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GLOBAL VIEW

Atsushi Gamo, chief representative, Japan representative office, Asia Capital Re, discusses how Japan's non-life insurance industry is becoming stronger after overcoming recent challenges

The three most recent years were particularly challenging for Japan's non-life insurers. Since the financial year 2010, the industry has had to contend with three annual underwriting losses in a row, caused by the 2011 Great East Japan Earthquake, the 2011 Thai floods and a string of mid-size natural disasters. However, with annual premium growths of about 3% in 2011 and 2012, Japan looks set for a strong recovery for its non-life market, even though the country's non-life premiums in 2012 still fell short of the pre-crisis (2007) level of JPY11.03trn.

Total direct premiums of JPY10.76trn ($110bn) were recorded for the financial year 2012 with the non-life insurance market accounting for 6.5% of the global non-life insurance market, according to Swiss Re. This makes Japan the second largest non-life insurance market in the world.

Between 2006 and 2011, automobile insurance has exhibited only two years of underwriting profits. During that period, the combined ratio crept up from 97% to 104%. This is a particularly serious challenge as the motor line of business accounts for 55% of Japan's non-life insurance premiums (44% voluntary auto and 11% compulsory auto liability).

Another key area being enhanced in the Japanese market is that of natural catastrophe exposures. Non-life insurance companies have been drastically reducing their natural catastrophe exposure in domestic and international commercial risks, by increasing rates and deductibles and reduce sub-limits for earthquake and flood. However, Japanese insurers will need to carefully manage this amid an increasing confluence of supply and demand side factors.

In response to the market's protracted stagnation and associated profitability pressures, the Japanese insurance industry has undergone a dramatic consolidation. Today, three of the biggest insurance groups together account for about 85% of the market. Such mergers enable insurers to benefit from economies of scale and scope, which should translate into lower combined ratios. ■