

LIFE AND CASUALTY INSURANCE IN JAPAN AND CHINA

BY

S. S. HUEBNER*

Professor of Insurance and Commerce, University of Pennsylvania

I appreciate deeply the kind invitation to read a paper before the May meeting of the Casualty Actuarial Society. The original invitation from Mr. Moore suggested a paper on "Casualty Insurance Practices in Japan and China". I replied that my studies during my visit to those countries were confined mainly to fire, marine and life insurance, the three major types of insurance emphasized for the time being in the Orient, and that unfortunately the various forms of casualty insurance, as we know them in the United States, are either almost non-existent in these two great Oriental countries or only in their infancy. Mr. Moore replied that I should feel free to extend my remarks to life insurance and such casualty lines as I had the opportunity to observe while abroad. We arranged matters on this basis and I have called my paper "Life and Casualty Insurance in Japan and China".

LIFE INSURANCE IN JAPAN

Although the beginning of life insurance in Japan dates back to 1880, its real growth has occurred since 1900, and particularly since 1916. At the close of 1925 (figures obtained from the 1927 Japan Year Book) 44 Japanese life companies were operating with 4,693,867 outstanding contracts, representing a face value of 4,712,944,000 yen¹. Four companies confined themselves to "conscription insurance", *i. e.*, life contracts maturing at the date of entry of the insured into the nation's compulsory military service, and at the close of 1925 this business represented another 796,965 contracts with a face value of 365,312,000 yen. In addition, according to the 1927 report of the Bureau of Post Office Life Insurances, that system of Government insurance represented in 1926 a total of 10,053,639 contracts with a face value of 1,287,955,000 yen. Japanese contracts carried by foreign com-

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¹The U. S. par value of the Yen is 49.8 cents.

panies, although relatively unimportant in the aggregate, represent another 34,493 contracts with an approximate value of about 133,000,000 yen. All told, therefore, Japanese life insurance involves a total of about 15,649,000 contracts with a face value of about 6,506,000,000 yen.

These foregoing figures seem rather interesting in view of Japan's late start in the life insurance field. Her outstanding volume of life insurance is equal to about 9 per cent. of the nation's estimated private wealth, whereas our total of about \$85,000,000,000 of life insurance is equal to about 25 per cent of our estimated national wealth. Roughly speaking, it would seem that Japanese life insurance, when viewed in the light of national wealth, has reached a relative importance equal to about one-third of that prevailing in the United States.

Although various foreign mortality tables are being used extensively in Japan, such as the Combined Experience Table and the American Experience Table, mention should be made of two leading Japanese tables which have also been adopted widely, namely the "Experience Table of Three Japanese Companies" and "Table No. 2 of the Bureau of Statistics of Japan". Either 3.5 or 4 per cent. has been adopted as the assumed rate of interest for rate computations. It should also be noted that nearly all of the companies, 36 out of the aforementioned 44 according to published reports, are members of the "Life Insurance Companies Association", a national organization founded for purposes of co-operation in the interest of the life insurance business.

By far the greater part of the insurance transacted by the companies is of the endowment variety. Many advised that probably 80 per cent. of the business is transacted on that plan. According to the 1926 report of the Nippon Life Insurance Company, the largest company in Japan, its whole life policies numbered 75,735 with a face value of 89,831,000 yen, while the endowment policies numbered 511,259 with a value of 510,525,000 yen.

Life insurance for family protection against death, *i. e.*, as a means of guaranteeing a potential estate, has not yet become the outstanding idea in Japan that it is in this country. Instead, life insurance is used more with a view to creating an estate through thrift and investment or to protecting the existing estate against shrinkage, through funeral costs, post-mortem taxes and

the like, at the owner's death. Owing to the prevailing family system in Japan, with its greater sense of group responsibility among all the members (including the relatives) as compared with the Western family, the need for life insurance as a means of family protection for current needs following the death of the bread-winner is not yet so generally accepted as it is with us.

I was interested in ascertaining the reasons which most generally prompted the taking of life insurance and to this end conferred with many salesmen and agency managers. They informed me that, while the taking of life insurance for protection against death was on the increase, the principal motives actuating the insured were old age protection, the payment of funeral costs (a very significant item in the Orient), the meeting of post-mortem taxes and costs, and the accumulation of funds for educational, dowry and other purposes. Moreover, the use of life insurance for credit or philanthropic purposes, so important with us, is as yet rarely employed by the Japanese.

THE POST OFFICE LIFE INSURANCE AND ANNUITY SYSTEM

To quote from the Government's last annual report, this system of life insurance was adopted as a plan of industrial insurance to meet "The urgent need of introducing that provident institution for the less benefited people". Started as recently as 1916, the the annual report for 1926 shows outstanding contracts in excess of 10,000,000 in number and a volume of insurance of 1,287,000,000 yen. The rapidly growing importance of the system would seem to justify a brief description.

Only persons between the ages of 12 and 60 may be insured under the plan, and policies are limited to the whole life and endowment varieties. The whole life policies comprise ordinary life contracts, as well as limited payment policies on the 10, 15 and 20 year payment plan, while the endowment contracts are written for 10, 15, 20, 25, 30, 35 and 40 year periods, with limited premium payment plans allowed in the case of contracts running for 20 years or more. Policies are issued only on the basis of designated multiples, and while two or more policies may be issued on any one life, the maximum amount issued is 450 yen. In this connection it might be well to observe that the average daily wage for a male factory worker in Japan for 1925 was only 1.94 yen or 97 cents in our money.

Rates of premium are based on $3\frac{1}{2}$ per cent. interest and on a mortality table which, to quote the Government's outline of the system is "computed by adding 20 per cent. to the mortality rates of the Japanese Population Table No. 2 that was compiled by the Government Statistics Bureau". Surrender values are allowed and are fully set forth in the contracts. Premiums, which are payable monthly, are collected by postmen or may be paid at any designated post office. Where policyholders are depositors with the "Postal Check and Transfer Service" they are privileged to have their premiums debited to their accounts.

The Government also extends certain favorable considerations to the policyholder, and this is particularly important in view of the absence in Japan of anything like the American system of group life insurance. Policyholders are accepted without medical examination, although an interview between applicant and a post office official is insisted upon. With a view to excluding unhealthy persons, the full insurance is not paid in the event of death within the first two years, only the premiums paid being returned in case of death during the first year, and only one-half of the sum insured during the second year. Such restrictions do not apply, however, in case of death by accident or certain diseases set forth by statute. In the event of disability by accident the system allows a waiver of premium payments. In any case premium payments may be made within one month, and an additional two months of grace is allowed. Revival is permitted within one year after the lapsing of the policy. Emphasis is also placed on life conservation work. To quote the Government's report: "Arrangements have, with full co-operation of various medical societies all over the country, been made by the Bureau of Post Office Life Insurances to provide for policyholders a medical service called for by modern requirements of health preservation at very much reduced rates of fees, charges or any other remuneration". As a further step, it is reported that "forty-eight consultation stations have, in pursuance of the Health Consultation Service Regulations of 1922, so far been established in the principal cities where the insured persons are all entitled to the benefits (health consultation and visiting nurse service) under the said regulations".

In October 1926 the Government also established a Post Office Life Annuity System on a very comprehensive scale, and in doing

so called attention to the fact that in that very year the first group of endowment policies issued by the Post Office Insurance System began to mature. Both immediate life and deferred life annuities are issued, the former to persons between ages 40 and 80, and the latter to persons between ages 12 and 60. The "maximum amount of annuity purchaseable on the life of any one person is 2,400 yen, and the minimum 120 yen under the instalment premium plan, or 12 yen under the single premium plan". Premium payments may be made at any post office named by the purchaser, but if the applicant happens to be a beneficiary under the insurance system all that is necessary is to request the Government to transfer the insurance proceeds. According to the 1927 report, only about one year following the inauguration of the plan, over 71,000 annuity contracts were already in force.

Especially worthy of note is the fact that the Japanese Post Office Insurance and Annuity System is voluntary in character. So frequently we hear the statement that Government insurance must be compulsory in order to reach large proportions. Yet Japan is apparently an exception to that viewpoint. Her post office employees, it was explained to me, work industriously (practically like our company agents) in spreading the beneficent influence of life insurance, and her citizens seem much more inclined to take seriously the counsel of their Government than is the case in many other countries. Nor do the private companies appear to be strongly opposed to the governmental system of insurance. Being accustomed to a different state of affairs, I was naturally interested in this aspect of the Japanese insurance system. Time upon time company representatives informed me that they were not opposed to Government participation, so long as it was limited to a reasonable maximum amount of insurance for the working classes. The Government, they explained, had actively put the weight of its approval behind life insurance, and the Post Office System was serving as a tremendous educational force.

The future of life insurance in Japan seems bright. The main key to the growth of insurance anywhere is education. Japan understands this, and is acting accordingly. Imagine my surprise, in view of the situation prevailing among our institutions of higher learning, when I was informed that insurance, both

property and life, was a compulsory subject of study in the business school or department of practically every Japanese university. Imagine my further surprise when I learned that the principles of insurance constitute a required course of study in practically every commercial high school of the country. That attitude is as yet comparatively rare with us, and we would do well to take an object lesson from Japan's educational program. Moreover, company officials everywhere were deeply interested in agency education and seemed committed to a policy of raising the educational level of the field force, the vital connecting link between companies and the buying public. Japan was late in getting started; her progress has been satisfactory thus far; but the real growth will come within the next decade or two.

LIFE INSURANCE IN CHINA

As compared with Japan, the story of life insurance in China is strikingly different. Although the beginning dates back some fifty years, comparatively little progress has been made. Unfortunately no official public records are available to indicate the volume of business transacted. We can only rely upon estimates which would seem to indicate that only about 50,000 lives are insured for an amount of about \$50,000,000 in our money, a volume extraordinarily small considering the length of time that various companies have been operating in that field.

Life underwriting is mostly limited to the sea-coast cities, and of the seventeen companies transacting business all except two or three hail from foreign countries. Although some of the companies offer all of the usual forms of policies, nearly all of the business written is of the endowment, and to some extent of the pure endowment, variety. No public regulation of the business has as yet been developed, and hence many undesirable practices are alleged to exist. Nor has a Chinese mortality table been created thus far, the companies using some foreign table and in connection therewith exercising their judgment, with respect to increased mortality, by extending the age or by employing extra mortality loadings. Roughly speaking, rates for insurance are said to average about one and one-half times those prevailing in the United States.

Many serious problems stand in the way of life insurance development in China. Aside from the disturbing effect of un-

settled economic conditions and the general unwillingness of people to invest in long term propositions, it must be remembered that the overwhelming mass of people in China live within the poverty line. And even concerning those who live above that line probably four-fifths are compelled to use all of their limited income for current living. Again, with respect to the limited wealthier class, the Chinese family system, with its fundamental principles of group responsibility and of inter-locking dependence of all the members, militates distinctly against the taking of life insurance. Very generally the richer families contain a great many members, often a hundred or more, and some one is always responsible for the maintenance of those who meet with economic misfortune. The Chinese family system is entirely different from our own, and largely nullifies that keener sense of initiative and personal responsibility necessarily attaching to the position of the family head in America. In fact, the Oriental family system involves the concept of mutual protection, and thus in a sense takes the place of insurance. Moreover, the status of women in China is essentially different from that prevailing here. Women hold a subordinate position in the family, and as a rule would not or could not suggest the taking of insurance. And in any case (so often is the reasoning of the family head) what is the need of life insurance when the widow and children will be taken care of by other members of the family group.

To these important difficulties a number of others should be added. China is a large country with a lamentable lack of communication. The insurance business is therefore concentrated within a comparatively few centers, thus denying to companies the advantages of a wide-spread distribution of risk. There is also a great confusion of currencies throughout China. Moreover, there is no well-developed and adequate medical service upon which the companies may depend. There is also the greatest difficulty connected with the investigations of applications and the prompt settlement of claims. These are only some of the difficulties that life insurance in China is obliged to face. There is no disposition to paint too dark a picture, yet life insurance men in all the places I visited were frank in outlining the various obstacles referred to. With the advent of more settled economic conditions and the development of the nation's industries and transportation facilities, these obstacles will tend to

diminish. But the process is likely to be a slow one, and life insurance in China can hardly hope to experience the rapid progress that I have outlined for it in Japan.

CASUALTY LINES

Aside from fire, marine, and life insurance, comparatively little progress has thus far been made in Japan or China in other leading forms of insurance, such as accident and health insurance, the various forms of automobile coverage, compensation insurance, public liability insurance, fidelity bonding, burglary insurance, and boiler and engine insurance. These forms of insurance are being discussed, but the volume of business actually written is as yet surprisingly small.

Accident insurance had its start in Japan in 1911. Only a few companies, however, are now engaged in that type of business and the last issue of the Japan Year Book states that "so far the service has failed to achieve any particular success". According to the latest published figures (those for 1925) the number of outstanding accident contracts was only 17,942 with an indicated face value of 38,078,363 yen. For fidelity, automobile, liability, burglary, and boiler and engine insurance, the number of outstanding contracts for 1924, as summarized by the 1927 Japan Year Book was only 41,356 with a reported value of 20,855,000 yen. As regards China there are no figures available, but it is certain that these forms of insurance are relatively insignificant as compared with the aforementioned three major types of insurance. Incidentally, one may wonder why the several automobile insurance coverages, so important in this country, have progressed so slightly in the Orient. Yet even in Japan, where modern transportation is making such rapid strides, there are probably not more than 50,000 automobiles in use. Japan is now in the stage of the bicycle, some four to five million being in use, and may well be described as a bicyclized nation in contrast to the motorized United States.

FIDELITY BONDING

In view of the rapid growth and present importance of fidelity bonding in the United States, the absence of that type of insurance protection throughout the Orient was to me a subject of

profound interest. And my surprise was all the greater because of the well-known disadvantages connected with personal suretyship. In nearly every center I happened to visit—in Japan, China, Manchuria and Korea—insurance leaders called my attention to the unfortunate reliance placed upon personal surety. Not infrequently, also prominent business men, often called upon to guarantee the fidelity of relatives and friends, referred in conversation to their serious dilemma and lamented the absence of insurance carriers. As far as I could ascertain only one company in Japan writes fidelity bonds, and its manager explained that the premium income was only about \$100,000 and the company's struggle for growth in this type of business was a more or less disheartening one. Time upon time I was asked to speak before business organizations on the subject of fidelity bonding and the practice prevailing in the United States. A change is clearly desired by the thinking minority. It is only a question of time when social customs in the Orient favorable to personal surety will begin to break down rapidly and thus allow corporate fidelity bonding to assert itself.

The reasons for the present situation are exceedingly interesting. They find their basis in the Oriental family system which involves to an unusual degree the idea of sacrifice. The guarantor—a father, brother, uncle or some other member of the family—is glad to sacrifice himself to his family. The same spirit is also extended to close friends. The family honor is high, and if the guarantor fails to pay, then another family member assumes the responsibility. In brief, there is a close family feeling of mutual helpfulness as well as of mutual responsibility in the event of trouble. To this there should be added the prevalent feeling, often expressed to me in the course of conversation, that the suggestion of corporate bonding is apt to be regarded as a reflection upon personal trustworthiness.

Personal suretyship is almost universally insisted upon in Oriental countries and it is interesting to note that as a general rule, particularly in Japan, there is no limit to the guarantee. With the guarantor of such high quality there has been little disposition on the part of employers to seek and to pay for corporate bonds. And even when corporate fidelity bonds are issued, I was told that the insurance company usually requests that the employee also provide himself with a personal guarantor

from whom, if possible, the insurance company may, by way of subrogation, reimburse itself in the event of loss. Sometimes a system of double surety is used, as for example, a first \$1,000 guarantee from the insurance company, and a further guarantee for an additional amount from a personal guarantor, with the understanding however, that the insurance company may endeavor to reimburse itself from the personal guarantor for its share of the loss.

Prior to the World War, losses under personal bonds were comparatively small. In recent years, however, the losses have been much larger, and with this changing situation there has also occurred gradually a change in the viewpoint of both employer and guarantor. Guarantors are becoming more and more afraid of assuming such a personal liability, and wish also more and more to be freed from what many regard as a nuisance. As already stated, a change is desired by the thinking minority. The family concept with respect to personal surety will tend to break down more and more, just as it is changing with reference to life insurance. The straightforward business point of view is bound to prevail before long, and it is only a matter of education, which has already been started, to effect a change among a people who have already shown their genius at adaptation in so many other business lines.

The comparative unimportance of casualty insurance in the Orient, as judged by volume of business now transacted, must not be considered as indicating an unimportant future. Instead, I found the keenest interest displayed by insurance men in both Japan and China in what America is doing along the leading casualty lines. From their standpoint these lines of coverage simply represent the *new*, as contrasted with the older lines of fire, marine and life insurance, and what is new in Japan and China today is very likely to become well-established within a decade or two, especially among the Japanese, owing to their remarkable genius for adaptation. Japanese and Chinese students of insurance—actuaries, company representatives, and post-graduate students—are coming to us in rapidly increasing numbers to observe what we are doing by way of accident and health insurance, the incorporation of disability benefits in life insurance contracts, group life insurance for industrial plants, and life conservation and accident prevention work on the part of

insurance carriers. We may be sure that their observations are carefully made and that the best we can offer, by way of method and of usefulness to the community, will soon be adopted by them to their nation's needs. And in Japan the movement will be hastened greatly by the compulsory system of insurance education to which I have already referred.