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Why do a wave of consolidations emerge and accelerate in an insurance market?

–Recent case in the Japanese nonlife marketplace–

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Abstract:

We investigate how an insurer's motivation could be affected by (1) saturation of market and (2) deregulation of insurance premium applying the traditional model by Salent et al. (1983). Recently, Japanese non-life insurance market, mainly the automobile insurance market, has reached the point of saturation in recent years due to the oversaturated domestic automobile market. At that time, the industry has also experienced successive large-scale M&A transactions. We intuitively suppose that insurers could have a strong motivation for M&A for the future because they need to survive within the industry under the oversaturated market. Our conclusion is as follows. First, necessary requirement for insurers' motivation of consolidations is to loosen the rate regulation, and second, the sufficient condition is saturation of market. This result is intuitive to understand recent circumstance surrounding Japanese nonlife insurance industry.