Dai-ichi Mutual Life to Become Stock Company

Having Largest No. of Shareholders in Japan – 3 Million

By Katsuhiko SAKAI

On April 1, 2010, the number of individual investors in Japan may suddenly increase by more than one million. This is because Dai-ichi Mutual Life Insurance Co., Japan's second largest life insurer with 8.2 million policyholders, plans to become the first among the four largest Japanese life insurance firms to demutualize into a stock company for listing on the Tokyo Stock Exchange.

Dai-ichi will issue 10 million shares of common stock upon the initial public offering (IPO). One or more shares will be allocated to each of 3.06 million policyholders, or 37% of its total policyholders, according to their insurance amounts. Dai-ichi will thus easily outperform Nippon Telegraph & Telephone Corp. that now boasts the largest number of shareholders in Japan – 1.04 million. Many Dai-ichi policyholders might have had nothing to do with the stock market. Nomura Securities Co., which serves as lead manager for the Dai-ichi IPO, is busy with making preparations, including the creation of Dai-ichi accounts for those who will have shares for the first time.

Given that Dai-ichi's market capitalization is estimated at 2 trillion yen to 3 trillion yen, its share price is projected at 200,000 yen to 300,000 yen per share. Dai-ichi will bundle and sell fractions of less than one share on the IPO day and allocate cash payments to policyholders, including 4.32 million people who will be given less than one share each. This means that 7.38 million people, or 7% of Japan's population, will unexpectedly get Dai-ichi shares or cash as the new fiscal year starts on April 1. The liquidation of household financial assets frozen in the form of insurance is expected to stimulate the economy to some extent.

Aiming to Enhance Fundraising & Business Mobility

While a stock company pursues profit, a mutual company is an intermediate corporation that pursues neither profit nor public interest. Only insurance companies based on the mutual aid concept are allowed to take the form of a mutual company. Insurance coverage seekers invest money to create a mutual company that provides insurance for them. As investors in the company, all insurance policyholders receive dividends from it. The mutual company form is seen not only in Japan but also in other insurance-developed countries throughout the world.

As indicated by its name of Dai-ichi that means "first," the company was founded as Japan's first mutual company in 1902. Dai-ichi vowed to consider its demutualization into a stock company when it feted its 105th anniversary in December 2007. The company then concluded that it should secure fundraising and business development freedom and mobility through demutualization and an IPO to pursue growth amid Japan's falling birthrate and aging population.

Mutual companies' fundraising means are limited to additional funding of their legal foundations, subordinated loans and other sources associated with principal repayment and interest payment requirements. In contrast, stock companies can recapitalize promptly by issuing additional equity shares that are free from repayment requirements.

Mutual life insurance companies lack flexibility in conducting mergers and acquisitions of noninsurance firms. Only within the insurance industry, mutual companies are allowed to merge with other mutual firms or stock corporations. It takes much time for mutual companies to return benefits of M&A deals to policyholders. In contrast, publicly traded companies can promptly return benefits to their shareholders through share price hikes.

Business Climate Changes Hit Life Insurance Industry

Sales have been dwindling for death insurance, the life insurance industry's mainstay product. Outstanding death insurance contracts have continued to decline since peaking at some 1,500 trillion yen at the end of March 1997. They totaled only 932 trillion yen at the end of March 2009, falling to less than two-thirds of the peak in 12 years.

Demographic changes are the largest factor behind the decline. As first baby-boomers born between 1947 and 1949 began to have families in the 1970s, they supported stable growth of the life insurance industry by purchasing death insurance policies for their families. In the 1990s, the second generation of baby-boomers, or children of the first baby-boomers, grew into adults to give a fresh boost to the industry.

But the first baby-boomers have passed the retirement age of 60 and the number of annual births has shrunk to half the level of the second baby-boomer population, reaching 1.09 million in 2008. Lifestyles have diversified, with many people shifting away from the traditional pattern in which men and women got married to have families before they passed a marriageable age. Both men and women have tended to marry later or remain unmarried. A rising number of men have failed to become regular employees and a growing number of women have been working in society. Amid these social changes, demand has grown for old-age healthcare, nursing care and pensions for survival.

Meanwhile, insurance systems have been modified to allow life insurance companies to have nonlife insurance subsidiaries, and vice versa. Healthcare insurance and other third-sector insurance businesses have been liberalized through Japan-US negotiations.

Regulations have been eased to permit insurance sales by banks and securities companies, intensifying competition further.

In Western countries, a rising number of insurance companies have demutualized into stock companies over the recent years. Growing in presence are comprehensive insurance groups that integrate life and nonlife insurance operations under holding companies. In Japan, the Insurance Business Act was amended in June 2000 to allow life insurance companies to demutualize. So far, four medium-sized life insurance firms have demutualized into stock companies.

At Dai-ichi, there was a growing sense of crisis that no growth strategy could be developed unless the company departs from traditional business models. In 2007, it founded a subsidiary for insurance product sales mainly through bank channels, acquired a life insurance firm in Vietnam and created a life insurance joint venture in India. The coming demutualization follows in the footsteps of these aggressive actions. At the last general meeting of the firm's representative policyholders on June 30, 2009, President Katsutoshi Saito emphasized the advantages of demutualization in a renewed effort to stress its need.

Major Life Insurers Pursuing Different Strategies

Dai-ichi plans to become a holding company by 2012 following its demutualization. It also intends to spin off its four major divisions – individual insurance, individual annuities, group insurance and group annuities. Saito has not denied the possibility of a merger. The demutualization of one of the four largest Japanese life insurers is expected to pave the way for insurance industry realignment.

As a matter of course, demutualization has some disadvantages as well as advantages. Much time and cost must be consumed for preparations, including the allocation of shares to policyholders. Dai-ichi has estimated the demutualization cost at 30.2 billion yen for four years from 2007. Furthermore, shareholders and policyholders are expected to scramble for dividend payouts. As a publicly traded company, Dai-ichi may be exposed to hostile takeover risks.

Business management transparency will be tested strictly. Unlike general meetings of shareholders at stock companies, those of representative policyholders at mutual life insurance companies have become a mere facade. Representatives are handpicked effectively by the company's board of directors and fall short of keeping business management under surveillance. Their meetings themselves are closed to outsiders. Life insurance companies as institutional investors have monitored stock companies as investment targets and urged them to correct their governance. After demutualization, life insurance firms themselves will be put under investor surveillance and required to improve their governance.

At their meetings of representative policyholders in July 2009, Meiji Yasuda Life Insurance Co. and Sumitomo Life Insurance Co. offered to consider their demutualization as an option. In contrast,

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The Dai-ichi Life Mutual Life Insurance Co. headquarters building is located close to the Imperial Palace moat in Tokyo's Hibiya area. The front lower part is known for having housed the General Headquarters of the Allied Forces for the occupational administration of Japan after World War II.

Nippon Life Insurance Co., the largest life insurer in Japan, has specified a plan to remain as a mutual company and increase foundations that amount to capital at stock companies, indicating its strategic differentiation from the rivals. But the three firms' future actions still remain uncertain. Their strategic actions may depend on whether Dai-ichi could demonstrate to policyholders that a stock company has more advantages than a mutual firm. JS

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