

Financial services

Achieving high performance in the Japanese insurance industry

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Attaining and sustaining high performance in the Japanese insurance marketplace is a challenging goal, given the convergence of forces currently at play: ongoing deregulation, demographic changes in Japan, as well as the increasing sophistication of Japanese consumers. The insurance industry also faces the imminent extension of Bancassurance—the selling of insurance and banking products through the same channel—and the privatization of Japan Post, the Japanese postal service that also offers banking and insurance products. Domestic and foreign players alike are in a race to articulate clear strategies for addressing these market forces and to find competitive advantage that can sustain their success.

Accenture's view is that Japanese insurers must be prepared to do more than just react to change. They must have in place a clear roadmap for the strategies and capabilities necessary to achieve high performance—the ability to out-perform peers across economic cycles and changes in management. Creating this roadmap, however, requires understanding where Japanese companies are today in terms of the characteristics of a high-performance insurance company.

New Accenture research into the Japanese insurance industry has enabled us to take the market pulse of the country's insurance companies, as well as foreign insurance companies doing business there. We have identified how industry players currently view the impact of the market forces just mentioned. More important, we have identified the specific areas in which companies must improve if they are to meet the standards of high perfor-

mance, as identified by Accenture's research with more than 6,000 organizations worldwide.

Our research shows that Japanese and foreign insurers alike have some distance to travel. Nevertheless, it is also clear that these companies have significant opportunities to improve their position, measured against the standards of high performance.¹

Responding to market forces

Here is how Japanese and foreign insurers view their ability to respond positively to several critical market forces in the insurance industry.

Deregulation

Although Japanese companies see the industry and the consumer as the winners from deregulation, they view themselves as less optimally positioned. Foreign insurance companies agree that the industry overall has been a winner, alongside product diversity and the Japanese consumer. They also see themselves as a beneficiary of deregulation.

Sources of competitive advantage

Japanese companies believe customer loyalty, as well as customer focus and knowledge, are their primary sources of competitive advantage. Foreign insurance companies believe they derive most competitive advantage from their customer focus. Japanese companies also see a strong brand and existing sales distribution channels as advantages. Japanese heritage is another factor. As one Japanese insurance executive put it, "Japanese heritage is not associated with Japanese culture. Rather, the heritage is a result of consistency in

¹ To read the full Accenture research report "Building High-Performance Insurance in Japan," visit www.accenture.com/highperformanceinsurance.

practices that include trust in the salesperson, comprehension of the product being sold and an overall feeling of trustworthiness in dealing with the company."

Consumer attitudes and changing Japanese demographics

Survey respondents believe, by and large, that deregulation has altered the consumer landscape, with customers more willing to compare the value of insurance policies and to do proactive research into their needs and available products. An aging population is also affecting the insurance industry, with a majority of respondents indicating they are focusing on products that more seniors will want to buy, such as policies that offer medical and nursing care. Companies are also increasingly concerned about talent shortages, and about their ability to attract and retain younger workers.

The impact of Bancassurance

How are companies intending to generate value from regulatory changes that will make it possible to sell all types of insurance products through banking institutions? Japanese and foreign companies alike agreed that new growth strategies are needed in this environment, as well as new strategies for customers, products and distribution channels.

Japan Post privatization

About one-fourth of Japanese companies view the privatization of Japan Post as an opportunity to develop a new distribution channel for their products. Yet only 6 percent of foreign insurers hold such a positive view. Foreign companies were more likely than Japanese nationals to view privatization as having a significant impact, and more likely to view that impact as a threat.

Progress toward high performance

One of the key objectives of our research was to illustrate how far along Japanese and foreign insurance companies are on the journey to high performance, and to identify the barriers to achieving that status.

We asked respondents to rank their company's capabilities against five important characteristics of high performance:

1. Ability to choose a distinctive strategy and execute it consistently.
2. Presence of persuasive leadership, a team culture and a strong but flexible workforce.
3. Ability to drive value from mergers, acquisitions and alliances.
4. Success in managing across boom and bust economic cycles.
5. An in-depth understanding of how to optimize financial performance.

1. Distinctive strategy

Only 25 percent of Japanese company respondents feel they have a distinctive strategy. Forty-two percent of respondents say that consistently implementing their strategy is difficult because the company tends to prioritize other agendas, such as risk management and relationships with distributors. Foreign companies have a much higher opinion of their strategic ability. Forty-four percent of foreign company respondents say they already meet this standard for high performance. This result is not surprising, given the investment they have had to make to understand the Japanese market and establish successful operations.

2. Leadership, culture and workforce

Japanese companies believe they are performing poorly against this characteristic, with only 17 percent of respondents stating their company meets the standard. Foreign companies are even more critical of themselves, with only 6 percent stating they meet the standard. These companies are putting strategies in place to address these issues, including new graduate programs, performance-based compensation and a heightened focus on training.

3. Leveraging mergers, acquisitions and alliances

Japanese respondents were relatively positive about their capabilities around this characteristic. Twenty-seven percent believed they met the standard, the highest ranking across the five characteristics. Foreign companies had an even higher opinion of their performance, with 41 percent stating they met this standard. Given that many foreign players have entered the market via an acquisition, this assessment is not surprising. Similar to Japanese companies, however, there was a definite reluctance to elaborate on how they might improve their performance in this area.

4. Managing consistently across boom and bust cycles

Japanese companies gave themselves the lowest rating for this characteristic of high performance, with only 8 percent stating they meet the standard. Foreign companies, in contrast, gave themselves the second highest rating: 50 percent. Their exposure to the rigors of multiple markets, the challenges of creating a strong foothold in Japan and the imperative of developing new markets were all cited as reasons for this rating.

5. Optimizing financial performance

Japanese companies considered themselves as marginal performers on this

characteristic, with only 25 percent stating they meet the standard. The absence of a demanding performance discipline in Japanese investment markets may contribute to this low rating. Foreign companies have a different view, with 56 percent stating they meet this standard.

Creating a roadmap to high performance

For Japanese companies, the priority for change is in the areas of products and processes across the entire business. The competitive advantage they derive from their brands and consumer knowledge will erode over time as foreign companies catch up. It is important that they enhance their capability for product innovation, improve sales effectiveness and enable their workforce with new sales-focused applications. In addition, these companies need to build their organizational capability to manage change internally.

Foreign companies have an equally compelling need to identify their focus for change. Unlike Japanese companies, however, their focus needs to be on building strong brands and enhancing distribution, to reach more Japanese consumers more quickly with a compelling offering backed by a strong brand.

Both types of companies have significant opportunities ahead. The Japanese insurance market has emerged from a period of massive and disruptive change stronger and more able to capitalize on the opportunities presented by impending changes in the insurance market and Japanese society.

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