

AIU Japan: Braving the Risks

By Peter Hazelhurst

As the largest foreign insurance company in Japan, AIU writes ¥120 million primarily in personal lines insurance every year. AIU is in fact a group of five companies with its head office, the American International Group, in New York. At the present rate of exchange, AIG's operations in Japan, including life insurance, can be described as a billion-dollar corporation in terms of premium writings. It is also AIG's largest overseas operation.

AIU Japan Vice President Robert Collins—who has worked in Japan for nine years—says his company holds a 2.7% share of Japan's general insurance market and describes the scope and opportunities for foreign insurance companies in Japan as being technically on par with Japanese firms. The key to success, he says, is a commitment to long-term investments and the ability to adapt to the Japanese style of doing business.

Q: *AIU originally started its operations in Japan in the late 1940s to cater to foreign clients. Does your presence in Japan help you write insurance for Japanese firms here and abroad?*

A: Yes it does. Actually when we first started business here after the war we started writing automobile insurance for American servicemen. That was a short-lived but successful operation. It was a simple operation and so within a couple of years we began to branch out and sell personal line insurance, primarily automobile insurance to Japanese.

By 1950 the majority of our business was with Japanese and now I would guess 95% of our business is with Japanese clients. The international or foreign side is very small.

Q: *Does this include industrial insurance?*

A: It includes some industrial insurance. Unfortunately, not as much as we would like.



Robert J. Collins, vice president of AIU Japan

Q: *Would it be right to assume that foreign companies find it difficult to do business in the industrial sector because most of the large conglomerates in Japan turn to their own subsidiaries or related firms in the field of industrial insurance?*

A: That is a difficulty. It is something that we recognize as a fact of life, not necessarily a trade barrier which has been imposed on us. We would certainly like to have a larger share of the industrial lines in all the countries in which we operate overseas—and we are operating in over 130 countries. Japan is the only one where we are so heavily in personal lines.

In other countries, we begin our coverage on the industrial side first and our personal lines trail behind. It is expensive to start business in personal lines because you must have a network of agents in the field. It would be much easier for an insurance company to enter a country with one underwriter, one pen and one policy form and begin to quote on major industrial risks.

Q: *But the case is different in Japan?*

A: It so happens that we have done just the opposite in Japan. From day one it was difficult to get involved in a relationship with the major *zaibatsu*. If insurance is required by a Mitsubishi entity, then by and large the business goes to Tokio Marine & Fire Insurance. If it is a Mitsui entity then it will probably be a Taisho policy. I cannot really think why they would not do this.

The network problem

Q: *AIU has been successful in the field of casualty and property insurance. Some foreign firms say the competition in this field is tough because they have difficulty in establishing a network of agents. How did AIU get around this problem?*

A: By accepting the difficulty and creating a network. There is no way of getting around it. You must create a network of agents.

Q: *How did you create the network?*

A: We have about 2,000 agents whom we have trained from day one. Years ago we started a program called the Independent Solicitors System. We hire youngsters out of school and train them. We pay them a salary and show them how to sell insurance. We give them the technical knowledge they require. After two years they leave the womb. As they begin to develop income through commissions we reduce their salaries to a point where we spring them loose. They become independent insurance agents. Having been trained by us, they remain loyal to us. But it takes a generation to get experienced professionals in the field. It is something we started in 1948 and today we have 2,000 agents spread around the country. We have 65 branch offices, managed by employees, spreading all the way from Hokkaido to Kyushu in order to serve the agents and their clients.

Q: *Does AIU follow the example of the Japanese companies and use housewives as agents?*

A: Rarely. Sometimes we do and some of them are very good, but they must be trained to meet our professional standards. Companies using housewives often have problems in maintaining their professional standards because there is a high turnover.

Q: *Are you saying that if a foreign insurance firm wants to be successful in Japan it is a long-term haul, and that you have to invest in creating a team of professional agents?*

A: I think that's true. Otherwise a foreign firm will always be operating on the margin of business in the country. I think it is very difficult for a foreign firm to come here and contemplate writing insurance only on the foreign nationals from its particular country. I think it would be difficult for an English company to come in here with the idea of only writing insurance on English bankers or businessmen, for example. There are not enough of them, although bankers are multiplying remarkably.

Travel policies popular

Q: *Are you satisfied with your market share?*

A: We are never satisfied. Of the amount of premiums written by foreign insurance companies, close to 70% is written by AIU. That number is a little bit misleading because we write so much more Japanese business than other foreign companies. No one writes as much automobile insurance on Japanese as we do. One out of three or four Japanese traveling abroad is covered by an AIU policy.

Q: *Many foreign insurance companies have curtailed their coverage of travel accident insurance because they have suffered losses in Japan. Has AIU found this line profitable?*

A: Yes, we have found it to be profitable. We think it is important to maintain our underwriting standards. They must be fair and well reasoned. It is a mistake to stand on a street corner and wave blank applications at people. I think we follow the guidelines of the Ministry of Finance (MOF) carefully regarding underwriting standards, making sure we have a beneficiary or someone who has an insurable interest in the insured and not somebody who is the next-door neighbor or a former business associate. We stick to these standards very closely. Yet doing that has been profitable for us.

You know, it is interesting that the government helped us considerably back in the 1950s when there were currency restrictions on Japanese going abroad. One

of the problems that existed in Japan was that travelers would have health problems while they were overseas and would use up their money in three or four days. They would have to borrow money from Japanese embassies or consulates to pay medical bills. What we did with the government's help was to create a travel accident policy that would pay for the treatment of accidents and sickness abroad. Japanese could purchase the policies here with yen and we would pay the claims in whatever currency was necessary. It was a big help and it was a way for AIU to get involved very easily in the mainstream of Japanese commerce. Suddenly we had clients from all walks of life in Japan who would have had a difficult time traveling abroad without an AIU policy. It was shaped like a passport and looked like a Japanese passport. It gave travelers financial security and it broadened our base. In insurance you need a broad base to spread the risk to handle adverse problems when you run into bad luck over a period of years—like a plane crash.

Q: *I understand that today AIU is looking at new forms of business and is branching out of insurance to advise Japanese investors in the property market in the United States.*

A: It is not AIU insurance company specifically. AIU is a member company of an overall corporate entity called the American International Group, a New York firm traded on the New York Stock Exchange. Its main activities are insurance. They own business companies all around the world. What AIG has decided to do is to provide financial services, investment possibilities, to Japanese, that are noninsurance in nature. I am leaving the payroll of the local insurance company and will instead work in Japan for the AIG group in New York and a joint venture with a company called Portman Realty. We will offer to help Japanese who have an interest in investing in property in the United States.

Cost and coverage

Q: *If you had to sum up the position of foreign insurance companies today, what would you say are the difficulties and advantages of operating in Japan?*

A: All of the foreign companies, all the personnel, all of the people who have grown up in the insurance industry, direct all of their attention toward the twin elements of cost and coverage. Calculating cost and designing coverage are the two things traditional to the industry. In theory you can insure a burning building, if

the cost is right. Cost and coverage are functions of each other and everyone abroad grows up trained to think that way. In Japan, cost and coverage generally are not factors because the tariffs have been puzzled out by someone else who determines what coverage should be. So the people who come here with foreign insurance companies are frustrated at first by the fact that here they are not able to exercise the skills they have developed through the years.

If we want to insure a certain building, there is a rate for that building. We look up the rate in a manual. There may be gray areas, for example, whether the machinery inside the building is movable or not. We could adjust the rate slightly, but basically cost and certainly coverage are already determined. So something other than what everyone is trained to do determines how insurance is purchased. And that in Japan is represented by relationships. Or in the case of personal lines it is getting people in place, in the market, next to the village post office. It is frustrating for a foreigner to come here and realize that cost and coverage are not major factors, that there is a whole new series of factors involved. Relationships have to be established and trust built up.

The rest of the world has had difficult times in the insurance industry in recent years. Most property and casualty insurers have not made an underwriting profit on insurance in the last four or five years. Here the property and casualty insurance companies have made a profit. The MOF, the administrative guidelines and the standardization of rates have resulted in a stable industry with stable and reasonably profitable results. It is hard to argue that the foreigner coming in here should have more dynamism in the marketplace, more free enterprise, more scope to determine cost and coverage. Look where that has got everyone elsewhere.

Q: *Much of the growth and income and assets of nonlife insurance companies have come from savings-linked policies, particularly in the case of women. Do you expect the MOF will allow greater flexibility in offering new policies of this sort in future? Or do you expect the MOF to try and block any future developments?*

A: I am not sure of whether it is a question of blocking new developments. Basically what is happening is that we are taking existing policies, accident or basic fire policies, and attaching a savings feature to these standard forms. There is enough to explore with existing policy before anybody really has to think in terms of radically new or exotic types of coverages.

Marketplace barriers

Q: *In contrast to the innovative spirit of the manufacturing sector, it has been said that Japanese insurance companies have remained insulated against competition and are far behind American companies in improving their product and developing new markets. How does this affect attempts by foreign companies to offer new forms of insurance?*

A: That is the same issue. Foreign companies would like to have more innovative products introduced into the marketplace. Our company would certainly like to offer new products.

Q: *Can you give an example?*

A: We see that there might be a need for director's and officer's liability insurance. In any major corporation, be it a joint-venture corporation between foreigners and Japanese or just a Japanese corporation itself, directors and officers are increasingly being thought of as possibly liable in the case of malfeasance in their jobs and it is thought that that kind of insurance should be available to firms wishing to purchase it.

Q: *Why have you not been able to introduce this?*

A: The need is not yet overwhelming or particularly significant. The majority of people in Japan will not sue corporations for which their friends and neighbors, everyone in the village, works.

Q: *Then you would not describe this as an official barrier, but a market barrier perhaps?*

A: It's a marketplace barrier. I think that there are only a few foreign firms around the world writing this kind of insurance. We are one of them. I think it's a concept that would require a lot of training on the part of the Japanese companies before licensing. They would have to look at the problem of how they were going to underwrite this kind of thing and how they were going to determine what the rate is.

Q: *Is there a manual for the rate?*

A: Probably not. It's an underwriting decision based on an individual's assessment of the performance of that corporation, of its directors and the quality of people and how knowledgeable they are about their own business and the business of the board. Developing underwriting with a gut instinct would be a new concept to the Japanese. Underwriters here are more accustomed to looking things up in a book. So not only is the marketplace perceived as being particularly important right now; a lot of things have to happen first in training Japanese

underwriters how to handle these things. A new approach to rating a policy was approved recently by the MOF, called highly protected risk (HPR) insurance. It is a property insurance form that allows deviation from standard fire rates. One of the foreign companies here received approval to use the new ratings provided the risk has a minimum number of safety devices, a certain number of sprinklers per square meter, a certain amount of water pressure to push water through the sprinklers and whether the building has firefighting equipment and the required number of exits and fire doors. And so, if a firm has all of these safety devices, then there is now a new way of approaching this type of insurance in Japan.

It took that firm, however, seven or eight years to get approval for this new concept. I know that one of the things that was happening while they were waiting for approval was that underwriters from Japanese companies were exploring around trying to find out how this applied. How are engineers trained, what do they have to look for and what skills do they have to have? I know that we even conducted classes because our company overseas does a lot of this HPR business and we have engineers here who are trained in the event HPR becomes an approach to insurance sales here. After a broad section of the industry became familiar with the concept of HPR, the foreign firm was given a license. It so happens that there are very few buildings in Japan that technically qualify for HPR. The day will come when buildings will be built according to standards that will make them eligible for HPR.

Q: *Could you give us another example of a new product AIU would like to introduce in Japan?*

A: In the United States there are umbrella or difference in conditions coverages—umbrella in the sense that they fit on top of complicated insurance programs and are designed to fill gaps in the event of inadvertent under-insurance in certain areas. It is important for firms to have this form of insurance. If somebody is running a factory, a complex that involves five or six different buildings, and if it involves shipping goods, getting them off the boat and transporting them to factory A, where something is done to them, and then they are brought to factory B, where they are split apart with some going to factory C and some to factory D, it's a complex way to run a business. It is equally complex to put together an insurance program to cover these operations. In the West we have an overall policy to handle all contingencies, things that are

not foreseen. In Japan that kind of concept does not exist.

Deductibles do not exist in Japan. If you want to insure a building you have to start from yen one and insure the building all the way up to its value. It is conceivable in the West that you can have a deductible or you can have an umbrella which means part of the coverage is self-retained or the owner of the building insures it himself till he gets to a limit and then an umbrella or overall policy takes care of it. That kind of flexibility we would like to see for a couple of reasons. Particularly if there is a slip-up and something major is not covered in a complex business operation, we think, as insurance people, there should be a policy to cover all contingencies. Claim payments should be made according to the terms of a contract, not as *ex gratia* exceptions.

Q: *What is the key to success in Japan?*

A: The Japanese insurance industry is a very proud, substantial and significant industry. There are only 21 Japanese general insurance companies and they are all very strong—the bigger the company, the stronger they are. I think that, despite the comments I have made about how we, as foreigners, would like to see more flexibility in the products where we can use our cost and coverage skills, anyone who enters the market here and thinks they can sell insurance in Japan the same way they do in Spain is making a mistake. There is just no way we are going to succeed if we do anything but be like a Japanese operation, only better. And so if it requires having a lot of people on the payroll and offering services, then you have to make that investment. In other countries, insurance is sold differently. I know our cost factors and personnel expenses are higher here as a percentage of our overall costs than anywhere else in the world. But we expect our people to service the clients and we are therefore a Japanese company in all respects. Sometimes foreign companies come in with U.S.-style management and efficiency concepts, but they really have to be Japanese to succeed. We have been successful because we have combined the best of U.S. and Japanese management techniques.

A final example is our approach to automobile insurance claims. We have brought to Japan from the U.S. drive-in claims service offices. If you buy a policy from AIU, the chances are you will find a drive-in claims office in your neighborhood. The garage has an AIU sign over the door. Simply drive in, show your AIU policy and they will repair the car and bill us. It is a Western idea adapted to a Japanese circumstance. ●