

### Sustainable Management Practices of Japanese Companies in Pre-War Period from the Perspective of SDGs and ESG 11 : Kota Yano : Established a Life Insurance Business through Mutualism

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(11) Kota Yano: Established a life insurance business through mutualism



Kota Yano (1866-1951)

(Source) Kota Yano Memorial Foundation

Masaatsu Takehara, Naoya Hasegawa

Achievement of Kota Yano and related SDGs

Economy	 	<ul style="list-style-type: none"> <li>*Establishment of life insurance system</li> <li>*Reform of insurance sales system</li> </ul>
Society	 	<ul style="list-style-type: none"> <li>*Stabilize society through life insurance</li> <li>*Reduce health risks</li> <li>*Research on life insurance system</li> <li>*Improve underwriting ability</li> <li>*Enhance employee education</li> </ul>
Governance	  	<ul style="list-style-type: none"> <li>*Management based on mutual company system</li> <li>*Promotion of non-for-profit management</li> <li>*Enactment of insurance business law</li> </ul>

## 1. Creation and development of modern life insurance

### 1.1 United Kingdom

The origins of life insurance are said to be the ancient Roman *collegia tenuiorum* and the British Friendly Society. Both were spontaneous organizations created for the purpose of mutual assistance and had strong regional and religious ties.

In 1698, the world's first life insurance company, the Mercers Company, was founded in the United Kingdom, but soon disappeared. In 1706, a mutual life insurance company, the Amicable Society for a Perpetual Assurance Office (Amicable Society), was founded, but the method of calculating claims and premiums was flawed. In 1721, marine insurance companies, the Royal Exchange Assurance Corporation and the London Assurance Corporation, entered the life insurance business.

Modern life insurance business began with the scientific life insurance of The Society for Equitable Assurance on Lives and Survivorship (Equitable) founded in 1762. The company developed a statistically rational premium based on mortality that enabled life insurance to grow exponentially.

Equitable created a new premium table based on death statistics in London, realizing their idea that life insurance premiums should be determined by the age of the insured. In addition, the company introduced various measures such as strengthening screening at the time of application, setting a limit on the total amount of insurance coverage, conducting periodic account settlement and paying dividends to policyholders. The company adopted a mutual company system and did not deploy any sales staff. Though its performance was not significant, Equitable was credited for laying the foundation for the modern life insurance business.

In 1792, the Westminster Society was founded. The company was the first company to use outsiders (outside organizations) to sell life insurance. At that time, the need for life insurance was growing exponentially in the United Kingdom, as medical technology advanced, mortality rates declined, and many people working in commerce and industry gained a better understanding of life insurance.

Table 1 Trend of life insurance companies in the UK

	1800	1824	1840	1855
No. of companies	9	55	107	199

Source : Japan Institute of Life Insurance [1990], p. 15

## 1.2 Germany

In Germany, negative ideas were dominant in assessing life monetarily. Widows' pensions were exceptionally permitted. Therefore, no life insurance company was established in Germany in the 1700s.

After that, being influenced by the industrial revolution in the United Kingdom, development of industry in Germany was accelerated and the public's awareness of life insurance began to change. Germans who did not have domestic life insurers started contracting with UK life insurance companies.

In 1827, the first mutual life insurance company in Germany, Gothaerer Lebensversicherungsbank auf Gegenseitigkeit, was established. The founder was Ernst Wilhelm Arnoldi, the founder of the Gothaer Fire Insurance and Bank. The company was a pioneer in adopting a mutual insurance system. Kota Yano studied at Gothaerer from September 1895 to December of the following year, learning how to manage the mutual insurance company.

## 2. History of the life insurance business in Japan

The modern insurance system was introduced to Japan by Yukichi Fukuzawa. Fukuzawa introduced western insurance system in his book "Seiyo Jijyo" in 1866, and conducted lectures on insurance at Keio Gijuku, a school he established. As a result, the wish to establish a life insurance company was growing, mainly among Fukuzawa's students. Among them was Heigoro Shoda, who later worked as a member of the board of directors at Tokio Marine Insurance Company.

In 1880, Heigoro Shoda, with the cooperation of Shinkichi Koizumi and Taizo Abe, both Fukuzawa students, drafted a proposal for establishing the Tokyo Life Insurance Company. It was modeled after the Tokio Marine Insurance Company founded in 1879. Their efforts led to the establishment of the Meiji Life Insurance Company in 1881<sup>1</sup>. Meiji Life, which was Japan's modern life insurance company, was established as a stock corporation. One year before Meiji Life was established, the Kyosai 500 company was established by Zenjiro Yasuda in 1880<sup>2</sup>. In 1902, Dai-ichi Life, the first mutual company in Japan, was established by Kota Yano.

In fact, there was a mutual insurance company planned to be established in 1879, two years before the Meiji Life was established. The first mutual life insurance company in Japan was Dai-ichi Life Insurance established by Yano in 1902, but about 20 years before Dai-ichi Life was founded, a bureaucrat, Norikazu Wakayama, planned to

establish the Nitto Hosei company.

Wakayama was born in Edo in 1840 as a child of a doctor. He studied at a private school of Koan Ogata, a famous scholar in medical science and Dutch studies in the Edo period. In the Meiji era, Wakayama joined a mission the new Meiji government dispatched to Western countries for two years from 1871 (the mission is called the Iwakura Mission). He stayed in Europe and the United States to continue his study on financial issues. After returning to Japan, Wakayama worked for the Ministry of Finance initially, but resigned from the Ministry of Finance in 1877, aiming to establish the Nitto Hosei Insurance Company.

The Nitto Hosei Insurance Company was modeled on an American mutual insurance company that Wakayama learned about during his stay in the United States. In September 1880, the Meiji government granted permission to establish the Nitto Hosei Insurance Company. Wakayama asked Zenjiro Yasuda to invest in the funding of the Nitto Hosei, which was equivalent of the capital of stock company, but Yasuda declined to invest because he could not understand the nature of the mutual company. As a result, the company faced financial difficulties from the outset, and also failed to acquire 100 contractors which was required by law by the time of its establishment. Eventually the company was dissolved without starting business.

On the other hand, the Kyosai 500 company established by Yasuda tried to realize Japan's unique life insurance philosophy by introducing a system to pay 1,000 yen per person for death insurance, but eventually it was merged by another life insurance company named the Kyosai life which was established in 1894<sup>3</sup>.

Teikoku Life (the predecessor of the Asahi Life Insurance Company) was established in 1888, and the Nippon Life was established in 1889. Both Teikoku Life and Meiji Life used a table based on the mortality rate of seventeen British life insurance companies to calculate the mortality rate upon which the premium was calculated. On the other hand, the Nippon Life improved the accuracy of insurance premium calculation using the “Fujiwara Life Table” created based on Japan's demographic data for the seven years from 1881 to 1887 (Meiji 14 to 20)<sup>4</sup>. In the early days of Japan's life insurance industry, these three companies, which were all stock companies, led the industry.

### 3. The history of Kota Yano

Kota Yano was born in 1865 in Higashi-ku, Okayama City, Okayama Prefecture, as the eldest son of a doctor, Mimasu Yano. In 1873, Yano entered a nearby elementary school and studied Yukichi Fukuzawa's “Gakumon no

susume (an encouragement of learning)”. Also, while attending elementary school, he studied Chinese writing at a private school. Later in his life, Yano published a book on the Analects of Confucius. His Chinese writing skills were nurtured during his childhood.

After graduating from elementary school, he served as an elementary school assistant for a while and then, in 1878, he entered the Okayama Medical School (the predecessor of the Okayama University School of Medicine) to take over his father’s job. However, in 1880, Yano left the medical school without permission from the school and his parents and moved to Tokyo. Yano never divulged his reason for dropping out of Okayama Medical School.

After moving to Tokyo, Yano relied on his senior from his hometown, who was studying at the Tokyo Imperial University Law School, and was allowed to stay with him. With his parents' permission to study in Tokyo, Yano enrolled at a German language school to prepare to take an entrance exam for the School of Medicine at Tokyo Imperial University. Six months later, he passed the exam and was accepted from the preparatory school at the Tokyo Imperial University School of Medicine<sup>5</sup>.

However, he eventually returned to his hometown, Okayama, and re-entered the Okayama Medical School. In 1889, Yano graduated from the Okayama Medical school as a doctor at the age of 24.

#### 4. Encounter with life insurance

In 1889, Yano went to Osaka, relying on his former teacher Isamu Kiyono. Yano planned to gain experience as a doctor. Kiyono served as director of the Osaka Medical School and director of the Osaka Hospital, and was also a consulting doctor of the Nippon Life Insurance Company established in 1889.

At that time, Nippon Life was recruiting physicians in anticipation of expanding its business. Yano joined Nippon Life in 1889, on the suggestion of Kiyono. This became his first encounter with life insurance. Yano had no interest in life insurance until he got a job as an insurance physician. However, he became interested in life insurance, so he enthusiastically engaged in research on life insurance theories and systems while conducting 500 medical examinations a year<sup>6</sup>. He also worked actively with sales employees to become familiar with the customer needs for life insurance.

In 1892, Yano delivered a congratulatory speech at the company’s opening ceremony on behalf of the physicians. Meanwhile, he negotiated with Vice President Naoharu Kataoka for improving the working conditions of company

doctors, and Kataoka promised to make this happen. It was Yano's initial plan that he worked for the Nippon Life for three years as an insurance physician and now the improvement of doctors' working condition was in sight, he determined the time had come to leave the company. Even though he was repeatedly persuaded by the company to stay in office, his determination did not change. However, the company subsequently hardened its attitude and fired Yano. Yano, who initially intended to leave the company voluntarily, was outraged. Yano's emotional resentment to Kataoka was so intense that Yano gave up returning to his family business and decided to concentrate on life insurance research.

The year after he resigned from Nippon Life, Yano compiled the research he began while working at Nippon Life Insurance and published it as a book titled "the New Life Insurance Regulations". In the book, Yano criticized the situation in which too many life insurance companies at the time were doing business as profit-making corporations and lacked the spirit of mutual assistance and consideration for policyholders.

## 5. Establishment of the Dai-ichi Life Mutual Company

### 5.1 Encounter with mutualism

After he was dismissed from Nippon Life, Yano spent the retirement allowance on living expenses and continued his research by reading various literature on life insurance and economics extensively. He discovered through German literature reviews that there was a mutual company system that did not seek profit as an organizational goal and returned all profits to the insurance policyholders. Yano understood that life insurance was an economic system based on the spirit of mutual assistance to maintain a society where people lived together. Yano came to think that an organization that realized his philosophy was a mutual company, and the establishment of a life insurance company with a mutual company system was his mission to achieve.

In 1893, Yano wrote 16 papers on life insurance. Of particular note was "the Mutual Life Insurance Company" (Japanese Commercial Magazine, August 1893) and the "Defects of the Japanese Life Insurance Business" (Tokyo Economic Magazine, July-October 1893).

The former paper stated that it was the result of the mutual company that made the public aware of the social significance of the insurance business, and concluded that the best life insurance company was the Gothaerer Insurance Mutual Company in Germany. Later, Yano actually studied at Gothaerer Mutual and learned about life



insurance management based on mutualism.

In the latter paper, Yano pointed out the shortcomings of the mortality tables used by Japanese life insurance companies as the basis for calculating insurance premiums. He also noted that there were no non-profit insurance companies in Japan.

Yano self-published a series of his research results in "Toward establishing a Non-Profit Life Insurance Company" (1893). Yano argued in the book that all life insurance companies established in Japan are for-profit corporations, but non-profit mutual companies were more appropriate for managing life insurance companies because of the following reasons:

- A mutual company operates in the same manner as a stock company, but it does not have to pay dividends to shareholders.
- Since dividends to shareholders are not required, a mutual life insurance company can provide insurance at a lower premium than a stock company.

Yano's articles drew the attention of Zenjiro Yasuda, who at that time ran the Kyosai 500 company founded in 1880<sup>7</sup>. When Yano met Yasuda, he suggested conducting a life insurance business based on mutualism. It is not clear to what extent Yasuda understood mutualism, but in response to Yano's advice, Yasuda dissolved the Kyosai 500 company and transformed it into a new company named "the Mutual Aid Life Insurance Partnership" in 1894. Yano himself became the manager of the company, and took over the sales department.

In 1895, with the permission of Yasuda, Yano visited the Gothaerer Life Insurance Company in Germany and stayed there for about a year for research. The Gothaerer was Germany's first life insurer and gained the immense trust as a leading life insurer.

A mutual company obtains earnings to be allocated to policyholders through competition in the market, which is similar to a stock company in that the stock company pays dividends to shareholders. However, in a mutual company, there is no conflict of interest between the policyholders and the mutual company that distributes earnings. That is, under a mutual company, a policyholder becomes an employee of the mutual company, and thus he or she is exclusively granted the right to receive company earnings. In this regard, mutual companies are superior to stock companies. Staying in the Gothaerer for about a year, Yano became convinced of establishing and managing a life

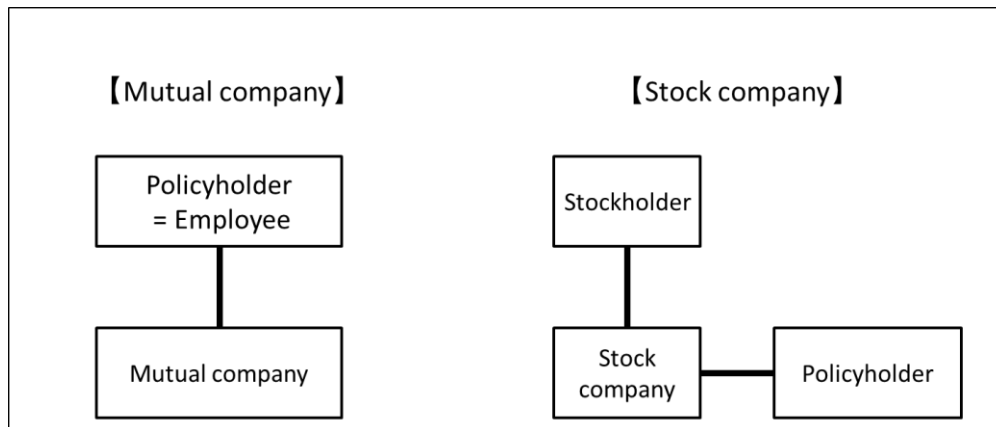
insurance company based on mutualism.

Table 2 Academic achievements of Kota Yano (1893)

	Date of issue	Publication	Article title
1	1893.2	Tokyo Economic Magazine	Life insurance company's reserve
2	1893.2	Ikai jiho	New areas of applied medicine
3	1893.3	Tokyo Medical Journal	Insurance doctor
			Insurance medicine
			Duties of insurance doctor
			Difficulties insurance physicians face
			Examiner's challenges
			Responsibility of insurance doctors
4	1893.3	Ikai jiho	Insurance medicine Vo.1 & Vo.2
5	1893.3	Ikai jiho	Doctor, a lousy job
6	1893.4	Forensic Journal	Insurance medicine and forensic medicine
7	1893.4	Japan	Insurance for workers
8	1893.6	Tokyo Economic Magazine	Questions and Answers
9	1893.6	Chugai Medical News	Japanese life
10	1893.6	Parliament	Japanese fire insurance policy
11	1893.7	Japan Journal	Supervision of insurance company
12	1893.7	Japan Journal	Evaluation of life insurance business in Japan
13	1893.7	Tokyo Medical Journal	Final recommendation as an insurance physician
14	1893.7	Ikai jiho	A few point at issues in medical statistics
15	1893.8	Japan Commercial Magazine	Mutual life insurance company
16	1893.7-10	Tokyo Economic Magazine	Problems of the Japanese life insurance business

Source: Kota Yano Memorial Committee[1957] pp. 34-35

Table 3 Comparison of organizational forms of insurance companies



Source: Toshiaki Tachibanaki and Chihiro Uematsu [1998] " Problems around Corporate governance of life insurance companies", Bunken Ronshu No. 123

Upon returning to Japan from Germany, Yano stopped by the United Kingdom, where he was fascinated with the business policy of Old Equitable (the Equitable Life Assurance Society), founded in 1762. The company had a policy of not having agents that were considered indispensable for insurance sales. As a result, the expense ratio was kept low because the commission to be paid to agents was not necessary.

After returning to Japan, Yano planned to implement measures at Kyosai Life based on mutualism he learned in Germany and the United Kingdom. However, Kyosai Life executives opposed Yano's plan, as they believed that the profits gained from the insurance business should be invested in the businesses of Yasuda Zaibatsu (conglomerate led by Zenjiro Yasuda) rather than being returned to policyholders. Eventually, Yano left Kyosai Life in 1898.

## 5.2 Drafting the Insurance Business Law

Between 1893 and 1897, more than 30 life insurance companies were established in Japan. In addition, including quasi-life insurance companies and mutual aid associations, the life insurance market in Japan was in a state of disorder. Many of them were founded by people inspired by the success of Meiji Life and Nippon Life, and their main objective of doing business was making profit.

Initially, the Meiji government adopted a laissez-faire principle for the insurance business. Therefore, there was no law governing the insurance business, and no restrictions on establishing a company. As a result, many bubble

and irresponsible insurance companies were established, and they had many negative effects on the development of the life insurance business.

Faced with these challenges, the Meiji government recognized the necessity of supervising insurance companies and started to draft an Insurance Business Law led by Keijiro Okano, a senior official for the Ministry of Agriculture and Commerce. Okano said, "It is not desirable that the profits be enjoyed only by shareholders and be hardly returned to policyholders. To eliminate this drawback, we need to create a mutual company as soon as possible to secure the insurance business. We have to enact the Mutual Company Law" (Kota Yano Memorial [1957], p.50).

After resigning from Kyosai Life, Yano asked Okano, who became acquainted with him while he was studying in Germany, for employment. Okano recruited Yano, who was familiar with the life insurance business, to the Ministry of Agriculture and Commerce and had him engage in drafting the Insurance Business Law. In addition to Okano, Yano worked with excellent legal scholars such as Kenjiro Ume and Kaoru Tanabe on drafting legislation, and he gave opinions on the management of the life insurance business from a practitioner's perspective.

In 1900, the Insurance Business Law was passed by the Diet and came into force in July of that year. The law, drafted by Yano and others, stipulated the following points:

- (1) To run a life insurance company, a license from a competent authority is required
- (2) Insurance companies are limited to stock companies or mutual companies
- (3) Insurance companies cannot do other businesses concurrently

With the enforcement of the Insurance Business Law, supervision of life insurance companies was strengthened, insurers with weak management bases were restructured, and regulation on companies similar to life insurance progressed.

Yano planned to resign from the Ministry of Agriculture and Commerce and to establish a mutualism-based life insurance company when the Insurance Business Law was passed. However, he was persuaded to stay by the ministry as the ministry had limited officials who were knowledgeable about the practice of the insurance business. Yano remained in the ministry and served as the first manager of the insurance division from July 1900 to December 1901.

While Yano was in charge of the insurance division, it inspected about 70 insurance companies, both life and non-life, and ordered companies with poor financial performance to stop undertaking new contracts or to dispose

of their properties. Among the poorly managed insurance companies that were forced to be dissolved by this inspection was the Nippon Kairiku Insurance Company. The company was headed by Masanao Kataoka, president of Nippon Life who virtually fired Yano.

The enforcement of the Insurance Business Law made it possible to establish a life insurance company in the form of a mutual company, but in reality, a new company was not established. The Kyosai Life Joint Partnership Company, managed by Zenjiro Yasuda, was expected to be transferred into a mutual company, but the company was eventually reorganized into a stock company. It seems Yasuda did not fully understand Yano's idea of mutualism.

Shareholders of a stock company can enjoy benefits such as shareholder dividends and capital increases through share issuance for shareholders if business performance grows steadily. On the other hand, mutual company investors do not have the merit of stock company shareholders because the fund dividend rate is determined in advance. In addition, if the amount of retained earnings increase, there is a possibility that the capital will be redeemed successively to the investors. Therefore, mutual companies were considered to be relatively less attractive to investors seeking economic returns.

### 5.3 Establishment of Dai-ichi Mutual Life Insurance Company

In 1901, Yano resigned from the Ministry of Agriculture and Commerce, and began to prepare the establishment of a mutualism-based life insurance company. He named the new company Dai-ichi Life Mutual Company, as it was Japan's first mutual company (Dai-ichi means first in Japanese). The new company's initial fund was set at 200,000 yen, and staff recruiting started to secure 100 employees, which was required under the Insurance Business Law.

Yano intended to establish a fire insurance company and a life insurance company as a mutual company, but the philosophy of the mutual company was not easily understood, therefore it was extremely difficult for him to attract investors. Okano, a colleague of Yano at the Ministry of Agriculture and Commerce, could not overlook Yano's difficulties and introduced Kenzo Ikeda, director of the 100th Bank. Okano's help saved Yano. With the introduction from Ikeda, Rokuro Hara (President, Yokohama Shokin Bank), Ichizaemon Morimura (Founder of the Morimura Zaibatsu (conglomerate)), Kintaro Hattori (Founder of the Hattori Watch shop, Current Seiko Holdings), and Yoshizaemon Sumitomo (Owner of the Sumitomo Family (Conglomerate)) agreed to invest in Daiichi life. As a

result, trust for Dai-ichi Life increased drastically.

In 1902, the general meeting for establishment of the Dai-ichi Mutual Life Insurance Company was held, and Yasutoshi Yanagisawa was selected as the president. Yanagisawa was a typical intellectual in those days, serving as a member of Kizokuin (the House of Peers) and the chairman of the Tokyo City Assembly. Yano assumed the role of Managing Director.

Table 4 Differences between mutual companies and stock companies

	Mutual company	Stock company
Nature	Intermediate corporation established under the Insurance Business Law. It is not for profit.	For-profit corporation established under the Company Act
Capital	Funds contributed by fund contributors	Capital invested by shareholders
Members	Policyholders (=Employees)	Stockholders
Decision making body	Employees general meeting	General shareholders meeting
Attribution of Profit and loss	Policyholders (=Employees)	Stockholders

Source: Created by authors based on the minutes of the Fifth Meeting of the Financial Services Agency's Financial Council

Yano advocated a management philosophy that "Daiichi Life Insurance always aims to be the best company, not the largest company", and he set the company's code of conduct to be "reliable, reasonable and kind." Dai-ichi Life's business philosophy was strongly influenced by what Yano learned at the Gothaer Insurance Company and Old Equitable.

The mortality table and sales method adopted by Dai-ichi Life strongly reflected the company's unique policy. Many other life insurance companies, including Meiji Life, used the UK 17 company table to calculate life insurance premiums. However, Yano devised a mortality table based on the mortality rate of Japanese (it was called Yano's Table 2), and Dai-ichi Life adopted it in its insurance premium calculation<sup>8</sup>. Yano's Table 2 made it possible

to calculate appropriate premiums that reflected the mortality rate in Japan.

The sales method also reflected Yano's philosophy. Many life insurance companies solicited insurance through their own agents and sales staff. Those companies adopted a method of commissioning local influencers to become their agents and sell life insurance to local people.

The insurance company paid their agent commissions which was around 5% of the premium. The company also had operating expenses including entertainment for agents. These commissions and operating expenses were added to the insurance premiums paid by the contractors.

Yano stated that Dai-ichi Life would ask customers to pay only insurance premiums, therefore did not use agents or sales staff. He made it clear that Dai-ichi Life would not buy a contract for agent commissions.

Yano adopted a progressive approach that did not seek rapid quantitative expansion. As a result, Dai-ichi Life's growth was slow. It was in 1909 that the total amount of insurance contracts reached 10 million yen, seven years after its foundation. On the other hand, Chiyoda Life Insurance, which was founded in 1904 as a second mutual life insurance company after Dai-ichi Life, had actively expanded sales through agents, reached 10 million yen in 1906 and exceeded 20 million yen in 1908.

As a result of efforts made by Yano and his team to achieve efficient management, such as breaking away from the high cost of insurance sales, Dai-ichi Life could make a small surplus since the first financial settlement. In 1906, the company paid the first employee dividend of 3% on paid premiums. As a result, life insurance companies began to pay dividends in order to compete with Dai-ichi Life.

The Tokyo Asahi Shimbun<sup>9</sup>, one of the major newspapers at the time, pointed out that many of the 29 life insurance companies had problems in managing expenses, such as operating expenses for agents, defects in insurance reserves, and inadequate asset management. The newspaper evaluated that Dai-ichi Life was the best life insurance company in Japan with the lowest expense ratio in the industry<sup>10</sup>.

## 6. Kota Yano's Management Philosophy

### 6.1 Yano's Management Philosophy

In 1915, Yano assumed the post of president of Dai-ichi Life, becoming the Chief Executive Officer in both name and reality. The characteristics of his management philosophy are summarized in the following four points. (1)

Incrementalism, (2) No agents policy, (3) High-priced contract, (4) Strict underwriting. These are based on the management philosophy of the Old Equitable and the Gothaer Life Insurance Company that Yano learned throughout his career. Under the philosophy of “Not Best Because The Biggest But Because The Best, This phrase was the company motto of the Metropolitan Life Insurance Company founded in 1868.<sup>1 1</sup>” Yano aimed to be the best company, not to expand its scale.

Incrementalism meant not pursuing quantitative expansion. Yano disliked the stupidity of competing with other companies by spending on substantial operating expenses. At that time, sales activities by agents were common, but Dai-ichi Life did not set up sales agents. Also, in order to avoid costly small insurances contracts, Dai-ichi Life only undertook insurances worth 500 yen or more per contract.

In order to secure dividends for policyholders, it is necessary to keep the loss ratio low. Dai-ichi Life focused on eliminating high-risk policies with strict underwriting. These measures were implemented for the benefit of policyholders, not for the company. Profit is partially returned to shareholders in a stock company, but, in a mutual company that has no shareholders, profits are returned to policyholders.

One thing to keep in mind when discussing Yano's view of corporate management is his policy of appointing directors. In "Our Management Policy" published in Toyo Keizai Shimpo Publishing (1930), Yano stated that he would not appoint an employee as an officer and a director. Banks and insurance companies in those days selected executives from their employees, but Yano criticized this practice as rewarding the subordinates according to their services, not the right criteria for appointment of officers and directors.

Yano thought that the life insurance company's business foundation is based on trust, so its executives must have absolute trust from outside the company. This idea is similar to the idea of outside directors employed by many modern companies. It is considered that Yano's attitude toward appointment of directors shows that the company must gain the trust of internal and external stakeholders in order to build the best mutual company.

As Dai-ichi Life grew, Yano felt the need for talent capable of managing the company. He asked Keijiro Okano, a colleague from his days of the Ministry of Agriculture and Commerce, to introduce the right person. The person whom Okano introduced was Taizo Ishizaka, who later became Dai-ichi Life's president. At that time, Ishizaka was manager in charge of the exchange and postal saving division of the Ministry of Communications, and he had a promising future. Ishizaka hesitated to join Dai-ichi Life, but listening to opinions and suggestions of those around



him, he finally joined in 1915 as a secretary. In 1938, Ishizaka took over the position of president from Yano and grew Dai-ichi Life from a medium-sized life insurance company to an industry-leading company. After World War II, Ishizaka left the company with Yano before the enforcement of the revised expulsion from public office, but subsequently held key positions such as president of Tokyo Shibaura Electric Company (current Toshiba Corporation) and second chairman of Keidanren (Japan Business Federation).

## 6.2 Yano's management philosophy described in his books

Yano worked not only on the insurance business but also on improvement of statistical data and social education. He authored numerous books, including *The Interest Rate Review* (1904), *Pocket-sized Analects of Confucius* (1907), *Geisha Theory* (1912), and *The Japan Census Chart* (1927).

The *Japan Census Chart* embodied Yano's desire for youth education. In the preface to the first edition published in 1927, Yano stated, "If the editor (Yano) was a young educator and had several students, I would like to teach what I wrote in this book to any student regardless their major".

Since its first publication in 1927, the book has been widely used as a valuable data collection for students, schoolteachers and the general public to know the current state of the economy and industry.

Yano had a strong interest in statistical and numerical data such as creating a mortality table based on the Japanese mortality rate (Yano's first table) at Kyosai Life Insurance, which he joined per request from Zenjiro Yasuda. Also, the Dai-ichi Life's financial report was detailed. This was based on Yano's conviction that the actual state of management must be disclosed entirely by numbers. Rational management based on analysis of quantitative data using statistics and customer-first principle based on mutualism formed the basis of Yano's life insurance business.

Yano cited the "scientific validity of business plans" and the "importance of trust" as factors for successful corporate management. He said: "Japanese people tend to rush too quickly to be successful when they start a business. it is important that the business plan needs to be developed based on detailed calculations that encompassed all situations".

Regarding trust, and based on the fact that Dai-ichi Life took ten years to obtain trust from society, he stated that entrepreneurs should keep in mind that it would take a certain period of time to obtain trust, which is the foundation of business.

In 1951, five years after he retired from the chairmanship of Daiichi Life, Yano closed his 85-year-old life with his family.

In 1970, Yano was inducted into the International Insurance Hall of Fame. The International Insurance Hall of Fame aims to honor those who have made significant contributions to the development of the insurance business. Yano was the first member of the Japanese life insurance industry to enter the Hall of Fame.

## 7. Conclusion

This chapter examined Kota Yano, who laid the foundation of Japan's life insurance business. The core elements of Yano's management were:

- (1) objective and rational decision making based on actuarial science.
- (2) awareness of social responsibility as an insurance company.
- (3) spirit of service to policyholders.
- (4) management philosophy based on trust

Yano made a pioneering achievement in the field of insurance research, such as presenting the Japanese Mortality Table he developed (Yano Table I) at the 1st International Actuary Conference. In order to promote the use of data in Japan, he also put his heart into publishing the aforementioned Japan Census Chart.

Yano thought that the management of insurance companies based on mutualism would fulfill their social responsibility as insurance companies. Yano criticized stock company's mission of increasing shareholder value and claimed the superiority of mutual companies that prioritized returning profits to policyholders.

In today's society, companies are required to fulfill a wide range of corporate social responsibility (CSR). In light of the remorse that excessive profit seeking behaviors caused many corporate scandals, the business is shifting to a management style that emphasizes the balance between social and economic returns to multi-stakeholders, including shareholders.

Yano stated "Trust is the foundation of the insurance business. Profit, which is a tangible asset, is built by trust, which is an intangible asset." It takes an enormous amount of time for a company to gain trust from society. Trust for insurance company is derived from the behaviors of managers and employees, and to gain and maintain the

trust, they are required to continue their efforts.

In Japan, non-payment of insurance claims by a number of life insurance companies was uncovered in 2005 and it became a big social problem. According to a survey conducted in 2007, Dai-ichi Life's number of non-payments was approximately 70,000 and amounted to ¥ 18.9 billion. The unpaid amount was the highest among 38 life insurance companies.

It was revealed that many Japanese life insurance companies had been doing faulty management, neglecting customers, and the trust they had accumulated was lost in a moment. Life insurance companies are required to return to the true aim of the insurance business that Yano was obsessed with and do their utmost to restore their lost trust.

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<sup>1</sup> Meiji Life was a predecessor of the current Meiji Yasuda Mutual Life Insurance Company.

<sup>2</sup> Kyosai 500 also later became a part of the Meiji Yasuda Life Insurance Company

<sup>3</sup> The Kyosai 500 companies adopted a system in which policyholders were limited and the burden of insurance claims was evenly "imposed" on the policyholders. However, this system had the following problems: (1) policyholders were limited from the beginning; (2) additional sales was not possible unless some policyholders died; therefore, the business couldn't scale and earn profits. As a result, the company was reorganized into a mutual aid life insurance partnership in 1894.

<sup>4</sup> Nippon Life completed its own insurance premiums table based on this Fujisawa Life Table (No.2). However, at this point, it was not yet based on their insured's mortality rate. The calculation based on the company's insured mortality rate was not realized until 1911 when Meiji Life, Teikoku Life, and Nippon Life made the "Japan Three Companies Life Table".

<sup>5</sup> Preparatory school is equivalent to the current university liberal arts program.

<sup>6</sup> In 1892, though not completed, Yano attempted to write two papers.

<sup>7</sup> In 1893, Zenjiro Yasuda took over Tokyo Fire Insurance, the first fire insurance company in Japan (Later the company became the Yasuda Fire and Marine Insurance, the predecessor of current the Sompo Japan Insurance). In addition, Yasuda established a new Teikoku Marine Insurance as well.

<sup>8</sup> The mortality table devised by Yano was based on the Cabinet Statistics Bureau Table on Japanese mortality. Yano was involved in compiling this statistic as a commissioned researcher.

<sup>9</sup> "Tokyo Asahi Shimbun" was the former title of the Japanese daily newspaper "Asahi Shimbun" in the East Japan region.

<sup>10</sup> Tokyo Asahi Shimbun ran stories titled "Dangerous insurance company" (May 16, 1910) and "Inner curtain of life insurance company"(from June 5 to July 11, 1910).

<sup>11</sup> This phrase was the company motto of the Metropolitan Life Insurance Company founded in 1868.



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