Japan insurance in 2026: adapting to sustained inflation, higher rates and greater volatility

Japan's transition to a higher-inflation, higher-interest-rate regime amid deepening global fragmentation and the AI-led capex super cycle is creating both opportunities and challenges for insurers. While such an environment is generally supportive of insurance demand and investment income, it simultaneously raises claims inflation, market volatility, and asset-liability management challenges. As we forecast the energy supply shock to slow overall economic growth to around 0.5% - 0.6%, both non-life and life premium growth are expected to moderate to around 0.3% in 2026 (in real terms). For non-life insurers, momentum diverges among major lines, with liability insurance expecting the most robust growth (4%-5%), benefiting from corporate investment, tech innovation and structural economic transformation. Meanwhile, rising construction and labor costs are putting upward pressure on claims. For life insurers, higher yields are supporting saving-type insurance demand and investment income but also growing lapse and surrender risks. More broadly, a world characterized by more frequent supply shocks, geopolitical disruptions and heightened financial-market volatility increases the importance of prudent asset allocation, liquidity management and capital planning.

Japan's macroeconomic outlook: supply shocks, AI boom, inflation risks and fiscal concerns

Japan is navigating global fragmentation, recurring supply shocks and higher-for-longer interest rates while transitioning domestically toward a regime of positive inflation, rising wages and monetary normalization after decades of low inflation and ultra-loose monetary policy. The Middle East conflict that dominated the first half of 2026 represented a clear growth headwind given Japan's high energy import dependence and vulnerability to terms-of-trade deterioration. Since March, economic indicators have pointed to lower capacity utilization, especially in petrochemicals, alongside delayed deliveries and rising backlogs. We expect Japan's real GDP growth to slow to roughly 0.5%-0.6% in 2026 before recovering to its long-term trend of 0.8%-1% from 2027[1]. However, several important offsets remain in place. Labor-saving investment and global AI-related demand appears to be supporting industrial production, exports and corporate investment, particularly in tech sectors (Figure 1). Firms' greater willingness and ability to pass through higher costs than during past supply shocks are protecting corporate earnings and capex. Meanwhile, strong wage settlements and supportive fiscal policies continue to underpin household income.

Importantly, Japan is experiencing cost-push inflation shock from rising producer prices, reinforced by gradually stronger domestic wage-price passthrough. Persistent labor shortages and improving inflation expectations have lifted wage growth since 2022, marking Japan's most significant macroeconomic shift after decades of ultra-low inflation. The latest energy price surge is weighing on real income growth in the near term but also accelerating firms' passthrough of higher costs to selling prices, supporting a more durable inflation regime that could rise above the BoJ's 2% price stability target. Particularly, producer price data have shown clear accelerating increases in transportation and construction input costs (Figure 2). The June BoJ Tankan also showed firms' one-year output price expectations rising sharply to 3.7% from 2.8% last December. Headline and core CPI remained modest due to favorable base effects, temporary government measures, and energy subsidies. But higher energy costs should feed into consumer prices in the second half. Global food prices are also rising amid fertilizer shortages and El Niño risks. Headline CPI is likely to exceed 3% toward year-end before easing toward 2% later in 2027.

Against the backdrop of resilient growth and firmer inflation, monetary policy continues to normalize. We expect 2-3 additional hikes for policy rates to reach 1.5%-1.75% before end of 2027. A more sustained inflation overshoot under the adverse scenarios would risk an even higher terminal rate. The yen remains structurally weak, which supports exports and overseas earnings of global firms but also pushes down households' and SMEs' real income through a rise in import prices. Consequently, exchange-rate developments have become an increasingly important consideration for BoJ policy decisions.

Meanwhile, long-term JGB yields have risen sharply and reached levels not seen since the late 1990s, driven less by changes in expected policy rates and more by higher inflation expectations and growing fiscal risk premiums. Markets are paying growing attention to supplementary budgets, energy subsidies, tax cuts and potential public pension fund repatriation. Japan's debt-to-GDP ratio has been declining due to strong nominal GDP growth, but persistently higher interest rates could eventually reverse that trend. Consequently, fiscal

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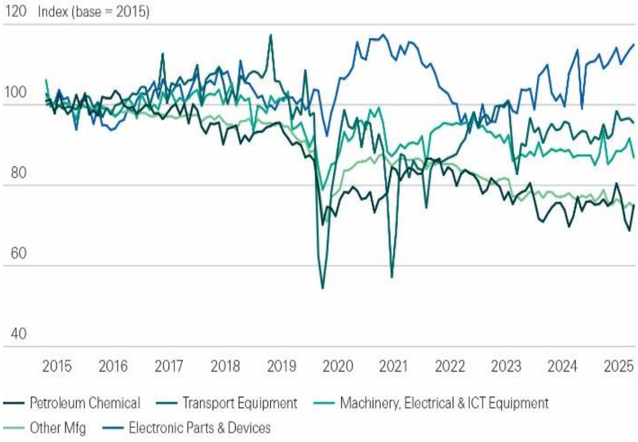
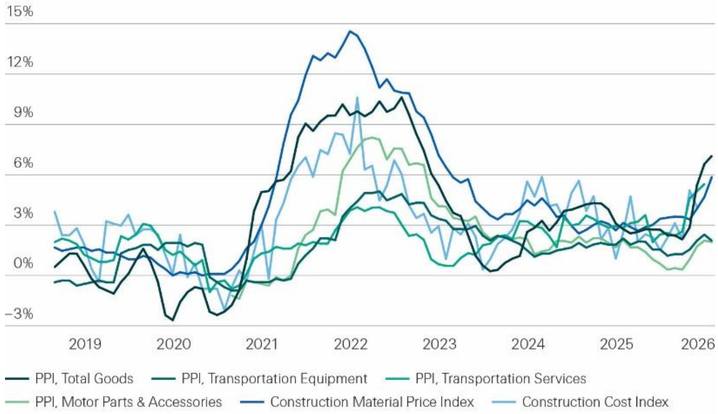
sustainability has become one of the most important macro catalysts for financial markets. The risk is a feedback loop whereby higher borrowing costs worsen fiscal metrics, leading to additional term premium expansion and further upward pressure on yields.

Figure 1: Industrial output data suggests continuous divergence between tech-related strength and softness elsewhere



Source: METI, Swiss Re Institute

Figure 2: Pricing pressures are building notably on the production side, according to construction and transportation PPI



Source: MLIT, BOJ, Japan Construction Research Institute, Swiss Re Institute

Non-life insurance: Moderating growth amid line-of-business divergence

Notable divergences are expected across major lines of business (Figure 3). Liability is expected to expand robustly at a 4%-5% annual rate, with increasing governance complexity and tech-related risks. Property real premium growth is likely to moderate to 1%-2% from an exceptional 24/25 cycle, while claim severity is picking up amid higher construction costs. Meanwhile, we see motor and accident insurance demand remaining depressed by the aging demographic. Overall, we project 0.3% real premium growth in Japan's non-life market in 2026, before reverting to roughly its 0.6-0.9% long-term average from 2027 onwards, modestly below Japan's real GDP growth.

The direct non-life insurance business in Japan has been a notable exception to the global pricing softening cycle. In Q1 2026, property and casualty rates both rose 3%, in contrast to a 5% year-on-year global decline in the Marsh commercial insurance index[2]. Personal line prices also demonstrate broad resilience. We have expected some softening later this year, especially for property lines due to improved loss experience and softer global reinsurance conditions, but this will likely be shallower and more gradual than we previously anticipated, due to the renewed inflationary pressure from the Middle East conflict.

Liability insurance (8% of non-life) is expected to grow at a relatively robust 4-5% annual rate in the coming years due to rising corporate risk awareness, strengthening governance and compliance expectations,[3] and the shift to higher-value and technology-intensive industries. As Japanese firms invest in advanced manufacturing, automation, AI, semiconductors, renewable energy, and overseas operations, they face increasingly complex operational, product, environmental, and cyber-related liabilities. Liability is less exposed to demographics and energy shock, and more closely linked to corporate investment, tech innovation and structural economic transformation.

Property is Japan's second largest insurance line (22% of total non-life premium) and one of the faster-growing non-life segments over the past decade, supported by steady exposure growth and repricing of catastrophe risks. Underwriting profitability has benefited from strong rate hardening and lower loss ratios from relatively benign catastrophe experience in recent years (Figure 4). Combined with global softening in the reinsurance market, these factors limit further large-scale price increases. Unlike the U.S., Japan firms' capex appears to be concentrated more on enterprise digitalization, software adoption and upgrading existing industrial capacity than on large-scale hyperscale infrastructure and data center construction, which may limit the incremental demand for property insurance. We expect property line real premium growth to moderate to about 1%-2% in 2026 from an exceptional 2024 and 2025 period (avg. annual 4.6%). However, higher energy prices are now feeding into construction costs and may increase claims severity.

The **Motor** insurance line of business, which accounts for about half of the non-life market, is expected to contract further in real terms (-0.3% annually on average) this year and next despite rate increases. An ageing and declining population has constrained growth in vehicle ownership and insured exposures (Figure 5). This leaves premium expansion increasingly dependent on prudent underwriting and pricing rather than volume and creates a structural drag on Japan's overall premium growth. Japan's electric and autonomous vehicle penetration is low relative to other major markets and we see little near-term impact from such transition on the motor insurance market.

Similarly, **Accident** insurance is structurally constrained by demographic headwinds. The market share of this line has declined to 11% from 17% over the past 20 years. We continue to expect modest annual premium declines in real terms over the medium to long term.

Non-life profitability: investment tailwinds meet rising underwriting challenges

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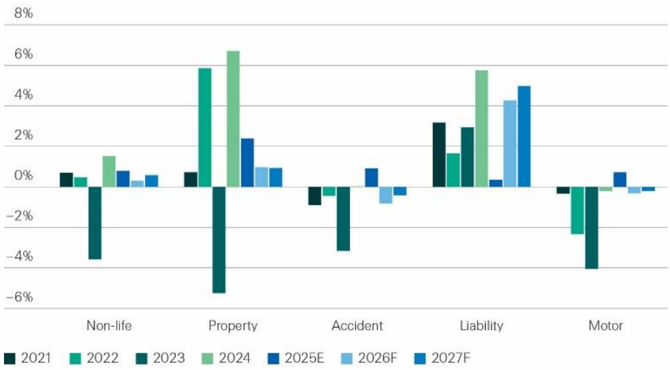
We see Japan's non-life insurance profitability moderating gradually in 2026 and 2027 after exceptionally strong years in 2024 and 2025 (Figure 6). Underwriting conditions are expected to become more challenging as rising inflation, especially in construction costs, and higher wages increase claims severity in major P&C and specialty lines. Investment performance should continue to underpin earnings strength. Higher global and domestic interest rates are improving reinvestment yields in Japan. The persistently weak yen has materially boosted the value of overseas earnings when translated back. This windfall gain particularly benefits major Japanese non-life groups, which have transformed into increasingly international businesses with overseas operations that account for a substantial share of group profits. The extra boost from ongoing unwinding of strategic equity holdings is expected to remain a meaningful source of investment income through the remainder of the decade under the capital-management plans announced by the major insurers. But the investment tailwinds are increasingly confronted by asset management challenges.

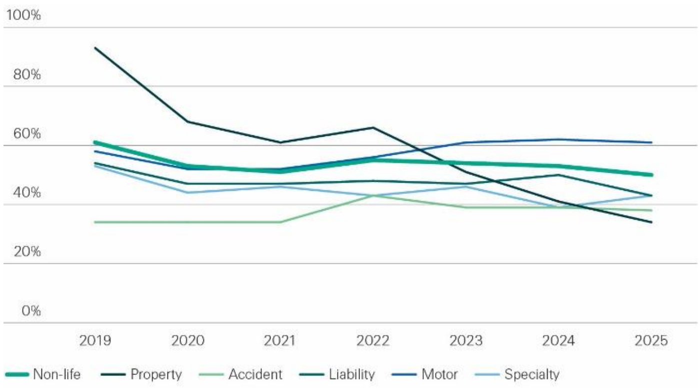
Rising economic and financial market volatility are key risks to the outlook. As geopolitical tensions and recurring supply shocks contribute to greater uncertainty around interest rates, exchange rates, and credit markets, investment performance may become more volatile than in the past. This places greater importance on prudent asset-liability management and risk-adjusted capital allocation, particularly given the increasing contribution of overseas assets and earnings to group profitability.

Figure 3: Real premium growth by lines



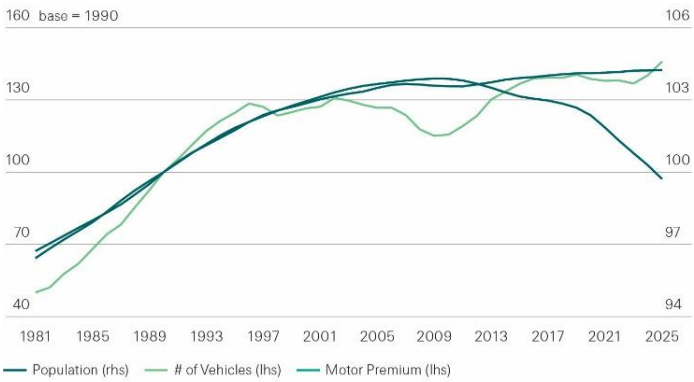
Source: Swiss Re Institute

Figure 4: Benign claims ratio over the past few years, particularly for property lines



Source: GIAJ, Swiss Re Institute

Figure 5: Motor premium growth has been constrained since population peaked in late 2000s



Source: GIAJ, MLIT, MIAC, Swiss Re Institute

Figure 6: Japan nonlife insurance sector has enjoyed favorable tailwind in both underwriting and investment

Source: GIAJ, Swiss Re Institute

Life insurance: household savings demand offsets shrinking population

We anticipate real premium growth in life insurance to decelerate to 0.3% in 2026 (2025: 0.9%), before stabilizing at about its 0.7-0.9% long-term average (Figure 7). Overall product mix is shifting toward savings. Savings products are the engine powering Japan's life insurance market, and we expect this to continue, supported by the higher-rate environment. Offsetting this, protection business is constrained by demographic trends, and we expect mortality-related covers to remain relatively slow-growing.

Japan's life insurance is experiencing a sustained **savings**-led growth cycle that began in 2022. Structurally higher interest rates, positive wage growth and rising demand for retirement, wealth-preservation and inheritance preparation[4] solutions should continue to support sales, particularly as households seek greater financial security in an environment of heightened macroeconomic and financial-market uncertainty. Savings demand drove Japan's life insurance segment to two exceptional expansion years of 9.4% real premium growth (average annual) in 2022 and 2023 during the global interest-rate hiking cycle, after more than a decade of largely zero growth. However, momentum softened in 2024, possibly reflecting base effects after the earlier surge in sales, and growing competition from alternative investment vehicles such as the expanded NISA program[5], highlighting the cyclical nature of savings-led

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business. Although growth recovered in 2025, the concentration of growth in savings business may leave insurers more exposed to demand fluctuations and potential lapse risk as customers respond to changing relative investment returns (Figure 8).

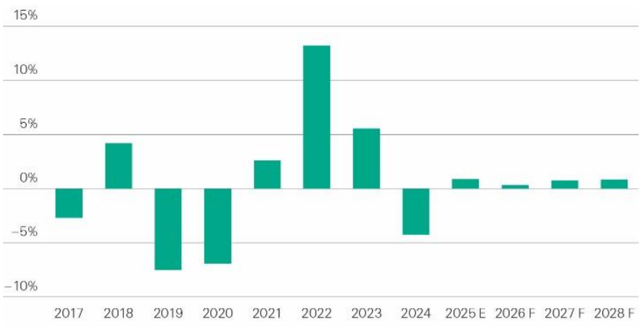
Protection business is constrained by demographic trends and we expect mortality-related covers to remain a relatively slow-growing segment. Japan's total population has been declining for more than a decade, reducing growth in the traditional mortality risk pool. While demographic ageing should create long-term opportunities in health, nursing-care and longevity-related solutions, Japan's comprehensive public healthcare, pension and long-term care systems absorb much of the associated demand at present. The emerging demand has not yet translated into premium growth similar to markets in which private protection plays a larger role.

Life profitability: prudent asset management amid rising market volatility

Life segment profitability will likely continue to be well supported by improving investment returns in the higher-rate environment, though simultaneously challenged by more volatile financial markets (Figure 9). Japanese life insurers are gradually rolling over legacy low-yield assets into higher-yielding domestic and overseas investments. Underwriting performance improved in 2025, as premium growth recovered and surrender activity moderated. The transition to Japan's new economic-value-based solvency regime (J-ICS) may increase the relevance of reinsurance as one of several capital management tools. Major Japanese life insurers are also still diversifying internationally via acquisitions and strategic partnerships, particularly in the US, Australia and Europe. This reduces their dependence on the mature domestic market and adds sources of earnings growth.

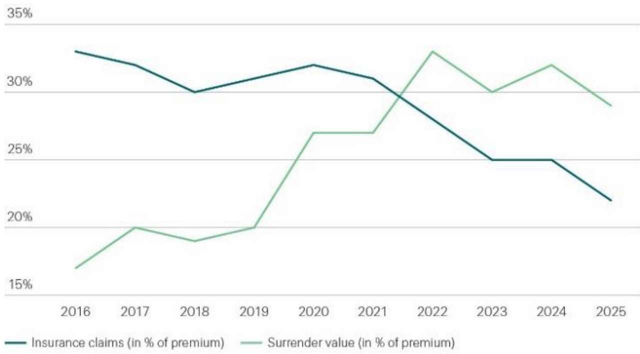
Looking forward, more volatile financial markets due to concerns over Japan's long-term fiscal sustainability may revive lapse and surrender risk and increase asset-liability management challenges. Life insurers typically hold long-duration government bonds, the market value of these holdings has declined significantly due to interest rate surges, leaving many insurers with substantial unrealized losses. If elevated lapse rates force insurers to sell bonds to meet liquidity needs, these unrealized losses would be realized, resulting in a direct hit to earnings and profitability.

Figure 7: Life insurance real premium growth trend



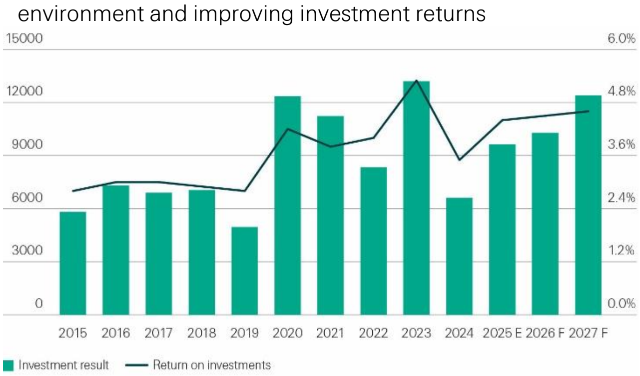
Source: LIAJ, Swiss Re Institute

Figure 8: Claims trend has been moderating, while lapses and surrender risk warrant more caution amid elevated interest rates



Source: LIAJ, Swiss Re Institute

Figure 9: Profitability remains well supported by the higher-rate environment and improving investment returns



Source: LIAJ, Swiss Re Institute

The view ahead

A higher-inflation, higher-rate world is generally supportive of insurance revenues and investment income, but it simultaneously raises claims inflation, market volatility, and asset-liability management challenges. For non-life insurers, the main concern is claims severity inflation; for life insurers, it is lapse/surrender risk and investment-market volatility in an environment of persistent inflation and monetary normalization.

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More broadly, a world characterized by more frequent supply shocks, geopolitical disruptions and heightened financial-market volatility increases the importance of prudent asset allocation, liquidity management and capital planning. While higher yields remain supportive for earnings, long-term profitability will increasingly depend on insurers' ability to navigate a more complex investment environment than the one that prevailed during the low-rate era.

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Notes and References

[1] Over the longer term, Japan's growth potential remains constrained by weak productivity trends, demographic headwinds and moderate domestic demand momentum.

[2] Asia Insurance Rates Q1 2026 , *Marsh Risk Hong Kong S.A.R.* 2026.

[3] Liability excess inflation (social inflation) has a comparatively limited impact in Japan and liability growth is not driven by litigation-driven claims inflation.

[4] In Japan, the life insurance death benefit is paid directly to the beneficiary (typically a spouse or child). This provides the heirs with immediate cash that can be used to pay inheritance taxes and other estate-related expenses. As Japan's population ages and more people become concerned about succession and inheritance planning, demand for such life insurance products has been increasing.

[5] NISA (Nippon Individual Savings Account) is a Japanese tax-advantaged investment account that allows individuals to invest in eligible stocks and mutual funds with exemptions from capital gains and dividend taxes, encouraging long-term household investment. The program was significantly expanded in January 2024 through higher annual investment limits and permanent tax-free eligibility.

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