

# INSURANCE: NON-LIFE

The EU-Japan EPA outlines bilateral and multilateral regulatory cooperation with the objective of reinforcing global financial stability and efficient markets. The EPA covers numerous aspects of the insurance services market, ranging from insurance and reinsurance to brokerage, intermediation, and auxiliary actuarial services. This coverage affects EU companies throughout the insurance services industry.



*This document has been prepared with the sole purpose of simplifying the understanding of some parts of the EU-Japan EPA and bears no legal standing.*





## JAPAN'S INSURANCE MARKET LANDSCAPE

Globally, Japan's insurance market is the world's third-largest, behind the US and China, comprising 8.62% of the world's insurance premiums, and Japan's market for life-insurance comprises nearly 73% of its total insurance market<sup>[1]</sup>. Japan's penetration rate (ratio of insurance premiums against GDP) stands at 8.6%, while insurance density (the ratio of premium underwritten in a given year to the total population) stands at \$US 4,216<sup>[2]</sup>. This is the world's highest insurance density.

Japan's insurance market is highly-concentrated. While the Japanese market has 54 companies offering non-life insurance services (32 domestic and 22 foreign suppliers), the three largest firms have an 87% combined market share. These are the MS&AD Insurance Group, the Tokio Marine Group and the Sampo Japan Nipponkoa Group. Japan's insurance market is considered mature and major Japanese insurance firms have been aiming to expand internationally.

### TOP 10 COUNTRIES BY LIFE AND NONLIFE DIRECT PREMIUMS WRITTEN, 2017 (\$US MILLION)<sup>[3]</sup>

RANK	COUNTRY	LIFE PREMIUMS (USD)	NON-LIFE PREMIUMS <sup>[4]</sup> (USD)	TOTAL PREMIUMS AMOUNT (USD)	TOTAL PREMIUMS	
					PERCENT CHANGE FROM PRIOR YEAR	PERCENT OF TOTAL WORLD PREMIUMS
1	United States <sup>[5][6]</sup>	546,800	830,315	1,377,114	-0.1%	28.15%
2	P.R. China <sup>[7]</sup>	317,570	223,876	541,466	16.2%	11.07%
3	Japan <sup>[6][8]</sup>	307,232	114,818	422,050	-6.5%	8.63%
4	United Kingdom <sup>[6]</sup>	189,833	93,499	283,331	-2.6%	5.79%
5	France <sup>[9]</sup>	153,520	88,083	241,603	1.8%	4.94%
6	Germany <sup>[9][10]</sup>	96,973	126,005	222,978	3.8%	4.56%
7	South Korea <sup>[6][8]</sup>	102,839	78,378	181,218	2.4%	3.70%
8	Italy <sup>[6]</sup>	113,947	41,562	155,509	-2.6%	3.18%
9	Canada <sup>[6][11]</sup>	51,592	67,927	119,520	5.5%	2.44%
10	Taiwan	98,602	18,837	117,474	15.8%	2.40%

- [1] Insurance Information Institute (2019), International Insurance Fact Book 2019.  
 [2] MS&AD Insurance Group Holdings (2018), Basic Knowledge about the Insurance Industry.  
 [3] Insurance Information Institute (2019), International Insurance Fact Book 2019.  
 [4] Includes accident and health insurance.  
 [5] Nonlife premiums include state funds; life premiums include an estimate of group pension business.  
 [6] Estimated.  
 [7] Provisional.  
 [8] 1 April 2017 to 31 March 2018.  
 [9] Nonlife premiums are provisional.  
 [10] Life premiums are estimated.  
 [11] Life premiums are net premiums.

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## NON-LIFE INSURANCE

In the Japanese non-life insurance market, voluntary automobile insurance currently accounts for about half of net premium income, while compulsory auto-liability insurance is a further 12%. Other dominant non-life insurance products in Japan include fire, earthquake, and marine insurance.

The share of vehicle insurance is projected to decrease due to the increase in the number of vehicles equipped with safety support functions, as well as the proliferation of automated driving. Since regulatory liberalization in 1995, underwriting expense ratio has decreased from 21% in 1995 to 15% in fiscal 2017<sup>[12]</sup>.

## NATIONAL AND INTERNATIONAL

Japan's Financial Services Agency (FSA) recognizes insurance suppliers as:

- Domestic Insurers: Licensed as a domestic insurance company.
- Domestic Insurers with Foreign Capital: Licensed as a domestic insurance company, which includes firms with over 50% of foreign capital.
- Foreign Insurers: Licensed on a branch or agent basis. Listed by FSA as branch-offices of foreign firms.



**[12]** The Toa Reinsurance Company, Limited (2018), Japan's Insurance Market 2018.

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## REGULATORY LANDSCAPE

### REGULATORY OUTLOOK IN JAPAN

#### REGULATORY AGENCY

- The insurance market is regulated by the Financial Services Agency (FSA).

#### KEY LEGISLATION

- 1995 Insurance Business Act. Basic law of insurance supervisory law. Supervision of insurance and insurance solicitation. Revised in 1996 and 2016.
- 2008 Insurance Contract Act. Basic rights and obligations of insurers and policy-holders. Classifies insurance contracts into general insurance, life insurance, and accident and sickness insurance.
- 1948 Act on Non-life Insurance Rating Organizations. Regulates operation of insurance rating organizations, who provide reference cost rates.
- Automobile Liability Security Act. Compulsory automobile liability insurance.
- 1966 Earthquake Insurance Act. Government reinsurance for earthquake insurance market.

#### REGULATORY MEASURES AND GUIDELINES

- Cabinet Order for Enforcement of Insurance Business Law (Cabinet Order No. 425 of 1995)
- Ministerial Ordinance for Enforcement of Insurance Business Law (Ministerial Ordinance of the Ministry of Finance No. 5 of 1996)

### HOW IS THE INSURANCE MARKET AFFECTED BY THE EU-JAPAN EPA?

#### COVERAGE OF THE INSURANCE MARKET:

- EPA Art. 8.59(a)(i)(A),(B), and (C) establish coverage for life and non-life direct insurance (including co-insurance), reinsurance and retrocession, and insurance intermediation, such as brokerage and agency.

- EPA Art. 8.59(a)(i)(D) establishes coverage for services auxiliary to insurance, such as consultancy, actuarial, risk assessment and claim settlement services.

#### WHAT THIS COVERAGE PROVIDES:

- EPA Art. 8.60 allows European financial service providers established in Japan to offer new financial services in Japan (although this might still require licenses and regulatory authorisation). Includes insurance services.
- EPA Art. 8.62 establishes equal access and non-discrimination concerning membership or participation in, or access to self-regulatory organizations for financial service suppliers. Includes insurance services.
- EPA Art. 8.63 protects information transfers and processing of financial information needed for the conduct of the ordinary business of a financial service supplier. Includes insurance services.
- EPA Art. 8.66 ensures a level playing field between private insurers and postal insurance entities.
- EPA Art. 9.2 establishes the free movement of capital for the purpose of liberalisation of investments and other transactions (which can be temporarily interfered with during times of external financial difficulties).
- EPA Annex 8-B outlines the specific commitments taken by Japan and the European Union respectively for services and investment liberalisation.

### CHALLENGES

The EU-Japan EPA offers EU financial-sector businesses more opportunities to participate in Japan's insurance market landscape. EU SMEs should take into consideration that other factors, such as cultural, linguistic, and regulatory barriers will need to be addressed in order to take full advantage of the EU-Japan EPA.

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While the introduction of new financial services to the Japanese market cannot be prohibited by regulators on novelty grounds, regulators can still require authorisation, refuse authorisation on prudential grounds, or determine the judicial form under which the financial service can be supplied. EU SMEs supplying new financial services should still expect regulatory oversight. In particular, qualification requirements and procedures,

technical standards and licensing requirements and procedures, which do not constitute a market access or national treatment limitation would apply.

Likewise, Japanese SMEs can still be subject to regulatory authorisation, licensing requirements, macroprudential regulation, and competition policy regulations and thresholds.

## MORE INFORMATION

**The text and annexes of the EU-Japan EPA** can be found on European Commission's DG Trade website:  
<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>

**EU-Japan EPA Chapter on financial services:**  
[http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc\\_157228.pdf#page=281](http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157228.pdf#page=281)

**Annex 8 of the EU-Japan EPA:**  
[http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc\\_157232.pdf#page=1](http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157232.pdf#page=1)



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## DISCLAIMER

*The Report has been prepared with the sole purpose of clarifying and simplifying the understanding of some parts of the EU-Japan EPA related to insurance, and bear therefore no legal standing.*

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