

market liberalization (gaiatsu) a number of foreign companies entered into the third field of private medical insurance and gained a large market share in a relatively short period during the 1990's.

Co-operatives requested entry into the insurance business as early as the 1930's, but they were excluded from licensing due to strong opposition from the existing insurers. Co-op insurance businesses were eventually approved (see table 2) as 'kyosai' or mutual insurance under the co-operative laws. Thus agricultural, fishery, consumer and SME co-operatives started insurance businesses under the different jurisdictional bodies after the Second World War. Most co-operatives undertaking insurance business are affiliated with the Japan Co-operative Insurance Association Inc. (JCIA).

2. Growth of JCCU's Co-op Kyosai

The JCCU has demonstrated the fastest growth, although it was the latest entrant into the Japanese insurance business in 1979. It has concentrated on providing insurance policies for consumer members, while Zenrosai had already built an insurance business based on trade union members. In 1984, the JCCU developed a simple product named 'Tasukeai' (mutual help) which covered the basic needs of consumers for medical and life insurance with uniform premiums. The number of Tasukeai policy holders surpassed 100,000 households in 1990. From then, it made spectacular growth to 1 million in 1994 and 5.3 million in 2006 by integrating the independent Kyosai policies developed by some larger primary co-ops. This means that approximately 18% of all co-op members are policyholders of Co-op Kyosai.

There are some notable factors attributable to such growth . First of all, the JCCU provided co-op members with a simple product fitting the basic needs of women and children - their main target groups. Women constitute the bulk of the co-operative membership, but they were not necessarily covered by traditional life insurance policies that emphasized of securing income in case of the death of male breadwinners in the family. Women members asked that their needs for medical insurance be covered by Co-op Kyosai. They took an active part in promoting Kyosai, while co-ops conducted member surveys to improve and expand coverage, and thus a virtuous circle was created

Secondly, consumer co-ops used the infrastructure of Han groups and joint buying to recruit new policyholders. Han is a group of members living in the same neighborhood, and in most cases functions as a place where members receive weekly orders. It was convenient for co-op delivery personnel to promote the sales of Co-op Kyosai as an extension of the delivery of food with the incentive of additional paid commission. It was also easy to collect the small amount of monthly premiums using the automatic payment through members' personal accounts. Thus co-ops could rely on member's trust when promoting their insurance business and the synergy effect of a food delivery system and an insurance business evolved. When individual home delivery was introduced in the 90's, the system carried on in much the same way. Later, service desks for insurance policies were set up within the larger co-op stores as well.

Thirdly, co-op promoted a campaign for consumers to review the insurance needs of their individual households. At the time, it was often said that Japanese consumers were over insured because of the strong push by insurance solicitors. So consumer organizations undertook campaigns to avoid unnecessary insurances and switch to better policies. Consumer co-ops were active in these campaigns and in promoting member participation in this field. In 1994, they developed a system to give active members opportunity to learn about insurance and become 'Life Plan Advisors' (LPAs). LPAs played a pivotal role in educating and acting as liaisons with members. In 2006, 39,000 members in 65 co-ops took part in these learning activities.

Last, but not the least factor responsible for the growth, was an organizational arrangement to promote the joint efforts of the JCCU and primary societies. The JCCU took initiatives in developing products and building business infrastructure, but also involved primary co-op societies as co-insurers to share the responsibility. Also, a call center for members' inquiries and payments was set up in 2003. Some independent co-op insurers also joined Co-op Kyosai in view of the economy of scale. In the federative structure, the primary co-ops had strong incentives in sales promotion of policies since they could earn a part of the premium income as commission. Such arrangement contributed to the rapid expansion of the insurance business, but resulted in higher costs compared with other insurance co-ops.

Table 1. Insurance Co-operatives under Different Regulators

Governing Law	Co-operatives	Regulating Ministries
Agricultural Co-op Society Law	National Mutual Insurance Federation of Agricultural Co-operatives (Zenkyoren)	Ministry of Ag., Forestry and Fisheries (MAFF)
Consumers' Co-op Society Law	National Federation of Workers and Consumers Insurance Co-operatives (Zenrosai)	Ministry of Health, Labor and Welfare (MHLW)
	Japanese Consumers' Co-operative Union (JCCU)*	
	National Consumers Co-operatives Union (NCCU)	
	National Federation of University Co-operative Associations (NFUCA)	
	Japan Federation of Mutual Aid Co-operatives (JAFMAC)	
Fisheries Co-op Association Law	National Mutual Insurance Federation of Fishery Co-operatives (Kyosuiren)	MAFF
Law on Co-ops of SMEs	National Federation of Fire Insurance Co-operatives for Small Business (Nikkanren)	Ministry of Economy, Trade and Industry (METI)
	National Mutual Insurance Federation of Co-operatives for Small and Medium size Enterprises	
	National Federation of Motor Insurance Co-operatives (Zenjikyō)	
	National Mutual Insurance Federation of Truck Transport (Kokyoren)	

*The JCIF was created to take over the JCCU's insurance business.

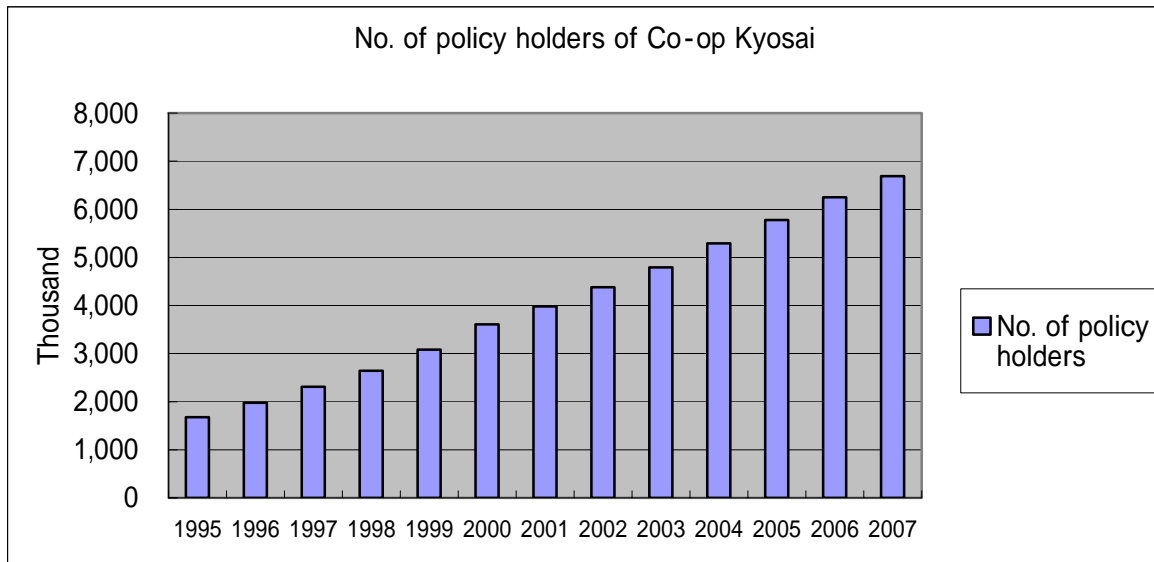
Information from JCIA and other sources

Table 2. Major Co-operative Insurance Businesses in 2007

	Zenkyoren	Zenrosai	NCCF	JCCU
Startup	1948	1954	1971	1979
Main products	Life, Medical, House, Car	Life, Medical, Fire, Car, Pension	Life, Medical, Fire, Accident	Life, Medical
Sales network	Co-op stores, Recruiters	Trade unions, TV, Fliers & Banks	Fliers & Banks, Recruiters	Co-op stores, Deliverymen
No. of members	9,320,000	13,900,000	13,340,000	17,480,000
No. of policies	56,340,000	33,400,000	33,930,000	6,310,000
Changes	97.6%	99.9%	103.6%	108.3%
Total assets*	43,517,400	2,822,500	374,100	104,500
Amount insured*	430,094,600	244,159,500	201,719,600	9,172,500
Premium income*	5,259,100	597,600	487,600	128,200
Claims paid*	3,877,000	330,700	252,600	48,800

*JPY million

Figure 1. Number of Policy holders of Co-op Kyosai



3. Co-op's Expansion Triggered Reaction from For-Profit Insurers

The existing insurance companies largely eroded their market share because of their incompetence in responding to changing consumer needs reflected by the rapid demographic shift to an aging society; consumers wanted medical insurance to offer health security rather than huge amounts to be paid out through life insurance. Newcomers such as foreign companies and emerging co-ops also threatened their existence. In particular, co-op's expansion triggered strong reaction from for-profit insurers. Their trade associations petitioned the government to request that stricter regulations be placed on co-ops. The American Chamber of Commerce in Japan (ACCJ) was among those that signed the petition. In addition, there were several scandals involving non-registered entities which operated insurance businesses under the name of 'kyosai'. Demands were made for these organizations to be placed under the appropriate supervisory framework in the consumers' interest.

Accordingly, the Insurance Business Law was amended in 2004 to outlaw non-registered entities unless they are licensed as full-fledged insurance companies or approved as small-scale short-term insurance companies. This legislation caused strong opposition among non-registered organizations which requested exemption from the regulations, and which so far have not been granted. At the same time, all co-operative legislation was revised to accomplish 'equal footing' in the insurance industry. Because of this, the basic framework of regulation maintains that insurance companies are regulated by the Financial Services Agency while insurance co-operatives come under the jurisdiction of corresponding ministries.

4. New Institutional Settings for Co-op's Insurance Business

The Consumer Co-op Law was substantially revised in 2007 for the first time since its enactment in 1948. It introduced the following new institutional settings for co-op's insurance businesses.

- 1) Ensuring financial stability; minimum share capital, obligatory buildup of reserves, appointment of actuaries,
- 2) Prohibition of running insurance and other businesses for the co-op federations

- and primary co-ops whose insured amount exceeds JPY 1 million or whose premium income exceeds JPY 1 billion, level of solvency margins,
- 3) Increased transparency; obligatory disclosure of management information, obligatory external audit,
 - 4) Protection of policy-holders; prohibition of improper conducts on contracting, change of contract terms and transfer of engagement in case of bankruptcy
 - 5) Smooth business operations reflecting on policy-holders' needs; regulations on agents, deleted cap of insured amounts, introduction of insurance agents
 - 6) Application of the Insurance Business Law.

In addition, the Insurance Contract Law was enacted in 2008 to consolidate regulations on contracting irrespective of organizational forms. Therefore the co-operative insurance business is now under the same regulations while it is still under the jurisdictions of different ministries.

5. New Insurance Co-op Federation Launched

In response to the institutional changes, the JCCU and primary co-ops decided to create a new Japanese CO-OP Insurance Consumers' Co-operative Federation (JCIF) and transfer engagement of their insurance businesses. The JCIF was set up by the JCCU, Zenrosai, 3 regional consortiums and 157 primary co-ops in October 2008. It officially started operation in March 2009, taking over the insurance businesses transferred from all affiliated co-ops. It is expected that the economy of scale accomplished through concentrating resources will enable JCIF to develop new products to meet diversified members' needs. Co-operative groups such as Pal System and Seikatsu Club plan to create their own federations.

The JCIF is looking to resolve some problems concerning the co-operative insurance business. First of all, it has to solve the governance problems of the federative structure. The primary co-ops are principal as owners whereas the JCIF acts as agent for them in providing policies, receiving premiums and making payments. At the same time, the former will act as the sales agents for the latter in that they recruit new policyholders. Therefore special attention is required on how to harmonize the principal-agency relationship with the insurer-sales agent relationship. The JCIF will set up 5 regional

advisory committees to reflect the views of the primary co-ops, while its own governance will be improved by introducing non-executive board members, obligatory external audits and actuaries.

Secondly, although the organizational arrangement can contribute to lowering operational costs through concentrating the insurer's function through the JCIF, it also may lead to decrease incentives for recruiting new policyholders on the part of primary co-ops that had previously earned substantial surplus from the insurance business. It is necessary, therefore, to balance reducing the overall costs with maintaining the primary co-ops' incentives.

Thirdly, taking concrete measures to increase member participation pertaining to the insurance business is necessary. Whereas in the past, members' voices had been reflected to improve the coverage and develop new products. Members should be encouraged to continue to voice their needs and opinions in order to improve and develop Co-op Kyosai. Member education and information through various channels needs to be intensified while the activities of 'Life Plan Advisors' should be further promoted.

Symposia and Colloquia

1. CCIJ Colloquium on Crisis Management and Governance of Consumer Co-ops Dealing with Food Poisoning from Chinese Dumplings

In late 2007 through January of 2008 there was a string of food born illnesses reported especially in western and central Japan that threatened the lives of ten people and sickened hundreds of others. Consumers were shocked nationwide, and Co-op members were particularly outraged when they learned that several different Co-ops had sold frozen gyoza, (Chinese dumplings known as pot stickers abroad) tainted with lethal pesticide, which were responsible for food poisoning of co-op members. This accident has called into question Co-op's food safety systems. As an independent third party investigating committee has shown, Co-op's quality control system failed to prevent these accidents, as did its crisis management system. The result has been a lack of confidence in Co-op merchandise and Co-op has introduced concrete measures to improve the system in order to rebuild its reputation for safe food.

The frozen gyoza were manufactured in China by Tianyang Food and imported by JT Foods Co., a subsidiary of Japan Tobacco Company. JT Foods supplied the gyoza for the JCCU that sold them under their own Co-op label. The gyoza were found to have concentrations, far above the legal limit, of an organophosphate. The substance is a commonly used pesticide in China that is rarely used in Japan. The source of the contamination is to date still to be confirmed, but most likely poison was intentionally put in the food products and the authorities in both countries are still investigating.

This problem was the focus of the CCIJ Colloquium in November. Prof. Y. Wakabayashi of Kyoto University analyzed why co-ops failed both from governance and crisis management perspectives. Mr. S. Tai, President of Chiba Co-op, where some members were injured, reflected on his co-op's response after the accident, to which Mr. T. Shimaoka of the JCCU commented. There was a lively discussion on the points raised by the speakers.

2. CCIJ's Open Forums on Food Safety and Food Security

The CCIJ organized two open forums in October and December focusing on food-related problems. The former one was dedicated to issues of food safety, largely reflecting the concerns generated by recent food poisoning accidents. Prof. T. Imamura of Nara Medical University pointed out the crucial importance of food defense to counter bio-terrorism, while Prof. K. Oshima of Qingdao Agricultural University described the current state of Chinese agriculture and its food industries.

The latter discussed issues related to food security. Prof. S. Shogenji, University of Tokyo, presented an economic analysis on food self-sufficiency. Prof. K. Nakajima of Ibaraki University argued for the support of agriculture in communities while Mr. H. Kakurai, a journalist, described elements of Japan's food self-sufficiency.

3. Symposium on Local Financial System

In January 2009, CCIJ and the Association of Co-op Financial Institutions hosted a symposium on "the future of the local financial system" with 50 participants. Professor Y. Fujii, Sophia University, insisted on the importance of local financial initiatives. Models could be found in such cases as CDFIs (Community Development Financial Initiatives) of U.S. and UK that are struggling in current financial crisis. Recently, "NPO banks" are rapidly developing in Japan, though not rightly recognized. Prof. Fujii suggested to give public and private support to NPO Banks, and recognize them as one of indispensable actors in the co-operative and non-profit sector.