

# Financial Economic Valuation and the Fair Value of Japanese Life Insurance Business

**Michel Abbink, Ron Akhurst,  
Nobushi Mitsuishi, Alan Rae**

**21 March 2002**



[WWW.WATSONWYATT.COM](http://WWW.WATSONWYATT.COM)



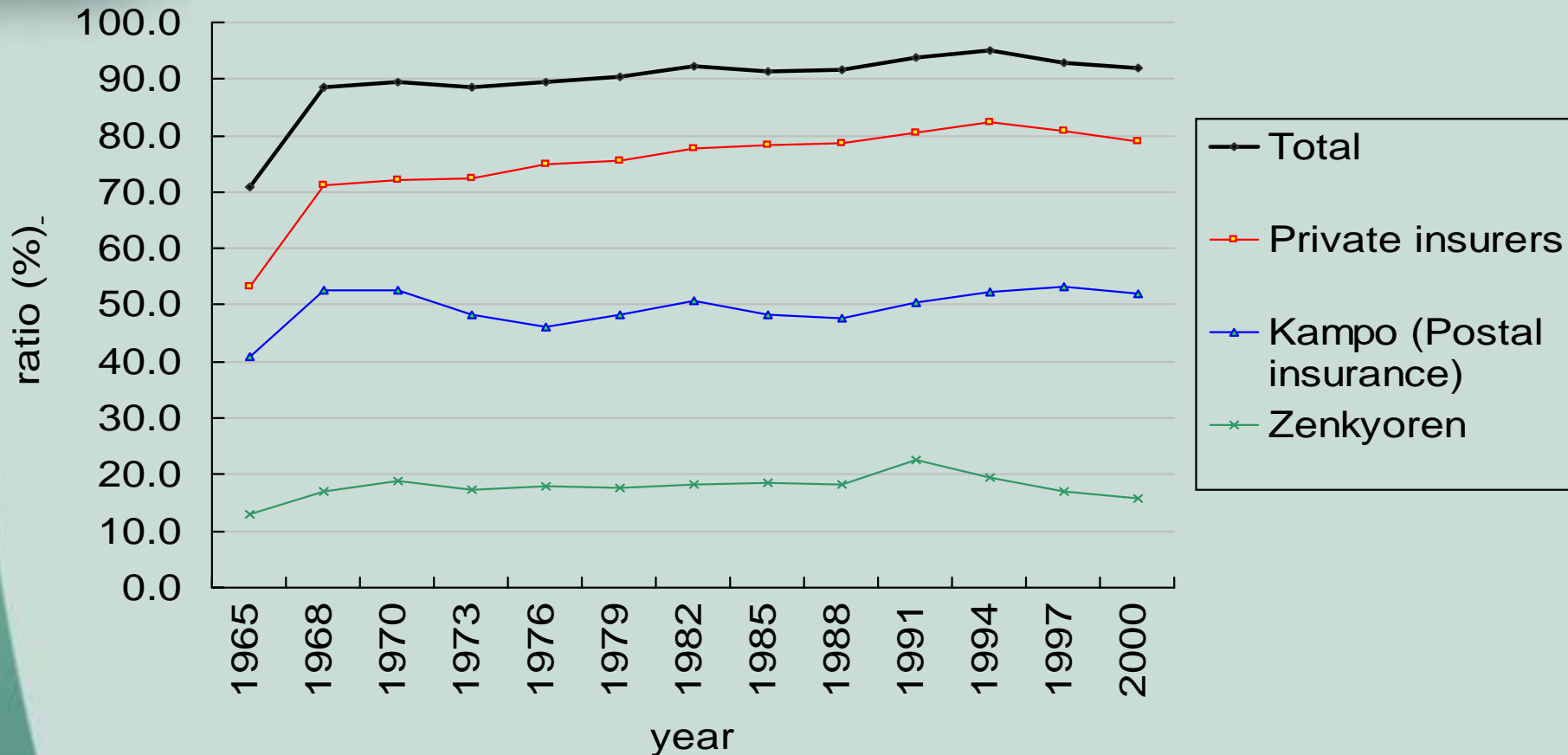
# DSOP Outline



| Chapter Title |  | Chapter Title |  |
|---------------|--|---------------|--|
| 1             | Scope  | 8             | Reinsurance  |
| 2             | Overall Approach, Recognition and Derecognition        | 9             | Measurement of direct insurance contracts by policyholders |
| 3             | Measurement: Overall Issues                            | 10            | Other assets and liabilities                               |
| 4             | Estimating the Amount and Timing of Cash Flows         | 11            | Reporting entity and consolidation                         |
| 5             | Adjustments for Risk and Uncertainty                   | 12            | Interim Financial Reports                                  |
| 6             | Discount Rates   | 13            | Presentation (Not Published)                               |
| 7             | Performance-linked insurance contracts (Not Published) | :             | :  |



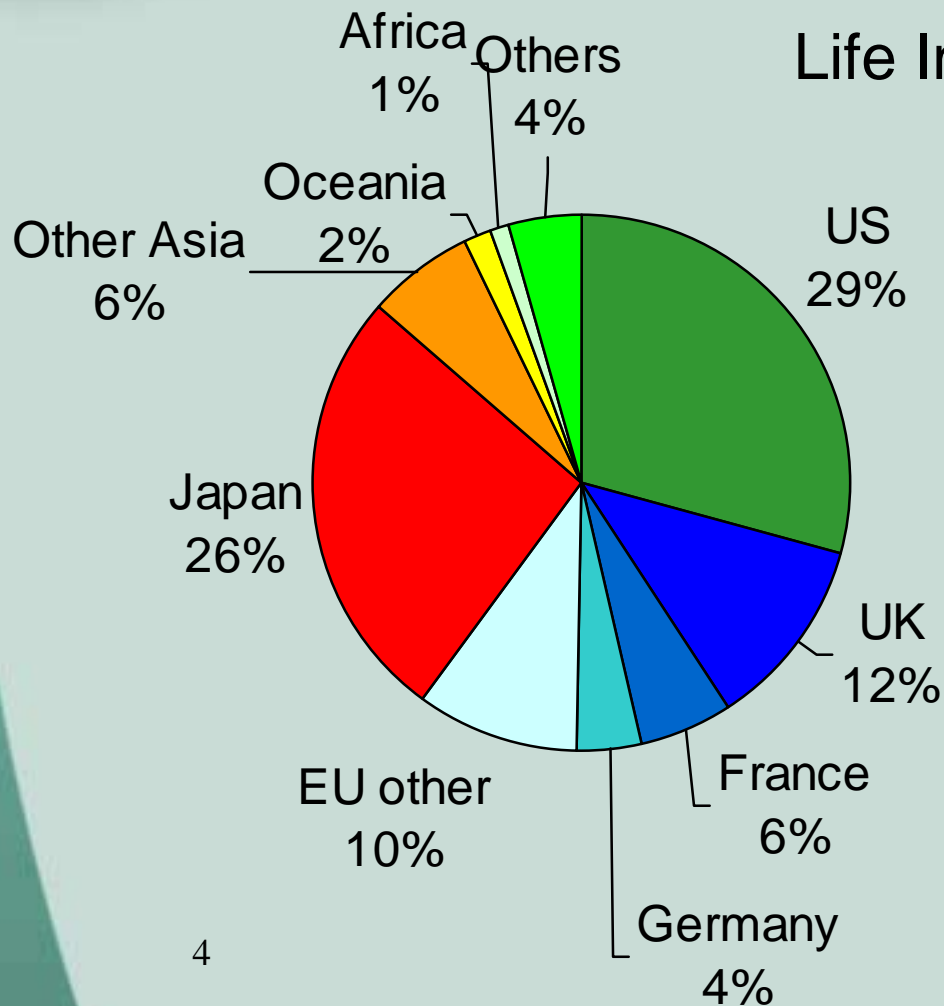
# 90% of Japanese families that have life policies



# Second largest Life market in the World



## Life Insurance Premium 2000

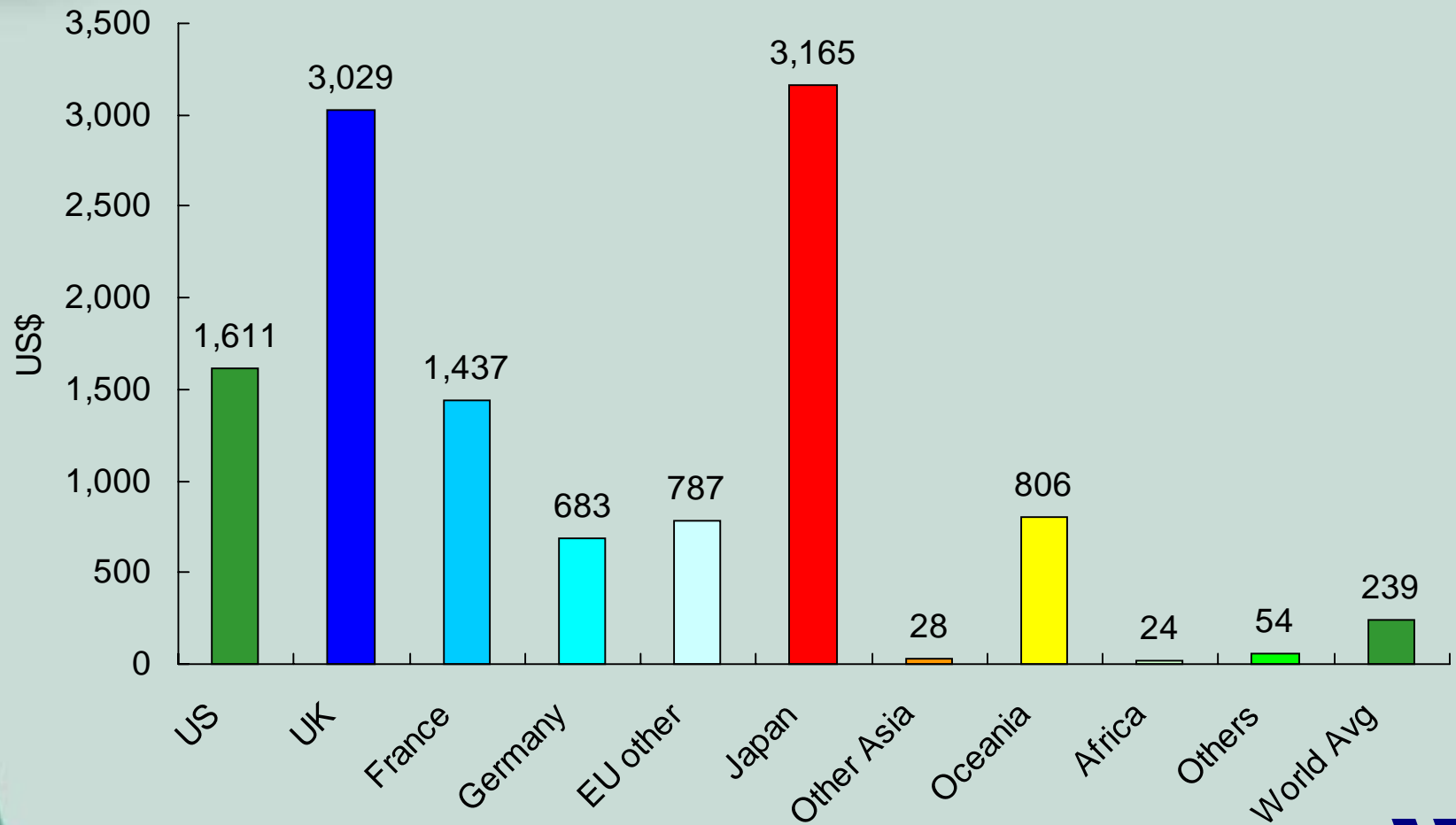


Million US\$

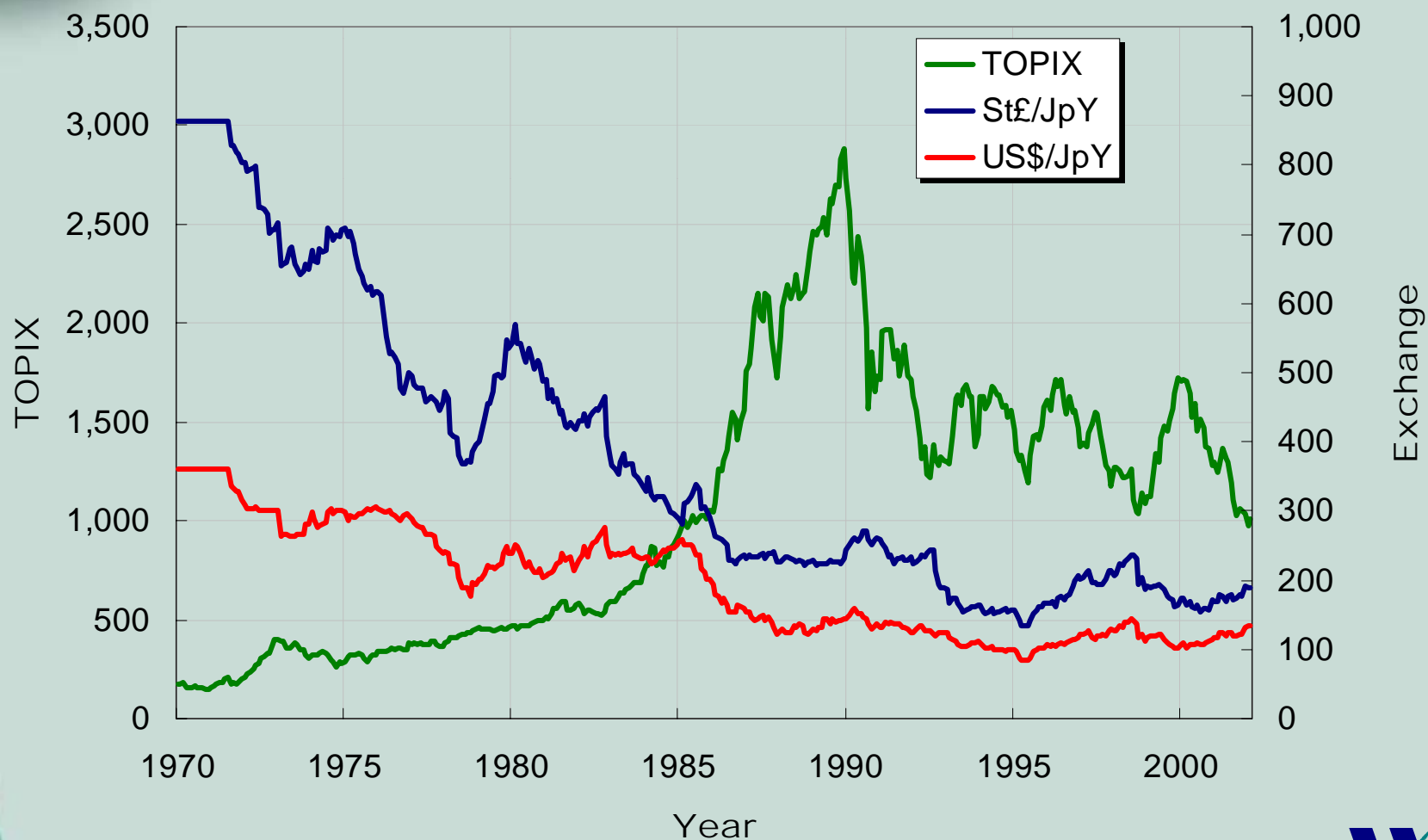
|            |           |
|------------|-----------|
| US         | 442,373   |
| UK         | 179,742   |
| France     | 84,761    |
| Germany    | 56,257    |
| EU other   | 149,657   |
| Japan      | 401,484   |
| Other Asia | 98,047    |
| Oceania    | 23,860    |
| Africa     | 18,678    |
| Others     | 66,394    |
| Total      | 1,521,253 |



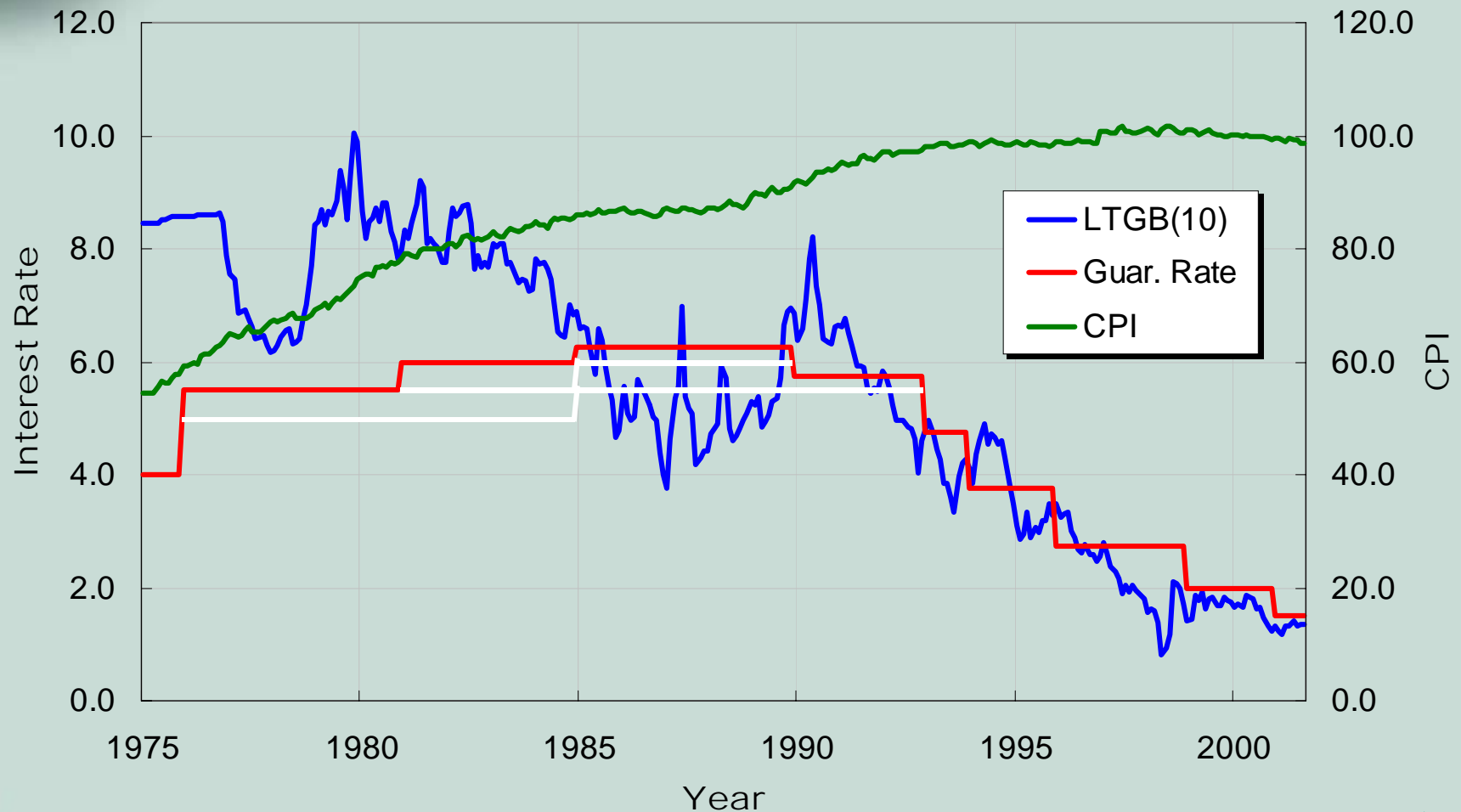
# Life Premium per capita in 2000



# Japanese equity market



# Interest Rate Trend



# Fair value issues and how they affect Japan

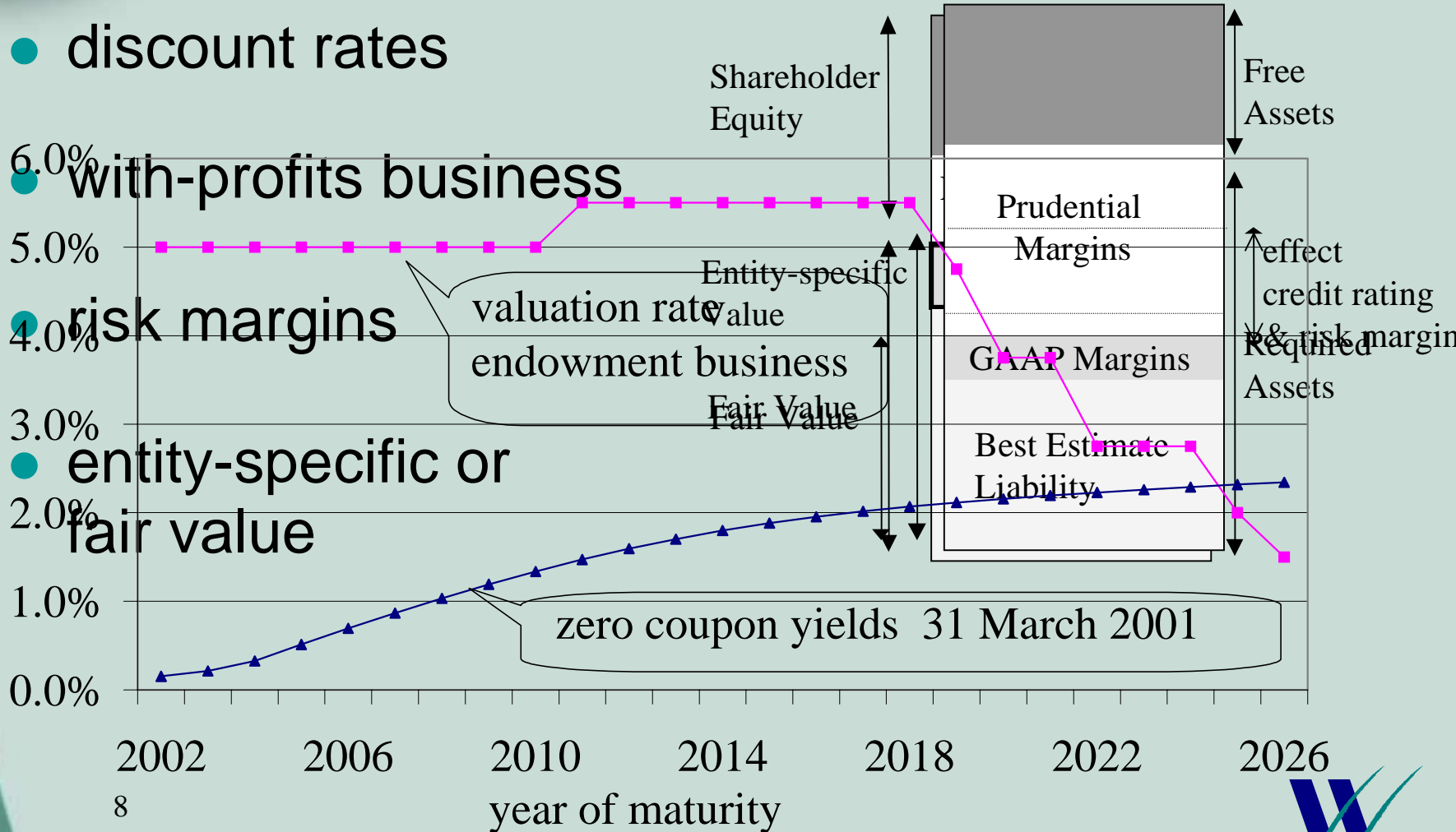


- discount rates

- with-profits business

- risk margins

- entity-specific or fair value





# Results



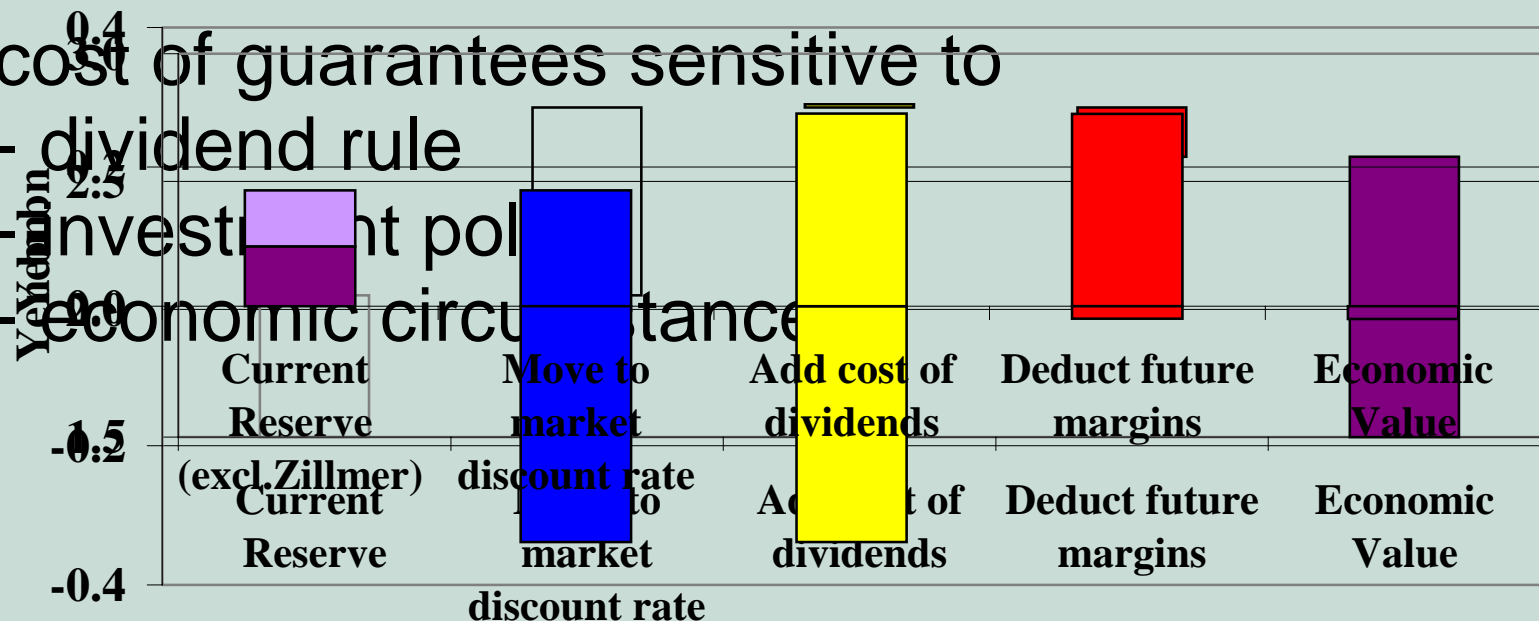
- Major change in reserving results of:
  - older policies: **discounting**
  - new policies: **discounting** **dividends** **margins**

- cost of guarantees sensitive to

- dividend rule

- investment policy

- economic circumstances



# Business implications



- solvency capital
- investment policy
- product design
- mergers and acquisitions

