in the late 1990s also saw changes in reinsurance purchasing in Japan. Insurers were becoming more conscious of expense ratios and some insurers began purchasing standalone earthquake quota-share industrial reinsurance from foreign reinsurers.

Engineering pools were also disbanding and Japanese insurers began to arrange their own reinsurance facilities from 1997. These changes opened the door to Swiss Re to increase its participation in this part of the Japanese reinsurance market.

There were also moves to buy more typhoon reinsurance after liberalisation. Before Typhoon Mireille in 1991, few Japanese insurers understood the potential magnitude of typhoon losses and saw little reason to purchase adequate levels of windstorm reinsurance. The typhoon had cost Japanese insurers ¥ 568 billion, part of which was recoverable from overseas reinsurers. Swiss Re paid CHF 74 million. From 1992 Japanese insurers started to buy higher levels of windstorm cover, and split excess of loss programmes into separate covers for earthquake and windstorm.

Swiss Re grows in Japan

In the liberalising atmosphere of the 1990s, Swiss Re made some major changes to its operations in the region. It was already the largest foreign reinsurer in the Japanese market with premium income of ¥ 8.5 billion – an estimated 20% market share in 1996. At the time, it reinsured 30 out of 43 life insurance companies in Japan.

Deregulation led to growing business volumes and staff numbers in Japan, and necessitated a move to larger premises at Otemachi First Square Building in 1995. When Swiss Re opened its representative office in 1972, it had just two employees in Japan, growing to seven in 1982, to 35 in 1998.

One of the reinsurers biggest competitive advantages was its ability to serve its Japanese clients from its office in Tokyo.

Swiss Re was the first foreign reinsurer to offer Life & Health underwriting guidelines in Japanese, and was particularly strong in sharing its global life and non-life expertise and knowledge with its clients in Japan.

Swiss Re strengthened its leading position in Japan when it acquired London-based, The Mercantile and General Reinsurance Company in 1996, selling the US operations of M&G to Toa Re. M&G was one of the largest reinsurers in Japan, and with only a few exceptional cases, the transfer of its business in Japan to Swiss Re was without difficulty.

Toa Re accounted for 50% of M&G's Japanese portfolio, but this was transferred to Swiss Re when the reinsurer was acquired by Swiss Re. M&G's reinsurance of Kyoei was also offered to Swiss Re.

In 1999, Swiss Re demonstrated its commitment to Japan when it established the Swiss Re Services Company in Japan. The company acts as an interface for Japanese clients to access Swiss Re's global expertise.

Swiss Re also received a branch license from the Financial Services Agency to underwrite property and casualty and life and health reinsurance locally in Japan and began its operation as a licensed branch of Swiss Reinsurance Company in 2004. The reinsurer was the first major reinsurer to obtain a branch license in Japan.

Consolidation and the future

Swiss Re then moved to bolster its Corporate Solutions business in Japan, receiving a direct license in 2011 as Swiss Re International SE, Japan branch. As a local admitted insurer, SRIJ is able to support corporate clients in sectors where they are not active with tailor-made solutions and capacity in areas such as commercial earthquake insurance and commercial liability, as well as engineering and construction. The service is currently operating in the domestic market, but the next goal is to offer support to Japanese companies in their overseas operations.

Foreign expansion

With limited growth opportunities in their home markets, some of Japan's insurers looked to expand overseas as the twenty-first century unfolded. The insurers that made up the consolidated three largest

companies began to expand into South East Asia and in the BRIC countries, as well as making acquisitions in the US and the London insurance market.

Foreign insurers

European and North American insurers had also undergone a period of consolidation in the race to create companies capable of competing in the global market. Buoyed by the equity boom in their own countries, they seized the opportunity presented to them by market liberalisation of at last establishing a foothold in Japan.

Between 1997 and 2000, direct foreign investment in Japan's financial and insurance sectors was eleven times what it had been between 1989 and 1996. Foreign companies operating in Japan

have since been able to increase their market share – to nearly 17% of premium income in life insurance and 6% in non-life business by 2010.

Foreign insurers have been particularly active in life insurance. Through deregulation and the ongoing globalisation of the insurance industry, foreign insurers now account for eight of the top twenty life insurers in Japan.

Conclusion

The Japanese insurance market is still the largest in Asia and remains the second largest insurance market in the world. The Japanese insurance sector remains a cornerstone of the economy and has seen its role on the global stage continue to develop.

Life insurance today

Japan is the second largest market, generating nearly 20% of global premiums, which reflects the very high levels of insurance penetration. At the same time, the market is very consolidated with a total of only 43 domestic companies including 12 foreign controlled and 4 branches of foreign companies. The top five players Japan Post, Nippon Life, Meiji Yasuda Life, Sumitomo Life and Dai-ichi, shared 64% of direct premiums in 2010 and the foreign companies a further 17%. However it is viewed, the domestic life insurers have played a significant role as investors in the Japanese and global markets, with over ¥ 300 000 billion in assets.

This remains a market undergoing major change with further consolidation anticipated, new products emerging especially in the medical field and insurers demutualising, such as Dai-ichi Life Insurance in 2010. A major battle is underway in the field of distribution where the direct sales force still numbers over 236 600, down from 444 600 in 1991, but where bancassurance models have been liberalised allowing banks to sell products and a privatised Japan Post may become more aggressive.



Above:

With a population of almost 130 million Japan is one of the largest life insurance markets in the world.

Japan's ageing population

The good news is that people are living longer and healthier lives, but this raises a huge challenge for developed societies like Japan. It is a global phenomenon, but populations are aging most rapidly in Asia, especially in Japan and South Korea. The average life expectancy of a Japanese male is presently 80, and 86 for women. The numbers of Japanese aged over 75 is expected to double over the next 20 years and will account for over 25% of the population by 2055. Today, this is both a rural and urban issue and is exacerbated by lifestyle trends. For example, by 2030 the majority of Japanese will be living in single households.



Above:
Senior citizens having a picnic in the park.

Tōhoku

The moment magnitude-nine earthquake and resulting tsunami that devastated parts of the Tōhoku region on 11 March 2011 was the strongest ever recorded in Japan and the fourth most powerful globally since 1900. The tsunami also triggered a radiation leak at the Fukushima nuclear power plant, resulting in a 12-mile exclusion zone that has displaced some 80 000 people indefinitely.

The earthquake caused a massive loss of life – more than 19 000 including the tsunami – as well as extensive damage to property and infrastructure.

Japan's insurers responded quickly with support for the victims of the earthquake. Initially, the non-life insured damage was estimated at ¥ 970 billion, although this later increased to ¥ 1,200 billion. The previous largest insured loss in Japan was the ¥ 78.3 billion loss following the South Hyogo (Great Hanshin) earthquake in 1995.

However, the impact on Japanese non-life insurers was not catastrophic. The government picked up much of the cost, as did the state-backed Japan Earthquake Pool. For example, motor insurance does not typically cover tsunami damage, while earthquake insurance on home owner policies is optional.

Despite the scale of the disaster, insurers and mutual benefit associations had made over 70% of payments within three months, and over 90% within four months.

Earthquake losses for Japan's life insurers were also manageable and did not impair the financial position of the companies involved. Although earthquake risk is usually excluded from life insurance policies, the four major life insurers – Nippon Life, Dai-ichi Life, Meiji Yasuda Life and Sumitomo Life – announced that they would make full payment to the dependents

of victims, regardless of the exemptions. All insurers later adopted the measure, including foreign life insurers

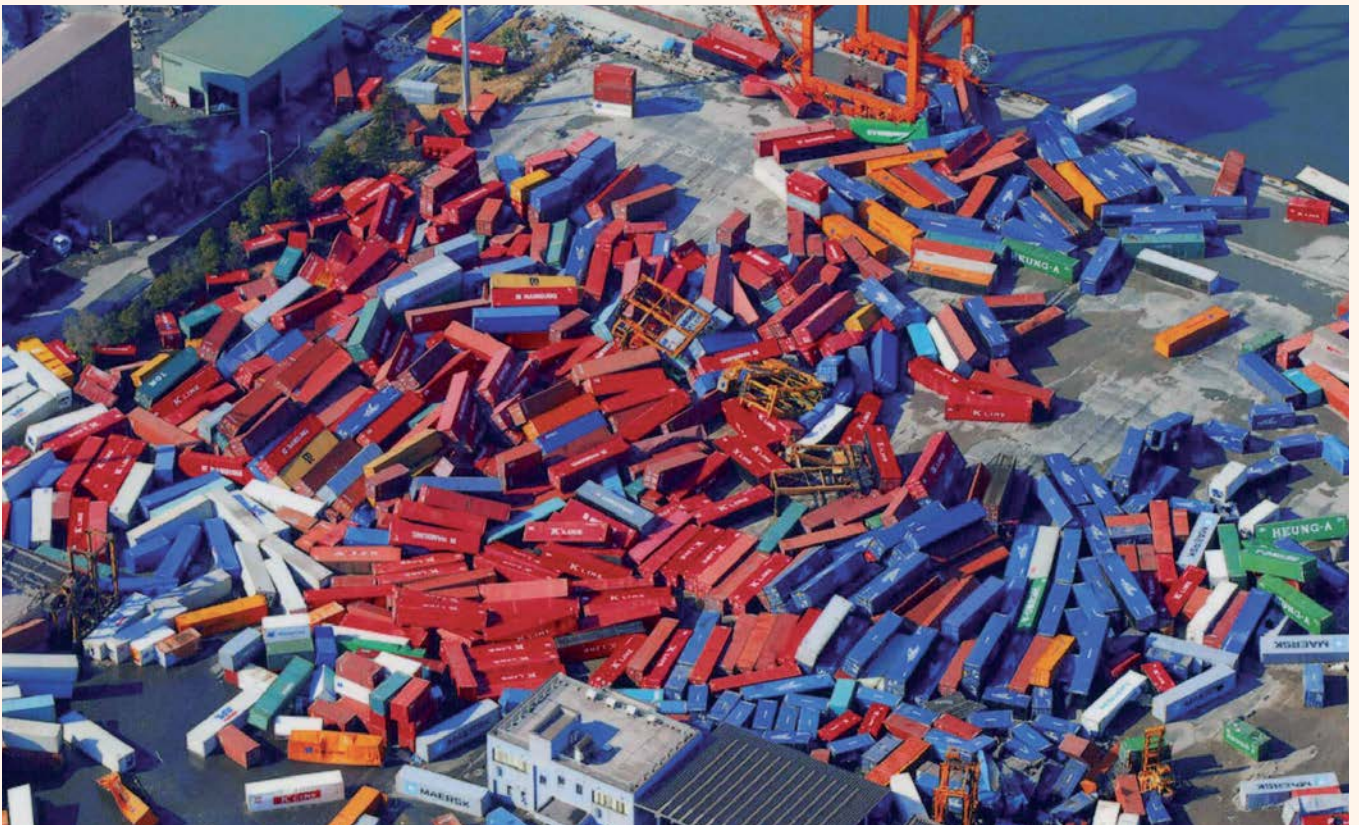
However, the earthquake hit some foreign insurers and reinsurers with large losses. Foreign non-insurers had focussed mainly on earthquake reinsurance and commercial insurance for large corporates.

As one of the world's largest reinsurers, Swiss Re reported a USD 1.2 billion loss – net of retrocession, from the earthquake. The catastrophe cost Lloyd's of London almost USD 2 billion, its fourth largest loss ever and the biggest outside the US.

The earthquake also triggered a number of catastrophe bonds, proving to be a test of this increasingly popular form of risk transfer. The earthquake ultimately led to increased interest in insurance-linked securities and alternative reinsurance products to provide capacity for this type of loss.



Above and opposite:
The devastation of the tsunami in Tōhoku.



富嶽三十六景

神奈川沖
浪裏

江戶 葛飾 富嶽 神奈川 沖 浪 裏



The value of reinsurance

Today, insurance is an integral part of our lives. Building a house, marketing a product, driving a vehicle, all would be unthinkable without taking appropriate insurance cover.

By contrast, reinsurance remains virtually unknown by the general public, even though it plays a key role in taking on risk and enabling economic growth and progress.

Reinsurance is "insurance for insurers". It carries out one of the fundamental principles of insurance, namely that risks need to be spread as widely as possible. The more broadly they are shared, the more cost-effective it becomes to cover them.

From the very beginning, the reinsurance business was international, helping its clients offset

their risks across the globe. Similarly, its breadth of activity across lines of life and non-life business, let specialized insurers diversify their risks over a wider range. And through its long-standing client relationships, some dating back to the 19th century, a third dimension has opened up of distributing risk over extended periods of time.

Reinsurers accept risks of virtually every kind, from natural catastrophes to higher mortality and motor insurance to aviation liability. These risks are transferred to them by the primary insurers, who then need to keep less risk capital tied up and can write more business as a result.

As the premiums paid for reinsurance are invested via the financial markets, both primary insurers and reinsurers contribute significantly

to the economy, which helps drive growth and benefits society in general.

Reinsurance naturally researches risks and the nature of risk more than any other part of the financial services industry. Knowledge accumulated over centuries today is harnessed in statistics and state-of-the-art models to better understand the risks of the 21st century. This effort directly benefits clients and society as a whole.

And reinsurers are also an active voice in the public discussion on risk. For addressing the big issues of our time and coping with natural perils or epidemics, insuring large-scale projects and consumer products, and, ultimately, insuring our everyday lives, reinsurance has become indispensable.



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Swiss Reinsurance Company Ltd
Mythenquai 50/60
P.O. Box
8022 Zurich
Switzerland

Telephone +81 3 5219 7800
+41 43 285 2121
Fax +81 3 3271 0990
+41 43 285 2999
www.swissre.com

