

EAAC COUNTRY REPORT JAPAN

1. Geography

a. Capital

Tokyo

b. Area

377,907 km²

2. Demography

	2000	2001	2002	2003	2004	unit
a. Population						
- Number all of population	126,926	127,291	127,435	127,619	127,687	thousand
- Population by sex and age						
Male	62,111	62,244	62,252	62,304	62,295	thousand
Female	64,815	65,047	65,183	65,315	65,392	thousand
- Population by activity						
population of age 15+	10,836	10,886	10,927	10,962	10,990	ten thousand
labor force	6,766	6,752	6,689	6,666	6,642	ten thousand
employed	6,446	6,412	6,330	6,316	6,329	ten thousand
unemployed	320	340	359	350	313	ten thousand
not in labor force	4,057	4,125	4,229	4,285	4,336	ten thousand
house keeping	1,775	1,792	1,758	1,751	1,728	ten thousand
attending school	815	801	788	780	772	ten thousand
b. Growth of population	0.20%	0.29%	0.11%	0.14%	0.05%	
c. Population mortality rate	7.7	7.7	7.8	8.0	8.2	per thousand
d. Life expectancy						
male						
age: 0	77.72	78.07	78.32	78.36	#N/A	
age:20	58.33	58.64	58.87	58.89	#N/A	
age:40	39.13	39.43	39.64	39.67	#N/A	
age:65	17.54	17.78	17.96	18.02	#N/A	
age:80	7.96	8.13	8.25	8.26	#N/A	
femal						
age: 0	84.60	84.93	85.23	85.33	#N/A	
age:20	65.08	65.39	65.69	65.79	#N/A	

	age:40	45.52	45.82	46.12	46.22	#N/A
	age:65	22.42	22.68	22.96	23.04	#N/A
	age:80	10.60	10.80	11.02	11.04	#N/A
e. Fertility rate	[TFR]	1.36	1.33	1.32	1.29	1.29

3. Economy

a. GNP & GDP

GNP	[Real]	518,304	520,132	518,652	524,543	537,055	billion yen
	[Nominal]	518,181	514,486	506,402	506,322	514,805	billion yen
GDP	[Real]	511,867	512,942	511,401	518,349	532,319	billion yen
	[Nominal]	511,760	506,165	498,208	497,798	505,185	billion yen
b. Exchange rate		114.90	131.47	119.37	106.97	103.78	Yen/Dollar
c. Balance of Payment		15,596	13,077	12,877	10,731	14,041	billion yen
d. Inflation rate		-0.7%	-0.7%	-0.9%	-0.3%	#N/A	
e. Yield rate/coupon rate		1.64%	1.37%	0.90%	1.36%	1.44%	
	[Newly Issued Government Bonds (10 years)]]						

4. Insurance Industry

a. Development of Life, annuity and health insurance industries

Life insurance companies in Japan are now facing new type of risks as traditional death benefit products have gradually lost their popularity and consumers tend to be much more interested in annuity products and so-called “third area” products, which can be sold both by life companies and non-life companies, such as medical-related products and casualty-related products.

Also, bancassurance has become quite popular in Japan recently. Main products sold through this new channel are single-premium variable annuities with some types of minimum guarantee features.

The IAJ has been very much aware of such emerging new risks.

For example, in June 2003, the FSA requested the IAJ to conduct a study of risks in variable annuity products with minimum guarantee features, such as guaranteed minimum death benefits and guaranteed minimum income benefits.

We responded to the request very quickly, and submitted a report to the FSA in December 2003. Based on the report, the FSA developed new reserving rules of policy reserves relating to variable annuities with minimum guarantees.

Also, FSA set up a working-team, which includes actuaries, to investigate various issues regarding “third area” products, such as reserving rules.

The team published a report this June and various issues will be discusses in the near future, including industry-wide data collection of “third area” products

	2000	2001	2002	2003	2004	unit
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b. Number of insurance company

- Life : State Own Company, Local, Joint Venture, Limited and Mutual					40	
- Non Life					50	

c. Various of Product [Business in Force by Type]

Individual Insurance

Whole Life Insurance	[No.]	11,430,944	11,920,515	12,479,191	12,934,098	#N/A	
	[Amount]	91,542,750	89,671,688	89,634,072	89,019,397	#N/A	million yen
Whole Life Insurance with Term	[No.]	27,572,151	23,833,728	21,656,243	19,934,581	#N/A	
	[Amount]	793,809,931	660,658,385	579,651,975	515,022,799	#N/A	million yen
Interest sensitive whole life insurance	[No.]	—	2,662,432	4,199,952	5,252,950	#N/A	
	[Amount]	—	69,064,515	98,103,802	115,928,276	#N/A	million yen
Term Insurance	[No.]	11,250,303	12,060,564	12,713,512	12,867,769	#N/A	
	[Amount]	117,052,798	131,955,926	144,897,640	150,844,139	#N/A	million yen
Endowment	[No.]	15,625,436	13,856,926	12,386,587	11,031,446	#N/A	
	[Amount]	47,771,749	43,023,141	39,124,588	35,443,729	#N/A	million yen
Endowment with Term Insurance	[No.]	5,121,820	4,435,983	3,873,244	3,385,016	#N/A	
	[Amount]	45,897,739	38,522,849	32,360,754	27,294,500	#N/A	million yen
Variable Life Insurance (Whole Life Type)	[No.]	773,809	846,571	926,105	1,002,398	#N/A	
	[Amount]	6,952,759	7,265,250	7,577,581	7,856,555	#N/A	million yen
Variable Life Insurance (Term Type)	[No.]	—	—	447	692	#N/A	
	[Amount]	—	—	13,033	18,064	#N/A	million yen
Variable Life Insurance (Endowment Type)	[No.]	65,985	69,274	74,731	78,172	#N/A	
	[Amount]	258,899	278,497	306,315	328,165	#N/A	million yen
Others	[No.]	40,877,979	41,161,977	41,866,731	42,854,157	#N/A	
	[Amount]	208,705,943	215,182,935	218,576,190	210,892,885	#N/A	million yen

Individual Annuities

Fixed Annuity (Deferred Annuity)	[No.]	12,826,036	12,018,883	11,464,018	11,401,295	#N/A	
	[Amount]	71,118,551	66,184,386	63,175,681	62,239,690	#N/A	million yen
Fixed Annuity (Immediate Annuity)	[No.]	891,038	1,010,997	1,145,509	1,276,653	#N/A	
	[Amount]	2,977,614	3,408,688	3,800,594	4,160,773	#N/A	million yen

Variable Annuity (Deferred Annuity)	[No.]	—	—	309,439	563,777	#N/A	
	[Amount]	—	—	1,300,548	3,163,348	#N/A	million yen
Variable Annuity (Immediate Annuity)	[No.]	—	—	—	5	#N/A	
	[Amount]	—	—	—	93	#N/A	million yen

Group Insurance

Group Term	[No. of Certif.]	90,095,299	86,825,130	80,133,284	72,108,999	#N/A	
	[Amount]	152,532,431	146,314,812	139,588,973	134,834,584	#N/A	million yen
General Welfare Group Term	[No. of Certif.]	38,660,392	35,762,114	32,493,682	28,394,459	#N/A	
	[Amount]	92,358,600	88,210,568	81,716,381	76,744,494	#N/A	million yen
Group Credit Life	[No. of Certif.]	322,027,583	270,974,382	258,754,322	233,627,911	#N/A	
	[Amount]	162,861,680	166,063,005	165,781,493	166,047,014	#N/A	million yen
Consumer Credit Group	[No. of Certif.]	165,593,751	156,691,912	151,165,737	121,340,964	#N/A	
	[Amount]	7,542,957	7,726,456	8,898,960	8,769,143	#N/A	million yen
Other Group Life Insurance	[No. of Certif.]	133,153	120,236	112,431	107,354	#N/A	
	[Amount]	535,994	514,487	497,094	483,143	#N/A	million yen
Annuities Rider	[No. of Certif.]	109,782	112,102	114,236	106,266	#N/A	
	[Amount]	154,170	166,159	175,981	182,278	#N/A	million yen

Group Annuities

Group Annuities	[No. of Certif.]	28	28	20	20	#N/A	
	[Amount]	4	4	3	3	#N/A	million yen
Insured Pension Plans	[No. of Certif.]	747,203	514,770	485,875	259,070	#N/A	
	[Amount]	553,871	356,064	345,046	208,756	#N/A	million yen
New Insured Pension Plans	[No. of Certif.]	95,497,796	82,853,168	75,763,553	64,412,309	#N/A	
	[Amount]	14,143,391	13,601,644	12,560,230	12,260,186	#N/A	million yen
Insured Contributory Pension Plans	[No. of Certif.]	35,621,844	31,287,036	28,716,688	25,775,465	#N/A	
	[Amount]	13,858,266	13,612,132	13,357,486	13,421,861	#N/A	million yen
Annuity Fund Insurance	[Amount]	—	—	—	—	#N/A	million yen
Variable Annuity Fund Insurance	[Amount]	1,370,135	900	9	1	#N/A	million yen
Employees' Pension Fund Insurance	[No. of Certif.]	46,330,392	40,191,672	34,474,137	22,689,260	#N/A	
	[Amount]	13,209,014	11,453,228	9,862,823	6,789,583	#N/A	million yen
Employees' Pension Fund Association Insurance	[No. of Certif.]	24,177,876	24,406,359	—	—	#N/A	
	[Amount]	38,512	34,371	—	—	#N/A	million yen
National Pension Fund Insurance	[Amount]	54,438	42,816	40,385	45,382	#N/A	million yen

National Pension Fund Association Insurance	[Amount]	—	—	—	—	#N/A	million yen
Group Pure Endowment Insurance	[Amount]	1,376,242	1,088,464	1,045,313	1,065,943	#N/A	million yen
Defined Contribution Pension Insurance (Corporate T	[Amount]	—	1,425	14,204	66,836	#N/A	million yen
Defined Contribution Pension Insurance (Individual T	[Amount]	—	—	207	1,012	#N/A	million yen
Defined Benefit Corporate Pension	[No. of Certif.]	—	—	21,250	2,250,730	#N/A	
	[Amount]	—	—	14,970	1,077,818	#N/A	million yen
Other Group Annuities	[No. of Certif.]	5,204,569	5,173,585	4,895,083	19,042	#N/A	
	[Amount]	203,140	204,700	119,326	519	#N/A	million yen
d. Experience Mortality table & mortality rate		#N/A	#N/A	#N/A	#N/A	#N/A	
e. Growth of business in force							
Individual Life Insurance	[No.]	-2.7%	-1.7%	-0.6%	-0.8%	#N/A	
	[Amount]	-3.9%	-4.3%	-3.6%	-4.8%	#N/A	
Individual Annuities	[No.]	-2.3%	-5.0%	-0.9%	2.5%	#N/A	
	[Amount]	-4.9%	-6.1%	-1.9%	1.9%	#N/A	
Group Life Insurance	[No.]	-2.7%	-10.7%	-5.0%	-12.8%	#N/A	
	[Amount]	-0.3%	-1.7%	-3.0%	-2.4%	#N/A	
Group Annuities	[No.]	-5.3%	-11.2%	-21.7%	-20.1%	#N/A	
	[Amount]	-2.9%	-9.8%	-7.5%	-6.5%	#N/A	
f. Growth of new business/Income Premium		-1.8%	-3.6%	29.4%	23.4%	#N/A	
g. Cost realization		3,809,156	3,756,359	3,595,136	3,570,657	#N/A	million yen
h. Sales forces/Channel Distribution		#N/A	#N/A	#N/A	#N/A	#N/A	

5. Actuarial Association

a. Foundation & office address

The Institute of Actuaries of Japan (IAJ)

President: Katsumi Hikasa

Postal address:

Harumi Island Triton Square Office Tower X 2F,
1-8-10, Harumi, Chuo-ku, Tokyo 104-6002, Japan

Tel: 81-3-5548-6033

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Email address: secretariat@actuaries.jp

b. Number of members (03/31/2005)

Honorary Members	8
Fellows	1,101
Associates	768
Students	1,662
Supporting Members	109
Total	3,648

c. Professional Activity

d. Educational Activity

(1) Examination System of IAJ

(i) Present Examination System

The IAJ has been carrying on its qualification examination since 1936 and at present, the examination subjects for the Basic Level are fixed as Mathematics, Life insurance mathematics, Non-life insurance mathematics, Pension Mathematics, and Accounting, economics and investment theory. And, in the Advanced Level, there are 3 elective Examination courses for Life insurance, Non-life insurance and Pension. There are 2 subjects for each Advanced Level course. Candidates who passed all the subjects of the Basic Level Examination are qualified to take the Advanced Level Examination. A Passer of all the subjects of both level Examinations, upon the completion of Professionalism Course, a one-day seminar, is qualified as a Fellow of the IAJ after the approval of the Board of Directors. To a passer of the 5 basic subjects, the title of Associate is afforded after the approval of the Board of Directors.

(ii) Review of Qualification Examination and Education System

In 1998, International Actuarial Association (IAA) approved Educational Guidelines and Syllabus for internationally recognized actuarial qualification. In accordance with the Syllabus, IAA full-member associations will be required to recognize member qualifications in and after fiscal year 2005. In our Institute's certification review of the Fellow qualification heretofore, there have been no requisites for professional education. The IAJ has accepted the IAA's decision, and in 2001, inaugurated a one-day training course on professionalism for those seeking the Fellow qualification. From 2005 and on, the IAJ makes this as compulsory training for all candidates Fellows. Modeling was not a part of the qualification examination explicitly, but modeling topics will be gradually introduced into the present examination. It will be an explicit part of the examination scope from 2005.

Above transitional measures satisfies Education Guidelines and Syllabus of IAA.

(2) Continuing Education System

Continuing education maintains the qualifications of those who have become Fellows, a practice not yet made compulsory by IAA. Since 2000, the IAJ has recommended that Fellows complete 50 hours or more per year of continuing education. The materials covered and time spent are self-reported. Continuing education is implemented through annual meetings, seminars hosted by the Institute, and other forms of self-study. But the IAJ believes that it is necessary to expand the contents of its seminars in order to keep Fellows up to date on insurance and annuity system amendments, new actuarial mathematics, and other knowledge required for appropriate maintenance of Fellow qualifications. For the time being, there are no plans to make the continuing education mandatory, but the names of the Fellows who have completed the 50 hours or more are being listed in the IAJ Bulletin, the Institute's internal publication.

e. Conduct and status appointed actuary

f. Other actuarial professions involvement in areas

(1) IAJ Certification as Designated Corporation

The legal status of "designated corporation" was recognized under the revision of June 2000 to the Insurance Business Law. Accordingly, the Financial Services Agency was allowed to designate public interest corporations that perform services related to training actuarial specialists, establish the standards for coefficients to serve as the basis for computing liability reserves set forth in the Insurance Business Law, and undertake other activities involving actuarial expertise. The IAJ was recognized as a designated corporation by the Director of the Financial Services Agency, resulting in the creation of the legal foundation for the IAJ under the revised Insurance Business Law revised in June 2000.

(2) Activities of Actuaries in Each Field

(i) Life Insurance Field

- *The Role of The Appointed Actuary*

Based on the revision of the Insurance Business Law in 1996, the duty of confirmation by the appointed actuary is clarified under the law. And, an appointed actuary is required to confirm whether the liability reserves are calculated on the basis of sound actuarial principles and whether surpluses are distributed fairly and equitably. And he is required to submit the results in the form of a statement of opinion to the board of directors of the company, and further to submit its copy to the supervisory authorities.

An added duty imposed from the 2000 fiscal year involves forecasting future revenue and expenses, to confirm whether future assets in comparison with the liabilities are sufficient from the viewpoint of a going-concern. These results are then to be included in the statement of opinion.

- *The Role of Actuaries in Asset Management Field (Investment Risk Control)*

Heightened volatility in interest rates, stock prices, and exchange rates accompanying the liberalization and internationalization of financial markets in recent years, and the resulting heightened investment risks have raised the need for participation by actuaries, not only in traditional

fields involving actuarial practices related to insurance and pensions, but also in the field of asset management.

Specifically, actuaries are expected to engage in the development of products, applying actuarial techniques to the fields of risk analysis, valuation, and investment, and to manage risk carried by financial institutions based on quantitative analysis and valuation and ALM methods. The circumstances make it more important than ever before for actuaries to improve their investment and financial knowledge and skills.

(ii) Non-Life Insurance Field

- *Role of Appointed Actuary*

Based on the revision of the Insurance Business Law in 1996, the appointed actuary system was also adopted for non-life insurance companies.

The first appointed actuary system was stipulated similarly to that of the life insurance companies, etc., and the appointed actuary was regulated to confirm the soundness and appropriateness of the liability reserves and actuarial participation required concerning long-term maturity-refund-type non-life insurance and nursing care payment insurance.

After several years, the Enforcement Regulations of the Insurance Business Law was partially revised, following the mutual entries of both life and non-life insurance companies into the fields of accident, sickness and nursing care. And, this expanded the areas in which the appointed actuary was to be involved, including outstanding claim reserve and contractual values.

A new recognition of the need and importance of the appointed actuary accompanied the progress and expansion of the operations of non-life insurance companies. The role and status of the appointed actuary at non-life insurance companies will become increasingly important in the future.

(iii) Pension Field

- *Pension ALM*

The Tax-qualified pension plan scheme and the employees' pension fund represent typical corporate pension systems in Japan. Pension actuaries have been playing a central role in pension actuarial services

Pension ALM provides usual pieces of information for sponsoring company to support serious decisions for the purpose of efficient management of assets in pension plans, especially coexistence between the soundness of pension finances and long-term profitability is a significant theme for efficient management. Recently pension actuaries participate in throughout the process, from preparation of basic figures related to assets and liabilities to analysis.

In the field of pension ALM, actuaries must be not only capable of analyzing liabilities, etc., traditional field for actuaries, but they must also have knowledge of asset management.

- *Defined Benefit Corporate Pension Plans*

The scope of involvement of pension actuaries is expanding to such fields as pension plan consulting, financial verification, actuarial revaluation,

etc. in case of shifting to the defined benefits pension plans under the Law of Defined Benefit Corporate Pensions which allows to return the substitutional portion of the Employee's Pension Fund to the government.

- *Accounting for Retirement Benefits*

Following the development of accounting standards for retirement benefits, for fiscal years beginning on April 2000, the obligation and the cost for defined benefit plans are measured by using actuarial techniques called Projected Unit Credit Method to make a reliable estimate of the amount of benefit that employees have earned for their services in the current and prior period, in keeping with international accounting standards and US FAS Standards. Due to these changes in accounting standards, for many companies, the obligation and the cost of retirement benefit plans are recognized as serious management issue.

Pension actuaries participate in accounting for defined retirement benefits, as experts on that field, for examples calculate projected benefit obligations and retirement benefit costs, hold consultations for changes of retirement benefit plans, and advise the effect of changes for retirement benefit costs, and so on. As stated above, corporate recognition of accounting for retirement benefits as a management issue has raised the profile of actuaries in corporate finance.

A pension actuary is, as an expert of pension benefits, involved in the whole area of the retirement benefit accounting such as measurement of retirement benefit liabilities and retirement benefit expense, change of the retirement system and consulting concerning accounting procedures. And, as stated before, it has helped to increase a recognition degree of actuaries even in the field of private enterprise finance

(iv) Other Fields

- *Consulting Services*

Comparing to Europe and North America, the activities performed by consulting actuaries in Japan have been in conspicuous. But, with growing financial liberalization and internationalization, global consulting firms providing actuarial services around the world have established their offices in Japan.

In Japan, reforms in the financial industry, deregulation, and the adoption of the international accounting standards have resulted in increasing demand for consulting actuaries. The number of actuaries working in this field is expected to increase gradually.

- *Supervisory authorities, etc.*

At the Financial Services Agency which supervises insurance companies and at other government agencies, actuaries are serving in the fields of product inspection and others.

Actuaries are needed to various operations of businesses and services in excess of the traditional insurance field, and the scope of their activities are expanding.

g. Future prospect for the actuarial profession

The IAJ, as already stated above, has been pouring its full energies for maintaining and enhancing the professional level of its members as actuaries. On the other hand, the IAJ believes it indispensable to strengthen ties with universities, research institutes and other professional bodies, etc. not only to constantly attract, as our colleagues, excellent students and talented person wishing to be an actuary but also to produce active research results by increasing the number of the researchers of actuarial science.

Concerning our international activities, the IAJ has been paying its utmost efforts for contribution to the development of actuarial science and actuarial works through its activities with IAA and other actuarial associations of the world. In the environmental changes of financial and economic internationalization and introduction of International Accounting Standards, the IAJ wishes to continue its positive participation and involvement in international affairs.

As the IAJ's cooperation to actuarial associations around East Asian region, the IAJ has been paying its efforts for education and upbringing, etc. of actuaries through its positive participation and involvement in EAAC and through establishing friendly relationships with actuarial association in this region. The IAJ wishes to further promote actuarial techniques through active mutual exchange of opinions and personal visitations in the future.

The IAJ has been holding ASEA for upbringing and education of actuaries in East Asian region. The official name of ASEA is "Actuarial Seminar of East Asia". ASEA started in 1970, and until today, it was held 34 times. The number of the participants each time were more than 20, and the total number of the participants reached approximately 500 from 13 countries in Asia. The IAJ believes that the participants gain valuable experience, not only from the lectures but also from exchanges of actuaries from the other countries and through their touches with the Japanese culture. The IAJ is accepting ASEA participants through recommendations of the actuarial associations in the Asian region.

6. Regulation

a. Pricing liberalization

In Japan, pricing is fully liberalized. But, before insurance companies introduce new products into the market, or reprice existing products, they have to get the FSA's approval in advance.

b. Reserve accumulation method

In case of long term individual life products, there is a standard valuation system stipulated in the Insurance Business Law. The accumulation method and actuarial assumptions are as follows (Actuarial assumptions are on locked-in basis):

Accumulation Method: Net level premium method

Expected Mortality Table: Standard Mortality Table 1996

Expected Interest Rate: dependent on the level of interest rates of Government Bonds issued in past 10 years.

Current expected interest rate is 1.5%