

DISABILITY BENEFITS INSURANCE IN JAPAN

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In 1924 Japan's government-run Post Office Life Insurance Scheme established a system for waiving the payment of premiums by persons suffering a sudden physical impairment, as a means of distributing its surplus. This was the beginning of disability benefits insurance in Japan. Private life insurance companies began introducing similar systems in 1932, but under their systems, a special premium was collected as defined in a separate rider to the basic policy, and payment of premiums was waived only if the disability made it impossible to work.

After the end of the Second World War, disability benefits insurance in Japan assumed a new and unique form: disability benefits insurance was incorporated into the basic policy without the need for a special premium, and payment of premiums was waived if the insured person suffered a certain level of physical impairment. In 1952 this system was replaced by a system under which the insurance contract would be terminated due to disability, and a benefit equivalent to the sum assured would be paid. Under this system, at the beginning, the occurrence rate of disability was not reflected in the premium calculation. But, as the Japanese experience life table (All company mortality table of Japan) was employed by all insurance companies as the basic mortality table in 1969, the occurrence rate of disability came to be included in the experienced mortality rate.

The range of the physical impairments covered by disability insurance was gradually expanded after World War II. The current definition was established in 1976 based on the provisions commonly shared by all insurance companies, the contents of which are: (1) complete and permanent loss of sight in both eyes; (2) complete and permanent loss of ability to speak or masticate; (3) conspicuous impairment to the central nervous system, the mind, or the organs in the thorax or abdomen, requiring constant life-long care; (4) loss or disability of both arms; (5) loss or disability of both legs; (6) loss of one arm, and loss or disability of one leg; (7) disability of one arm, and loss of one leg.

Disability benefits insurance in Japan, as explained above, is designed to be paid according to certain conditions of physical impairment, and does not necessarily require that the relevant person is unable to work. Payment would not be made unless the impediment was within the above definition. This is one facet that differs from work disability insurance in Western countries, besides being one of the problem points of the system.

Regarding a breakdown of the number of disability benefit payments made, the highest is for life-long care situations, representing nearly 50% followed by the loss of ability to speak or masticate, then the loss of sight in both eyes.

Of the diseases causing disability, apoplexy is the most common, followed by accidents and cancer. For apoplexy, although hemiplegia alone does not constitute a disability, payment is claimed in such cases that require life-long care and for some cases of aphasia. Among the cancers, complete removal of the larynx due to cancer represents the overwhelming majority. In recent years, diabetes has been increasing as a major cause of blindness.

Disability benefits insurance entails a number of problems. One is the problem of recognizing a disability. Regarding the case of life-long care in particular, judgement of the degree of disability that prevents activities of daily living is not necessarily easy to make. Besides, in many cases, the possibility of recovery is also hard to judge, leading to many problems. If the insured is judged to be suffering a disability, he/she could be entitled to a lump-sum payment of the amount equivalent to the death benefit; however, if judged to be just a step short of disability, payment is not made except if caused by accident. This too raises many questions.

A second problem is that disability benefits insurance in Japan is incorporated into the basic policy. This leads to certain difficulties concerning risk selection. In Japan, underwriters are supposed to assess disability risk as well as death risk for almost all insurance applicants.

If the disability risk is high, for instance in the case of retinal pigmentary degeneration which is liable to cause blindness, even if the death risk is within the standard range, the insurance application should be declined. Even if progress in medicine helps reduce the mortality rate due to cancer, apoplexy, diabetes, etc., if patients suffering from such diseases continue to live but in a state of permanent disability, it wouldn't lead to lowering the occurrence rate of overall insurance incidents. This is an important point requiring our attention.

There are now proposals being made to return to the prewar concept of disability benefit insurance so as to separate it from the basic policy and make it a rider like the system employed in the West. However, modifying a system which has been in use for more than four decades would have a considerable impact, so a solution still seems far from certain.