



Mutual Company in Japan, its uniqueness and future development

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Abstract

Mutual company in Japan is unique in its origin, historical development, commanding presence, conceptual problem, demutualization trend, etc. This paper will clarify its uniqueness by reviewing a literature in connection with historical, comparative and theoretical studies on mutual company in Japan. Based on that this paper will consider significance of the recent demutualization of Dai-ichi Life and conclude that it will be a turning point in the history of life insurance industry in Japan.

1. Introduction

Mutual companies in Japan are rather unique in that they are only life insurance companies and that they have dominated life insurance market for over 60 years. How and why major life insurance companies have been almost exclusively mutual companies? How significant it is that they are mutual companies? Do those companies really function as mutual companies? Because of such questions, the issue of mutual life insurance companies has been one of the most important issues for over 40 years. The issue has been even more widely and deeply discussed because seven life insurance companies have gone bank-

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ruptcy in 1990s and many of large life insurance companies in other countries have converted from mutual companies to stock ownership.

Among numerous research papers and articles, there has been no one sided or conclusive opinion as to superiority and inferiority, pros and cons, and future course of development of mutual companies. They are in line with the situation where major life insurance companies have remained to be mutual companies in spite of criticism and downside of mutual companies. However there has been very epoch-making development that The Dai-ichi Life Insurance Company, Limited, which is the first mutual company in Japan and one of the biggest life insurance companies, was changed to stock company in April, 2010.

It is a very significant event in two aspects. Firstly it is an interesting development from academic viewpoint. That is to say, it will be a good subject of the case study from the viewpoint of comparison between mutual companies and stock companies now that you can compare performance of large mutual and large stock companies on equal footing. Secondly, there is a possibility that it might dramatically change the life insurance industries in Japan. Other large life insurance companies might fol-

low the course of Dai-ichi or Dai-ichi might move to merger and acquisition taking full advantage of now being the stock company.

This paper will address the issues of mutual life insurance companies from historical, comparative and theoretical view point and conclude that Dai-ichi's conversion to stock company is a very important development which is worth of close monitoring and further studying.

2. Historical Review

(1) Dominance by Mutual Companies

Dai-ichi Life, which is the first mutual life insurance company in Japan, was founded in 1902. At that time all life insurance companies were stock companies, which was the reason that Mr. Tsuneta Yano who was a medical doctor employed by Nippon Life and the founder of the Dai-ichi, made it a mutual company (Yano, 1936). Since then there were only a couple of mutual companies with the majority being stock companies until the Second World War (the war). After the war, all those stock companies restarted their enterprise as mutual companies¹⁾. While it might sound a little strange, the exact reason why they have become mutual companies has not been identified (Iwasaki, 1989, p.3; Tamura, 1989, p.76; Yoneyama, 2001, pp.14-18).

After the war, the life insurance industries in Japan have accomplished remarkable growth and the companies which have dominated the market have been mutual

Table 1. Dominance by Mutual Companies

	Percentage of Mutual Cos. by Premium	Number of Mutual Companies
1980	95%	16
1997	89%	15
2000	85%	11
2008	42%	6

Source : Data of 1997 was obtained from Table 11 and other data was obtained from Seimeihoken Tokei Go (Statistics of Life Insurance Business in Japan) for respective years.

companies. In 2000, the proportion of mutual companies was 85% in terms of premium and 88.6% in terms of the amount of insurance in force even though the number of mutual companies was only 11 among total 43 companies excluding Kampo Life (see Table 1). This is because all the traditional major companies were mutual companies.

After 2000 four traditional mutual insurance companies have demutualized because the Insurance Business Law has been changed so as to make it possible in 2000. They were Daido and Yamato in 2002, Taiyo in 2003 and Mitsui in 2004²⁾. Now that the number of the traditional mutual companies has been reduced to six and more importantly owing to the emergence of non-traditional type companies, although the proportion of premium income by the mutual companies is still 83% of total traditional companies (¥14,326,858 million out of ¥17,220,119 million), the proportion by them of total life insurance companies is 42% (¥14,326,858 million out of ¥34,063,950 million) for 2008 (see Table 2).

Table 2. Premium Income by Traditional Companies for 2008 (Unit : Million yen)

Mutual Companies		Traditional Stock Companies	
Nippon Life	5,035,543	Mitsui Life	743,487
Dai-ichi Life	2,903,640	Taiyo Life	596,456
Meiji-Yasuda Life	2,684,824	Daido Life	811,330
Sumitomo Life	2,529,256	T & D Financial	240,483
Asahi Life	527,095	Dai-ichi Frontier	366,428
Fukoku Life	646,500	Fukoku Shinrai	135,077
Total	14,326,858	Total	2,893,261

Source : Data was obtained from Seimeihoken Tokeigo Heisei 21-nen Ban. (Statistics of Life Insurance Business in Japan 2008)

Table 3. Number of Life Insurance Companies by Year and Type

Year	(A)		(B)	(C)	(D)
	Mutual	Stock			
1908	1	15			
1950	16	4			
1980	16	4	3		
2000	11	1	15	13	3
2008	6	6	17	9	6

Source : The numbers were obtained from Nihon Seimeihoken Kyokai Hyakunenshi (100-year History of Japan Life Insurance Association) and Nissei-Kisoken REPORT.

Life insurance companies in Japan are categorized into four types of companies. They are traditional companies (A), companies owned by foreign owners (B), companies owned by non-life insurance companies (C) and companies owned by non-insurance companies (D). The number of life insurance companies and its distribution by the year and the type are as shown in Table 3.

In 1908, there were 35 life insurance companies including ones under liquidation process and having stopped business. The number shown here is the one of the companies who were members of the Life Insurance Companies Association which was established in 1908. The three foreign companies in 1980 were American Life Insurance Company, American Family Life Assurance Company of Columbus and Seibu Allstate Insurance Company. The four traditional stock companies in 1980 were Heiwa, Taisho, Nihon-Dantai, Kyoei out of which Heiwa merged with foreign company, Taisho and Kyoei had gone bankruptcy. In 2001, Nihon-Dantai merged with AXA Group making the number of traditional stock company zero. Among six traditional stock companies in 2008, three were T & D Financial, Dai-ichi Frontier and Fukoku Shinrai which were recently founded by parent traditional companies respectively. Six category (D) companies in 2008 are Sony, Orix, Airio, Life-net, Midori and SBI-AXA. Life-net and SBI-AXA were organized in 2006 with Airio and Midori having been organized in 2007. Life-net is the company founded independently without having any sponsor companies

for the first time in 74 years (Iwase, 2009, p.18).

(2) Market Trend

After the war, life insurance industry in Japan has developed remarkably and who contributed to the growth were traditional insurance companies, most of which were mutual companies. During 30 to 40 years after the war, there was a situation called “20 Companies System” which means there were only 20 life insurance companies with 16 companies being mutual companies, making the very stable and fast growing market. For those mutual companies, one of the most important products was long term life insurance, thanks to which the life insurance in Japan has become one of the largest in the world and it was said that the average amount of premium for life insurance was 450,000 yen per family (Iwase, 2009, p. 33). It would be the second largest spending after house expenses for Japanese household.

After 1990s, however, there has been a shift of consumer taste from life insurance to medical and pension insurance. One of the reasons for such movement is the change of the society. Under the rapid economic growth after the war, the life insurance has sold especially well as a security for inadvertent loss of a bread earner in the family. However, by the 1990s, the market of life insurance had been pretty much saturated with over 90% of all households being insured. Furthermore the society has been changing into so called “the era of lesser children and more aged people” where the proportion of a single and aged family has been dramatically increased. Those are the people who are more concerned about their future needs for medical and pension expenses than death compensation for surviving family.

Such a social change is coincident with the rise of foreign insurance companies (type (B) companies). Let's take a look at the Table 4, 5 and 6 which display the significant increase of the premium share by the type (B) companies from 10.1% (Table 4) to 17.7% (Table 5) and to 25.9% (Table 6). One reason is the growth of medical and disease insurances which were the main

Table 4. Proportion of Premium Income by Company Type (2000)

	Number	Premium (Trillion yen)	Increase (%)	Share (%)
(A)	12	22.03	△2.0	85.0
(B)	15	2.61	11.0	10.1
(C)	13	0.63	21.4	2.4
(D)	3	0.65	0.3	2.5
Total	43	25.92	△0.3	100

Source : Nissei-Kisoken REPORT September 2001

Table 5. Proportion of Premium Income by Company Type (2002)

	Number	Premium (Trillion yen)	Increase (%)	Share (%)
(A)	11	19.70	△7.8	76.2
(B)	18	4.58	29.0	17.7
(C)	10	0.97	38.2	3.8
(D)	2	0.61	△5.4	2.4
Total	41	25.86	△1.6	100

Source : Nissei-Kisoken REPORT September 2003

Table 6. Proportion of Premium Income by Company Type (2008)

	Number	Premium (Trillion yen)	Increase (%)	Share (%)
(A)	12	17.25	1.3	63.1
(B)	17	7.07	△10.3	25.9
(C)	9	2.20	△2.5	8.1
(D)	6	0.80	3.6	2.9
Total	44	27.33	△2.2	100

Source : Nissei Kisoken Report September 2009

products for two foreign companies, ALICO (American Life Insurance Company) and Aflac (American Family Assurance Company of Columbus). Another is the entry of foreign insurers as succeeding companies of the defunct traditional companies.

Both ALICO and Aflac are now among the top ten life insurance companies in Japan. For instance, Aflac set out their disease insurance in Japan in 1974. Their market share in cancer insurance was 80% at one time and the number of individual policyholders exceeded the one of Nippon Life for the first time in the history³⁾.

3. Comparative Review

In the US, many mutual life insurers have converted into stock ownership in 1980s and 1990s. Especially towards the end of 1990s and the beginning of 2000s, large life insurance companies have demutualized resulting in only one mutual company in the top ten life insurance companies and three mutual companies in the top 20 life insurance companies. It is due to the change of product or service portfolio from life insurance to pension insurance, from life insurance to financial services, and deregulation of financial services due to the enactment of Gramm-Leach Bliley Act (Tsuru, 2000, pp.91-92).

In the UK, a majority of mutual life insurance companies have demutualized in 1990s and 2000s with only a few small mutual companies remaining. Life insurance companies in UK have developed mostly as long term savings institutions and the competition with other institutions such as banks and home savings and loan institutions have been intensified owing to the deregulation of financial services under the Financial Services and Markets Act of 2000.

When they demutualized, they were sponsored by home savings and loan institutions or banks with the only exception of Norwich Union which was independent and changed to stock ownership for strategic reasons. It is interesting that there was activism of policyholders, so called carpet bagger behind demutualization of some companies such as Friends Provident, Scottish Provident and Standard Life (Tsuru, 2000, pp.108-110).

In Canada, life insurance companies have become mutual companies so as to prevent foreign interests from merging and acquiring them in 1950s and 1960s. On the contrary, however, they have again chosen to go back to stock ownership under the movement towards financial conglomerate around 2000. Five mutual companies including top four companies have converted into stock companies as Shown in Table 9 (Tsuru, 2000, p.98).

In Australia, top 3 mutual life insurance companies

Table 7. Demutualization in US

Name of Company	Year	R
UNUM	1986	O
Northwestern National	1989	D
Maccabees	1989	D
Equitable Life	1992	D
Midland Mutual Life	1994	D
State Mutual	1995	O
Guarantee Life	1995	O
MONY	1998	O
Standard Insurance Co.	1999	O
John Hancock	2000	O
Metropolitan (Metlife)	2000	O
Phoenix Home Life	2001	O
Prudential	2001	O
Principal	2001	O

Source : Tsuru, 2000, p.92, reason column, etc. added by the author

Table 8. Demutualization in UK

Name of Company	Year	R
FS Assurance	1989	D
Pioneer Mutual	1990	D
Scottish Mutual	1991	D
Scottish Equitable	1993	D
Provident Mutual	1995	D
Clerical Medical	1996	D
Norwich Union	1997	O
Scottish Amicable	1997	D
NPI	1998	D
Scottish Widows	1999	D
Scottish Life	2000	D
Scottish Provident	2000	D
Friends Provident	2001	D
Standard Life	2006	D

Source : Tsuru, 2000, p.93, reason column, etc. added by the author

Table 9. Demutualization in Canada

	Mutualization	Demutualization	Reason
Clarica	Mutual	1999	Offensive
Manulife	1968	1999	Offensive
Canada Life	1962	1999	Offensive
Industrial	1969	2000	Offensive
Sun Life	1962	2000	Offensive

Source : Tsuru, 2000, p.98, reason column etc. added by the author

have been demutualized remaining only one mutual company. They are National Mutual in 1995, Colonial Mutual in 1997 and AMP in 1998. There has been only one, relatively small mutual company named CUNA Mutual in Australia. In South Africa, Sanlam and Old Mutual, the two largest mutual life insurance companies, were demutualized in 1998 and 1999 respectively. Swiss Life, the biggest life insurance company founded in 1857 were demutualized in 1997 (Birkmaier and Laster, 1999, p.4).

In Germany and France, there has been no such trend for demutualization, because mutual companies in both countries are relatively small and mostly a part of business group having strong ties peculiar to mutual commu-

nity (Tsuru, 2000, p.99).

While the exact reasons for demutualization may differ according to various companies, they are basically categorized into two groups. One is defensive reason to cope up with financial or managerial difficulty⁴⁾ and another is offensive reason to gain competitive strength or to improve corporate governance (Mizushima, 2001, pp.5-6; Tsuru, 2000, p.94; Ono, pp.97-99). Please see the reason column (shown as "R" or "Reason") in the Table 7 through 9. In the UK (Table 8), Scottish Provident, Friends Provident and Standard Life have demutualized as a result of the carpet baggers activity.

4. Theoretical Review

(1) Gap between Concept and Actuality

As mutual companies have grown into large companies, it has invoked very strong interest and questions among many scholars as to what is mutual company and what type of company it should be and how it will develop in the future (Mizushima, 2001, p.6). This is because the gap has been generated between the concept of mutual company and its operation in the real world as unavoidable result of historical developments (Mizushima, 1989, p.31).

The concept of mutual company consists of mutual sharing of expenses and self-governance by policyholders (Mizushima, 2001, p.7). In other words, mutualism means nonprofit enterprise as well as mutual assistance among policyholders (Yoneyama, 2001, p.9). The advantage of mutual company is to be able to avoid conflict of interest between policyholder and stockholder and also to be able to overcome uncertainty pertaining to long term insurance contract (Chano, 2001 ; Iguchi, 2000).

Mutualism was not so conspicuous or it was not so considered as characteristics peculiar to mutual company before the war as it was so regarded after the war (Mizushima, 2001, p.21 ; Yoneyama, 2001). That is to say, large mutual companies after the war have fully taken advantage of it as their *raison d'être*, because one of the most important products for them was the long term life insurance. While there seems to be general consensus that mutual companies in the actuality are not in line with the concept of mutual company, there are some opinions that support mutualism as a backbone of the present mutual companies.

Some of the views are as follows. What is really necessary for mutual company is to shift the paradigm of management so as to make policyholder interest first priority, for instance to return hidden assets to policyholder (Mizushima, 2001, p.14). Mutual company at present lacks attitude to abide by real "sharing expenses" pol-

icy (Mizushima, 2001, p.15). Even stock company pursues customer satisfaction, then what is mutual company's customer satisfaction (Mizushima, 2001, p.22) ? Mutual company is the method to protect policyholder interest in view of the nature and long term contract of insurance (Iguchi, 2000, p.13).

(2) Corporate Governance

Discussions and study on corporate governance in mutual companies has started in 1960s, which is much earlier than corporate governance in general has become one of the most important issues in the wide range of social science both in Japan and other countries in 1990s. This is because corporate governance is indispensable element of mutualism as stated above. It goes without saying that governance by policyholders cannot be easily done in mutual companies if the number of policyholders goes up to 10 million to 14 million in case of large companies and 1 million to 3 million in case of medium companies. Even though they have invented the system of the representatives meeting, it does not function as expected because representatives are chosen by company and many policyholders are not conscious of their right and duty as important stakeholder being equivalent to stockholder.

Under the circumstances, it is not realistic to regard governance by policyholders as essential ingredient of mutualism or mutual company and to characterize mutual company as nonprofit enterprise (Maeda, 1995, p.122, p.127). It is the limitation on governance by policyholders (Mizushima, 2001, p.14) and representatives meeting does not function as expected to make governance effective (Iwasaki, 1989, p.5 ; Takao, 1999, p.38).

In 1990s, seven life insurance companies have gone bankrupt. One of the reasons for their failure is ineffective corporate governance. Among seven companies, there were both mutual companies and stock companies⁵⁾. Thus you can not attribute it solely to mutual ownership. In Japan, there was no effective corporate governance by stockholders due to absence of separation of execu-

tion and supervision. Therefore, so far as corporate governance in the past 50 years is concerned, there should have been no difference between mutual company and stock company.

Theoretically speaking, even though there is equally ineffective control over the manager, stock form is better than mutual form, because the interests of manager and shareholder might be concomitant as to conservation of wealth and growth of the company while the interests of manager and policyholder are mostly adverse on those matters (Hetherington, 1969, pp.1102–1103). Anyway, as a matter of fact, there have been so many regulatory reforms introduced in Japan to strengthen corporate governance since 1990s. Hence, if they are serious to improve corporate governance, there is no question that stock company is more advantageous than mutual company.

(3) Reason for Demutualization

According to what Japanese life and nonlife insurance industries have put together, there are four reasons for demutualization. They are to improve access to capital market, to have free hands on business developments, to avoid bankruptcy (raised by only life insurance companies) and to serve for national economy (Tsuru, 2000, p.99).

In the US, dozens of mutual companies have demutualized since 1900s, for which an important incentive was access to capital market so as to facilitate an acquisition, etc. and mutual companies are no less efficient than stock companies according to empirical study of 33 life insurers before and after demutualization (McNamara and Rhee, 1992, p.223, pp.235–236). McNamara and Rhee (1992) has also found that after demutualization the weight of nonparticipating insurance has increased, which is consistent with the Daido's case in Japan.

Likewise, as a result of the empirical study of 41 companies from 1966 through 1984, Boose (1990) concluded that there is no systematic difference but a strong significant difference of regulatory regimes between mutual and stock companies. Thus it appears that there is no

strong evidence that either form of company is more advantageous than other form as a result of empirical study in the US.

(4) Diversified View

There are many different views as to the issue of mutual versus stock ownership of life insurance companies in Japan. The followings are some of them.

- While there is some notable tendency that more and more life insurance companies in overseas countries are demutualized recently, I do not see so much significance in demutualization of Japanese companies (Iguchi, 2002, p.2).
- It is not reasonable that you make comparison between mutual companies and stock companies just from viewpoint of efficiency (Chano, 2002).
- It is not very significant to make unilateral comparison between them (Okamura, 2006, p.226).
- As a result of empirical study in the US, there has been no clear conclusion that either is more efficient than other (Chano, 2002).
- There is no evidence that it is a historical certainty that the number of mutual companies will be decreased (Tanaka, 2002, p.38).
- Whether it is mutual company or stock company is a matter of strategic decision making by management (Yoneyama, 2003).
- It is not always true that trend for demutualization is universe. There are many mutual companies in the world who are well run, respected by customers and competitors alike (Birkmaier and Laster, 1999, p.34).
- Modern nature of mutual company is to prioritize policyholder interest under complete control by manager because expense sharing policy and self-governance by policyholders are no more part of mutualism in the present mutual company in Japan. Therefore what does really matter is manager's ethics and strong leadership to serve for such purposes (Mizushima, 1992, pp.16–17; Mizushima, 2001, p.14).
- Because the interests of manager and policyholder

do not necessarily coincide, it is up to regulatory development whether mutual company will really pursue policyholder's interest (Hetherington, 1969, pp.1102–1103). In Japan, on the contrary, what actually precluded mutual companies from achieving policyholder's interest in 1980s was government policy to protect the industry as a whole (Mizushima, 2001, pp.10–13).

- As for corporate governance of mutual company, Japan might be ahead than UK in that some measures are incorporated to make its governance system comparable to stock company and that the procedures of council meeting and policyholders meeting have been built in the system (Hisamatsu, 2006, p.70).
- Based on the empirical study to find out any difference in risk taking behavior between mutual versus stock, and “keiretsu” affiliation versus non-keiretsu life insurers in Japan, Yanase et al. (2008) has concluded that mutual and keiretsu companies have less risk taking attitudes than stock and non-keiretsu companies respectively. In connection with this study, Kofuji (2010) proposes another interpretation to the effect that it is due to the scale of company rather than company form and affiliation reasons because mutual and keiretsu companies are far larger than stock and non-keiretsu companies.

5. Impact of Demutualization of Dai-ichi Life

In April 1, 2010, Daiichi Life, the oldest mutual company and the second largest life insurance company in Japan has demutualized. This is the largest IPO in the history of the Tokyo stock exchange. The number of stocks issued is 10 million. The total value of them is 1.4 trillion yen. This is the largest stock company in Japan in terms of number of the shareholders. There are 8.21 million policyholders out of which 7.38 million is entitled to receive their share of the assets either by stock or cash with the remaining 0.83 million receiving no share. Some 1.2 million to 1.3 million policyholders

were to choose receiving stocks in the amount of 40 billion yen and 6 million would receive cash in the total amount of 1 trillion yen. The number of the shareholders has turned out to be 1.37million.

The offered price of IPO was ¥140,000 and first market price was ¥160,000. As of April 30, the price was ¥160,500 with only five days when the price was below ¥160,000 in the first 20 days (Nihon Keizai Shimbun, May 1, 2010). The price has never gone down below ¥140,000 which might be some evidence of the demutualization being well received in the stock market. Whether or not there was expropriation or change of wealth is a subject of future study⁶⁾.

It is rare that the mutual company having over 8 million policyholders is converted into a stock company not just in Japan but also in the world⁷⁾. For instance, the number of policyholders was 2.3 million in case of Standard Life, over 2 million in case of Friends Provident, 750,000 in case of Scottish Provident and 600,000 in case of Equitable in U.K. (Tsuru, 2000, pp.108–112). When Daido, Taiyo, and Mitsui were demutualized, the number of policyholders was 930,000, 3.82 million and 2.62 million respectively (Shukan Kinyu Zaisei Jijo, April 7, 2008, p.13).

This is an epoch-making event in the history of life insurance industry in Japan on the following points :

- If the demutualization of Daiichi will turn out to be successful, other mutual companies may follow the path of Daiichi. Right now, Nippon is sure that they will continue to be a mutual company while Meiji Yasuda and Sumitomo are closely monitoring the development and studying the issues.
- In the past, 4 largest life insurance companies were all mutual companies. So we could not compare mutual companies and stock companies on equal footing. Now that we can make such a comparison, we will have some more bases to form our opinions one way or another in connection with some important issues as follows.
- Let's think about some hypotheses :
 - (A) Mutual companies will produce more value to

policyholders than stock companies.

(B) Stock companies will have more effective corporate governance than mutual companies.

(C) In view of the recent and future developments of life insurance businesses in Japan, stock companies are becoming more suitable than mutual companies.

(D) Stock companies will have more advantage in developing businesses by M & A etc. in overseas countries than mutual companies.

(E) Whether it is a mutual company or a stock company does not make any big difference as long as (A), (B), (C), or (D) are concerned respectively.

By studying and comparing performance of Daiichi and other mutual companies, we will be in a position to better answer those questions or prove such hypotheses.

6. Conclusion

In conclusion, the uniqueness of mutual companies in Japan, its implications and future development are summarized as follows :

(1) Only Life Insurance Company

While this paper did not directly deal with the issue, one of the first uniqueness is that there are no mutual companies other than life insurance companies in Japan. There used to be two non-life mutual insurance companies in the past. However, one was demutualized and another had gone bankruptcy⁸⁾. Furthermore, those life insurance companies are all large companies which are not necessarily appropriate for mutual form⁹⁾. Based on its origin, concept and purposes, mutual company should better serve as a vehicle to insure certain types of risks for which commercial insurance is not readily available in the market. For instance, in the US, over the past decades, a substantial proportion of new property and casualty companies have been either mutual companies or risk retention groups (Birkmaier and Laster, 1999, p.19). One example is Medmarc which began as a group cap-

Table 10. Market Share of Property and Casualty Mutual Company (1997)

United States	Japan	United Kingdom	Germany	France
33%	3%	8%	16%	37%

Source : Birkmaier and Laster, 1999, p.6.

tive company in 1970s and now a mutual company for manufacturers of medical devices who could not buy product liability insurance for a reasonable price. In Japan, there are no such mutual companies.

(2) Reason for Mutual Company

What is even more unique is that there have been no reasons identified as to why over ten life insurance companies have become mutual companies after the war. There are some opinions that it might have been any influence of GHQ (SJK, 1990, p.205), intent to spread ownership among many individuals (Birkmaier and Laster, 1999, p.19) or convenience to raise the capital (Okamura, 200, p.225 ; Yoneyama, 2001, p.18). However there has been no strong evidence to support any of such opinions (Yoneyama, 2001, pp.14-18). Although characteristics of mutual companies vary by countries, there is no such country as you can not explain why so many companies have converted to mutual companies at the same time. In Japan, it happened to be mutual companies who have made life insurance so large. However you can not say if it were stock companies, there would have been no such success.

(3) Dominance in the Market

Judging superficially from only the decrease of mutual companies, and reduction of mutual companies' market share from 95% in 1980 to 42% in 2008 as shown in Table1, you may have the impression that there has been some tendency to demutualization even in Japan. However the increase of stock companies is due to new entry of foreign companies and establishment of subsidiary companies by non-life insurers which took place after 1996. With regards to the traditional companies, there

Table 11. Market Share of Life/health Mutual Companies (1997)

	US	Japan	UK	Germany	France
Number of Mutuals	100	15	47	53	17
Market Share	35%	89%	33%	26%	5%

Source : Birkmaier and Laster, 1999, p.18

Table 12. Gap between Concept and Actuality

	Business	Governance
Conceptual Mutual Company	Mutual Insurance	Governance by Policyholders
Actual Mutual Company	Profit Insurance	Control by Managers

have been only four stock companies converted from mutual companies. Furthermore, five mutual companies had gone bankruptcy between 1997 and 2001, which also caused decrease of the number of mutual companies. Until 2010, the top four life insurance companies have been mutual companies and their substantial market presence was a unique feature of life insurance in Japan (Table 11).

(4) Gap between Concept and Actuality

This issue has evoked so much interest and research questions among many scholars for over 40 years¹⁰. The discussions have gone over wide range from agency theory to legal theory¹¹. The only area with less intensive study has been empirical research, which is due to the fact that the market has been so homogenized domestically and so unique internationally. That is to say, we have had no stock companies comparable to dominant mutual companies and there have been difficulty to make comparison with overseas companies because of such fundamental difference as market composition, history, economy and society etc. As a matter of fact, all non-traditional companies (Type(B),(C),(D)) are stock companies, which might suggest that mutual form may not be very much compatible to modern needs of life insurance. Hence even such innovative company as Life-net selling life insurance with half price of traditional companies has adopted stock form.

(5) Too Large to Demutualize

This is in a sense analogous to the issue (3) above. Because mutual companies in Japan are so large, it is not so easy to be demutualized as many companies in other countries¹². The number of policyholders is over 10 million in case of top four companies. The process of demutualization is cumbersome taking a lot of time and expenses and also it is challenging to appropriately conduct administration of so many stockholders. While those mutual companies may emphasize superiority of mutual form to justify their decision to remain mutual, it is a big issue as a matter of practice whether or not any pros of demutualization overweigh its cons of time and expenses. That seems to be a reason that other mutual companies are careful and prudent on the matter.

(6) Before and After

In order to foresee any change and impact as a result of Dai-ichi demutualization, it might be worthwhile to look at distribution of premium income between mutual and stock companies among the traditional companies before and after the demutualization. See the accompanying Table 13. It is evident that presence of mutual companies within traditional companies was still very large in 2009 but that it will be notably diminished after 2010. Although proportion of premium by the mutual companies will be somewhere 66% of the traditional companies, if you take into consideration growing presence of non-traditional companies, the mutual's proportion of all the life insurance companies will be 34% (¥11,423,218

Table 13. Proportion of Premium Before and After

		Mutual	Stock
Before (2009)	Number	6	6
	Premium	83 (42) %	17 (58) %
After (Estimate of 2010)	Number	5	7
	Premium	66 (34) %	34 (66) %

Source : Data was obtained from Seimeihoken Tokeigo Heisei 21-nen Ban (Statistics of Life Insurance Business in Japan 2008).

Notes: The figures in the parenthesis show the proportion out of all life insurance companies including (A), (B), (C) and (D).

million out of ¥34,063,950 million). If you look back 1997 which was one year after the drastic reform of the insurance system in Japan and look forward coming year, you can tell what significant change the industry has been going through partly due to Dai-ichi demutualization.

(7) Future Development

As for future development, Mr.Okamoto, president of Nippon Life has mentioned in response to questions on demutualization of Dai-ichi, that Nippon will not be a stock company taking example of New York life which is the only mutual company among top ten life insurance companies in the US and has been elected as one of the most respected insurance companies in the US (Nihon Keizai Shimbun, March 25, 2010). There is a possibility that Nippon might only be a few remaining mutual companies in Japan as New York life in the US, because Meiji Yasuda and Sumitomo do not rule out possibility of their becoming stock company.

Mutual companies in Japan are more like Anglo-American life insurance companies than smaller life insurance companies in France and Germany. There has been no more such situation as mutual companies had been raised during the past 60 years or mutual form is more suitable than stock form in Japan. That is substantiated by the fact that new life insurance companies other than traditional companies are all stock companies. Large mutual companies are now competing with world class insurance companies. For these reasons, it is likely that other mutual companies will be stock companies some day in the

future. Birkmaier and Laster (1999, p.3) note : “The mutuals that remain will have to decide—and keep deciding—whether to convert to stock ownership.”

If you just look back the era of “20 Companies System”, you can tell a big difference now and then. The insurance industry has been changed so as to have four different types of companies. If large mutual companies and stock companies compete trying to create more shareholder’s and policyholder’s value, it will eventually serve for policyholder’s and shareholder’s interest. In that sense, the diversification of life insurers should ultimately bring about some benefit to consumers.

From now on, the emerging battle field for large insurance companies in Japan will be overseas market. Talking about world class life insurers, MetLife Inc. acquired insurance companies in Chili and Brazil in 2001, bought the life and pension insurance division from City group for \$ 11.5 billion in 2005 subsequent to its demutualization in 2000 and now they have bought ALICO from AIG group for \$ 15.5 billion in 2010¹³⁾. Thanks to its aggressive M&A strategy, the stock price of Met Life has more than doubled in five years through 2007 (Nihon Keizai Shimbun, December 19, 2007).

On the other hand, Dai-ichi raises more than 90% of their profit from domestic businesses, since they are only a minor shareholder of insurance companies in India, Taiwan and Australia at present (Dow Jones, March 31, 2010). Then, what is in question is whether Dai-ichi will be able to successfully expand in overseas countries in the near future. It can be said that the demutualization

of Dai-ichi will have some effects upon overseas market.

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Notes

- 1) From May, 1947 through February, 1948, 13 stock insurers have established their second companies as mutual company. Dai-ichi, Chiyoda, Fukoku have continued to be mutual company by adding the fund (Yoneyama, 2001, pp.16–17).
- 2) Before them, there was demutualization of Chiyoda and Kyoei in 2001. But it was a demutualization for liquidation of both companies who had gone bankruptcy.
- 3) As of the end of September 2004, the number of insurance in force in the area of individual insurance was 16,920,000 in case of Aflac, whereas the number of Nippon Life was 16,580,000 (Nihon Keizai Shimbun, December 3, 2004).
- 4) One example of the defensive reason is “sponsored demutualization” which means demutualization to receive capital assistance from a sponsor (a company merging and acquiring the mutual company).
- 5) Nissan, Toho, Daihyaku, Chiyoda, and Tokyo were mutual companies with Taisho and Kyoei being stock companies.
- 6) There is a great amount of literature on pricing of IPOs which shows some evidence of prevalent underpricing (Viswanathan, 2006, p.442).
- 7) The only exceptions were Metropolitan and Prudential, as for both of which, the number of policyholders was 11 million.
- 8) One is The Daiichi Mutual Fire and Marine Insurance Company which was founded in 1949 and went bankruptcy in 2000. Another is Kyoei Mutual Fire and Marine Insurance Company which had become mutual company in 1946 and went back to stock ownership in 2003.
- 9) When firms are organized as consumer cooperatives, there are two basic conditions with one being that there is relatively severe market failure and another being that consumers are able to control it without incurring excessive cost (Hansmann, 1985, p.126).
- 10) In the US, prominence of mutual companies in the insurance industry is one of the most interesting and least understood problems for the student of industrial organization, since mutuals account for almost half of all life insurance in force and one quarter of all property and liability insurance (Hansmann, 1985, p.125).
- 11) The seminal paper on agency theory is Jensen, M. C. and W. H. Meckling (1976) and the pioneers who applied the agency theory to insurance industry are David Mayers and Clifford W. Smith (Birkmaier and Laster, 1999, p.7). In Japan, legal study on mutual insurers derived from a study on German Law since the model of Dai-ichi was the German mutual company and Insurance Business Law in Japan was made with reference to the German Law (Yamashita, 1988).
- 12) In the UK, three quarters of all demutualized life insurers had policyholders less than 500,000 (Hisamatsu, 2006, pp. 56–57).
- 13) AIG Group had reached agreement with Prudential P.L.C. to sell AIA Group Ltd. for \$ 35.5 billion in February, 2010. This deal was terminated in June 2010, because Prudential was not able to obtain the shareholders’ agreement to the purchase (Business Insurance, June 7, 2010).

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