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**Japanese Risk Management as a Product of Social Culture :
with Special Reference to Insurance Companies**

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**JAPANESE RISK MANAGEMENT AS A PRODUCT OF SOCIAL CULTURE:
WITH SPECIAL REFERENCE TO INSURANCE COMPANIES ***

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Abstract:

This paper aims to provide a comparative analysis of risk management among three types; namely A-Type, E-Type and J-Type, illustrating empirical evidence with special reference to the insurance industries. We then turn to a more detailed discussion on primary characteristics of J-Type risk management. By demonstrating that each type risk management reflects its social culture, we argue that companies should pay more attention to J-Type risk management especially in the midst of the current global economic crisis.

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INTRODUCTION

A renowned financial fund manager as well as a distinguished philosopher today is George Soros (2008), who writes a proposition that “the prevailing paradigm for financial markets -- that markets tend toward equilibrium and deviations from it are random -- is both false and misleading.” He also notes that, with the sophisticated financial techniques used for risk management, more risks are taken in the markets. These shocking statements by the symbolic figure of American capitalism may indicate that Anglo-Saxon style risk management has not been functioning well to mitigate this on-going financial crisis. If our present global societies are seeking a new paradigm, we must also seek a new paradigm for risk management. This paper attempts to provide some insights for the purpose.

Regardless of the current crisis, risks have always been a problem for business administration but tend to be ignored since they have been perceived as unavoidable. Given recent dynamic waves of internationalization, globalization, deregulation and integration, however, risks can cause significant impacts on business administration where managers can no longer ignore risks. Observing cases in which effective and efficient risk management contribute to business success when business failure was a real possibility; managers learn to manage and control risk as critical strategic issues.

Even though risk management is a strategically important and critical apparatus for an organization, until recently in Japan there have been very few serious discussions about risks and risk management within companies. A recent survey provided by Ministry of Economy, Trade and Industry of Japan (2006) reveals that about 70 % of the surveyed Japanese corporations admitted that they have not established good risk management practice in place.¹

This paper discusses that there are distinctively three types of risk management in the world; namely, A-Type (Anglo-Saxon Type), E-Type (European Type) and J-Type (Japan and Asian Type). By focusing on global insurance industries, we provide distinctive characteristics of A-Type and E-Type in comparison with J-Type. We then examine J-Type in more details. The strength and weakness of J-Type risk management are discussed with some case studies.

RISK MANAGEMENT AS SOCIAL CULTURE : THREE DIFFERENT TYPES

Mizushima et al. (1995) argued that the risk management of a corporation is very much influenced by its country or corporate culture. According to this argument, the risk management practices of each country should reflect the cultural differences between societies or countries. Here, we discuss that there exist three distinctive types of risk management: A-Type (Anglo-Saxon Type), E-Type (European Type) and J-Type (Japanese and Asian Type).

The argument is supported by Wildavsky and Dake (1990). Their research demonstrates that the comparative studies of risk perception consistently find that the cultural component represents the most important factor. The risk perception of "Individualist Culture" represents A-Type culture in such countries as U.S. and U.K. A-Type culture is defined as a culture where people value the individual identity the most among others. Contrary, there is a "Group Culture" in J-Type where the people value unwritten agreements in group the most among others in countries such as Japan. E-Type culture in European countries such as Austria, Germany, Italy and Switzerland is more "Individualistic than Group" but it rather takes in the middle position between A-Type and J-Type.

It is observed that A-Type would be expected to support self-regulation, including the freedom to bid and bargain as the means for addressing risk. In A-Type, risks are also viewed to offer opportunities and should be accepted in exchange for benefits.

Holstede (1995) introduced an anthropological theory of risk perception. According to his theory, Anglo-Saxon countries (A-Type) tend to be more individualistic whereas the European countries (E-Type) tend to value solidarity more.

Mizushima et al. (1995) clearly argue that in A-Type economically rational decisions are often made in the process of risk management, comparing the cost of protection from risks with the associated benefits. Since corporations behave rationally in the sense that they maximize their utility and profit, they tend to effectively deal with risks that potentially reduce the corporate value. It may often be the case that American businesses react excessively or even unnecessarily to risks and try to mitigate them as soon as possible. Presumably, their reaction toward risks can be viewed as a reflection of the litigious nature of the U.S. and, therefore, managing a company in the U.S. may often involve strategic consideration of financial, business and operational risks, or, of insurable and non-insurable risks.

According to the rationalistic behavior, A-Type risk management should be determined based on maximum expected return relative to risk. Generally speaking, higher risk requires higher return. A-Type corporations behave with respect to the trade off between risk and return. This behavior is based on the principle of "assumption of risk," on which corporations assume risk first before considering transfer of the risk. Reflecting this tendency, A-Type corporations take high self-insured retention for losses in their tailored insurance contracts. For example, it is generally the case in the U.S. corporations that the following guide line² is used for adequate risk retention level: 1-10% of

working capital, 1-8% of operating income, 1-5% of total assets, or 1/2-2% of annual sales (International Risk Management Institute Inc. (2008)).

With this practice, insurance sellers (insurance companies) urge insurance buyers (corporations) to control risk in order to reduce morale hazard³ of the buyers. As a result, corporations have to manage and control the risks, and thereby reduce the cost of risk as a rational behavior. Reduction of risk will lead to a decrease in insurance premiums, in return, creating more efficient market as illustrated in “Combined Ratio” analysis (Figure 1) in the following section 3.1

On the other hand, European countries (besides the U.K.), or E-Type, tend to value solidarity and are less individualistic than A-Type. Risk perception of European countries is positioned somewhere in the middle between A-Type and J-Type. Following the discussions of Renn (1992) and Rayner (1992), E-Type can be classified into the stratified individuals. The stratified individuals tend to perceive that life is like a lottery; risk is out of control; safety is a matter of luck. They also tend to think that risk should be avoided unless it is inevitable to protect the public good. They tend to claim that nature is fragile to justify sharing the finite natural resources. E-Type characteristics include the strong cognition of environmental risk management and protection of historical assets from risks.

In this context, Kamei (1998) argues that the risk management in European countries now stands on its own although it was once influenced by the American style. The research on European risk management started in 1976 by Jacques Charbonnier, who maintained that the risk management in European countries imported the U.S. style at the beginning but later developed one on its own. Thus, in the initial stage, corporations classified risks into pure risks (insurable risks) and speculative risks (non-insurable risks) but later they concentrated only on the pure risks. The facts indicate that the European corporations originally followed American management theory. Since then, however, E-Type corporations have developed their own style of risk management.

Charbonnier argues that, compared with U.S. risk management, European risk management has the following four characteristics: (1) Risks of small to medium size are primary concerns for managers; (2) Risk management is viewed as equivalent to insurance management; (3) Risk management is focused on the protection of assets (human assets, environmental assets, property assets, etc.) from risks; (4) Environmental and product liability risks are among the risks that risk managers are most concerned about.

If the corporate risk management is partially viewed as “insurance management” as in A-Type or E-Type, it can be explained to a certain extent by analysis on the structure of each insurance industry because the market reflects the demand, the social and cultural fabric of the people, the political history and philosophy of the country (Skipper and Kwon (2007)). Table 1 provides a comparative study of insurance industries among countries. Looking at the size of gross premiums, A-Type countries such as U.S. and U.K. come at higher ranks in the table, followed by E-Type countries such as Germany and France.

J-Type countries such as China, South Korea, Taiwan and Japan come relatively at lower ranking. Though Japan comes fourth for the size of “Gross Direct Premiums”, it ranks very low at the 20th in terms of “Per Capita.” Considering its large size of Japanese economy, the penetration of general insurance among people must be very low.⁴ Other Asian countries such as South Korea, China

Country (Region)	Gross Direct Premiums			Per Capita Premiums	
	(in millions of yen)	Rank	Global Share(%)	(yen)	Rank
USA	70,100,114	1	43.1	237,685	2
Germany	11,987,982	2	7.37	142,073	10
UK	11,271,454	3	6.93	146,946	8
Japan	11,259,581	4	6.92	88,533	20
France	7,634,826	5	4.69	122,528	15
Italy	5,315,211	6	3.27	91,187	19
Canada	4,958,347	7	3.05	154,249	7
Spain	3,893,132	8	2.39	93,943	18
Australia	2,721,843	10	1.67	134,770	13
South Korea	2,697,761	11	1.66	55,501	25
China	2,300,573	12	1.41	1,770	78
Switzerland	2,053,143	13	1.26	277,818	1
Belgium	1,721,258	15	1.06	111,663	16
Taiwan	1,142,166	17	0.70	50,001	26
Total/Average	162,639,752		100	24,530	

Table1: International Comparison of General Insurance Premium Volume (2005)

(Source: "2007 Fact Book" General Insurance Association of Japan)

(Notes)

- 1 Figures are compiled by the GIAJ based on the "Sigma No.5/2006 by Swiss Re".
- 2 The exchange rate used (US\$1-112.01 yen) is the average exchange rate for 2005.
- 3 The figures for Japan include those of *Zenkyoren*, or the National Mutual Insurance Federation of Agricultural Cooperatives.
- 4 Gross Direct Premiums include all premiums written by domestic and foreign companies within the country.
- 5 Total figures are those of the major 88 countries.

and Taiwan are low in the use of general insurance "Per Capita." Interestingly, Switzerland is the first for Per Capita, and the U.S the second. Such evidence may explain that the risk is traded intensively in Anglo-Saxon and European countries.

Swiss Re (2006) provides interesting evidence about the share of life and nonlife (general) insurance premiums worldwide. In its research, the life sector accounts for 58% of the world direct premiums, while the nonlife (general insurance) sector, 42%. Interestingly, considerable regional diversity exists in the distribution between the life and nonlife sector. In general, we see more use of nonlife insurance in North America (U.S. and Canada) and Oceania (Australia): Indeed, the share of nonlife insurance overpowers one of the life insurance.

On the other hand, in Asian countries such as China, Korea and Japan, life insurance industry overwhelms nonlife industry in the economy. It shows that the high Asian propensity to "save money" via life insurance is revealed (Skipper and Kwon (2007)). Skipper and Kwon (2007) also explain that the growth of life insurance in those countries are "driven by increasing life expectancy and governments having to reduce the generosity of the social insurance programs in the face of fiscal imbalances."

JAPANESE RISK MANAGEMENT

Much research has found that Japan is unique in various aspects of risk management. Wildavsky and Dake (1990) argue that Japan may be characterized as having "hierarchies," where the labyrinth of normative constraints and controls on behavior would be perceived more likely.

Skipper et al. (1998) demonstrate that the individuals and businesses in societies that place a greater emphasis on solidarity are less likely to seek legal redress for perceived wrongs. In countries such as Japan, a strong sense of group look for stable and balanced, rather than quick and decisive, solutions and for less need for detailed written contracts. In this context, Mizushima et al. (1995) pointed out that the Japanese people live in dependent relationships and thus rely on each other relative to risks. These findings are consistent with the characteristics of Japanese risk management in the society where the people and corporations tend to be insensitive to risks and the management of risks.

These researches provide some evidences that the Japanese ways of coping with risk are very much distinctive from others cultures. In this paper, we attempt to discuss some distinctive natures of the Japanese risk management together with several empirical evidences.

We argue that J-Type risk management is explained by three characteristics: (1) risk avoidance, or risk elimination; (2) risk preparation by means of accumulating monetary fund or saving money; (3) risk spread throughout members of a group or an organization;

Risk Avoidance

Techniques of risk management are fundamentally categorized into two. One is avoidance or elimination of risk. This technique includes the transfer of risk through insurance. Another is retaining and controlling risk. The first technique is the one that people would consider in managing risk first of all since it is the best among various risk managements measures. We argue that the tendency of using this basic technique of risk avoidance or risk elimination is prevalent in J-Type.

One typical example illustrates that the purchase and maintenance of insurance policies have become a primary function in the Japanese corporate risk management. The recent survey report of Ministry of Economy, Trade and Industry (2006) reveals that in many major companies the general affairs departments (called *Soumu-ka* in Japanese) are assigned to administrative works on risk and insurance contracts. In Japan, therefore, there are few professional "risk managers" or "risk management department" in organizations as are often seen in A-Type or E-Type companies.

This fact implies that the job does not require such managerial responsibilities in J-Type. Interestingly, the same survey report also shows that most of the responded companies purchase general insurance policies as a primary mean of risk management and, further, no proactive measures are taken for the risks that are not covered under their insurance programs.

In addition to this evidence, the corporate insurance strategies have had very low self-insured retention of risk, which means that the strategies aim at almost total transfer of risk to insurance companies. Elements of risk sharing between sellers and buyers of insurance are negligible. In such cases, the cost of purchasing insurance tends to be high since insurance companies normally

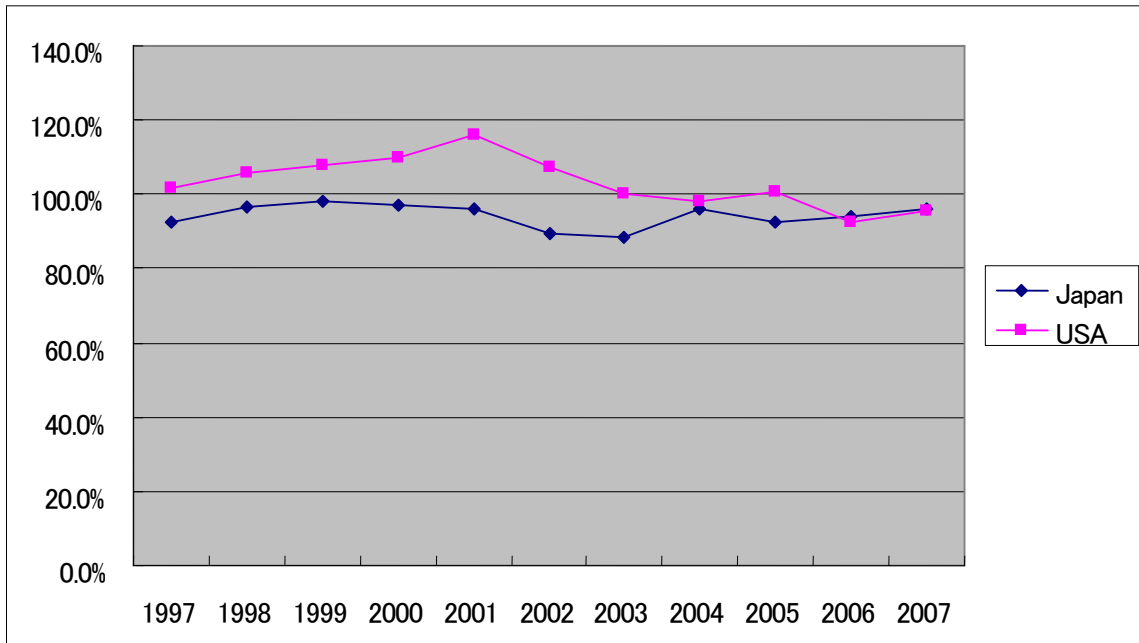


Figure 1: Combined Ratios of General Insurance Industries: Japan versus U.S.

(Source: General Insurance Association of Japan “*General Insurance in Japan Fact Books 1997-2007*” and U.S. Insurance Service Organization (ISO) “*Insurer Financial Results 1997-2007*”)

charge their own profits, administrative costs and the cost of morale hazard in addition to the losses. Contrary to this, in A-Type or E-Type nations where the transfer of risk is negotiated as a rational economic behavior between buyers and sellers of insurance with higher self-insured risk retention, the cost of insurance should be comparatively low. Interestingly, the morale hazard³ is not of great concern in J-Type risk management.

Figure 1, which shows comparison of combined ratios between general insurance industries of Japan and of the U.S., supports this argument. In a general insurance industry, “combined ratio” is a measure for the cost of insurance. It is calculated as

$$\text{Combined ratio} = \frac{L + E}{P},$$

where L , E and P respectively denote loss, expense and insurance premium.

If the combined ratio is exactly 100%, the ratio reflects fairly the true cost of risk because the money inflow from insurance premiums matches the money outflow for loss payments in a given year. Looking at the figure, the combined ratio in the U.S. has been more than 100%, indicating that the insurance industry loses money or does not earn profits from insurance business. On the contrary, the combined ratio in Japan has been less than 100% for all the years, meaning that the insurance industry enjoys profit in the insurance business. Since the combined ratio of the U.S. is higher than one of Japan for most of the years, we can conclude that the cost of insurance is normally higher in Japan than in the U. S.

Further, manufacturers in Japan have expertise in elimination of risk over time by their renowned practice of *Kaizen* or continuous improvement. According to Imai (1986), *Kaizen* is the gradual, unending improvement, doing “little things” better; setting and achieving even higher standards in the manufacturing process. This management practice, as many researchers agree, characterizes Japanese manufacturing, reflecting J-Type culture of group orientation and continuous efforts. Imai’s analysis supports that J-Type companies are likely to take a slow but steady approach to progress; and the process has ultimately lead to the world premier quality assurance and in such a way of eliminating risks of producing defective products, and therefore creating safer products over the long-run. We argue that this practice contributes a great deal to risk elimination, which is certainly a distinctive nature of the J-Type risk management process.

Clearly, these empirical findings are consistent with the argument that J-Type companies tend to rely on risk avoidance or risk elimination as a primary risk management strategy.

Reserving Monetary Fund for Risk

Japan is more vulnerable to an aging problem than any other country in the world. People worried about anticipated shrinking population by a lower birthrate⁵, insecurity of job market⁶, longer retirement life⁷ and endangered government pension plans, whence they would have a strong tendency to save for anxious future. Reflecting this, the monetary saving balance per a household (two or more members in a household) is now roughly 17 million yen. However, the saving rate has gradually declined to 2.7% from the level as high as 20% in the 1970s. Even though the current Japanese saving rate is lower than E-Type countries such as France and Germany, it has never been below those of A-Type countries such as Australia, Canada and U.S. (Horikawa (2004))

A similarly strong tendency to “save money” for risk can be seen in recent years at Japanese corporations whose retained earnings from profits have been accumulated to a historically high level. Tokyo Newspaper (December 24, 2008 Morning Paper) reported that the total balance of retained earnings of sixteen major Japanese manufacturers such as Toyota and Cannon has become as much as 33.6 trillion yen as of September 30, 2008, almost double of the year 2002 level and the historically highest. These monetary funds can be seen as a noticeable tendency of Japanese corporations in preparing for adverse events. The recent statistics of Ministry of Finance also indicates that about 50-60 % of the total capital accounts for the accumulated retained earnings. Many of J-Type multinational corporations have accumulated a huge amount of retained earnings in the form of short-term assets such as cash. This is contrary to A-Type, in which too much cash holding would be considered as an ineffective use of capitals from the stockholders’ standpoints; for their shareholders would then request more returns from their invested capitals.

Those phenomenons indicate that J-Type corporations consider cash reserve as the best buffer for risk. Even for the purchase of insurance, people prefer a portion of cash reserving in insurance to pure security. Responding to such requests, Japanese insurance companies are offering maturity-refund policies that have a savings element built into the products. This is the policy that an owner of the policy gets some refund at the time of policy expiration. In addition, dividends may be paid based on the actual yield on the premiums paid. Skipper and Kwon (2007) indicate that, from an actuarial viewpoint, those policies carry higher premiums than policies without a refund.

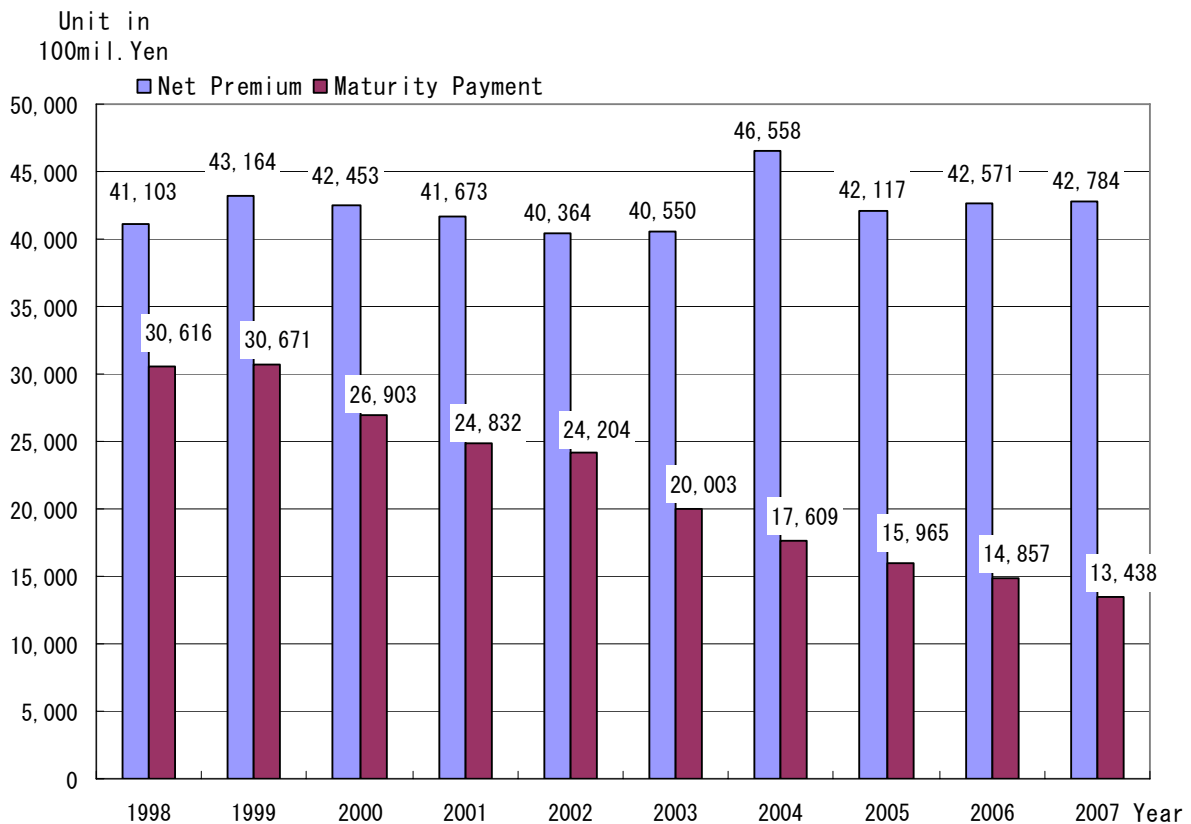


Figure 2: Net Premiums and Maturity Refund Payment

(Source: General Insurance Association of Japan, *General Insurance in Japan Fact Book 2007*)

The fact that the product has been very popular among people may explain validity of J-Type for risk management.

Figure 2 shows the amount of maturity refund payment in comparison with that of written premiums in general insurance industry. The figure shows a significant decline in maturity refund payment in recent years. This phenomenon occurs mainly because the interest part on saving through maturity refund is very low and thus become less attractive for buyers. Even though issues of such policies are getting less and less in recent years, we express that the existence of maturity refund policies is a distinctive feature of J-Type general insurance industry. In contrast, it is very rare in A-Type or E-Type countries. We thereby conclude that the existence of maturity refund policy explains J-Type risk management characteristics to a certain extent.

Risk Sharing among Group Members

Risk sharing among the members of a group or an organization represents the third distinct characteristics of J-Type corporate risk management. Wildavsky and Dake (1990) demonstrate that J-Type has the "Hierarchies Cultures" where the people value the group consensus the most among others and its risk perception is built on this group culture. We believe that the group consensus

nature also reflects on its corporate risk management. One typical example is that risk is shared among the member companies of the *Keiretsu* system. A typical characteristic of the *Keiretsu* system is that its established shareholding ties with one another and the main bank more or less supports their financial ties. This system has worked to a large extent as a protection from the risk of hostile takeover bids by Western big capitals as recently seen in Japan.

Flath (2005) argues that *Keiretsu* is a business group that has been an important feature of Japan's industrial organization. *Keiretsu* provides not only the financial ties but also business ties between the members of a group. This system also provides unconscious trust among members, multilateral relationship (Nishiguchi and Boaudet (1999)) for mutual benefits, and more unwritten contracts of agreement for cooperation in case of adverse events. Monthly president's club meetings of the group provide the place where affiliated entities exchange information and built their mutual trust, which is inevitably building multilateral cooperation for business as well. We can demonstrate that the business groups must be purportedly formed to create a solid and shared system of their risk management in place among the members. Anticipating extreme cases, the members must help out a troubled member company in case of an adverse event occurred to the member.

The existence of unwritten, yet trust-worthy cooperation agreement within the same business group members in case of an emergency is strongly supported by the case of "Toyota and the Aisin Seiki Fire" in 1997. At that time, Aisin Seiki was a primary supplier of proportioning valves for Toyota and the fire at Aisin Seiki suddenly halted the whole process of Toyota's manufacturing to a complete stop mostly due to the nature of its famous Toyota's manufacturing system, *Just-in-Time*.

According to the research of Nishiguchi and Boaudet (1999), the loss of proportional valve supplies due to the fire at Aisin was completely backed up by impromptu productions of alternative P valves from other 200 suppliers amazingly within a few days after the incident, even though those backed-up suppliers had no such expertise as producing P valves. As a result, the production at Toyota was completely back to normal within a week after the loss. The research noted interestingly that there was no written consent for indemnifying extra costs for alternative production, no endangering intellectual property rights, nor forced directions from Toyota. It was those suppliers' voluntary cooperation, however, that made the successful and extraordinary speedy recovery.

POSSIBLE PITFALLS

So far, this paper has discussed that the characteristics of J-Type risk management can be categorized into the following three words. They are: (1) risk avoidance; (2) reserving monetary fund for risk, and (3) risk sharing among group members. Taken together, they constitute "systematic" approach⁸ to risk management. We would argue that the corporations have gradually built up its effective system of risk management over their long business history, though most of the managers may not have intentionally prepared for risk. These systems have become steady once established; however, managers tend to unconsciously rely on this system because the system does not require much of skillful management. Obviously, lack of management and controls is attributing to the weakness of the system.

In contrast, A-Type risk management is very dynamic. It continues to identify an origin of failure (loss exposure), implement a solution, monitor and control it. In J-Type, however, the responsibility of losses or adverse accidents is not thoroughly sought or identified within an organization. The

organizational culture in Japan would rather not make a clear cutoff between right and wrong. We argue that this tendency is much due to the cultural facets of “saving face”. The “group” works very hard to protect the individual from public embarrassment, generally called “saving face” in the J-Type culture, especially if the individual can be identified easily as the source of the failure. Skipper et al. (1998) identified this characteristic as they stated that the individuals and businesses in societies that place a greater emphasis on solidarity are less likely to seek legal redress for perceived wrongs.

This facet of “saving face” worked favorably in such instance as “Toyota and Aisin Seiki Fire”. Aisin Seiki was not accused of the failure nor sought monetary compensations from others at that time. Further, Toyota group members helped Aisin without expecting compensations. Had other group members insisted on compensation from Aisin Seiki for monetary loss, such early recovery would not have happened. In other words, this “saving face” discipline worked excellently in this case. This is a virtue of the J-Type culture. In A-Type, this individual company would be punished as a source of failure to make an example of such bad performance. This is because A-Type risk management starts from eliminating a failed part.

FAILURE OF J-TYPE RISK MANAGEMENT: A CASE STUDY

It is true that J-Type risk management may work excellently as illustrated by the Toyota and Aisin Seiki Fire case. Needless to say, however, it is not always correct. In fact, J-Type may have a painful pitfall: the tendency of too much dependency on the system and therefore the lack of effective monitoring and controls. Persistence of the pitfall could endanger the future of Japanese corporations in some cases. The recent bankruptcy of Taisei and Nissan Fire Insurance Companies would illustrate such a case.

Taisei Fire and Marine Insurance Company filed bankruptcy in November 2001 due to its contingent debt of 41.3 billion yen born from a reinsurance deal. In 2002, Nissan Fire Insurance Company had to be merged into Yasuda Fire and Marine Insurance Company (now Sonpo Japan Insurance Company) because of its 48 billion yen contingent debt it had to report for a loss. Aioi Insurance Company also reported that it had to announce a 44 billion additional liability in its balance sheet for the same reason. At present, Aioi Company still suffers financially from the liability.

This set of bad incidents may seem to be separated, but are actually attributed to the same root: they are caused by the failure of their association risk sharing scheme called “Fortress Reinsurance Pool” and also the subsequent risk sharing scheme called “Finite Risk Program.” Figure 3 illustrates those schemes.

In Figure 3, Taisei, Nissan and Aioi Program is intended to sell a collision insurance to the airline industry all over the world. In their respective country, airline companies buy the collision insurance from local insurance companies, which act as fronting insurance companies. This scheme had to be created because of strict insurance regulation in each country. These fronting companies then shift almost all the risk of airline companies to Fortress Reinsurance Pool which is created jointly by Taisei, Nissan and Aioi. With this scheme, those three companies share the risk. Further for subsequent catastrophe cover, a finite risk program is formed so that risk is spread over a long time frame.

Figure 4 provides a typical structure of finite risk programs. In contrast to a traditional insurance, finite risk limits the amount of risk transfer (Underwriting Risk). Instead, risk is spread over a longer

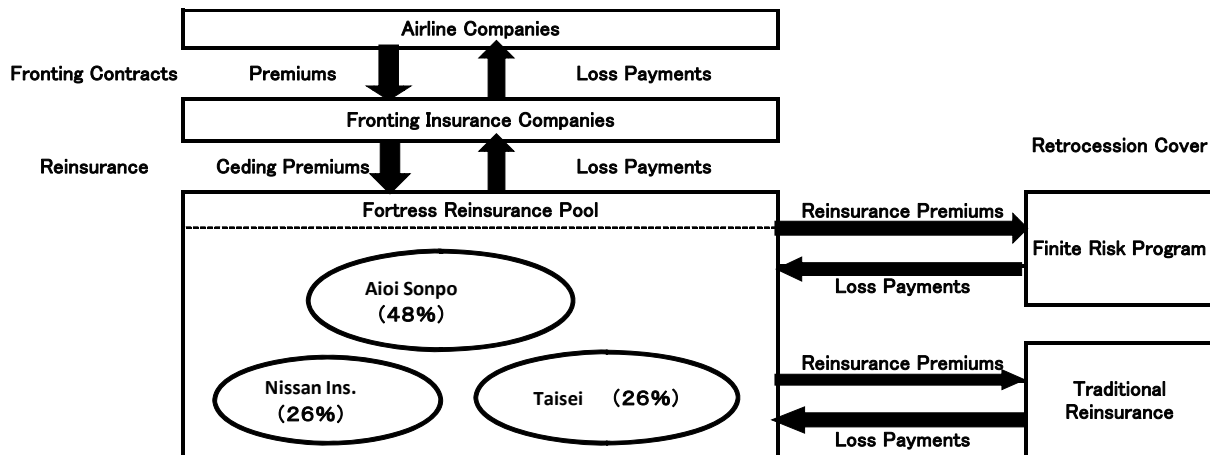


Figure 3: Taisei, Nissan and Aioi Risk Programs
 (Source: Aioi Sonpo IR and Kinzai Weekly (2001))

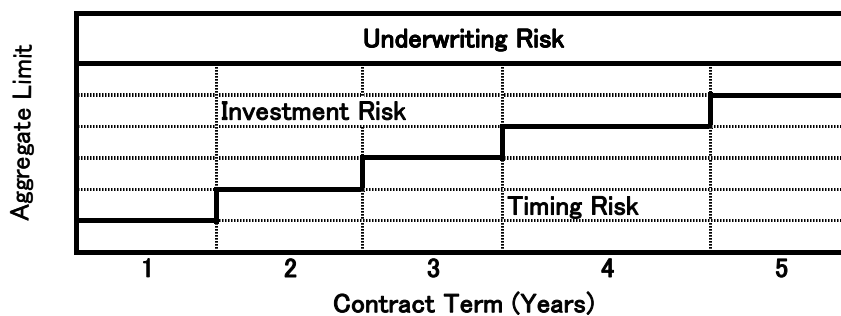


Figure 4: Sample Finite Risk Program
 (Source: Richard V. Rupp, CPCU, Calco Insurance Brokers)

period of time (Timing Risk) and money saving element is implemented (Investment Risk). Risk spread and money saving are the characteristics of J-Type. Obviously, these characteristics invited curious but favorable attention especially from those J-Type insurance companies.

Unfortunately, the program happened to pay for the loss of airplane collisions as a result of New York World Trade Center Terrorism in 2001 (more exactly, 9/11). Consequently, Taisei, Nissan and Aioi had to report a huge amount of contingent liabilities for losses caused by those airplane collisions to the buildings by 9/11. Some readers may question why the finite risk program caused such huge liabilities to those insurance companies.

The use of finite risk programs was first introduced as a risk finance scheme in 1988 by Center Re Insurance Company (Tymon (2002)). And it became very popular from 1990 to 2000 especially among captive insurers, depending on the large degree of self-insurance in A-Type countries.

Since the program had money saving (profit sharing) feature, the Taisei and Nissan managers said

that the program had been profitable before 9/11 (Kinzai 2001). The strength of the program, however, turned out to be weakness in this case because of those features.

But more importantly, those companies did not practice adequate management controls according to Kinzai (2001). Besides the amount of risk covered per accident, the management did not check such critical issues as how much the companies would pay possibly in a worst scenario, how many accidents they pay for in a given year, whether or not the companies can be sustainable financially in a worst case, among others. This evidence shows lack of skill in management. Such being the case, we could conclude that this bankruptcy was due to their mismanagement of risk.

Though we should be careful in generalizing pitfalls of J-Type risk management from this particular case, the case may provide us a useful lesson that managing and controlling risk is extremely important.

CONCLUDING REMARKS

This paper started the discussion on a comparative analysis of three types risk managements. We argue that the global risk management can be categorized into three types as a product of social culture. They are: A-Type, E-Type, and J-Type.

A-Type represents Anglo-Saxon style risk management. It is built on an individualist social culture seen in countries such as the U.S. and U.K., where people behave in a rational manner. In A-Type, risk management is supposed to proceed on the basis of on maximum expected return relative to risk

E-Type represents European style of risk management being prevalent in European countries. Even though E-Type has been influenced more or less by A-Type risk management, it is developed on its own, being focus on the protection of assets such as human assets, environment assets and property assets. E-Type tend to value more solidarity and less individualistic than A-Type.

J-Type, which represents Japan and Asian style of risk management, is clearly distinct from A-Type or E-Type. J-Type risk management is embedded in the group oriented society. This paper explored the analysis of J-Type risk management in details with respect to their primary characteristics; risk avoidance, saving monetary funds for risk and risk sharing among group members. Here, we argue that J-Type can more effectively focus on building a steady risk management system among industrial group members. Once it is successfully set in the group, risk management works tremendously well in an emergency as is shown in the case of Toyota and Aisin Seiki Fire. On the other hand, J-Type may tend too much dependency on the system, showing its possible pitfall. With an illustrated case of Taisei and Nissan, we demonstrated the strength and weakness of J-Type risk management.

Looking at the current financial turmoil originated from the U.S., we observe that A-Type risk management is not functioned well in a global market. Instead, J-Type risk management can serve as a good alternative to deal with the current problem. For example, it should be suggested for partner countries in ASEAN, thus reaching beyond the national boundaries with cooperative relationships with trust. This is because we believe that Japanese risk sharing among partner countries might work well in a global market once it is established within FTA.

Akio Morita (1986), cofounder and previous chairman of Sony Corporation, provided an insightful statement "Americans pride themselves on being rational in their business; however, you must

sometimes make decisions that are, technically, irrational. You can be totally rational with a machine. But if you work with people, sometimes logic often has to take a backseat to understanding.” Under the current economic turmoil, we should learn a lesson from the Morita’s message that shows the limits of rationality.

This paper would need more in-depth analysis of A-Type and E-Type risk management. Further discussions on A-Type or E-Type would be left for future research.

ENDNOTES

*The authors are grateful to Professor Katsuji Okachi, Faculty of Economics, Ryukoku University and Professor Robert Aspinall, Faculty of Economics, Shiga University for helpful comments.

1. This survey results are taken from the White Papers/Reports done by Ministry of Economy, Trade and Industry (2006)
2. The rule of thumb for the self-insured risk retention level is provided by International Risk Management Institute Inc. (2008)
3. “Morale Hazard” is the circumstance that increases the probability of loss because of the insurance buyer’s indifferent attitude. For example, if the buyer leaves the door unlocked and the windows open when leaving home, a morale hazard is created (Rubin (1995)).
4. Japanese economy is the second largest GDP in the world economy per Cabinet Office, Government of Japan (2004) .
5. The birthrate is 1.34 in 2007, the second lowest among the industrial nations according to Ministry of Health Labor and Welfare
6. The unemployment rate is 3.9% in 2008 as compared to 2.0% in 1980
7. The life expectancy is 79 for men and 86 for women in 2005 as compared with 78 and 85 respectively in 2002.
8. We mean that they are systematic as being “proactive” rather than “reactive”.

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