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Main
Features

Growth of Health Insurance Co-ops

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Introduction

The aging population is a common problem facing industrial countries. The situation is even worsened when the incoming work force, due to low birth rates, does not replace the outgoing one. Japan is experiencing the most serious problems of both a rapidly ageing population and a shrinking population due to fewer children. This is challenging the sustainability of the public health insurance and pension systems with universal coverage that was set in place in 1960s. To meet the changing environment brought about by these demographic changes, fundamental structural reforms within the social security system have been made in the fields of health/long-term care and pensions since the 1980s. For example, a medical/health care system for the elderly was introduced in 1982 to address rising medical costs, while a long-term care insurance system was created in 2000 to replace the old system based on administrative discretion with beneficiary contracts based on choice. While these measures have improved user's access to services they have faced financial problems. From time to time, patchy modifications have been made through raising premiums and user's co-payments, but fundamental reforms are needed to cope with the challenges posed by an aging population.

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With coverage by public health insurance reduced to 70% (80 or 90% for the aged 75+), supplementary medical insurance plans for hospitalization and specific diseases such as cancer have grown rapidly since 1990s. In fact, insurers rushed into this new market where large foreign insurance companies quickly grasped on to the opportunity by staging heavy advertising campaigns to attract consumers. Insurance co-operatives (Kyosai) also expanded quickly by attracting a wide range of consumers through offering lower premiums.

Insurance Co-operatives (Kyosai) in the Insurance Market

In Japan, the insurance co-operatives are named Kyosai Kumiai (Mutual Society). It is confusing because the word kyosai is widely used to refer to mutual help organizations including government employee mutual-aid associations. This article solely deals with “Kyosai”

Table 1: Regulations Governing Kyosai Organizations

Governing Law	Co-operative	Regulating Ministry
Agricultural Coop Society Law	National Mutual Insurance Federation of Agricultural Co-operatives (Zenkyoren)	Ministry of Agr., Forestry and Fisheries (MAFF)
Consumers' Coop Society Law	National Federation of Workers and Consumers Insurance Cooperatives (Zenrosai)	Ministry of Health, Labor and Welfare (MHLW)
	Japanese Consumers' Cooperative Union (JCCU)	
	National Consumers' Cooperatives Union (NCCU)	
	National Federation of University Cooperative Associations (NFUCA)	
	Japan Federation of Mutual Aid Cooperatives (JAFMAC)	
Fisheries Coop Association Law	National Mutual Insurance Federation of Fishery Cooperatives (Kynosuiren)	MAFF
Law on Coops of SMEs	National Federation of Fire Insurance Cooperatives for Small Business (Nikkanren)	Ministry of Economy, Trade and Industry (METI)
	National Mutual Insurance Federation of Cooperatives for Small and Medium Size Enterprises (Chusho-Kigyo Kyosai)	
	National Federation of Motor Insurance Cooperatives (Zenjikyō)	
	National Mutual Insurance Federation of Truck Transport (Kokyoren)	

Source: Japan Co-operative Insurance Association Inc. (JCIA)

that refers to insurance co-operatives as set-up in accordance with the ICA Co-operative Principles. Kyosai are organized inline with the co-operative sector and are regulated by different co-operative legislations and ministries (see below). Most Kyosai are affiliated with the Japan Co-operative Insurance Association Inc. (JCIA).

Table 1: Regulations Governing Kyosai Organizations

Table 2: Business Results for 59 Kyosai Organizations in FY2003

In the agricultural co-operative sector, multi-purpose co-operatives operate insurance businesses concerned with life, property, medical and long-term care, pensions etc. The national federation, Zenkyoren, coordinates these insurance businesses. In the fishery co-operative sector, Kyosuiren coordinates all insurance business.

In the consumer co-operative sector a number of co-operative insurance businesses are operated in several organizations with different membership bases and thus they compete with each other. These organizations are:

Zenrosai serving mainly workers, organized by trade unions

NCCU serving general consumers

JCCU serving mainly housewives, organized by consumer co-ops

NFUCA serving students and faculty members, organized by university co-ops

In the SME co-operative sector, a number of insurance co-ops are organized for SME owners and employees. They cover a wide range of policies which include life insurance, health insurance, homeowners and car insurance.

Table 2: Business Results for 59 Kyosai Organizations in FY2003

	no.	¥billion	US\$billion
Number of Policies	146,427,000		
Premiums Received		7,682.60	73.2
Total Assets		47,132.40	448.9
Number of Members	66,388,000		
Amount Insured		1,126,587	10,729.40
Claim Payments		4,268.20	40.6

Conversion rate: US\$1 = ¥105

In the last decade Kyosai has grown faster than most other insurance companies by offering simple products with lower premiums and occupying an important position in the highly saturated Japanese insurance market. The driving force of these Kyosai is low-price insurance with no premium payment at the end of the term, which has attracted the bulk of consumers suffering from constrained income under a sluggish economy. In terms of income from premiums, Zenkyoren is the second largest insurer, only after the government-backed Postal Life Insurance, to be followed by major insurance companies.

Table 3: Premium Income of Major Insurers (¥ billion)

		2003	2004	03/04
1	Postal Life Insurance	12292	11667	94.90%
2	Zenkyoren	6186	5576	90.10%
3	Nippon Life	5143	4830	93.90%
4	Daiiti Life	3421	3530	103.20%
5	Meiji Yasuda Life	3297	3044	92.30%
6	Sumitomo Life	2697	2586	95.90%
7	AIG Japan	1400	1782	127.30%
8	Hartford Japan	516	1224	237.20%
9	AFLAC Japan	892	959	107.50%
10	Mitsui Life	920	900	97.80%

In addition to these regulated Kyosai, there were a large number of unregulated Kyosai, which were neither legislated nor regulated. Consequently, over the years Kyosai was allowed to proliferate in a wide range of work places and communities without adequate reserve funds. Some of these necessarily sold out to other insurance companies and became insolvent while others unfortunately became involved in scandals in the 1980s and 1990s, which prompted the government to supervise their operations. In fact, the Insurance Business Law revised in May 2005 placed them under the regulation of the Financial Services Agency (FSA). With these revisions, all Kyosai are now obligated to become either insurance companies or 'small-scale short-term insurers' by March 2009.

Table 4: Differences in Regulation Framework

In the for-profit sector, stock insurance companies and mutual insurance companies are established under the Commercial Code and regulated by the FSA under the Insurance Business Law. Insurance co-ops are exempted from regulation by the Insurance Business Law on the ground that they are regulated by respective co-operative laws, but the same kind of regulations are applied by the overseeing ministries under the FSA's guidance.

Table 4: Differences in Regulation Framework

	Regulated Kyosai	Unregulated Kyosai	Insurance Company
Governing Law		×	
Regulatory Agency		×	
Product Examination System		×	
Supervision and Audit by Regulatory Agency		×	
Liability Reserve System		×	

Nature of Supplementary Health and Long-term Care

The Insurance Business Law classifies private insurance into three categories. The first category is life and the second category is property. Accordingly either life insurance or general insurance companies have been set up in accordance with these categories. The third category is located in-between these two categories and deals with supplementary health/long-term care and pensions not covered by other social insurance schemes. In terms of the national health insurance system, patients pay 30% of medical costs (10-20% in case of elderly) although a sum beyond a certain amount can be reimbursed on request (high medical costs reimbursement scheme). In addition, patients pay the extra costs for hospital rooms and meals not cover by health insurance schemes. Highly advanced drugs and care is also not covered. To cope with such user's burdens, supplementary health care insurance plans have been developed. For example, medical insurance provides benefits to cover a part of hospitalization and operation expenses, while cancer insurance insures against expenses related to cancer including diagnosis and recuperations etc. The benefits are paid in cash which is used to supplement benefits provided by public insurance which are provided in kind. In addition to these health-related plans, supplementary long-term care plans and pension plans have been started. The third category has grown rapidly in recent years and now medical/cancer insurance policies accounts for 27% of life insurance policies. It is expected to supersede the first and second categories in the near future.

Such a shift to the third category reflects the changing demographic structure and consumers' needs. When baby boomers were in their 30s and 40s, they insured themselves against the risk of sudden death through life insurance which would leave a lump sum to their bereaved families who were dependent on their income. But now that this generation is approaching the retirement age of 60, they are seeking to be insured against the risk of a longer life after retirement through supplementary insurance. Consumers in general are now more concerned about the uncertainty of financing health care into old age and are therefore more interesting in insuring against health and long-term care risk rather than the death risk. This is especially true for women who prioritized the need for medical insurance (29.2%) over life insurance (9.6%).

Z The insurance companies, which have been protected by a 'convoy' system under the strong control of the Ministry of Finance, faced a saturated market (95% of households held life insurance policies in 1994) and stagnation in the amount of contracts and premium income in the 1990's. They were also challenged by strong competition from the global financial market. The financial 'big bang' in 2001, however, allowed them to sell other types of insurance products. They thus made an aggressive drive in the third category by attaching special contracts to existing life insurance plans or by developing independent medical/cancer insurance plans. Furthermore, foreign insurance companies succeeded to build up their business in this field through heavy advertising campaigns. Kyosai also expanded their market share in this field by providing a wide range of services at lower prices. This field, therefore, has become a major battlefield in the insurance industry where further expansion is foreseen in light of a rapidly aging population and the financial constraints of public insurance schemes. In terms of the number of policies for individual life and medical insurances in 2003, Zenkyoren is the largest insurer while NCCU and Zenrosai are ranked at 6th and 8th. In total, domestic insurance companies hold the dominant share of 55%, while Kyosai and foreign insurance companies occupied 32% and 13% respectively with greater net increases.

Table 5: Number of policies in Individual Life/Medical Insurances in 2003 (in thousands)

Number of Policies			Net Increase of No. of Policies		
1	Zenkyoren*	16,490	1	NCCU*	1,300
2	AFLAC Japan	16,460	2	Nippon Life	810
3	Nippon Life	14,400	3	AFLAC Japan	710
4	Daiichi Life	11,670	4	Zenkyoren*	590
5	Meiji Yasuda Life	10,360	5	Sumitomo Life	560
6	NCCU*	10,280	6	AIG Japan	490
7	Sumitomo Life	9,660	7	Meiji Yasuda Life	440
8	Zenrosai*	7,900	8	Asahi Life	430
9	Asahi Life	7,070	9	JCCU*	400
10	JCCU*	4,470	10	Zenrosai*	360

Kyosai has made great strides in this growing health insurance market. The industrial associations of insurance companies and the American Chamber of Commerce in Japan in fact requested the government to regulate Kyosai so that equal footing would be accomplished. Although it is a controversial question as to whether the same rules should be applied to both for-profit and mutual/non-profit entities, Kyosai recognized the necessity to make good governance and protect the insured against the risk of insolvency. Accordingly the Agricultural Co-op Law was modified in 2005 while the amendment of the SME Co-op Law and the Consumer Co-op Law is envisaged to meet such requirements.

Conclusion

The challenges posed by the rapidly aging population are unprecedented ones in the history of mankind. They are the consequence of the long-term effects of demographic changes, but are also influenced by political choices. There have already been serious problems in most industrialized countries, but these challenges will pose an even greater impact on the emerging economies, such as China, where the compulsory single child policy has resulted in a grave imbalance in the demographic structure. To cope with such problems, public insurance systems were created in such fields as health and long-term care, pensions etc., but these systems are now in need of fundamental restructuring in many parts of the world. Public financing through taxation, which was once conceived as a panacea, now faces major cutbacks due to perpetual deficits. Therefore we need to develop new ways of organizing and financing health and long-term care for the elderly. Co-operatives should play vital roles in providing supplementary insurance plans and personal care at affordable prices while also promoting mutual help among members and mobilizing voluntary resources in the communities.

News in Brief

CCIJ Award Commission met for 2006 Award

The CCIJ Award was created in 1999 in commemoration of CCIJ's 10th anniversary and consists of grants to research projects and awards recognizing excellent works in the fields of citizen's life and co-operation. The commission was reshuffled after 6 years and now has the following members:

- Mr. Otohiko Hasumi, President, Wayo Women's Univ. (Sociology), Chair
- Mr. Tominosuke Miyasaka, Prof. Emeritus, Waseda Univ. (Economic Law)
- Ms. Fusako Fujiwara, Ex-editor, Nihon Keizai Shinbun, Inc. (Gender)
- Ms. Keiko Higuchi, Chair of Women's Assn for a Better Aging Society (Welfare)
- Mr. Tsutomu Hyodo; Prof. Emeritus, Tokyo Univ. (Labor Economics)
- Mr. Manabu Tanaka Prof. Emeritus, Tokyo Univ. (Agricultural Economics)

The new commission met on March 3rd to review the past and discuss the future direction of the organization. A move to shift from biennale to yearly awards and widen the scope of research to be given awards or scholarship was approved.

 NEWS in Brief

CCIJ Seminar on Social Marketing

CCIJ holds open forum from time to time to disseminate research findings or listen to outstanding speakers. On March 17, Mr. Takeshi Akiba, Assistant Professor of Ritsumeikan University in Kyoto was invited to speak on the concept of social marketing, citing the best practices including the Body Shop. Akiba described the development of consumer co-op's joint buying of safer products as an example of successful social marketing during 70s and 80s. In his view, however, co-ops heavily invested in developing larger stores while neglecting this marketing concept in the 90s. As a result co-op's marketing became obsolete and could not meet the challenges posed by tough competition in the new millennium. This critical analysis provoked a discussion with JCCU buyers.

Symposium on Community Regeneration by Financial Co-ops

Agricultural co-ops, labor banks, shinkin banks and credit co-ops all have different customer bases such as farmers, workers and small/medium businesses. The different legislations and ministries which regulate them are all subject to general supervision by the Financial Services Agency. In searching for a common ground and possible collaboration they formed the Co-operative Finance Research Group in 1993, with the secretariat at CCIJ. The group organizes bi-monthly seminars and newsletters. On March 4, it held its annual symposium in Tokyo on the theme of Financial Co-op's Role in Community Regeneration. It attracted 120 participants. Mr. Setoyama, Chairman of Lotte Marines, the 2005 baseball champions, highlighted the team's strategy of community involvement. Prof. Horiuchi of Yamanishi Gakuin Univ. gave the keynote speech, which was followed by a panel discussion on "Are the financial institutions indispensable for communities?"

New Publication on Co-operative Identity

Just after the ICA Centennial Congress held in 1995, JCCU's International Dept. edited a book entitled "New Co-operative Principles Heading Toward the 21st Century" which contained the translation of the ICA statement on co-operative identity, its background paper and declaration. It was widely disseminated through the consumer co-ops and gave impact to co-operative discussion circles and research. After 10 years, a new book "New Co-operative Principles Ten Years On" was published by the Co-op Publishing Co. Again, Mr. Akira Kurimoto of CCIJ edited the book in addition to contributing an article on how the new principles have impacted co-operatives practices in Japan and the world.