What's next for Japanese insurers: Ten imperatives for 2025

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Foreword

The insurance industry is currently experiencing significant impacts from domestic demographic changes, necessitating innovation and adaptation in a rapidly evolving environment. Various factors, including technological advancements, diversification of customer needs and tightening regulations, are affecting the industry as a whole. In this context, a strategic response is essential for pursuing sustainable growth and enhancing customer satisfaction.

This report presents ten key imperatives that we consider crucial for the insurance industry. These imperatives range from digital transformation and advanced risk management to improved customer experience and the addressing of environmental, social and governance (ESG) issues. By providing specific approaches and solutions for each issue, we aim to guide all stakeholders in the insurance industry to remain competitive in the future business environment and achieve further growth.

We hope this report provides valuable insights and stimulates your strategy development and day-to-day operations, assisting you in building a stronger and more competitive organisation. We also aim to foster a collaborative approach to addressing future challenges and achieving mutual success.

Members of PwC Japan Group Insurance Industry

Understanding the environment surrounding the Japanese insurance industry

Economic environment:

In 2024, the Consumer Price Index was projected to hover in the upper 2% range. In January 2025, the Bank of Japan raised the policy interest rate from 0.25% to 0.5%. This era of rising interest rates offers opportunities for the insurance industry to enhance investment income and broaden the scope of insurance product design. Additionally, the stock market in 2024 surpassed the Nikkei Average of the bubble era, reaching an unprecedented milestone of 40,000 points. In such a climate, as the industry progresses with the disposal of policy stocks, a reservoir for reinvestment is being cultivated. Furthermore, the foreign exchange rate for the US dollar in 2024 saw a record-breaking Japanese yen depreciation, exceeding JPY160 per dollar from June to July, indicating significant market volatility. For insurance companies, which require stable management over the medium to long term, effective management of business and asset portfolios is becoming increasingly critical.

Regulatory environment:

The capital regulations based on the International Capital Standards (ICS), which will be introduced in the 2025 fiscal year, may exacerbate the burden of accumulating statutory reserves in a rising interest rate environment. Within this context, the opportunity for the life insurance industry to utilise reinsurance could increase more than ever before. The utilisation of asset-intensive reinsurance offers insurance companies diversification in asset management, while also potentially necessitating new regulatory measures and enhancing risk management within the companies. Looking abroad, the emergence of the Trump administration in the United States may lead to regulations that significantly impact the supply chains of client companies and investment destinations for insurance firms. The shift from focusing solely on the impact of regulations on the company itself to understanding the broader impact on stakeholders may become increasingly important.

Social environment:

In today's society, where social media is prevalent, the messages that companies genuinely wish to convey to stakeholders can be distorted by misinformation or intentional misrepresentation, potentially impacting the trust in insurance companies significantly. Regarding Japan's demographics, the challenges of a declining birthrate and an ageing population are visibly affecting operations, necessitating the advancement of work quality and fulfilment of customer needs alongside the transformation of new business processes with limited human resources. Due to rising price levels and anticipated shortages of young labour, starting salaries in financial institutions have notably increased, as reported in the news. Consequently, insurance companies are increasingly required to implement price adjustments and enhance cost efficiency to cover future personnel expenses. Additionally, the prolonged nature of international conflicts and the resultant increase in geopolitical risks may further complicate factors that insurance companies must consider in their management strategies.

Technological environment:

There is significant enthusiasm across all industries regarding the substantial impact of generative AI on productivity. On the other hand, in the insurance sector, the high maintenance costs as a proportion of IT expenditure are constraining overall budgets, leaving limited funds for the adoption of new technologies. The presence of legacy host systems using outdated programming languages impedes transformation and increases security risks, making it an issue that current management can no longer afford to postpone. Moreover, striking a balance between the vast amounts of data collection and management costs, essential for constructing new business models, is becoming a challenging theme for executives. Additionally, the utilisation of technology by companies and individuals is affecting the insurance provision process and the areas requiring insurance, necessitating vigilance towards changes in technology usage within the ecosystem.

Ten key imperatives around five strategic themes

Strategic themes	Key imperatives
A Expansion into overseas and non-insurance businesses through deals	**1** Deals for transformation
	2 Strengthening governance structure consistent with corporate portfolio
B Maintaining and deepening the domestic insurance business	**3** Data utilisation and digital ID management
	4 Reviewing and restructuring sales channels
	5 Modernisation and cloud migration of legacy systems
	6 Taking on the challenge of new domains
C Optimisation of capital allocation	**7** Securing a strong capital base and harmonising the interests of stakeholders
D Building trust with stakeholders	**8** Initiatives to restore trust in the insurance industry
	9 Communication with stakeholders on sustainability
E Securing human resources	**10** Securing and developing specialised personnel

Ten key imperatives around five strategic themes

A. Expansion into overseas and non-insurance businesses through deals

1 Deals for transformation

When Japanese insurers aim for discontinuous growth, acquisitions to expand within the same industry have traditionally played a central role. Recently, these acquisitions have also started to significantly transform the ecosystem. The 'Guidelines for Corporate Takeovers' issued by METI in 2023 have provided crucial support for Japanese companies pursuing aggressive M&A for discontinuous growth. Insurance companies are beginning to reap the benefits of these initiatives.

However, a deal is merely a means to an end. The larger the deal, the greater the potential financial and reputational risk if objectives are not clearly defined. The survey conducted by the PwC Japan Group (*1) indicates that many cross-border M&As focused on 'expanding sales through cross-selling' and 'boosting sales through joint new product development' are not meeting expectations. Therefore, it is increasingly important to determine the baseline corporate value of the target company and business alone through due diligence. Furthermore, it is essential to clarify future actions aligned with the objectives, such as strategic business structural reforms involving expansion into new domains, 'selection and concentration', and subsequent operational reforms.

Additionally, when reforming an entire organisation, it is crucial not only to integrate technology and assets but also to reassess corporate culture and management strategies. When merging organisations with different corporate cultures, frictions can occur in the early stages. By overcoming this and fostering a unified organisation, a stronger corporate structure can be achieved.

2 Strengthening governance structure consistent with corporate portfolio

As the insurance business expands geographically and the Group's activities, including non-insurance businesses, gain momentum, the characteristics of stakeholders are expected to evolve. For example, as the customer base grows to include a wider variety of regions and industries, stakeholders' needs and expectations will diversify, leading to more complex issues for companies to address.

In response to these changes, companies must focus not only on capital optimisation and maximising returns but also on strengthening governance systems to ensure transparency in decision-making processes. This involves enhancing the roles of the Board of Directors and the Audit Committee to align with shifts in the corporate landscape, as well as establishing mechanisms for transparent and equitable decision-making.

Furthermore, the evolving nature of stakeholders may introduce new risks and challenges that existing governance systems are not equipped to handle. For instance, expanding into regions with different legal and cultural contexts requires tailored compliance systems and risk management strategies. Companies must also effectively disclose information and communicate with a diverse array of stakeholders.

While reinforcing governance may pose challenges for companies, it can yield significant long-term benefits. A transparent decision-making process is crucial for building a company's credibility and securing stakeholder support, which ultimately enables sustainable growth and provides a competitive edge.

*1 M&A Survey 2019 PwC Japan Group. Towards realising synergies in cross-border M&A

Ten key imperatives around five strategic themes

B. Maintaining and deepening the domestic insurance business

3 Data utilisation and digital ID management

The comprehensive capitalisation and utilisation of the vast amounts of data available within insurance companies and their economic networks play a pivotal role in the modern insurance industry. By effectively harnessing this data, insurance companies can significantly enhance the customer experience in their traditional insurance offerings.

Specifically, by integrating customer behaviour data, purchasing history, health information and other relevant data, as well as leveraging advanced analytical technologies, insurers can offer optimised services tailored to individual customers. This enables the development of high-value-added products, such as insurance offerings that support preventive healthcare and policies tailored to specific life stages and lifestyles. As a result, the range of attractive options available to customers is significantly increased.

A crucial element in this process is the development of digital identity infrastructure. A secure digital identity infrastructure can link various data points to individuals and seamlessly integrate data across systems, even as corporate acquisitions and broker networks expand. This will not only ensure a consistent customer experience, but also enable efficient management of external partners.

4 Reviewing and restructuring sales channels

One of the common challenges facing both the life and non-life insurance sectors is the diminishing effectiveness of traditional personal sales channels in reaching the next generation of key target customers. There is a growing preference among customers for direct channels, which are simpler than in-person sales, and the emergence of AI agents is contributing to this trend. Consequently, insurers are being compelled to enhance their intrinsic value propositions.

Moreover, the national distributor network is encountering a range of challenges. In the non-life insurance sector, there is an urgent need to transform corporate agents. Distributors that work closely with repair shops must also accelerate customer service and enhance service quality. New disciplines, technologies and methods to achieve these improvements are currently being explored.

Significant changes are also occurring in the life insurance sector. Sales channels that were traditionally managed by in-house sales representatives are now shifting towards distributors. This transition necessitates the development and adaptation of operational systems for these new channels. Particularly in the sales of asset-management insurance products, it is crucial for agencies to clearly explain risks to customers and provide accurate information.

Across all sectors, there are indications that the brokerage business, which is prevalent in the global insurance market, is beginning to take hold in Japan as well. Establishing new relationships with brokers that do not rely on traditional channel strategies may become increasingly important for insurance companies.

5 Modernisation and cloud migration of legacy systems

Legacy systems, long utilised in the insurance industry, now constitute a significant portion of fixed costs due to system maintenance expenses, thereby exerting pressure on earnings. According to PwC's 2020 research report, insurers allocate an average of 70% of their IT budgets to maintaining these legacy systems (*2). The inherent complexity of these systems poses significant operational challenges, particularly in maintaining accurate information on insurance products and responding to customer inquiries without issue. The ageing of the current systems and escalating maintenance costs directly affect profit margins and hinder business agility.

Additionally, as insurance products become increasingly complex and diverse, updating and renovating information management systems to accommodate these changes becomes more challenging. While sustaining the current systems, there is a pressing need for advanced technological capabilities and substantial investments to facilitate the introduction of new insurance products and operations. In this context, constructing new systems to support these innovations and operating them alongside existing systems is imperative.

Faced with these challenges, companies must invest in systems that will serve their needs for the next decade or more. This presents an opportune moment to initiate large-scale projects aimed at gradually transitioning from legacy systems to modern platforms. To capitalise on this 'last chance' for a successful transition to new systems, meticulous planning and robust leadership will be essential.

6 Taking on the challenge of new domains

In today's business environment, many companies are striving to build new ecosystems driven by the needs of their industries and customers. This initiative aims to deliver more comprehensive and value-added services, thereby enhancing market competitiveness. As these efforts take shape across various sectors, the lines between industries are increasingly becoming blurred. Despite the presence of regulations, companies are aggressively venturing into new business areas, seeking to create value beyond their traditional business models.

The insurance industry is particularly affected by this wave of transformation. Beyond offering traditional insurance products and services, insurers are exploring new revenue streams by externally providing their proprietary digital solutions. This encompasses a broad array of services, including risk solutions and asset management support. Consequently, insurance companies are transitioning from mere providers of insurance products to integral partners in comprehensive risk and asset management.

For instance, insurance companies can generate new revenue by offering sophisticated data analysis tools and risk assessment models to other businesses. This enables those businesses to strengthen their own risk management capabilities while allowing insurers to expand their commission-based services. Furthermore, through asset management support, insurers can offer customers more advanced financial services, thereby enhancing customer satisfaction.

*2 A Perspective on Modernising Insurance Legacy Systems, PwC

Ten key imperatives around five strategic themes

C. Optimisation of capital allocation

7 Securing a strong capital base and harmonising the interests of stakeholders

The introduction of the International Insurance Capital Standards (ICS) in 2025 and beyond will mark a significant turning point for insurance companies. This new standard necessitates more precise and efficient management of capital allocation within insurance groups. With the implementation of ICS, insurers are expected to further optimise capital allocation and explore various strategies, such as reinsurance.

While these initiatives open up new business opportunities for insurance companies, they also introduce new business risks. Specifically, a comprehensive range of prudent responses will be required, including careful consideration of reinsurance contract terms, partner selection and risk management strategies. The International Monetary Fund's Financial Sector Assessment Program (FSAP) report (*3), published in May 2024, expressed concerns regarding supervisory measures related to reinsurance businesses, which may also attract increased scrutiny from regulators.

Securing a strong capital base and aligning the company's future with stakeholders—such as shareholders, customers, employees and regulators—is essential. This requires transparent information disclosure and effective two-way communication. By fostering trust-based relationships with stakeholders, a company can achieve its long-term vision on a more robust foundation.

Additionally, as performance metrics and equity requirements become increasingly based on economic value, there is a heightened need to ensure that actual cash flow and financial results are aligned. Strengthening internal management practices is crucial to maintain a solid capital base and to promote balanced dividend distributions.

*3 Financial Sector Assessment Program, IMF Staff Country Reports

Ten key imperatives around five strategic themes

D. Building trust with stakeholders

8 Initiatives to restore trust in the insurance industry

Promoting ethical business practices is essential for maintaining trust in the insurance industry. It is crucial for insurers to critically assess the conventional wisdom within their own company and the industry as a whole, and to reconsider the impact of their activities on stakeholders, including policyholders. Recently, issues such as tax savings, premium adjustments and insurance underwriting through agencies have undermined trust within the sector.

While addressing the current challenge of improving profitability, insurance companies must also focus on maintaining and enhancing trust in the industry from a medium- to long-term perspective, especially in the context of building a sustainable business. In the aftermath of the Great East Japan Earthquake, insurance claims totalled over JPY1.2tn (*4), and during the recent COVID-19 pandemic, insurance companies in Japan disbursed benefits exceeding JPY1tn (*5). These actions have significantly contributed to the foundation of trust in the insurance industry.

Following the recent incident, there tends to be a focus on restoring trust in the short term through strengthening the management of policy offerings and underwriting. However, the moment when policyholders most tangibly perceive the value of insurance is when claims are paid. Furthermore, in the context of cross-industry entrants into the insurance sector, the claims payment process remains a complex challenge and serves as a significant barrier to entry.

In this pivotal process, the integration of swift, technology-enabled responses with meticulous human follow-up is poised to underpin future trust within the industry. Moreover, by rigorously analysing the data gleaned from the claims payment process and leveraging it to refine customer service and innovate new insurance products, companies have the potential to deliver superior-quality offerings.

*4 12 Years After the Great East Japan Earthquake, Japan Earthquake Reinsurance

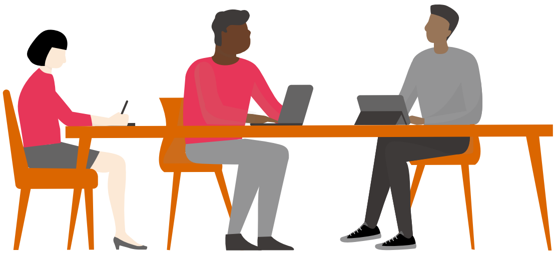
*5 The 2023 Insurance Monitoring Report, Financial Services Agency

9 Communication with stakeholders on sustainability

The insurance industry has been seriously addressing environmental issues as part of its corporate social responsibility (CSR) for many years. These efforts have primarily aimed to realise social value, contributing to the protection of the global environment and the construction of a sustainable society. However, as time progresses and generations change, the importance of addressing environmental issues has reached a new dimension. Today, responding to environmental issues is not only about pursuing social value but also an essential factor in maximising economic value as an insurance company.

Firstly, it is necessary to consider the direct impact of global environmental issues on the insurance industry. The increasing frequency and scale of natural disasters due to climate change present significant risk factors for insurance companies. If natural disasters such as floods, typhoons and earthquakes become more common, the payment of insurance claims will rise, leading to greater financial burdens. To address this, it is required to properly assess environmental risks and upgrade risk management methods. Furthermore, the development and pricing of appropriate insurance products that address environmental risks are also crucial.

Addressing environmental issues also directly affects the brand value and customer trust of insurance companies. Modern consumers are increasingly environmentally conscious and prioritise the realisation of a sustainable society. By actively engaging in environmental issues through investment activities and other means, insurance companies can gain trust from customers, contributing to the construction of long-term relationships. Consequently, this is expected to lead to the acquisition of new customers and the improvement of loyalty among existing customers (*6).



*6 Consumer Awareness Survey on Life Insurance 2021, PwC Japan Group

Ten key imperatives around five strategic themes

E. Securing human resources

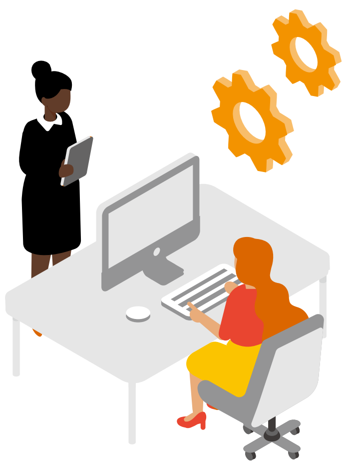
10 Securing and developing specialised personnel

The importance of human resources is increasing across all areas. According to a CEO survey conducted by PwC (*7), 93% of respondents indicated that companies should address human resource issues or have already initiated reforms. However, this trend has persisted for over a decade, suggesting that effective measures have yet to be fully implemented to match the scale of these challenges.

In the insurance industry, there has traditionally been a focus on developing generalists through periodic personnel transfers. This approach aimed to cultivate employees with a broad perspective and comprehensive skills by exposing them to various departments and roles. However, such personnel systems are becoming less appealing in today’s labour market.

Recent job seekers tend to prioritise highly specialised skills and career consistency. Frequent personnel transfers limit opportunities to gain in-depth knowledge and experience in a particular area, making roles less attractive to candidates who prioritise specialised expertise. Additionally, many individuals seek workplace stability and express concerns about the impact of periodic changes on their personal lives.

In response to this situation, the insurance industry needs to review and transform its personnel systems. There is a need to introduce work systems that emphasise expertise and diversify career paths. Creating an environment where employees can maximise their skills by deepening their expertise in specific fields is crucial. Additionally, enhancing education and training programs is essential. Providing opportunities for continuous learning and growth, such as in digital skills, is vital for maintaining competitiveness as a company.



*7 27th Annual Global CEO Survey, PwC

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