

GAO

Report to the Chairman, Subcommittee
on Trade, Committee on Ways and
Means, House of Representatives

March 1999

U.S. - JAPAN TRADE

The Japanese Insurance Market





**United States
General Accounting Office
Washington, D.C. 20548**

**National Security and
International Affairs Division**

B-282164

March 15, 1999

The Honorable Philip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

U.S. insurers have raised concerns about Japan's implementation of bilateral insurance agreements entered into with the United States in 1994 and 1996. In recent years, Japan has taken some actions to deregulate its insurance market, both in accordance with these agreements and as part of its overall efforts at financial deregulatory reform. However, some U.S. insurance industry representatives have stated that the measures taken to date are insufficient. The U.S. and Japanese governments differ regarding the extent to which the agreements have been implemented.

At your request, we are currently assessing the implementation of the insurance agreements, as well as U.S. government monitoring and enforcement efforts. This interim report responds to your request for information on (1) the size of the Japanese insurance market; (2) the U.S. insurance company presence in and concerns regarding this market; and (3) the business, regulatory, and other events that have affected the Japanese insurance market in the 1990s. We expect to issue our final report in August 1999.

Results in Brief

The Japanese insurance market is the second largest insurance market in the world after the United States, with \$334 billion in annual premiums paid to insurance companies operating in Japan in fiscal year 1997.¹ The Organization for Economic Cooperation and Development (OECD)² reports that foreign market share grew in Japan, from 2.4 percent in 1990 to 3.7 percent in 1996, the most recent year for which such data are available.

¹The 1997 Japanese fiscal year covers the period from April 1, 1997, to March 31, 1998. The premiums for this period in yen were 40,965 billion. We averaged the exchange rates for the four quarters of the period to obtain a rate of 122.7 yen to the dollar.

²The OECD is an international forum for monitoring economic trends and coordinating economic policy among 29 countries, including the United States and Japan.

By comparison, foreign penetration of the U.S. insurance market in 1996 was almost three times greater.

Currently, 13 U.S. majority-owned insurance companies operate in Japan, with 81 percent of the \$10.961 billion in premiums generated by these companies in fiscal year 1997 attributable to two insurance providers—the American Family Life Assurance Company of Columbus (AFLAC) and the American International Group (AIG).³ AFLAC is the largest U.S. provider of niche insurance products (such as cancer insurance), and AIG is the largest U.S. provider of standard life insurance and non-life insurance products (such as automobile insurance). CIGNA⁴ is the next largest U.S. provider in the Japanese insurance market, followed by Prudential Life Insurance Company, Ltd. Of total U.S. premiums, over 60 percent are attributable to niche products, with AFLAC accounting for \$4.582 billion, or 67 percent, of U.S. niche product sales in fiscal year 1997. U.S. insurers in Japan are concerned about the following issues: (1) Japan's degree of deregulation of its market for standard insurance products, (2) Japanese firms' increased activities in the market for niche insurance products, (3) Japan's level of transparency in approving new insurance products and making other regulatory decisions, (4) the sufficiency of staffing of Japan's regulatory offices, (5) Japan's handling of how insurance industry contributions are being determined for a new fund to protect policyholders from company failures, and (6) an impasse between the United States and Japan over the timing of a grace period during which U.S. and other insurers could gain a competitive foothold in important segments of the Japanese insurance market.

Several business, regulatory, and other events have affected the Japanese insurance market in the 1990s.

- Japan passed an “Insurance Business Law” in 1995, which went into effect in April 1996. The first major revision of Japan's insurance laws in more than 50 years, this legislation, among other things, permitted life insurance companies to form non-life subsidiaries and non-life insurance companies to form life subsidiaries.

³AFLAC is a U.S. company based in Columbus, Georgia. AIG, a U.S.-owned entity, owns 100 percent of three insurance companies in Japan and 50 percent of a joint venture with a Japanese company.

⁴CIGNA, a U.S. company, owns 100 percent of CIGNA Accident and Fire Insurance Company, Ltd., a non-life insurance company in Japan, and 90 percent of INA Himawari Life Insurance Company, Ltd., a life insurance company in Japan.

-
- The failure of a major Japanese life insurance company in 1997 spurred some other Japanese insurers to find foreign partners. For example, a U.S. firm, GE Capital, formed a joint venture with failing Toho Mutual Life Insurance Co., in which GE Capital owns 90 percent of the business and Toho owns 10 percent. The new venture sells mostly standard life insurance policies.
 - In 1997 and 1998, as part of its overall effort to deregulate its insurance market and implement the 1994 and 1996 agreements with the United States, Japan began allowing insurers greater flexibility in setting rates for liability, commercial fire, and automobile policies.

Additionally, in 1997, Japan agreed to include key commitments contained in the 1996 agreement as part of its obligations under a World Trade Organization (WTO) financial services agreement. As a result, these commitments apply to all WTO members. The WTO can therefore be a forum for resolving disputes related to these commitments.

Background

The insurance market in Japan is divided into three sectors. The first sector consists of standard life insurance products; the second sector consists of standard non-life insurance products (mostly automobile and fire policies). These two sectors combined are called the “primary” sector. In addition to the primary sector, a “third” sector of the Japanese insurance market includes certain life and non-life niche products such as cancer insurance and personal accident insurance.

In 1994 and 1996, the United States and Japan signed agreements to reduce barriers that impede market access for competitive foreign insurance providers in the Japanese market. The 1994 and 1996 agreements also generally preserved foreign companies’ presence in the third sector by linking deregulation of that sector to substantial deregulation of the larger, primary sector. Under the 1996 agreement, once the government of Japan has met specific criteria to deregulate the primary sector, foreign insurers will have a 2-1/2 year period to gain a competitive foothold before the third sector is opened to new competition. The U.S. and Japanese governments are currently at an impasse over whether this 2-1/2 year period has begun. The Japanese government has stated that the required primary sector deregulation was completed on schedule and that the 2-1/2 year interim period began July 1, 1998. The U.S. government has stated that it does not support the initiation of the 2-1/2 year countdown because Japan has not fully implemented all the specific actions to deregulate the primary sector called for in the 1996 agreement.

Agency Comments

We discussed a draft of this report with knowledgeable officials from the Office of the U.S. Trade Representative (USTR) and the U.S. embassy in Japan. They agreed with the information presented and made some technical comments, which were incorporated in the report as appropriate.

Scope and Methodology

In order to obtain information on the size of the Japanese insurance market, we reviewed statistical data from the OECD and from Japanese sources. The Japanese sources were two annual publications: Statistics of Life Insurance Business in Japan and The Statistics of Japanese Non-Life Insurance Business (Tokyo, Japan: Hoken-kenkyujo [Insurance Research Institute], 1993-97). We did not verify the published firm and market information. Several different concepts of premium income are available to portray insurance operations in Japan. Our tables and graphs use the “premium income” of life insurance companies and the “net direct premium” (including savings premiums) of non-life insurance companies. These premiums are net of cancellations and other returns and exclude reinsurance. The measures used show total premiums received from policyholders.

In order to determine the U.S. company presence in and U.S. concerns about the Japanese insurance market, we interviewed company and industry association officials and looked at the Japanese statistical sources mentioned above. We converted yen data from these sources by averaging the exchange rates for the four quarters of Japan’s 1997 fiscal year—April 1, 1997-March 31, 1998—to obtain a rate of 122.7 yen to the dollar. Our computations include prorated premiums for INA Himawari Life Insurance Company, Ltd., which is 90-percent owned by CIGNA, and Japan International Accident & Fire Insurance Co. Ltd., which is a 50/50 joint venture with AIG.

In order to identify the business, regulatory, and other events that have affected the Japanese insurance market in the 1990s, we examined the text of the 1994 and 1996 agreements, official U.S. statements of policy on U.S.-Japan relations and the Japanese insurance market, industry position papers, reports by the Japan Economic Institute and the Japan Economic Almanac on insurance, and Japanese and U.S. insurance industry publications.

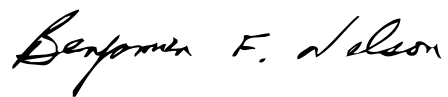
We conducted our work between October 1998 and March 1999 in accordance with generally accepted government auditing standards.

Briefing Section I provides more information on the size of Japan's insurance market; Briefing Section II details U.S. company presence in and concerns regarding this market; and Briefing Section III describes in greater depth the business, regulatory, and other events that have affected the market in the 1990s. Appendix I highlights key steps Japan has taken to deregulate its insurance market and agreements it has made on insurance; Appendix II provides a more detailed list of these and other events, including Japanese regulatory measures, bilateral and multilateral activities, and Japanese and U.S. business actions.

We are sending copies of this report to Senator Joseph R. Biden, Senator Robert C. Byrd, Senator Pete V. Domenici, Senator Jesse A. Helms, Senator Frank R. Lautenberg, Senator Patrick J. Leahy, Senator Joseph I. Lieberman, Senator Mitch McConnell, Jr., Senator Ted Stevens, and Senator Fred Thompson, and to Representative Dan Burton, Representative Sonny Callahan, Representative Sam Gejdenson, Representative Benjamin A. Gilman, Representative John R. Kasich, Representative Sander M. Levin, Representative David R. Obey, Representative Nancy Pelosi, Representative John M. Spratt, Jr., Representative Henry A. Waxman, and Representative C.W. (Bill) Young in their capacities as Chair or Ranking Member of Senate and House Committees and Subcommittees. We are also sending copies of this report to Ambassador Charlene Barshefsky, U.S. Trade Representative; the Honorable William M. Daley, Secretary of Commerce; the Honorable Madeleine K. Albright, Secretary of State; the Honorable Lynn Bragg, Chairman of the International Trade Commission; the Honorable Jacob Lew, Director, Office of Management and Budget; and to the firms we contacted in preparing this report. Copies will also be made available to others upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-4128.

Sincerely yours,

A handwritten signature in black ink that reads "Benjamin F. Nelson". The signature is written in a cursive style with a large initial 'B' and 'N'.

Benjamin F. Nelson, Director
International Relations and Trade Issues

Contents

Letter		1
Briefing Section I		10
Size of Japan's Insurance Market	OECD Shares of Insurance Market Premiums, 1988-96	10
	Japan's Insurance Market, Fiscal Years 1992-97	12
	Japan's Share of OECD Life Insurance Market, 1996	14
	Japan's Share of OECD Non-Life Insurance Market, 1996	16
	Foreign Market Share in the Japanese and U.S. Insurance Markets, 1990-96	18
Briefing Section II		20
U.S. Company Presence in and Concerns Regarding the Japanese Insurance Market	U.S. Firms in Japan's Insurance Market, Fiscal Year 1997	24
	U.S. Insurance Company Premium Distribution by Sector in Japan, Fiscal Year 1997	26
	U.S. Firms in Japan's Primary Insurance Sector, Fiscal Year 1997	28
	U.S. Firms in Japan's Third Insurance Sector, Fiscal Year 1997	30
	Areas of Concern for the U.S. Insurance Industry	32
Briefing Section III		34
Recent Events Affecting Japan's Insurance Market	Timeline of Recent Business Events in Japan's Insurance Market	34
	Timeline of Recent Regulatory Events in Japan's Insurance Market	36
	Timeline of Developments Affecting U.S.-Japan Insurance Agreements	38
Appendix I		40
Key Insurance Deregulation Steps and Agreements on Insurance by Japan, 1992-98		

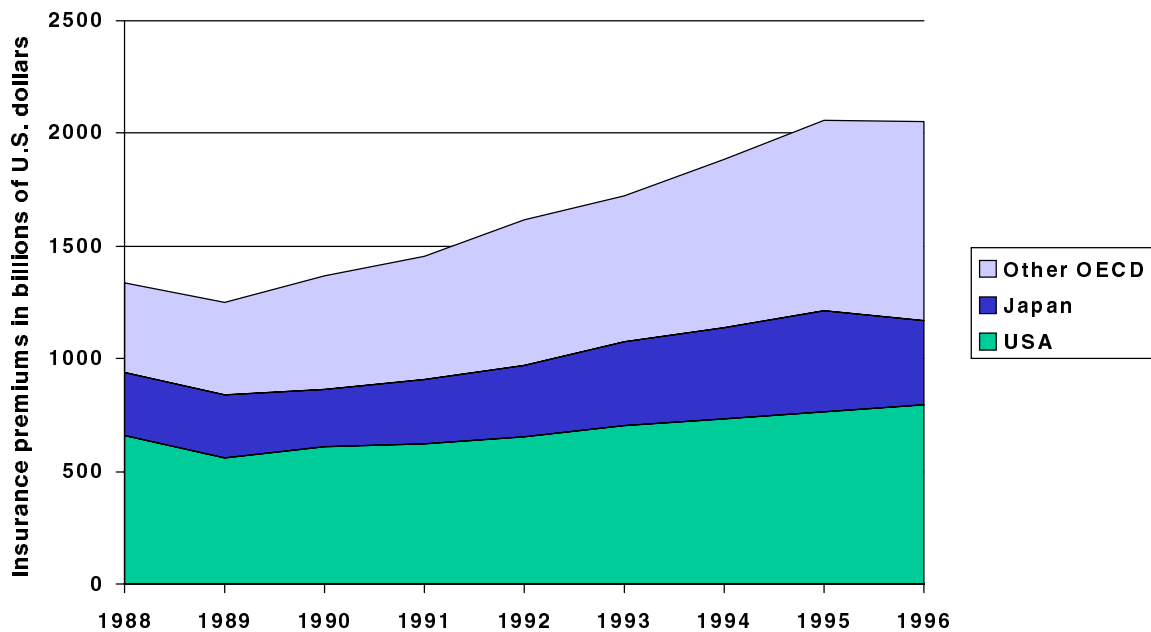
Appendix II List of Events Relating to Japan’s Insurance Market, 1990-Present	41				
<hr/>					
Appendix III Major Contributors to This Report	50				
<hr/>					
Tables	<table border="0"> <tr> <td style="padding-left: 2em;">Table II.1: U.S. Life Insurance Companies in Japan, Fiscal Year 1997</td> <td style="text-align: right;">20</td> </tr> <tr> <td style="padding-left: 2em;">Table II.2: U.S. Non-Life Insurance Companies in Japan, Fiscal Year 1997</td> <td style="text-align: right;">22</td> </tr> </table>	Table II.1: U.S. Life Insurance Companies in Japan, Fiscal Year 1997	20	Table II.2: U.S. Non-Life Insurance Companies in Japan, Fiscal Year 1997	22
Table II.1: U.S. Life Insurance Companies in Japan, Fiscal Year 1997	20				
Table II.2: U.S. Non-Life Insurance Companies in Japan, Fiscal Year 1997	22				

Abbreviations

AFLAC	American Family Life Assurance Company of Columbus
AIG	American International Group
ALICO	American Life Insurance Company
OECD	Organization for Economic Cooperation and Development
USTR	U.S. Trade Representative
WTO	World Trade Organization

Size of Japan's Insurance Market

GAO OECD Shares of Insurance Market Premiums, 1988-96



Note: "Other OECD" excludes the United States and Japan.

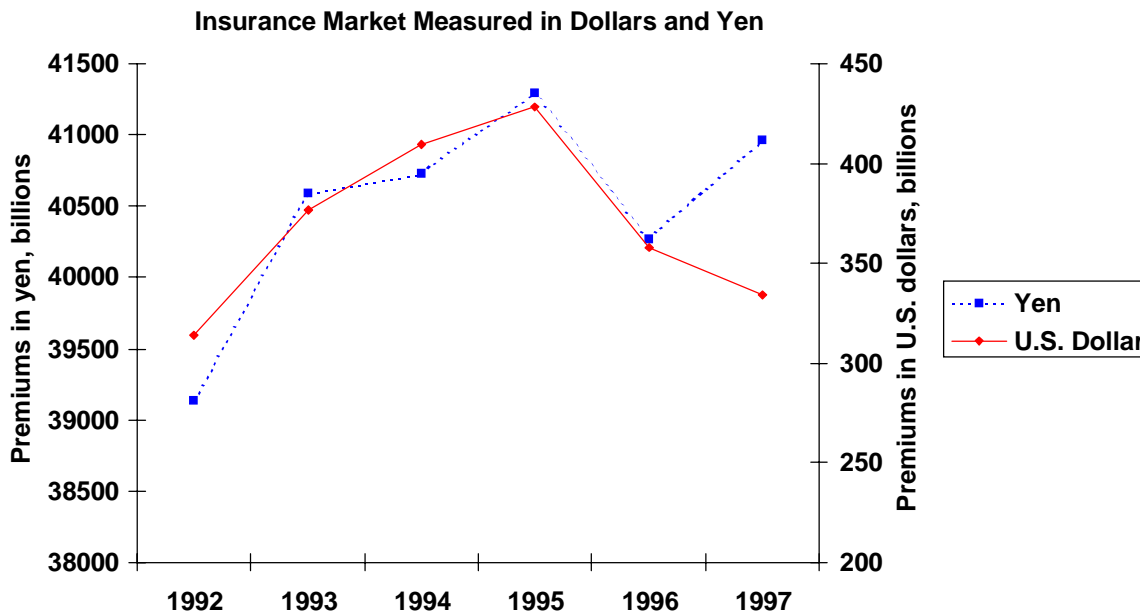
Source: *Insurance Statistics Yearbook*, 1997 and 1998 editions (OECD, 1997 and 1998)

Briefing Section I
Size of Japan's Insurance Market

The global insurance market has grown over the last decade, from a total of \$1,337 billion in premiums for Organization for Economic Cooperation and Development (OECD) countries in 1988 to \$ 2,051 billion in 1996, the most recent year for which such data are available.¹ Japan is the second largest insurance market after the United States, with an 18 percent share of the OECD market in 1996. The Japanese are high per capita consumers of insurance. Only the populations of Luxembourg and Switzerland buy more insurance on a per capita basis.

¹We have not taken into account insurance premiums from non-OECD countries, since data for these countries are not readily available.

GAO Japan's Insurance Market, Fiscal Years 1992-97



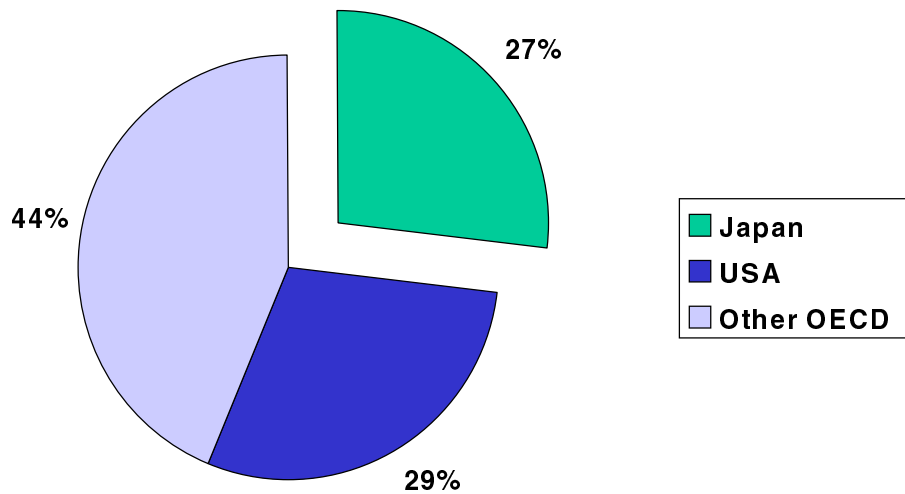
Source: *Statistics of Japanese Non-Life Insurance Business* and *Statistics of Life Insurance Business in Japan*, 1993-97 editions. Dollar premiums computed using International Monetary Fund quarterly exchange rates corresponding to the Japanese fiscal year.

Briefing Section I
Size of Japan's Insurance Market

When measured in both yen and dollars, the Japanese insurance market grew steadily from 39,132 billion yen (\$314 billion) in fiscal year 1992 to a high of 41,294 billion yen (\$428 billion) in fiscal year 1995. It then dropped to 40,266 billion yen (\$357 billion) the following year. The dollar and yen trends diverge, however, in fiscal year 1997, with the yen-denominated market showing an increase to 40,965 billion yen while the dollar-denominated market shrank further, to \$334 billion.

Some of the differences in the dollar- and yen-denominated premium trends are due to changes in the exchange rate. The yen rose continuously against the dollar from fiscal year 1992 through the first quarter of fiscal year 1995 but then proceeded to fall. It went from 96.44 yen to the dollar in fiscal year 1995 to 122.70 yen to the dollar in fiscal year 1997.

GAO Japan's Share of OECD Life Insurance Market, 1996



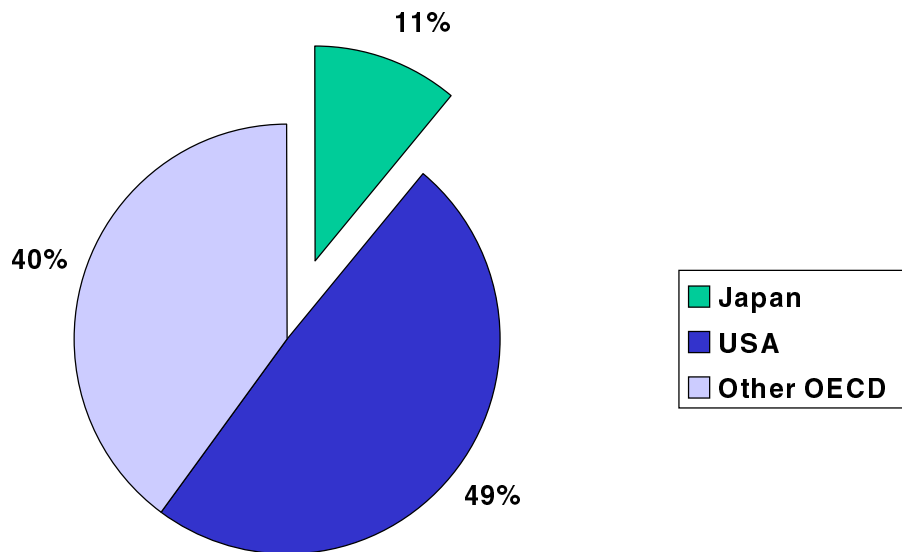
Note: "Other OECD" excludes the United States and Japan.

Source: *Insurance Statistics Yearbook*, 1998 edition (OECD, 1998). Market share is based on total OECD premiums.

Briefing Section I
Size of Japan's Insurance Market

Japan was the world's second largest life insurance market in 1996, accounting for 27 percent of OECD premiums in that year, the latest period for which such data are available. The United States, at 29 percent in 1996, was the largest market. In 1995, Japan was the world's largest life insurance market, with just under 33 percent of OECD premiums. The United States ranked second in that year, with 27 percent of premiums.

GAO Japan's Share of OECD Non-Life
Insurance Market, 1996



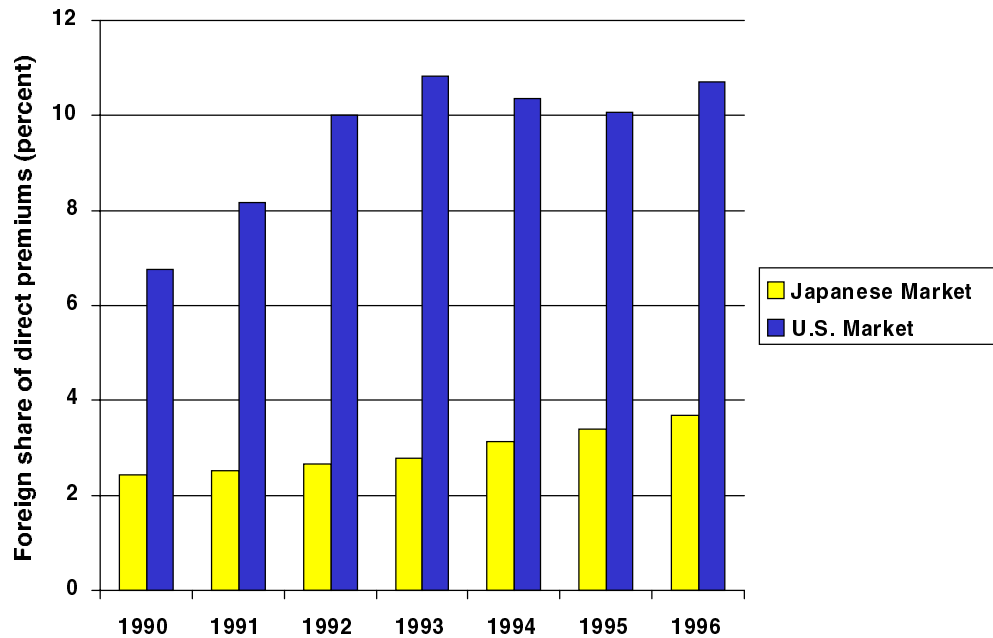
Note: "Other OECD" excludes the United States and Japan.

Source: *Insurance Statistics Yearbook*, 1998 edition (OECD, 1998). Market share is based on total OECD premiums.

Briefing Section I
Size of Japan's Insurance Market

Japan was also the world's second largest non-life insurance market in 1996, with 11 percent of OECD premiums in that year. The United States was the dominant market, accounting for almost 50 percent of OECD premiums in 1996. Japan's share of OECD premiums was slightly larger in 1995, with 13 percent of premiums. The U.S. share at that time was 48 percent.

GAO Foreign Market Share in the Japanese and U.S. Insurance Markets, 1990-96



Source: GAO calculations of direct business premium data from the *Insurance Statistics Yearbook*, 1997 and 1998 editions (OECD, 1997 and 1998).

Briefing Section I
Size of Japan's Insurance Market

The foreign share of the U.S. insurance market was almost three times greater than that of Japan in 1996, the most recent year for which such data are available. The foreign share of Japan's insurance market has grown from 2.4 percent in 1990 to 3.7 percent in 1996. Foreign penetration in the U.S. insurance market also rose during this period, from 6.8 to 10.7 percent. The growth rate of foreign penetration in both countries' insurance markets during this period is about the same.

U.S. Company Presence in and Concerns Regarding the Japanese Insurance Market

Table II.1: U.S. Life Insurance Companies in Japan, Fiscal Year 1997

Dollars in millions

Company name	Year entered Japanese market	Total direct premiums	Standard products (primary sector)	Niche products (third sector)
American Family Life Assurance Company of Columbus (AFLAC)	1974	\$4,823	5% of business: term, whole ^a	95% of business: cancer, with some hospitalization, nursing care, and other illness products
American Life Insurance Company (ALICO) (owned by American International Group [AIG])	1972	\$2,035	64% of business: whole, term, endowment ^a	36% of business: hospitalization
Prudential Life Insurance Company, Ltd.	1988	\$912	84% of business: whole, term, endowment, variable ^a	16% of business: supplementary riders ^b
INA Himawari Life Insurance Company, Ltd. (90%-owned by CIGNA)	1982	\$720	78% of business: term, whole, endowment ^a	22% of business: medical, cancer, other
GE Edison Life (90%-owned by GE Capital)	Formed new joint venture with Toho Mutual Life on 4/1/98	About \$537 ^c (4/1/98-9/30/98)	97% of business: endowment, annuities, whole, term ^b	3% of business: medical

^aThese are different types of standard life insurance policies.

^bSupplementary riders provide additional coverage.

^cWe averaged the exchange rates for the two quarters of this period to obtain a rate of 137.87 yen to the dollar.

Sources: *Aide Memoir: Japan Insurance Issues*, (Dec. 4, 1992), International Insurance Council (Washington, D.C.); GE Edison; *Insurance Statistics of Life Insurance Business in Japan 1997* (Tokyo, Japan: Insurance Research Institute); life insurance products and primary/third sector percentages provided by each company.

Although there are fewer U.S. life insurance companies than non-life companies in Japan, the life companies' cumulative premium volume is greater than that of the non-life companies. American Family Life Assurance Company of Columbus (AFLAC), a life insurance company, is by far the largest U.S. insurance company in Japan, with \$4,823 million in premiums in fiscal year 1997. According to AFLAC's 1997 annual report, AFLAC is also the largest foreign insurer in Japan, as well as the fourth most profitable foreign company there after IBM, Coca-Cola, and Amway.

Briefing Section II
U.S. Company Presence in and Concerns
Regarding the Japanese Insurance Market

As of March 1998, AFLAC's Japan operations accounted for about 70 percent of its business.

Whereas AFLAC's business is predominantly in the niche, or "third" sector, where it sells cancer insurance, the other U.S. life insurance companies concentrate their activities in the primary sector. An additional U.S. company, GE Capital, entered the Japanese insurance market in April 1998 by forming a joint venture with the failing Toho Mutual Life Insurance Co., in which GE Capital owns 90 percent and Toho owns 10 percent of the business. The joint venture is called GE Edison Life.

**Briefing Section II
U.S. Company Presence in and Concerns
Regarding the Japanese Insurance Market**

Table II.2: U.S. Non-Life Insurance Companies in Japan, Fiscal Year 1997

Dollars in millions				
Company name	Year entered Japanese market	Total direct premiums	Standard products (primary sector)	Niche products (third sector)
AIU Insurance Company (owned by AIG)	1946	\$1,889	53% of business: auto, fire, casualty, marine & transit	47% of business: personal accident (includes travel)
CIGNA Accident and Fire Insurance Company, Ltd.	1950	\$441	65% of business: auto, fire, casualty, marine, transit, other	35% of business: personal accident, overseas travel
American Home Assurance Com- pany (owned by AIG)	1960	\$129	20% of business: fire, auto, casualty, marine & transit	80% of business: personal accident (includes travel)
Japan International Accident & Fire Insurance Co. Ltd (50%-owned by AIG)	1989	\$96	15% of business: casualty, property, auto, energy, marine, other	85% of business: personal accident (includes travel)
Lumbermens Mutual Casualty Company (Kemper)	1981	\$12	76% of business: casualty, auto, fire, marine & transit	24% of business: personal accident
Liberty Mutual Insurance Company (Liberty International)	1995	\$11	80% of business: casualty, auto, marine & transit, fire	20% of business: personal accident
Unum Japan Accident Insurance Company	1994	\$7	0%	100% of business: long-term disability 90%; short-term disability & personal accident 10%
Federal Insurance Company (Chubb)	1973	\$6	70% of business: casualty, fire, marine & transit, auto	30% of business: property, liability, accident
Allstate Property and Casualty Insurance Japan Company Ltd.	Divested 2 other companies in 11/97 & created new company in spring '98	Operational, but no significant sales yet	Auto	

Sources: *Aide Memoir: Japan Insurance Issues* (Dec. 4, 1992), International Insurance Council (Washington, D.C.); Liberty, Unum, and Allstate; *Insurance Statistics of Non-Life Insurance Business in Japan 1997* (Tokyo, Japan: Insurance Research Institute).

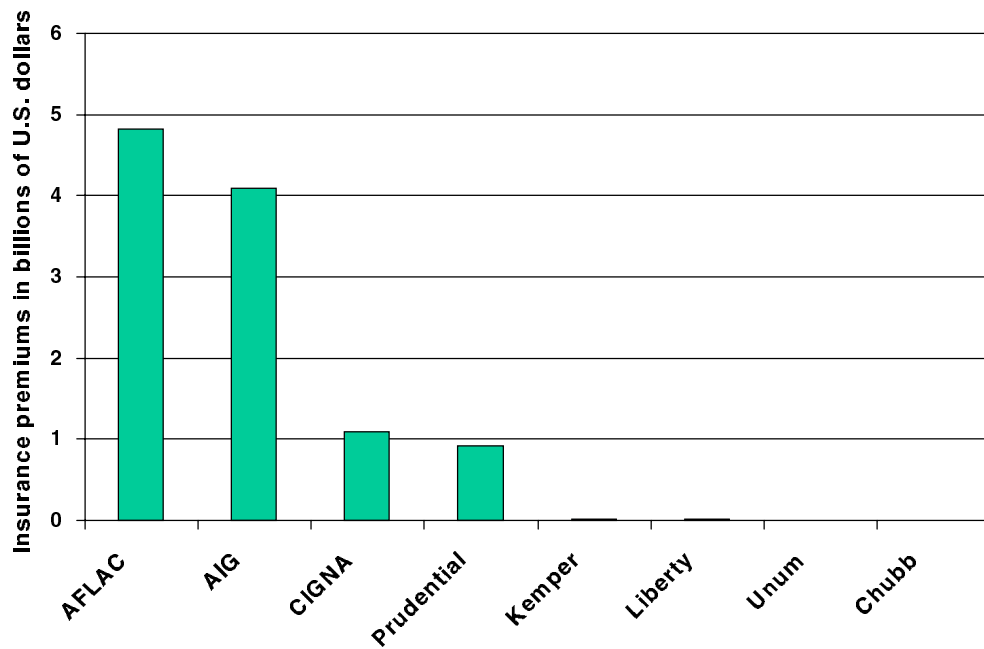
Briefing Section II
U.S. Company Presence in and Concerns
Regarding the Japanese Insurance Market

American International Group (AIG), which owns companies on both the life and non-life sides of the Japanese insurance market, dominates U.S. participation on the non-life side, with more than four times the premium volume in fiscal year 1997 of CIGNA, the next largest U.S. non-life insurance provider.

Of the eight wholly U.S.-owned and one 50-percent U.S.-owned non-life insurance companies, the largest company, AIG's AIU Insurance Company, splits its business almost evenly between the primary and third sectors. Third sector non-life products consist primarily of personal accident and disability insurance. Of the remaining eight companies, four conduct a majority of their business in the primary sector; three concentrate their business in the third sector; and one, Allstate, divested itself of all but 5 percent of its existing insurance business in Japan in November 1997 and created a new entity there in early 1998. The new company sells automobile insurance, a primary sector product, but has not yet reported any significant sales. Company officials stated that it does not plan any advertising or other sales attempts until April 1999.

CIGNA reports that it is currently negotiating the sale of its worldwide property and casualty business, including CIGNA Accident and Fire Insurance Company, Ltd., in Japan, and is examining the possibility of getting into the Japanese pension and healthcare insurance markets.

GAO U.S. Firms in Japan's Insurance Market, Fiscal Year 1997



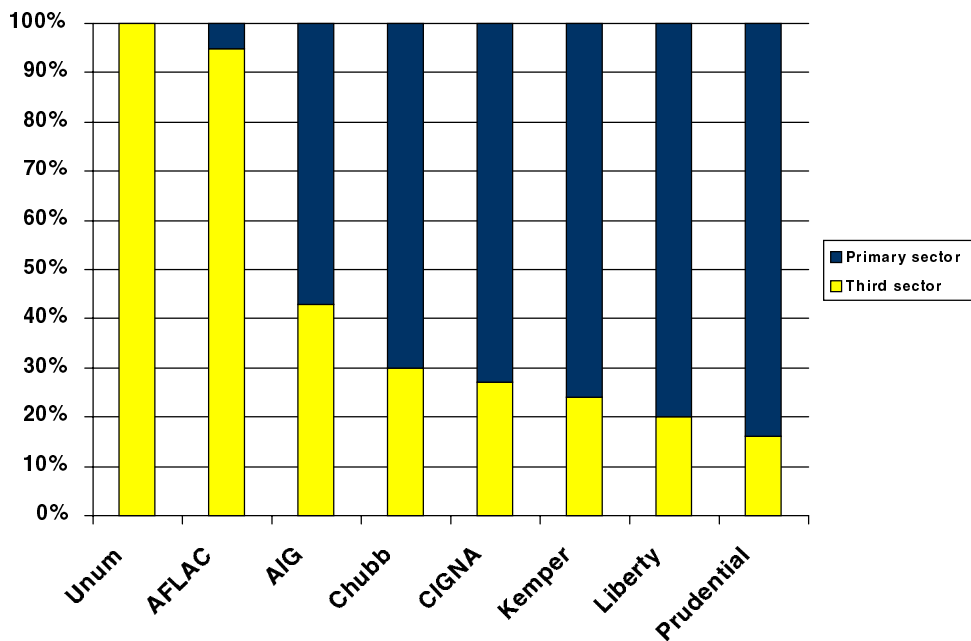
Source: *Statistics of Life Insurance Business in Japan, 1997*; *Statistics of Japanese Non-Life Insurance Business, 1997*. We calculated prorated premiums for AIG and CIGNA based on the percentage of U.S. ownership.

Briefing Section II
U.S. Company Presence in and Concerns
Regarding the Japanese Insurance Market

The two largest U.S. insurance providers, AFLAC and AIG, together earned 81 percent of total U.S. insurance company premiums in Japan in fiscal year 1997. The CIGNA-owned companies and Prudential combined accounted for 18 percent. The remaining four companies—Lumbermen's Mutual Casualty Company (Kemper), Liberty Mutual Insurance Company (Liberty), Unum Japan Accident Insurance Company (Unum), and Federal Insurance Company (Chubb)—together earned less than 0.5 percent.

GE Edison Life is not shown in this chart because it did not enter the market until after fiscal year 1997. It earned about \$0.5 billion during its first 6 months of operation (Apr.-Sept. 1998). Extending this trend over a 12-month period would make its annual premium volume about \$1 billion, or slightly less than that of the CIGNA-owned companies combined.

GAO U.S. Insurance Company Premium Distribution by Sector in Japan, Fiscal Year 1997



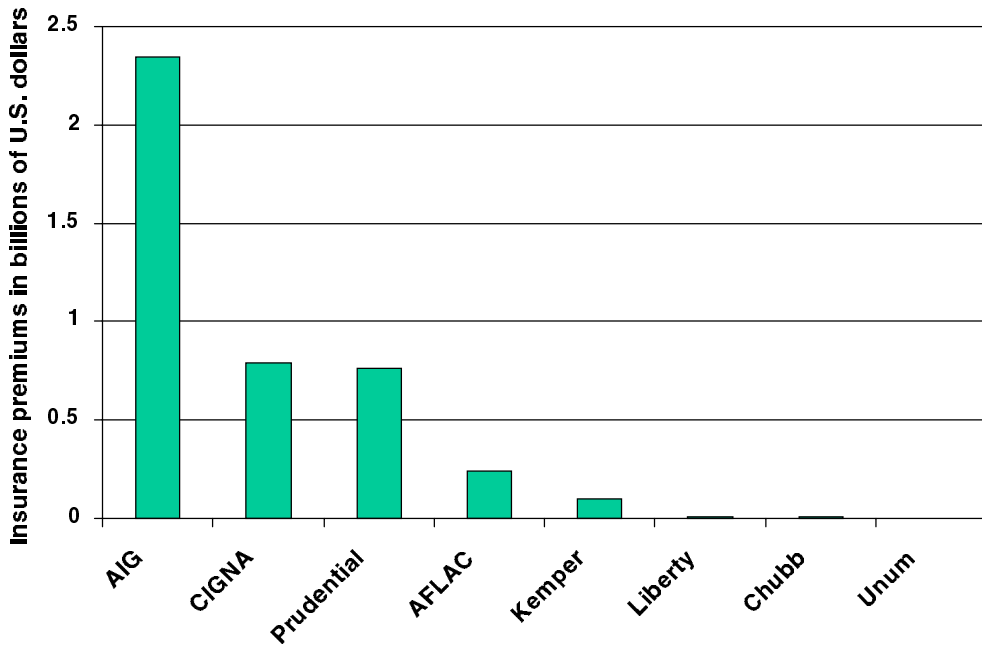
Source: *Statistics of Life Insurance Business in Japan, 1997*; *Statistics of Japanese Non-Life Insurance Business, 1997*. We calculated prorated shares for AIG and CIGNA based on the percentage of U.S. ownership.

Briefing Section II
U.S. Company Presence in and Concerns
Regarding the Japanese Insurance Market

Only Unum and AFLAC conducted all or most of their business in the third sector in fiscal year 1997. However, given the size of the two largest U.S. insurance providers in Japan, AFLAC and AIG, and their respective shares of premiums attributable to third sector sales in that year, over three-fifths of all U.S. premiums were earned in the third sector in fiscal year 1997.

Allstate and GE Edison Life were not included in this chart because there are no comparable, fiscal year 1997 data for these companies. Both companies have told us that their products fall completely or almost completely within the primary sector.

GAO U.S. Firms in Japan's Primary Insurance Sector, Fiscal Year 1997

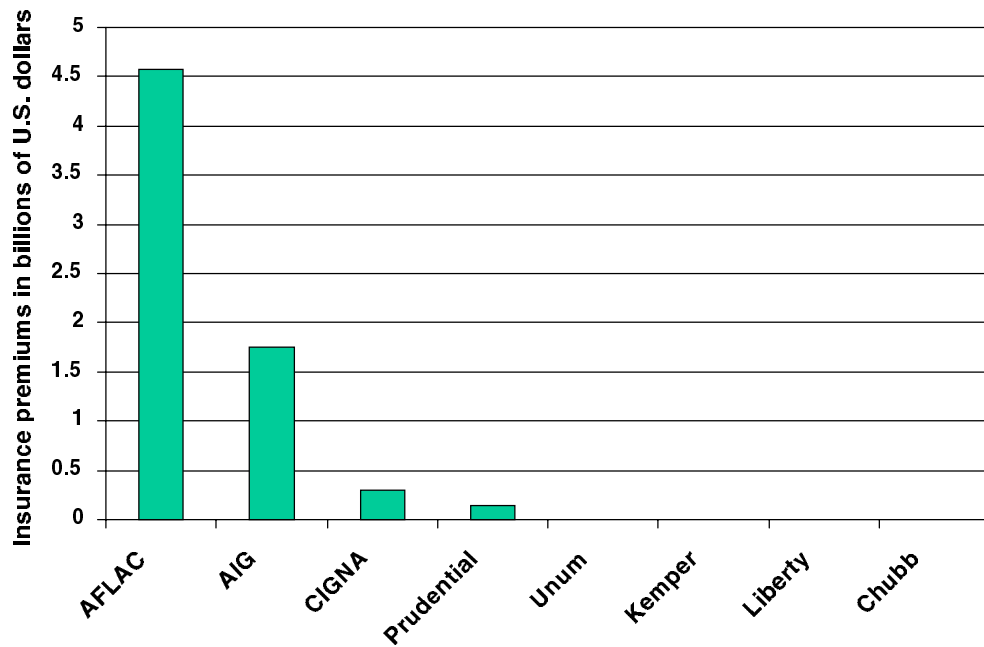


Source: *Statistics of Life Insurance Business in Japan, 1997*; *Statistics of Japanese Non-Life Insurance Business, 1997*. We calculated prorated premiums for AIG and CIGNA based on the percentage of U.S. ownership.

Briefing Section II
U.S. Company Presence in and Concerns
Regarding the Japanese Insurance Market

The AIG-owned companies combined dominated the U.S. insurers in the primary sector in fiscal year 1997. With \$2.345 billion in primary sector premiums in that year (56 percent of the U.S. total), AIG's primary sector business was almost three times that of any other U.S. insurer. The CIGNA-owned companies combined ranked second, with 19 percent of the U.S. total. Unum did not derive any of its premiums from primary sector products in fiscal year 1997.

GAO U.S. Firms in Japan's Third Insurance Sector, Fiscal Year 1997



Source: *Statistics of Life Insurance Business in Japan, 1997*; *Statistics of Japanese Non-Life Insurance Business, 1997*. We calculated prorated premiums for AIG and CIGNA based on the percentage of U.S. ownership.

Briefing Section II
U.S. Company Presence in and Concerns
Regarding the Japanese Insurance Market

With regard to the third sector, AFLAC led the U.S. insurers, earning \$4.582 billion in third sector premiums in fiscal year 1997, or 67 percent of the U.S. premiums in this sector. The AIG-owned companies' combined third sector premiums for the year were less than 40 percent of AFLAC's, or 26 percent of the U.S. total. The remaining six companies together accounted for less than 7 percent of the U.S. total.

GAO **Areas of Concern for the
U.S. Insurance Industry**

Japanese Primary Sector Deregulation

Third Sector Activities of Japanese Insurers

Transparency

Staffing of Regulatory Offices

Policyholder Protection Corporations

Timing of Opening the Third Sector

The U.S. insurance industry has expressed several concerns over implementation of the 1994 and 1996 insurance agreements with Japan and developments in the Japanese insurance market. First, U.S. insurance company representatives in Japan have been concerned that primary sector deregulation falls short of meeting some of the requirements of the agreements. For example, they have identified cases where the approval of new product and new premium rate applications has taken longer than the standard 90 days committed to by Japan in the 1996 agreement. Also,

Briefing Section II
U.S. Company Presence in and Concerns
Regarding the Japanese Insurance Market

insurance industry executives have questioned the adequacy of reform of organizations that calculate premium rates for certain risks for non-life insurance products in Japan.

In addition, U.S. insurance companies are concerned that Japanese activities in the third sector are increasing even though both agreements restrict most such activities. U.S. company representatives report that Japanese insurance providers are expanding their distribution channels in the life area of the third sector (cancer insurance) and offering significant discounts in the non-life area (group personal accident insurance).

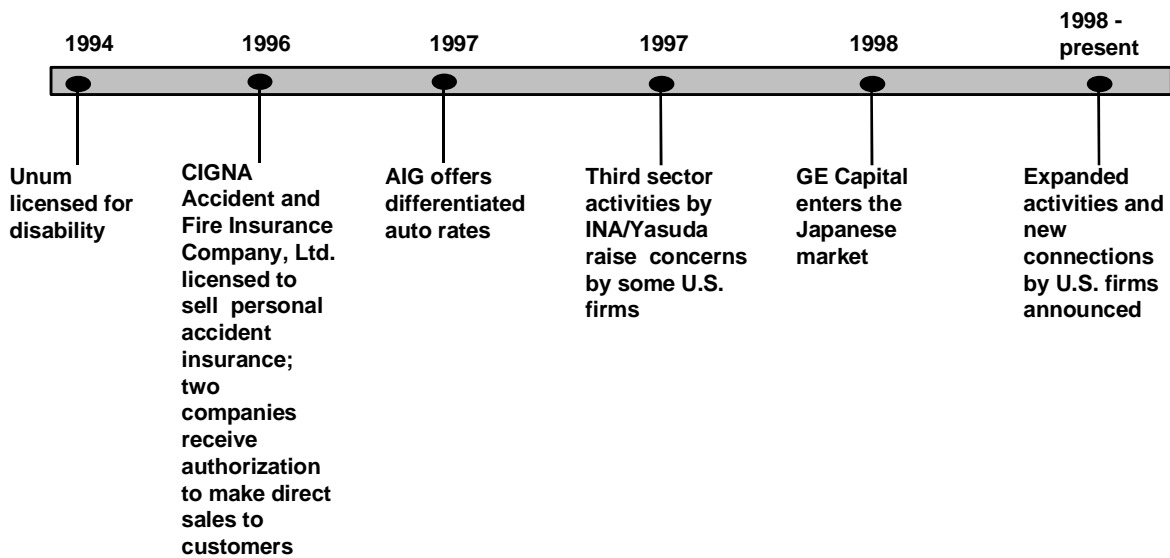
U.S. insurance industry representatives have also stated that Japan's process of implementing laws regarding insurance, approving new products, and making other decisions affecting insurance companies is often unclear. For example, insurance companies have little opportunity to comment on regulatory decisions before they are finalized by the Japanese government. In addition, Japan has few written guidelines on how insurance companies can obtain approval for issuing new types of policies and/or new rates for these and existing policies. Moreover, U.S. insurance industry representatives have said that Japanese regulatory agencies do not have adequate staff to approve insurance products and rates in a timely manner.

Although not covered by the agreements, U.S. companies have also been concerned about the creation of "policyholder protection corporations" through which insurance companies will be required by the Japanese government to contribute to a fund to protect policyholders from insurance company failures. U.S. insurance company executives are concerned that these corporations may not equitably distribute among Japanese and foreign insurance providers the cost of absorbing future insurance company insolvencies.

Finally, U.S. insurance industry representatives have expressed concern that the Japanese and U.S. governments disagree on when the third sector will be opened to new competition from Japanese insurance providers.

Recent Events Affecting Japan's Insurance Market

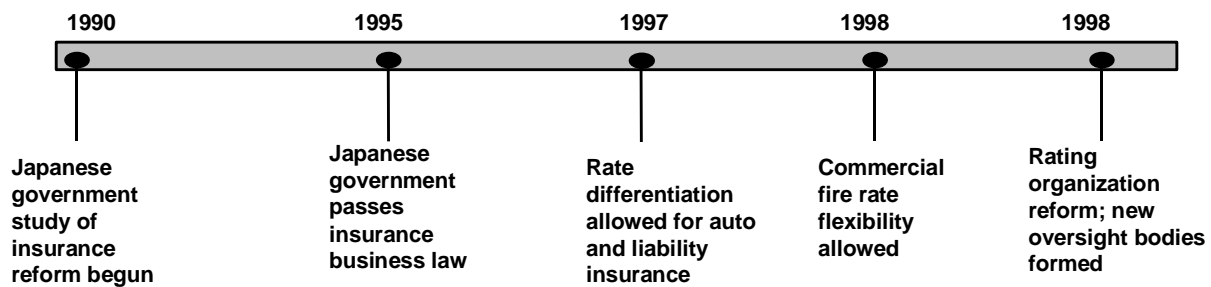
GAO Timeline of Recent Business Events in Japan's Insurance Market



**Briefing Section III
Recent Events Affecting Japan's Insurance
Market**

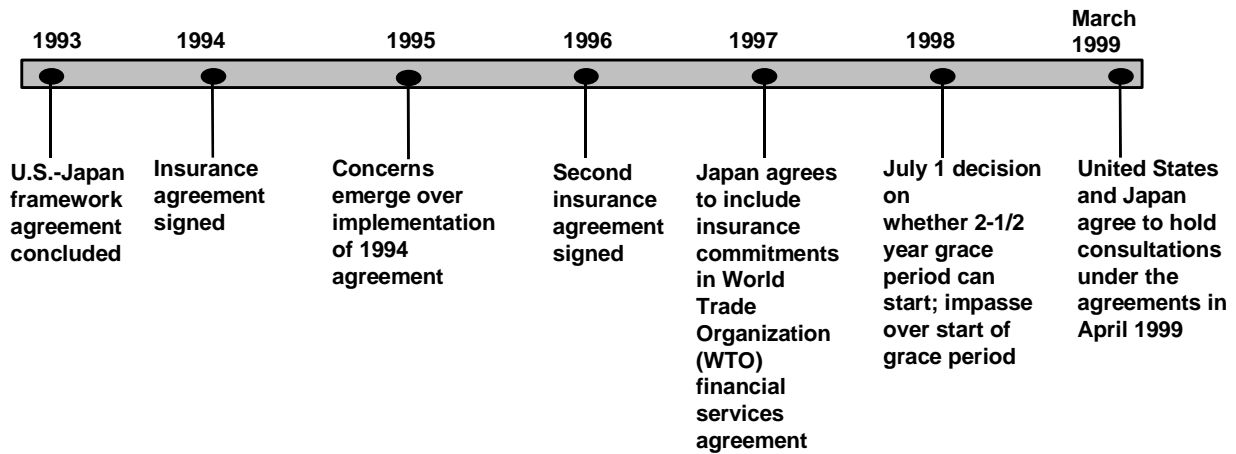
Since 1994, U.S. companies have entered new lines of business and introduced innovative products and marketing techniques in Japan's insurance market, such as direct marketing of auto insurance to consumers via mail and phone. More recently, after the failure in 1997 of Nissan Life, a number of connections with Japanese firms have been announced, including GE Capital's partnering in 1998 with ailing Toho Mutual Life. Deregulation in Japan's insurance market is also expanding opportunities for U.S. firms outside the insurance industry. For example, Citigroup, the largest financial group in the United States, has announced plans to enter the insurance market in Japan as early as 2001, when a ban will be lifted on banks selling insurance. Other U.S. companies currently negotiating deals with Japanese insurance providers include a discount broker that may provide online sales of insurance products and a firm specializing in managing earthquake risks.

GAO Timeline of Recent Regulatory Events in Japan's Insurance Market



Japan began examining fundamental reform of insurance sector regulation in the early 1990s. In 1995, the Japanese government passed an "Insurance Business Law," which represented the first major revision of Japan's insurance laws in more than 50 years. This legislation allowed for greater flexibility in the insurance industry by permitting life insurance companies to form non-life subsidiaries and non-life insurance companies to form life subsidiaries, by partially liberalizing premium rates, and by allowing for other new activities. The U.S.-Japan insurance agreements of 1994 and 1996 addressed the scope and timing of deregulation. The agreements created opportunities in the primary sector to adjust rates for certain products to take risk into account and to simplify new product and rate approval. Automobile, liability, and commercial fire policies are among those eligible for these changes. In July 1998, Japan removed the requirement that non-life insurers use rates established by industry groups known as "rating organizations" to set their rates. These agreements also delayed opening the third sector to new competition until substantial deregulation of Japan's primary sector had occurred. The changes in Japan's insurance market are part of a larger effort to modernize Japan's financial markets. New, more independent oversight bodies have been established to deal with insolvency in the banking and insurance sectors.

GAO Timeline of Developments Affecting U.S.-Japan Insurance Agreements



In 1993, the United States and Japan concluded a "Framework for a New Economic Partnership," which addressed sectoral, structural, and macroeconomic obstacles to market access in Japan. Under this framework, the United States and Japan concluded their first bilateral agreement on insurance in 1994. A principal goal of the agreement was to ensure that Japanese insurance reform was carried out in a way that would not discriminate against the interests of foreign insurance providers. In 1995, U.S. insurance companies in Japan raised concerns over increasing third sector activities by Japanese firms. These concerns led to a second agreement, which was concluded in December 1996. Since July 1, 1998, the United States and Japan have been at an impasse over whether the 2-1/2 year grace period before opening the third sector to new competition from Japanese insurers should have already started. In March 1999, the two governments agreed to resume consultations in April on general issues regarding the implementation of the agreements.

In the international arena, Japan in 1997 included insurance as part of its agreement on financial services in the World Trade Organization (WTO). A multilateral forum could therefore be available to settle disputes involving insurance. As part of this agreement, Japan placed many commitments it made in its 1996 agreement with the United States in a legally binding, multilateral framework. The WTO Financial Services Agreement took effect on March 1, 1999.

Key Insurance Deregulation Steps and Agreements on Insurance by Japan, 1992-98

Date	Steps and agreements
June 1992	Government of Japan's Insurance Advisory Council issues proposals for deregulating insurance market
July 10, 1993	U.S.-Japan framework agreement concluded
October 11, 1994	1994 U.S.-Japan insurance agreement signed
April 1, 1996	Revised Insurance Business Law enters into effect in Japan
August 27, 1996	Licenses granted to 17 Japanese insurance subsidiaries for "mutual entry" into previously closed markets
October 1, 1996	Direct marketing of automobile insurance to consumers permitted
November 11, 1996	"Big Bang" financial reform initiative announced by Japan
December 24, 1996	1996 U.S.-Japan insurance agreement signed
January 1, 1997	Sixteen products added to list of products that can be marketed upon prior notification to government authorities ("notification system")
September 1, 1997	Auto insurance rate differentiation permitted to reflect risks
December 13, 1997	Japan agrees to include provisions of the 1996 U.S.-Japan insurance agreement in its schedule of commitments for the World Trade Organization (WTO) Agreement on Financial Services
April 1, 1998	Threshold lowered for commercial fire insurance
June 22, 1998	Financial Supervisory Agency takes over approval of insurance products and rates from the Ministry of Finance
July 1, 1998	Rating organization reform legislation goes into effect
July 2, 1998	U.S. Trade Representative (USTR) says primary sector deregulation is not complete so it does not support start of 2-1/2 year grace period leading to third sector opening
July 2, 1998	Japan says remaining restrictions on entry into and operations by Japanese firms in the third sector will be lifted effective January 1, 2001
November 4, 1998	Japan says it cannot agree to meet on insurance, as requested by the United States
November 14, 1998	Japan Fair Trade Commission study states that end of "radical change" limits in third sector is desirable
November 20, 1998	Insurance raised in Clinton-Obuchi summit
December 1, 1998	Privately funded policyholder payment protection corporations established
January 26, 1999	Deputy U.S. Trade Representative says requests to meet with officials at Japan's Ministry of Finance and Financial Supervisory Agency were denied; Deputy USTR meets with these Japanese officials the next day
February 15, 1999	The USTR says WTO Agreement on Financial Services "establishes powerful new disciplines to ensure Japan fulfills its obligations" in the insurance sector
February 23, 1999	Forty-four Members of Congress urge President Clinton to address Japan's failure to implement U.S.-Japan insurance agreement
March 1, 1999	WTO Agreement on Financial Services enters into force
March 4, 1999	U.S. and Japanese governments agree to hold consultations under the insurance agreements in April 1999

List of Events Relating to Japan's Insurance Market, 1990-Present

Date	Event
Spring 1990	Japanese study on revisions to the Insurance Business Law launched.
1991	<i>Japan Economic Almanac</i> 1991 reports that despite years of avoiding competition in premium rates or dividend payments, in fiscal year 1990, "the top five life insurers broke ranks for the first time over policyholder dividends."
June 1992	Advisory panel presents recommendations for deregulating Japan's insurance market; a panel is formed in September to consider legal changes.
July 7, 1993	Yasuda Fire & Marine Insurance Co., Ltd. purchases a 10-percent interest in INA Life Insurance Co., a subsidiary of CIGNA. INA subsequently changes its name to "INA Himawari Life Insurance Company, Ltd.," effective January 1, 1997.
July 10, 1993	The United States and Japan enter into a Framework for a New Economic Partnership (framework agreement) to increase foreign firms' access to the Japanese market. Addressing sectoral, structural, and macroeconomic obstacles, agreements reached under the framework are to incorporate quantitative and qualitative criteria for monitoring and implementing each agreement reached.
November 12, 1993	Japan's Administrative Procedure Law enacted to ensure fairness and enhance the transparency of government administrative operations.
July 15, 1994	<i>Journal of Commerce</i> reports that Unum Japan Accident Insurance Co., Unum Corp.'s Japanese affiliate, received its operating license from the Ministry of Finance and will sell group long-term disability insurance, a new product in Japan's market.
October 11, 1994	<p data-bbox="435 1096 1409 1146">"Measures by the Government of the United States and the Government of Japan Regarding Insurance" signed (1994 agreement) under the framework agreement.</p> <ul data-bbox="435 1167 1487 1434" style="list-style-type: none"> <li data-bbox="435 1167 1487 1325">• The agreement's goal is to increase market access and sales for competitive foreign insurance suppliers in Japan through enhanced regulatory transparency, strengthened antitrust enforcement, and deregulation of specific aspects of Japan's insurance business. Simplified and expedited approval of new products and rates, limited freedom to set flexible rates for non-life products, establishment of broker system, and wider access to public corporations are among the specific liberalization measures promised. <li data-bbox="435 1329 1487 1434">• Limits on third sector entry and activity are also included. Specifically, Japan is to avoid "radical change" in the third sector until substantial deregulation of the primary sector is achieved and a "reasonable period" has been provided for medium to small and foreign insurers to compete in a deregulated environment in the primary sector. <p data-bbox="435 1461 1511 1591">The USTR writes to Chairman of the International Insurance Council, a U.S. trade association, summarizing oral assurances by Japan that (1) current administrative practices limiting the third sector presence of existing large Japanese life and non-life companies will continue, (2) similar restrictions will apply to these firms' subsidiaries, and (3) the "reasonable period of time" stated in the agreement "means three years."</p>
March 31, 1995	End of Japanese fiscal year 1994. Profits and returns of life insurers—Japan's largest institutional investors—drop. Several firms report losses for the first time in the postwar period.
June 7, 1995	Revised Insurance Business Law enacted, to enter into effect April 1, 1996.
September 1995	First U.S.-Japan review of the 1994 insurance agreement takes place.
December 4, 1995	U.S. Secretary of the Treasury and the USTR express concern to Japan's Minister of Finance over implementation of the 1994 insurance agreement.
February 29, 1996	Ministry of Finance issues enforcement regulations regarding the Insurance Business Law and ministerial ordinances regarding non-life insurance rating organizations.

Appendix II
List of Events Relating to Japan's Insurance
Market, 1990-Present

Date	Event
March 1996	Press reports indicate that newly formed CIGNA Accident and Fire Insurance Co., Ltd., was provisionally licensed to write personal accident insurance policies. CIGNA had sold property and casualty policies through its branch operations since 1985 but says the new subsidiary will boost sales by designing products for the Japanese market.
April 1, 1996	Insurance Business Law enters into effect, the first major revision of Japan's insurance laws in more than 50 years. Among other things, it permits "mutual entry" through subsidiaries between life and non-life insurance companies, establishes an insurance policyholder protection fund, permits insurance brokerage, and partially liberalizes premium rates.
May 1996	Non-life insurers remove restrictions on commissions paid to insurance agents selling policies targeting corporations.
August 26, 1996	Yasuda, a 10-percent equity owner in CIGNA's INA Life, announces its intention to acquire a majority interest in INA Life.
August 27, 1996	Ministry of Finance grants licenses to 17 Japanese insurance companies' subsidiaries—11 non-life insurance companies' subsidiaries receive life insurance licenses, and 6 life insurance companies' subsidiaries receive non-life insurance licenses.
September 30, 1996	The United States and Japan reach interim agreement that precludes new subsidiaries of major Japanese insurance companies from entering third sector through December 31. The USTR announcement highlights a "downpayment on deregulation": Japan's decision to approve direct marketing for auto insurance to consumers via mail or phone ("direct response system"). By December 15, 1996, two firms had received approval of applications to provide insurance through a direct response system; in 1998, auto insurance was reported to account for about half of the premium income of Japanese non-life insurers.
October 1, 1996	Ministry of Finance publicly announces its decision to permit premium payments via credit card.
November 11, 1996	Japan announces its "Big Bang" initiative aimed at reforming Japan's financial sector to be "free, fair, and global" by 2001. It will liberalize cross-border capital transactions, widen the scope of financial instruments, improve the quality and variety of financial services, enhance efficiency and diversity of financial markets, diversify corporate funding options, and strengthen the transparency and safety of financial markets.
December 15, 1996	Negotiations on the U.S.-Japan supplemental measures for the 1994 insurance agreement are concluded.
December 18-24, 1996	At the request of the United States, U.S. and Japanese officials negotiate the text of an unsigned, undated record of understanding ("minute"). Current and former USTR officials state that this document is intended to ensure that (1) the 1996 Supplementary Measures will not prevent CIGNA from carrying out its preexisting business plan to sell a majority interest in INA to Yasuda; (2) INA will continue to have only a very limited presence in the third sector if the transaction goes forward; and (3) other large Japanese non-life insurers will be prevented from similarly entering the third sector. Language in the "minute" reconfirms the Japanese government's commitment to faithfully implement the 1994 Measures and the 1996 Supplementary Measures, inclusive of measures to avoid radical change in the third sector.

Appendix II
List of Events Relating to Japan's Insurance
Market, 1990-Present

Date	Event
December 24, 1996	<p>The United States and Japan sign the "Supplementary Measures by the Government of the United States and the Government of Japan Regarding Insurance." (1996 agreement)</p> <ul style="list-style-type: none"> • Key provisions set more specific limits on entry into and sales in the third sector, a time frame of 2-1/2 years after substantial deregulation before the opening of the third sector, and an explicit formula for determining by July 1, 1998, whether substantial deregulation has occurred before removing measures to avoid radical change in the third sector. • Among the agreement's liberalizing provisions, non-life subsidiaries of life insurance providers can sell personal accident insurance as of January 1, 1997, subject to specific limits. Japan also agreed to (1) permit differentiation of rates, forms, and distribution of auto insurance; (2) expand by 16 the list of products for which automatic approval will generally occur within a short period after notification of authorities (the "notification system"); (3) further deregulate commercial fire insurance; (4) eliminate obligations by members to use rates calculated by the rating organizations to set certain non-life premiums; and (5) to approve, within 90 days after submission, applications for products whose forms, rates, or distribution are new or different. <p>Exchange of letters between the USTR-Designate and the Ambassador of Japan, confirming agreement that, in the event the United States and Japan do not reach a common view of whether the criteria for starting the 2-1/2 year grace period for terminating third sector protections have been met by the decision point of July 1, 1998, each side retains its "right to act in conformity with its view as to whether the criteria had been met."</p>
January 1, 1997	As called for in the 1996 agreement, 16 products, including several classes of liability products, are added to list of policies that can be offered at risk-weighted rates upon notification to regulators.
April 1997	Nissan Mutual Life Insurance Co. fails.
June 1997	<p>Nippon Life Insurance Co. and U.S. investment manager Putnam Investments, Inc., join to develop financial products.</p> <p>Final report of the Japanese Insurance Council issued.</p> <p>Legislation establishing Japanese Financial Supervision Agency approved.</p>
June 11, 1997	A press statement issued by the U.S. delegation after the first review of the 1996 measures says that changes to Japan's rating system must be transparent and must make it easier for insurance providers to deliver innovative and competitively priced insurance services to Japanese consumers. The time required for obtaining approval for products and the denial of meaningful opportunities for foreign firms to participate in deliberations of the Insurance Council are also of concern, it says.
June 19, 1997	The United States and Japan establish the Enhanced Initiative on Deregulation and Competition Policy. The focus will be on both sectoral issues (telecommunications, medical devices and pharmaceutical products, housing and construction products, and financial services) and structural issues (competition policy, distribution, transparency, and other government practices).
September 1, 1997	Japan implements its commitment to begin approving applications for automobile insurance with rates that vary according to risk. American Home Assurance Co., an AIG subsidiary, begins to offer auto insurance rates that vary according to risk.
November 1997	Allstate Insurance sells all of its interests in a Japanese life insurance company and all but 5 percent of its 50-percent stake in a Japanese property and casualty insurance business to its Japanese partner.
November 10, 1997	The United States transmits proposals for deregulation to Japan, including an easing of restrictions on product innovation in the financial services market.
December 1997	First Chicago Tokio Marine Financial Products Ltd., a joint venture between First Chicago NDB Corp. and Tokio Marine & Fire Insurance, is established to help companies in Japan and elsewhere in Asia meet their growing risk-management needs.

Appendix II
List of Events Relating to Japan's Insurance
Market, 1990-Present

Date	Event
December 13, 1997	Japan agrees to include provisions of the 1996 insurance agreement, including its third sector provisions, in its binding commitments under the WTO Agreement on Financial Services.
January 1998	Zurich Insurance becomes second firm to offer auto insurance based on risk factors.
February 1998	GE Capital Services Corporation says it will establish a new life insurance company in partnership with struggling Toho Mutual Life Insurance Co. GE will take over all new policywriting and pension management business effective April 1 and hire 9,500 of Toho Mutual's sales agents and other personnel.
February 12, 1998	Ministry of Finance notification explains that Japan's commitments under the WTO Agreement on Financial Services prohibit sales of third sector products by acquired life subsidiaries of non-life insurance providers.
February 13, 1998	Yasuda announces its decision to delay its majority purchase of INA until restrictions are lifted on sales of third sector products by life subsidiaries of non-life insurance companies.
March 10, 1998	Amendments to Law Concerning Non-Life Insurance Rating Organizations and the Insurance Business Law to reform rating organizations are submitted to the Japanese parliament. With two exceptions, the rating organizations will publish only pure premium rates—actual cost of claims, but not all expenses and profits—for referential use by rating organization members for all the fire, personal accident, and automobile insurance lines covered by the rating organizations. Antitrust exemption will also be abolished for rating organization activities for all product lines except compulsory automobile liability insurance and household earthquake insurance.
March 27, 1998	Japanese cabinet transmits "freedom of information" legislation to parliament. The bill aims to increase transparency and accountability of Japanese government bureaucracies.
March 31, 1998	In its annual report on foreign trade barriers, USTR gives a mixed review of Japan's implementation of insurance commitments. <ul style="list-style-type: none"> • On the positive side, USTR states that Japan's Ministry of Finance has, to varying degrees, implemented its commitments under the October 1994 insurance agreement to enhance regulatory transparency, strengthen antitrust enforcement, introduce a notification system for approval of insurance rates and products, and undertake specific liberalization measures. Certain commitments under the 1996 agreement were implemented on schedule. These commitments were to approve applications for automobile insurance on the basis of risk; to reduce the threshold for offering flexible rates for commercial fire insurance; and to expand the list of products, including several important liability lines, to be included in the notification system. • However, concern was expressed over implementation of commitments regarding large government purchasers of insurance, foreign input into Japan's insurance reform process, and increased activity by Japanese insurance firms and subsidiaries in the third sector.
March 31, 1998	Japanese cabinet approves latest 3-year deregulation program for the Japanese economy. It recommends a formal review of the insurance product approval process.
April 1998	Allstate Property and Casualty Insurance Japan, Company, Ltd. (Allstate Insurance Company's newly established subsidiary) receives a non-life insurance business license from the Ministry of Finance. Great American Insurance Co., a Cincinnati, Ohio-based non-life insurer, opens an office in Tokyo. ALICO, a subsidiary of AIG, becomes the first company to offer nonsmokers lower-cost life insurance. Los Angeles-based TCW Asset Management Co. will help Yasuda Fire & Marine develop new investment products. AFLAC becomes the first foreign insurer to have offices in all of Japan's 47 administrative districts.

Appendix II
List of Events Relating to Japan's Insurance
Market, 1990-Present

Date	Event
April 1, 1998	In line with 1996 agreement, commercial fire market is further deregulated by lowering the threshold above which insurers can offer differentiated rates for commercial fire coverage, thereby making more products eligible to be offered at flexible rates. The threshold was lowered from 20 billion yen to 7 billion yen. It had previously been lowered from 30 billion yen.
April 2, 1998	USTR issues a press release stating that while the latest 3-year deregulation plan submitted by Japan represents progress, it still falls short of U.S. expectations.
April 17, 1998	Unum reaches agreement with two major Japanese firms to expand distribution of its products. Chiyoda Mutual Life Insurance will offer Unum's policies to Chiyoda's corporate life insurance customers, and Dai-Ichi Kangyo will sell Unum's long-term disability insurance at its branches.
April 24, 1998	American Council of Life Insurance provides USTR with requested analysis of current status of implementation of the 1994 and 1996 agreements, highlighting fundamental aspects of the agreements "where the Government of Japan has failed to live up to its promises." It urges USTR to meet with Japan's Ministry of Finance before July 1 to review all pending issues and obtain agreement on what actions are necessary to justify the start of the 2-1/2 year grace period.
May 1998	St. Louis-based Reinsurance Group of America, Inc., reaches a deal with Daihyaku Mutual Life Insurance Co. to guarantee \$38.6 billion worth of whole life and term life insurance policies in return for part of the future premiums of those contracts.
May 15, 1998	The United States and Japan issue a joint status report on the Enhanced Initiative on Deregulation and Competition Policy. Regarding insurance, the report highlights Japanese action to eliminate rate setting, permit mutual entry, and strengthen the role of the Japan Fair Trade Commission.
June 3, 1998	Press reports indicate that U.S.-based specialist in earthquake risk management, EQE International, is joining Tokio Marine & Fire Insurance Co., Ltd., and Mitsubishi Corporation. EQE's extensive database will be used to calculate premiums based on the risk of earthquake damage.
June 5, 1998	<p>Japanese parliament passes legislation to implement Japan's WTO financial services commitments. The law is promulgated 10 days later and is scheduled to take effect December 1, 1998. The legislation amends the 1995 Insurance Business Law, stating in part:</p> <p style="margin-left: 40px;"><i>The provisions restrict entry into the third sector</i></p> <p style="margin-left: 80px;">(1) of a newly licensed insurer, whether original or subsidiary,</p> <p style="margin-left: 80px;">(2) of an existing insurer by means of transfer of business from, consolidation or merger with, or acquisition of, another existing insurer, and</p> <p style="margin-left: 80px;">(3) of an existing insurer by means of extended or amended approval that has been already granted to it;</p> <p style="margin-left: 40px;"><i>for the time being to avoid radical change in the management environment, and to ensure robust operation, of those insurers which rely to a greater extent on the third sector insurance.</i></p> <p>American Chamber of Commerce in Japan transmits four position papers to USTR as input for upcoming bilateral review of the agreements. The papers address the proposed new payment guarantee system, radical change in the third sector, continued delays in approval of differentiated products and rates, and rating organization reform. The Chamber notes that ministerial ordinances now being finalized to implement the rating organization reform law will expand the businesses for which the rating organization will calculate pure premium rates to include medical expense and nursing care insurance. In addition, the Chamber raises concern that proposed collection and analysis of expense data by the rating organizations could restrain competition and promote uniformity.</p>
June 9-10, 1998	The fourth semi-annual working-level review of the insurance agreements takes place. U.S. embassy in Tokyo says a number of "serious concerns" about Japanese implementation were raised.

Appendix II
List of Events Relating to Japan's Insurance
Market, 1990-Present

Date	Event
June 11-12, 1998	<p>High-level bilateral talks take place in Tokyo to assess Japan's implementation of the 1994 and 1996 agreements. No agreement is reached on outstanding U.S. concerns regarding deregulating the primary sector and avoiding radical change in the third sector.</p> <p>Deputy USTR says U.S. participants notified their Japanese counterparts of the U.S. view that conditions necessary to start the process of terminating third sector restrictions have not been met.</p>
June 22, 1998	<p>Financial Supervisory Agency takes over much of the Ministry of Finance's supervisory and approval responsibilities, processing all applications for new and modified insurance products in Japan, including riders and rate revisions.</p>
July 1, 1998	<p>Legislation removing requirement to use premiums calculated by rating organizations in setting rates becomes effective.</p> <p>USTR press release states that insufficient progress has been made under the 1996 insurance agreement in deregulating the primary sector of Japan's insurance market to warrant initiating the 2-1/2 year grace period for opening the third sector to new competition. It identifies two of the five criteria established in the 1996 U.S.-Japan agreement that have not been fully implemented: reform of rating organizations has not gone far enough to accomplish Japan's stated objective of fundamental reform, and applications for approval of new insurance products still face processing delays.</p>
July 2, 1998	<p>Japanese Minister of Finance officially confirms that, despite the U.S. position, remaining restrictions on entry into and operations by Japanese firms in the third sector of Japan's insurance market will be lifted effective January 1, 2001.</p>
July 15, 1998	<p>American Council of Life Insurance testifies before House Ways and Means Committee's Subcommittee on Trade, concluding that "the Japanese insurance market remains highly restrictive and difficult to penetrate" for U.S. firms. The Council says Japan is not complying with the agreements because</p> <ol style="list-style-type: none"> (1) reform of rating organizations has not been meaningful or transparent, (2) entry of new products and rates into the marketplace continues to be slowed by Japan's approval process, (3) the notification system operates in a vague and unpredictable manner, (4) proposals for reform of payment guarantee systems (a) do not equitably distribute the cost of future insolvencies and (b) minimize foreign participation in the systems' management, and (5) inadequate staffing of relevant regulatory offices hampers full implementation of Japan's commitments. <p>The Council also expresses concern over increased activities by Japanese firms and subsidiaries in the third sector.</p>
August 5, 1998	<p>The USTR reports to Congress that the information the administration has to date does not support a finding that actions by INA/Yasuda, a 90-percent U.S.-owned subsidiary, constitute a violation of the insurance agreements' third sector provisions.</p>
September 21, 1998	<p><i>Nikkei Business</i> reports that AFLAC and AIG's subsidiary, ALICO, are among the healthiest large life insurance companies in Japan. Both had high returns on total assets and, unlike the majority of insurance companies, ALICO "expanded the value of its individual insurance contracts in 1997, using its rating as a weapon."</p> <p>Separately, <i>Nikkei Business</i> reports that foreign firms had acquired 4.4 percent of the new contracts for individual insurance in 1997, non-life firms acquired 3.7 percent, and other firms acquired 3.9 percent, bringing the share of new entrants to 12 percent. This was up from the combined 3.4 percent share for these new entrants in 1992, when existing Japanese life insurance firms accounted for 96.6 percent of new contracts.</p>

Appendix II
List of Events Relating to Japan's Insurance
Market, 1990-Present

Date	Event
October 1998	American Chamber of Commerce in Japan issues a series of position papers on insurance, including one on personal accident insurance, a non-life third sector product.
October 7, 1998	U.S. government submits over 270 deregulation proposals to Japan. They include a request that notice and comment procedures be followed in regulations of the life and non-life policyholder protection groups and the non-life rating organizations and that the burdensome and unpredictable nature of approval processes by Japan's Ministry of Finance and Financial Supervisory Agency be rectified.
October 30, 1998	U.S. embassy Tokyo transmits a formal request for consultations under the U.S.-Japan insurance agreement to the government of Japan.
November 2, 1998	In a <i>Journal of Commerce</i> op ed piece, a former USTR official urges amending U.S. trade law to require USTR to draw an adverse inference under U.S. trade law against any country that refuses to enter into meaningful consultations over a trade dispute.
November 4, 1998	Government of Japan notifies U.S. embassy Tokyo that Japan cannot agree to meet in response to the U.S. request.
November 5, 1998	<i>Sankei Shimbun</i> article includes a statement by Ministry of Finance's International Bureau that says a secret memorandum between the United States and Japan related to Yasuda/INA (the December 1996 "minute") does not exist and stresses that Japan's policy is to deregulate the third sector effective January 1, 2001.
November 14, 1998	<i>Nihon Keizai Shimbun</i> reports that a study by the Japan Fair Trade Commission on the insurance industry finds deregulation has stimulated competition somewhat, but about half of the companies it surveyed seek to preferentially award contacts to non-life insurance companies that hold their stock. The Commission study indicates that early abolition of the radical change provisions of U.S.-Japan agreements is desirable.
November 20, 1998	Deputy Secretary of the Treasury reports that one of the four economic issues raised by the U.S. President with Japan's Prime Minister was the need to carry through on trade agreements, including insurance.
December 1, 1998	Series of financial deregulation steps take effect in Japan, including establishment of policyholder protection corporations and easing of regulations on sales of investment trusts by banks and insurers. Prudential Insurance Co. of America teams up with Mitsui Trust & Banking Co. in July to establish an investment trust management firm in anticipation of the December 1 deregulation step. AIG abandons plan to acquire Japan's Aoba Life Insurance Co., which took over Nissan Mutual Life Insurance Co.'s assets in October 1997.
December 2, 1998	Tokio Marine & Fire Insurance Co. and U.S. discount broker Charles Schwab & Co. are reported close to a deal that will make Tokio Marine the first non-life insurance firm to enter Japan's securities market. Online sales of insurance products through the brokerage are reportedly under consideration.
December 4, 1998	CIGNA International Holdings and Yasuda Fire & Marine Insurance Co. announce plans to jointly enter the pension business. The two companies will reportedly establish a joint venture in 1999.
December 8, 1998	News reports indicate that Citigroup, the largest financial group in the United States, has announced plans to enter the insurance business in Japan as early as 2001, when a ban is lifted on banks selling insurance.
January 26, 1999	In Tokyo, the Deputy U.S. Trade Representative says his requests to meet that week with officials at Japan's Ministry of Finance and Financial Supervisory Agency were denied. He states that the United States is "deeply concerned" about Japan's unwillingness to engage in discourse on the matter. Deputy USTR meets with senior Ministry of Finance and Financial Supervisory Agency officials the following day.

Appendix II
List of Events Relating to Japan's Insurance
Market, 1990-Present

Date	Event
February 15, 1999	The USTR says that the entry into force of the WTO Financial Services Agreement establishes powerful new disciplines to ensure Japan fulfills its obligations in the insurance sector—rights “we will not hesitate to exercise” to ensure U.S. insurance providers receive the full market access benefits they are entitled to in Japan.
February 23, 1999	Forty-four Members of Congress urge the President to insist upon Japanese compliance with “the core provision” of the U.S.-Japan insurance agreement, which provides “that the 2-1/2 year countdown to the opening of the third sector to large Japanese companies not begin until the primary insurance market is fully opened to competition.”
March 1, 1999	WTO Agreement on Financial Services enters into effect.
March 4, 1999	U.S. and Japanese governments agree to hold consultations under the insurance agreements in April.

Appendix II
List of Events Relating to Japan's Insurance
Market, 1990-Present

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

Elizabeth Sirois, Assistant Director
Kay Halpern, Evaluator-in-Charge
Emil Friberg, Senior Economist
Kim Frankena, Senior Trade Specialist

**San Francisco Field
Office**

Leslie Holen, Senior Evaluator
Jose Peña, Senior Evaluator

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

<p>Bulk Rate Postage & Fees Paid GAO Permit No. GI00</p>
