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The barriers and opportunities of Cambodia's insurance market:  
What can Cambodia learn from Japan?

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The aim is to study the barriers and opportunities for the development of the Cambodian insurance market. The analysis will focus on a comparative study of the Cambodian insurance market and the Japanese to provide recommendations for effective operation and growth of the Cambodian insurance market through the benchmarking of the best practices of the Japanese insurance market.

Outline:

- The concept of Insurance: Types and importance of insurance.
- Cambodian insurance industry and the factors that hinder its progress.
- Comparative case study methodology.
- Comparative analysis of the Cambodian and Japanese insurance industry. Lessons and opportunities for the Cambodian industry.

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## **ANOTACE**

*Bakalářská práce se zaměřuje na studium a analýzu bariér a příležitostí na pojistném trhu v Kambodži a Japonsku. Teoretická část popisuje obecně pojem pojištění, význam, druhy pojištění, pojistný trh. Analytická práce obsahuje konkrétní analytická data z obou zemí, přičemž pojistná data v obou zemích, jejímž cílem je porovnat kambodžský a japonský pojistný trh a následně vyústit v doporučení pro kambodžský pojistný trh pomocí benchmarkingu nejlepších praktik japonského trhu.*

## **KLÍČOVÁ SLOVA**

*Pojištění, životní pojištění, všeobecné pojištění, pojistný trh, překážky a příležitosti pojistného trhu.*

## **TITLE**

The barriers and opportunities of Cambodia's insurance market: What can Cambodia learn from Japan?

## **ANNOTATION**

*This bachelor's thesis focuses on studying and analyzing the barriers and opportunities in Cambodia and Japan's insurance markets. The theoretical part generally describes the Insurance definition, concept, importance, insurance types, and insurance market. The analytical work contains the specific insurance data in both countries, which aim to compare the Cambodian and Japanese insurance markets, and then the result will provide recommendations for the Cambodian insurance market through the benchmarking of the best practices of the Japanese market.*

## **KEYWORDS**

*Insurance, life insurance, general insurance, insurance market, barriers, and opportunities of the insurance market*

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## **TERMINOLOGIES**

**Insurer** – a legal entity that is authorized to carry out insurance activities.

**Policyholder** – a natural or legal person who has concluded an insurance contract with the insurer. Policyholder is required to pay insurance premiums and is insured.

**Insured** - a person who has property, health, life, or liability insurance. In the event of an insured event, the insured is normally entitled to insurance benefits.

**Insurance contract** – the contractual relationship between the policyholder (client) and the insurer (insurance company). The insurance contract determines the insurance conditions.

**Entitled person** – a person entitled to an insured event payment because of the insured event.

**Beneficiary** – a natural or legal person designated by the policyholder in the policy to whom the policy benefits are paid in the event of the death of the insured.

**Insurance premium** – is the amount that the insured must pay to the insurance company as specified by the insurance company in the policy.

**Insured event** – a fortuitous fact with which the insurer's obligation to pay is connected.  
Insurance settlement – if an insured event occurs, the insurer pays compensation to the insured damages (insurance indemnity).

**Sum insured** – the sum of money agreed in the insurance contract as the highest possible insurance payment by the insurer.

**Compulsory insurance**- refers to making an insurance contract in which an insured shall fulfill the obligations as determined by law and regulations on insurance to serve and protect the public interest.

**Endowment insurance**- a type of life insurance that pays benefits if the insured person survives during the contract period. If the insured person dies before the date specified in the contract, the benefits are granted to the beneficiary.

## **INTRODUCTION**

Insurance is not only a significant sector of people's everyday life but also a part of economic growth. Thanks to insurance, that makes our lives less complicated and more secure. The current period is characterized by the ever-increasing needs and interest of the population in insurance services. For this reason, we can assume dynamic development in this area in the future. The insurance field is connected to the everyday life of all citizens, companies, and individuals. Companies are exposed to risks against which they try to protect and secure the future.

The chosen area of study is very important to the author. The author is interested in insurance theory and its practical application. The main purpose of this study is to analyze the development of Cambodia's insurance industry by learning reflections from Japan as one of the best examples of this industry. The thesis is written based on a synthesis of knowledge obtained from a professional literature search and relevant legislation. The purpose is to compare Cambodia and Japan the insurance industry. The information used was drawn from the studied literature, relevant legislation, and internet sources and other sourced information from magazine sources.

The thesis is divided into six chapters and is logically ordered from the historical development, followed by the definition, importance and the concepts of the insurance industry, challenges, and regulators in both Cambodia and Japan's markets. The first three chapters are devoted to theoretical concepts related to the topic, which explains the basic terms. The fourth and fifth chapters describe practical knowledge that specializes in the insurance marketing of Cambodia and Japan and analysis of the performance of both countries' insurance markets. The last chapter deals with the proposal of a suitable strategy, mainly recommendations for changes in Cambodian insurance marketing, which, from the author's point of view, should be implemented on the basis of the established and evaluated current state. These recommendations would be beneficial and lead to the further dynamic development of insurance in the Cambodian market.

# **1. Theoretical Background**

The aim is to study the barriers and opportunities for developing the Cambodian insurance market. In order to archive this aim, this paperwork will conduct an analysis, especially focusing on the comparative study of the Cambodian and Japanese insurance markets and make recommendations for the effective operation and growth of the Cambodian insurance market since Japan's insurance market is the strongest and most successful insurance market in the world, after the United States and China.

## **1.1. Brief history of insurance**

In ancient Egypt, around 5000 B.C., the insurance industry first emerged. The danger of loss was shared by Egyptian caravans and stonecutters. With the growth of trade and crafts, European industry started to gain prominence. The abbot of St. Lawrence's abbey in Paris and the archbishop of Cologne entered into the earliest surviving life insurance contract in 1308. An insurance agreement signed on 13 April 1379 in Pisa, Italy, marked the beginning of commercial marine insurance and maritime law. About in the year 1680 saw the establishment of the global center for marine insurance Lloyds in London, and Edward Lloyd inaugurated a stock exchange right inside his coffee shop. The Corporation of Lloyds was established as the largest and most venerable English marine insurance company. The first commercial insurance company based on modern. Principle, i.e., life expectancy probability takes and the law of large numbers (dice game), was the Society of Assurance for Widow and Orphans created in London in 1699 (Chlaň & Eisenhammerová, 2014).

In the late 18th century, the institutionalization of the insurance system became typical for insurance companies, with the emergence of so-called insurance companies, mainly in the form of mutual insurance societies. The main insurance lines applied during this period were fire, marine, and life insurance (mainly whole life insurance). Insurance as an important sector of the economy first appeared in the coastal states of Europe and a little later in the landlocked countries. Since the early 19th century, insurance has typically become a business and is understood as a sensible way of doing business. During this period, insurance companies will begin to take the form of public companies, while mutual insurance companies will continue to operate. Insurance is gaining a foothold in a wider demographic than in previous periods and is developing rapidly. The types of insurance operated have expanded, with his three traditional lines of business (transportation, fire, and life insurance) still dominating. Insurance scientific costs, especially actuarial costs, are increasing (Kolářová, 2013).

## 1.2. Risk

Insurance and risk are closely related because without risk, insurance could not exist. Insurance is one of the special but historically oldest forms of risk transfer. The imperfections in humans and societies, along with unleashed natural elements, are important sources of adverse effects from the occurrence of risks. In addition to imperfections in human senses, the sources and roots of danger can be other subjective human characteristics, such as ignorance, inexperience, carelessness, error, and failure. These consequences, such as fires, accidents, and plane crashes, may be unpredictable. Otherwise, these outcomes are certain but uncertain when they occur (e.g., death). Insurance policies were created to mitigate the adverse effects of these outcomes (Chlaň & Eisenhammerová, 2014). The concept of risk is defined as the possibility of an event occurring that is different from the goal with a certain objective probability. We can also refer to risk as uncertainty that is measurable (Rejda & Mcnamara, 2017). Over time, there are economic, social, and technical changes that increase the standard of living, but on the other hand, new dangers associated with risk arise. It is necessary to anticipate these dangers and reduce the negative consequences. Insurance allows us to shift the risk to the insurer. The insurer must investigate the nature and patterns surrounding the risk. According to Ducháčková (2015), the concept of risk is linked to the philosophical categories of necessity and contingency. On the one hand, insurance companies' products include solutions for defined types of risks; on the other hand, insurance companies are also exposed to risk. In connection with these uncertain phenomena and processes, several concepts are used in economics and other sciences which relate to the ambiguity of the results of economic phenomena and processes.

**Risk** is a situation where the future fact is clearly characterized in advance using the number of probabilities, the probability of the occurrence of the relevant events can be calculated.

**Uncertainty** is a state where probability is difficult to calculate (known known). at the same time, partial uncertainty means that the complete information about the given phenomenon is unknown, only some parameters. Complete uncertainty is a state where the probability cannot be estimated.

**Indeterminacy** means that although quantities are defined, their values are not known (unknown unknowns).

## 1.3. The concept of insurance

Society is affected by natural forces (such as fire, flood, hail, and earthquake...) and undesirable human behavior (accidents, accidents, theft). These events cause a risk that represents the

possibility of property loss, damage to health or loss of life. The basic purpose of insurance is to eliminate the consequences caused by these events. One of the goals of the insurance industry is to stabilize the economic level of companies and the population's standard of living in the event of an accidental event. For citizens, it prevents a decrease in the standard of living in the event of an insurance event. Insurance companies create insurance reserves from insurance premiums and pay insurance benefits when an insurance event damages the insured's property, health, activity, interests, or life. The insurance company is obliged to compensate for the damage caused based on the insurance contract (Kočerová, 2011).

Insurance accompanies us throughout our lives, from birth to death. Any human activity is threatened by various dangers that negatively affect its development. Although their occurrence can be predicted, it is impossible to determine when and whom they will affect. The concept of insurance is connected to a financial category (it is also characterized in connection with a cross-sectional economy, which is intertwined with many sectoral economies), the specificity of which is reality. We can talk about the growing importance of insurance and the insurance industry, as insurance is one of the most important tools for dealing with the negative consequences of unforeseen events (Duchačková, 2015). The importance of insurance can be seen in the following areas:

- stabilization of the economic level of economic entities (individuals and business entities, indirectly then also states),
- influenced the functioning of the market economy by the merit of covering losses in the event of the realization of accidental events from insurance benefits,
- exercising the responsibility of economic entities for their financial stability and social situation,
- macroeconomic importance of commercial insurance in connection with the creation and investment of technical reserves of insurance companies.

#### **1.4. Types of insurance**

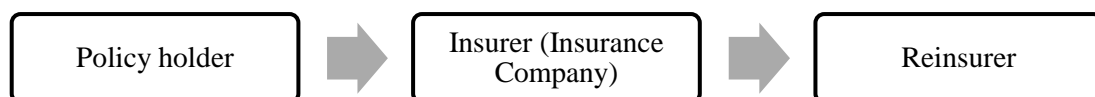
Since ancient times, insurance has been associated with property interests related to tangible property (things) or people's health or life. These three areas of interest also characterize the current subject of insurance: Life insurance, General insurance, and Reinsurance.

**Life insurance** is a contract between an insurer and a policyholder. A life insurance policy guarantees that if the insured person dies, the insurance company will pay an amount to the designated beneficiary in exchange for the premiums paid by the policyholder during their

lifetime. Life insurance basically covers two events, namely death, and survival. In the current period, the standard form of life insurance covers risks on the one hand, mainly mortality risk, other risks on the other (a consequence of accidents, serious illness, etc.), and on the other hand, savings (life expectancy) (Koistinen, 2021).

**Non-life insurance or General insurance** covers all types of non-life damage risks. General insurance covers risks of a different nature, namely risks threatening the health and lives of persons (accident, illness, disability, etc.), risks causing direct property damage (physical risks, theft, vandalism, mechanical risks, etc.), risks causing financial losses (interruption of operations, credit risks, risks of financial losses, liability risks, etc.) (Ducháčková, 2015).

**Reinsurance** is the insurance cover for insurance company. It is relationship between a reinsurer and an insurer (Robertson, 2017). In the contract, the insurance company (the cedant) transfers risk to the reinsurer, who underwrites all or part of one or more policies issued by the cedant. Reinsurance contracts can be negotiated with a reinsurer or arranged through a third party. Reinsurers can also purchase reinsurance protection so called Retrocession. This is done to mitigate further spread of risk and the impact of catastrophic loss events. Reinsurance does not reduce the extent of the damage but makes its financial consequences more economically bearable for the insurer and the overall results more stable (National Association of Insurance Commissioners, 2022).



*Figure 1 Linear framework of the concept of reinsurance*

*Source: Author's own work*

## 1.5. Insurance market

Insurance is one of the most important sectors of the market economy, providing services such as insurance and reinsurance. General factors influencing the shape and structure of the insurance market include:

- general economic conditions (volume of GDP, GDP size development, inflation development, unemployment development, volume and structure of household income and expenditure, etc.)
- the situation in the financial market
- the extent of risks covered by the state (extent of social insurance, the existence of state funds to cover, for example, natural disasters, disease of farm animals)
- the existence of other financial instruments by means of which certain risks are covered



defects in harmfulness.

The development of the insurance markets can be summarized in several characteristic development tendencies, such as a change in approaches to the regulation of insurance activity by states, the growing importance of life insurance, the application of new methods of selling insurance products, linking insurance services with other financial services- application of bancassurance, the need to respond to the increasing number and significance of natural disasters and terrorist acts, use of alternative risk elimination tools. The existence of a reliable insurance market is a sign of a successful economy and the good functioning of the financial sphere in a given territory. The insurance market has roughly the same basic features as any other market (Ducháčková, et al., 2012).

Based on Kočerová (2011) indicates that, during the realization and distribution of the gross domestic product, temporarily and permanently free cash resources are created, which are concentrated in cash funds and reserves. The insurance market also works on a similar principle of collecting and distributing funds. In the insurance market, however, we are not talking about funds, but about reserves. Reserves are created in the insurance industry to cover accidental needs, and it is therefore not possible to determine in advance whether they will be used for consumption or accumulation. Reserves are typically entitled to draw upon meeting the relevant conditions in the law, decree, insurance conditions, insurance contract, and so on.

## **1.6. Regulator**

In developed countries, the insurance industry is regulated by a set of legislative standards regulating individual areas of insurance activities in addition to general legal regulations. The legal regulation of insurance contracts is contained in the Civil Code, which defines the basic concepts of insurance, the content of insurance contracts, the definition of basic relationships between insured persons, the basic structure of insurance, and the content of individual branches of insurance. The existence of government oversight in the insurance industry aims to ensure that insurers have a good understanding of their operations and corporate governance. The main oversight duties are to protect the insured's interests and ensure that the insurance market has a wide range of interesting products. At the same time, the insurer is managed to deliver a solid product and operate its business in a way that it can meet its obligations under all circumstances (Kolářová, 2013).

According to Ducháčková (2015), the reasons and objectives of regulation in the insurance industry are:

- Insurance is part of the financial service in which customers entrust funds to insurers, often for long periods of time,
- Within the insurance framework, there are time discrepancies between insured payments and payments,
- Information asymmetry in insurance markets.

Basic regulatory objectives in the industry:

- Protection of customers using insurance products,
- Ensuring the stability of the insurance industry and the credibility of certain institutions,
- Support for transparency in the delivery of insurance services.

The reason for studying and analyzing the Cambodian insurance market compared to the Japanese insurance market is to apply our knowledge and analyze results in practice to see the changes and positive developments of the Cambodian insurance market to the next level. A gray area in the Cambodian market is the lack of knowledge, social awareness, and trust in the rules. However, the author believes that Cambodia's insurance market still has great potentials, such as economic development and political stability, which will greatly affect the growth of the Cambodian insurance market. The Japanese insurance market is one of the best in the world. This country is a good example to learn from as they share similar geographical, cultural, and political stability to Cambodia. Analysis results can be improved by filling in all the missing gray areas. The authors intentionally did more research and expanded the gray areas to grow the Cambodian insurance market better and faster.

## **2. Cambodia's insurance historical context**

The insurance industry in the Kingdom of Cambodia does not have a long and complicated history like other Asian countries. Cambodia's insurance sector started in 1956 after being colonized by France. The state then revived insurance in 1963, seven years after. Unfortunately, it was destroyed again by the Khmer Rouge regime in 1975. In the early 1990s, the insurance sector was revived to meet the needs of social and economic development. The government has established the National Insurance Company (CAMINCO), a state-owned enterprise that acts as an operator and a regulator for trade facilitation purposes (Meng, 2021). Today, insurance companies have undoubtedly become major players in Cambodia's insurance industry.

Cambodia's insurance market has entered the seventh stage of development and continues to improve. The first phase began with the introduction of the 1992 Insurance Act. This is seen as the rebirth of the insurance market after years of war. This law was repealed in 2000 and a new law was promulgated on August 4, 2014. In the second phase, new legislation in 2000 strengthened solvency and capital requirements and established a state-owned reinsurance company. The latter also aimed to keep a portion of reinsurance premiums in Cambodia and provide local reinsurance options for Cambodian insurers. In the third phase, from 2007 to 2009, bank-affiliated insurers entered the market. The rapidly growing banking industry needed insurance to cover pledged assets. This phase is revitalized thanks to three financial groups providing banking, property and casualty insurance, and life insurance services. The fourth phase was in 2011 when the first life insurance micro-insurers significantly impacted insurance promotion. The fifth phase, which began in 2012, led to the launch of the life insurance industry. This was an important market move and was deemed necessary by the government. The sixth stage of development started in 2017.

This phase coincided with China's heavy investment in Cambodia and the will of local magnates to enter the financial industry to diversify their investment in property, casualty insurance, and life insurance. Phase seven began in early 2021 with the Non-Banking Financial Services Institutions Organizations and Functions Act (NBFSA Act), which established a new regulatory body under the supervision of the Minister for Economy and Finance (MEF). This is an agency that also includes the Cambodian Insurance Supervisory Authority and the Social Insurance Supervisory Authority. It recently decided to extend its long-awaited pension scheme from civil servants to all private sector employees (Fontaine, 2022).

## **2.1. The definition and types of insurance in Cambodia**

Insurance can be explained simply as risk transfer, risk allocation, and loss-spreading. Insurance is a risk, which we understand as uncertainty that can be measured by the probability number, in contrast to genuine uncertainty, which cannot be measured. In another way, it is possible to define risk as the possibility of an event with a result deviating from the goal with a specific objective probability (Ducháčková, 2015).

According to the Cambodian Insurance Act (2014), Insurance is a provision of compensation or services from an insurance company to an insured person when some random event causes damage during a specified period, usually for pre-agreed consideration.

General insurance is an insurance contract between the insured person and the insurance company in which the premium payment is made to ensure the risk of property, liability, and health (Article 23).

- General insurance in Cambodia there is seven main classes of products: Automobile insurance, Fire or Property & casualty insurance, Engineering insurance, Personal accident (PA) insurance, Health & surgery insurance, MAT (marine, aviation, and transport), and Others.

Life insurance is an insurance contract between the insured person and the insurance company in which the payment of insurance premium is to insure the death or survival, including insurance on personal accident, severe sickness or general sickness, whole life insurance endowment, and annuity (Article 26).

- Cambodia has four main life insurance products: Term life insurance, Whole life insurance, Endowment insurance, and others.

Microinsurance is an insurance contract that provides insurance to low-income people, such as microinsurance which covers property, life, and body injured (Article 39).

- Cambodia has four main Microinsurance products such as Health insurance, Personal Accident insurance, Term life insurance, and Others.

Reinsurance is an insurance transaction in which a ceding insurance company is fully or partially insured by another insurance company against the risks assumed by the ceding insurance company in an insurance contract (Article 32).

## **2.2. Importance of insurance in Cambodia**

Insurance is important not only for Cambodia's economy or development, but insurance does important in daily life. Insurance has a variety of significant and below is the essential importance of insurance to Cambodian people:

- Reduce loss from an accident and traffic accident

Traffic accidents can happen every day and on every corner in Cambodia. It is one of the leading causes of death in Cambodia. An average of 5.4 people die every day in road accidents. Between 2014 and 2019, there were 80 398 accidents that occurred (Phim, 2021). However, 15 people were killed, and 22 were injured in road accidents, only one day on the New Year's holiday in 2021 (Voun, 2022). As long as people hold at least one of the insurances such as health, auto, or PA, it would help them in many ways. Not only themselves as a victim or wrongdoers but also help their family member duty to deal with money, society to prevent injustice or corruption, and the country's economy as well.

The Cambodia National Insurance Company (CAMINKO) states on its official website that accidents in Cambodia are caused by sudden external events acting on the body from the outside and are the closest cause of death or personal injury to the insured. Compensation is usually in the form of capital equal to the full insured amount. Total Permanent Disability pays for a disability that prevents you from pursuing a business or gainful employment within a specified period after an accident. The following types of disability are generally eligible for equivalent (or greater) permanent disability benefits: Loss of vision in both eyes, loss of hands or legs, loss of two limbs, loss of speech and hearing, and other permanent disabilities.

The insurance company pays the insured a weekly cash benefit. Usually paid for up to 104 weeks. Temporary total disability is less restrictive than permanent disability but requires the inability of the insured to fulfill all obligations. Temporary partial disability provides even lower benefits than temporary full disability. Medical expenses cover medical expenses for treatment after an accident up to a predetermined limit. Hospitalization benefits provide a fixed benefit based on the length of hospitalization, regardless of the cost of hospitalization. The total amount of the policy is rewarded by paying an additional premium at renewal to policyholders who did not make a claim during the policy period (CAMINCO, 2012).

- Reduce loss from fire

In Cambodia, Fires can devastate both urban and rural areas. The closeness of urban housing means that once a fire develops, it will quickly spread to destroy dozens of homes. In February 2016, a fire destroyed 97 houses only in Phnom Penh. In 2017, there were 514 cases of fire and a total of 553 cases in 2016. There were 315 fires in the first six months of 2019, an increase of 18.18% compared to the same period in 2018 (Hin, 2019). In the first five months of 2022, Phnom Penh has reported as many as 39 fire incidents, according to the Phnom Penh Municipal Police Fire and Rescue Department.

According to Cambodia National Insurance Company (CAMINKO, 2012) stated that the common circumstances that are proximately caused by fire are covered, such as:

- Property damaged by water or other extinguishing agents used for extinguishing the fire.
- Property damaged by the fire brigade in the execution of its duties, like damaging a window to gain access to a fire to put it out.
- The property blew up to prevent a fire from spreading.
- Damage is caused by falling walls or parts of a building where there is a fire.

- Support economic growth

The insurance market stimulates economic growth through investment attraction, job creation, and human resource development. Moreover, the government's natural disaster risk has been covered by insurers as the government purchases natural disaster insurance products. It is a core element of the social security system by transferring the citizen's risk to insurance companies by purchasing insurance products. Furthermore, being an insurance policyholder is having peace of mind without worrying about financial issues once the risk occurs.

### **2.3. The insurance market in Cambodia**

Cambodia's insurance sector is one of the non-bank financial sectors that has played an important and active role in driving economic growth and contributing to the social security sector. Cambodia's insurance penetration and density rank 8th among ASEAN member countries, which reflects the greater growth potential of the Cambodian insurance market (Insurance Regulator of Cambodia, 2021).

*Table 1 Insurance Penetration Rate and Density in ASEAN*

No	Countries	Gross premium (in million USD)	GDP (in million USD)	Population (in million)	Penetration	Density
1	Singapore	26 002	70 525	5,7	7,02%	USD 4 558,9
2	Malaysia	15 908	364 700	31,95	4,36%	USD 497,91
3	Brunei	207	13 468	0,43	1,54%	USD 447,75
4	Thailand	27 998	59 705	69,63	5%	USD 402,12
5	Vietnam	6 886	300 800	96,46	2,29%	USD 71,39
6	Indonesia	9 205	1 139 051	270,63	1,68%	USD 70,97
7	Philippines	6 420	385 433	108,12	1,67%	USD 59,38
<b>8</b>	<b>Cambodia</b>	<b>246</b>	<b>7 089</b>	<b>16,49</b>	<b>0,91%</b>	<b>USD 14,92</b>
9	Myanmar	184	76 090	54,05	0,24%	USD 3,4
10	Laos	N/A	N/A	N/A	N/A	N/A

Source: Author own work, data from Insurance Regulation of Cambodia, 2023

From 2017 to 2020, the insurance market in Cambodia has grown rapidly. The general insurance company was the most popular, with a higher number of companies than others. It is increasing from 11 general insurance companies to 17 companies. The life insurance company in 2020 has grown by 5 more companies compared to 2017 as shown by the figure below.

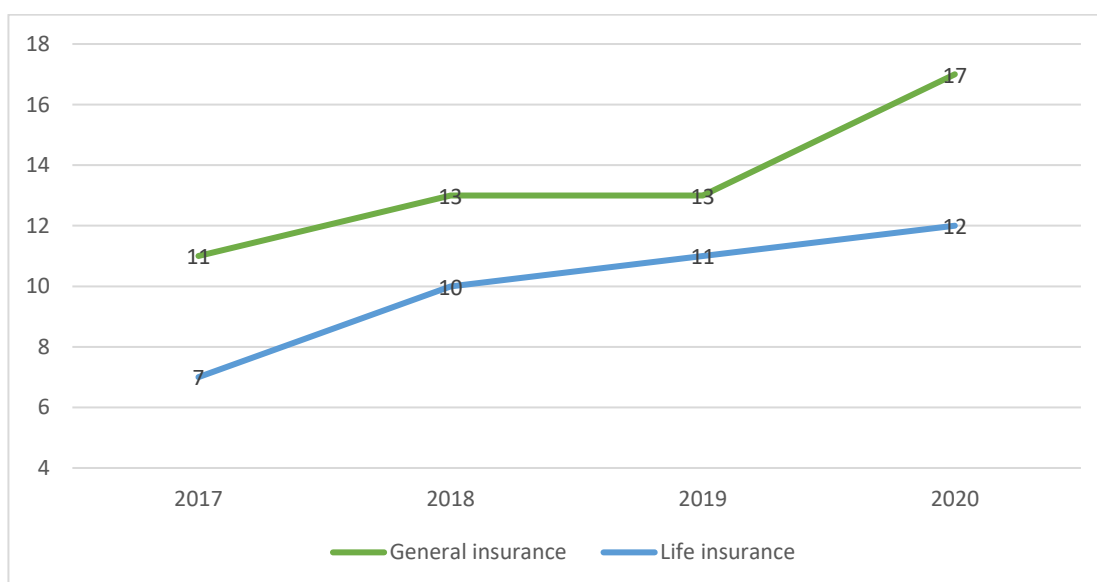


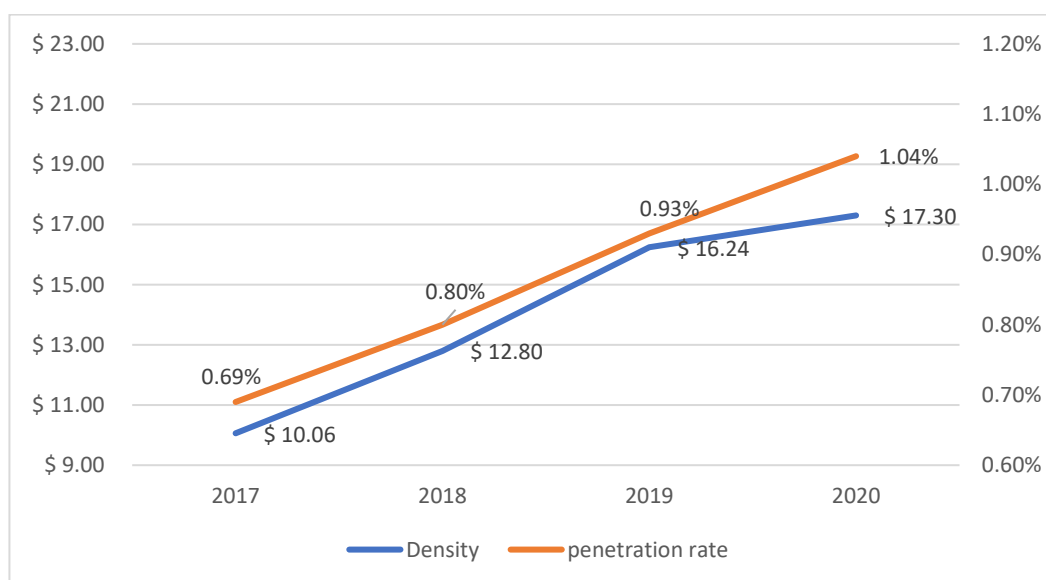
Figure 2 The number of insurance companies in Cambodia

Source: Author own work, data from Insurance Regulator of Cambodia, 2021

Insurance's contribution to the economic and social sector is determined by two key indicators: “Insurance Penetration” and “Insurance Density”. Insurance penetration and insurance density are key indicators for determining the level of development of a country's insurance sector.

Insurance penetration is calculated by dividing the total insurance market premium by the country's Gross Domestic Product (GDP). An insurance density is calculated by dividing an insurance market's gross premium by a country's population resulting in an amount per capita (Insurance Regulator of Cambodia, 2021).

The penetration rate of Cambodia’s insurance market rose 1.04% in 2020 while the insurance density expanded to USD 17.30 per capita in 2020. Even if, Cambodia’s insurance market is noticed growing, its penetration rate and insurance density still remain very low compared to neighbor countries.



*Figure 3 Cambodian Insurance Penetration Rate and Insurance Density*

Source: Author own work, data from Insurance Regulator of Cambodia, 2022

The general insurance products in the Cambodian market have been classified into seven major types. In 2020, the property insurance was the highest in the general insurance market followed by medical insurance, auto insurance marine insurance, and the lowest was MAT insurance in each year.

*Table 2 Gross direct Insurance premium based on types of General insurance products in Cambodia*



General insurance	2019 (US Dollar)	2020 (US Dollar)
Auto	18 911 463	21 047 313
property	29 367 430	37 505 992
Marine, Aviation and Transport (MAT)	3 863 504	2 880 087
Engineering	10 245 438	8 532 109
Personal accident (PA)	5 961 584	5 104 253
Medical	18 367 781	21 605 031
Miscellaneous	14 666 740	17 810 493
Total	101 383 940	114 495 278

Source: Insurance Regulator of Cambodia, 2020

In 2020, life insurance companies had a gross premium income of approximately USD153 million, endowment insurance products had the highest in the life insurance market, and whole life insurance had the lowest since 2019.

*Table 3 Insurance premium based on types of life insurance products in Cambodia*

Life insurance	2019 (US Dollar)	2020 (US Dollar)
Term life	18 043 264	21 882 770
Whole life	535 068	1 108 371
Endowment	124 926 864	128 792 175
others	900 096	1 590 765
Total	144 405 292	153 374 081

Source: Insurance Regulator of Cambodia, 2020

- Total Gross premiums growth for Industry from 2017

The insurance premium is the amount that the insured must pay to the insurance company and is the amount specified in the insurance policy by the insurance company. Gross Premium is the total premium for the country. This is a key indicator of the importance of the insurance industry to a country's economy (OECD, 2023).

Total Gross Insurance premiums increased each year significantly from USD 142 million in 2017, including general and Life insurance, to nearly USD 270 million in 2020.

*Table 4 Total premium insurance in Cambodia*

premium insurance	2017	2018	2019	2020
General insurance	75 372 255	86 698 829	101 383 939	114 485 277
Life insurance	67 500 000	97 000 000	144 400 835	153 374 081
Total	142 872 255	183 698 829	245 784 774	267 859 358

Source: Insurance Regulator of Cambodia, 2020

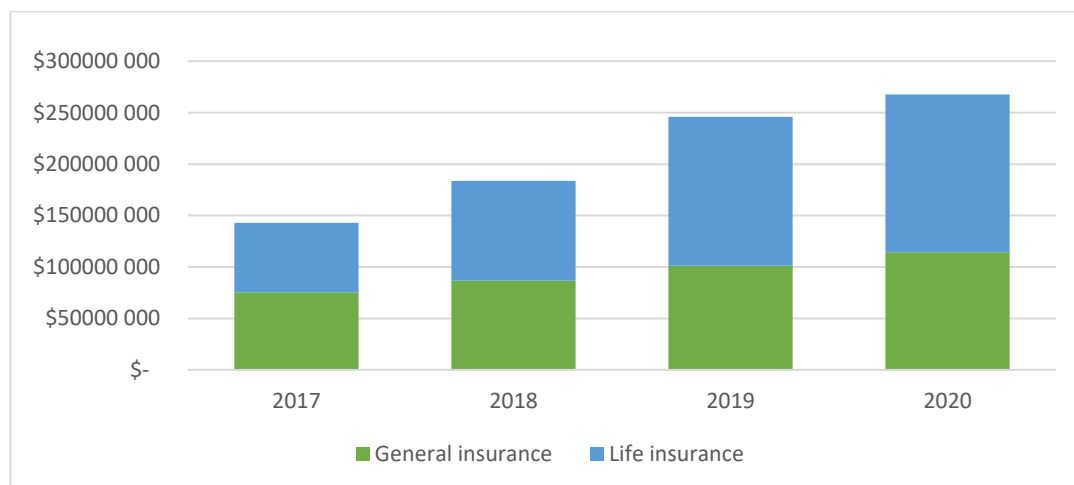


Figure 4 Cambodia Life and General insurance premium

Source: Insurance Regulator of Cambodia, 2020

- summary data of claims paid from 2017 in USD millions

Table 5 Cambodian claims paid from 2017

claim paid	2017	2018	2019	2020
general	18,36	19,9	29,44	29,19
life	1,26	5,09	5,89	10,87
Total	19,62	24,99	33,33	40,06

Source: Insurance Regulator of Cambodia ,2021.

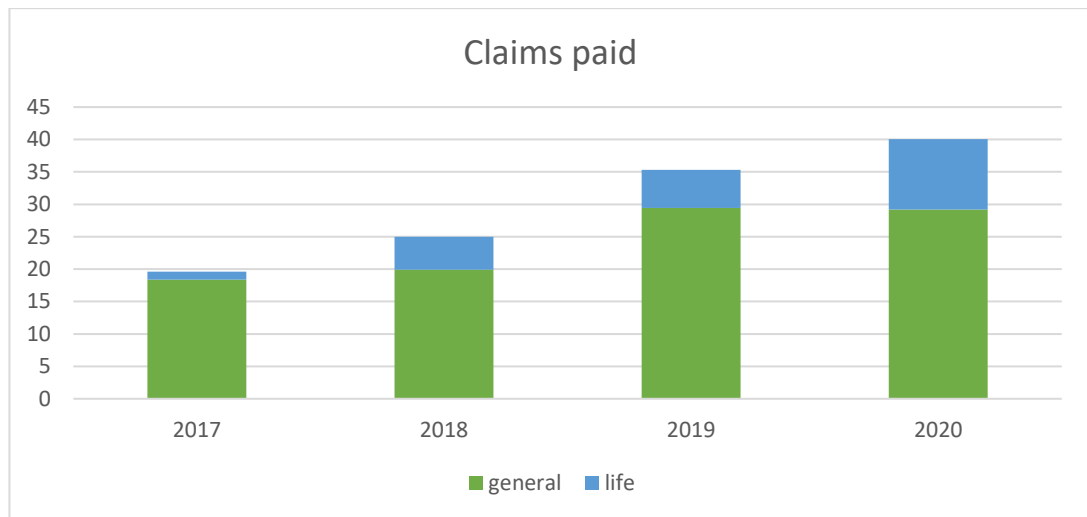


Figure 5 Cambodia Life and General insurance claim paid

Source: Insurance Regulator of Cambodia ,2021

## 2.4. Stakeholder of the Cambodian insurance sector

The Financial Industry Department of the Cambodian Ministry of Economy and Finance supervises insurance companies. The process includes a collection of statistics from the insurance company, desk analysis of data submitted, a follow-up of results, and onsite inspections by regulators.

In 1992, the first Insurance Regulation 64 was enacted in Cambodia. However, this law has been largely omitted. There were only four articles aimed at promoting social security and economic development, especially revitalizing the insurance market industry. Due to this lack of insurance legislation, the Cambodian parliament passed its new insurance law in 2000. The Insurance Act 2000 was promulgated on 20th June 2000 and came into force on 22nd October 2001 by another supplementary Royal Decree of the King. This successful work on Insurance Law is a first step towards providing Cambodia with a meaningful legal framework for understanding insurance regulation. The law contains 56 articles in eight chapters (Meng, 2020). The Insurance Act passed in 2000 was replaced by a new Insurance Act (Insurance Act 2014) enacted on 4 August 2014. Section 113 of the Insurance Act 2014 repealed the Insurance Act 2000. However, certain provisions of the Insurance Act 2000 remain in force. B. Insurance Sub-Decree No. 106 of 2000, Ministerial Decree No. 185 of 2007 on Corporate Governance of Insurance Companies, and Ministerial Decree No. 608 of 2008 on Life Insurance Business. Uncertainty remains in Cambodia's insurance system as no new regulations were enacted under the 2014 Insurance Law.

Life insurance companies must have a minimum capital of 5 million SDR (Special Drawing Rights) based on the exchange rate on the date of license issue. The minimum capital for a microinsurance company is \$150,000. Only public companies, whether state-owned, private, or joint ventures, are allowed to conduct reinsurance business. If the shareholder of the reinsurance company is a natural person, he must have at least three shareholders. The new Reinsurance Prakas has remained silent about the required number of shareholders in the company. Registering a reinsurance company costs about \$200,000 in licensing fees, which is significantly higher than the licensing fees for an insurance license (\$12,500 in commissions and \$5,000 in administrative fees). Insurance agents must pay a license fee of \$750 plus an administrative fee of \$500. Insurance brokers must pay a license fee of \$1000 plus an administrative fee of \$500. The insurance claims adjuster license fee is \$750, and the administrative fee is \$500 (Cohen et al., 2022).

## **2.5. Challenges Cambodia's insurance market faces**

- Economic factor

Cambodia is one of the developing countries in Asia. Cambodia started the country again and named it Year Zero after winning the Civil war, the Khmer rouge, in 1979. The country's population ranks 71st in the world. Among those populations, there are 18% of the population lived below the national poverty and mostly in rural areas. About 75% of the population lives in rural areas, and only 25% live in urban areas (Asian Development Bank, 2022). The median age is 25,6. Life expectancy at birth is 70. Somehow, the birth rate in Cambodia is 19,85%, and the death rate is 6,23%. Recently, Cambodia is a low-middle-income country and expects to become a high-middle-income country by 2030. In 2020 the minimum wage was USD 192 per month, the GDP per capita growth was 1,6%, GDP annual growth was 3% (The word bank in Cambodia, 2022). Economic factors such as indicated by Falco et al. (2021) do not provide poor farmers to purchase insurance as compared to their rich counterparts.

- Lack of trust and awareness

Cambodia's insurance sector is a newly developed subsector of the financial sector in the early stages of development. People have limited knowledge about insurance. It is limited by the lack of both the number and skill of staff, which cannot provide a timely response to a fast-growing market with a relatively large number of companies, new categories of products, and new technologies for product distribution and promotion, such as electronic sales.

Insurance has yet to be formally designed or clarified, neither the technical school nor the institution. Most of them are interns or practical trainees who need help to meet the current market's demands. Usually, Cambodian people need to have a basic insurance concept by education upon admission. Yet, they upgraded their expertise through job training since the education system in Cambodia does not provide this kind of curriculum at any level, neither in the first or foundation year of higher education nor professional insurance degree. That is why sometimes the number of insurance professionals does not meet the market's demand Kajwang (2022). The purchase of insurance products and use of insurance services, especially participation in the insurance sector, have come from the level of people's perception and understanding of the benefits of insurance only.

- Lack of clarity of insurance regulation

Cambodia's Insurance Law consists of 8 chapters and 56 articles, and some rules still need to be clarified. There must be a clear role between insurance regulators and insurance politicians. Article 10 of the Insurance Act 2014 stipulates that the insurer is obliged to explain the terms and conditions of the insurance contract and other relevant documents to the insured.

The practical range of what insurers are supposed to declare remains more precise. Do insurers need to explain to the insured what they know, need to know, or know before issuing an insurance policy? Or should insurers explain information about insurance risks? Even by law, insurers are obliged to explain to the insured any issues related to the terms and conditions specified in the insurance contract. The Cambodian Insurance Law does not provide the Guarantor with the opportunity to obtain information about the product offered by the insurer or facts relating to the insured's interest in the policy. Furthermore, if the insurer complies with its legal disclosure obligations but fails to notify the insured, is this due to an invalid or unenforceable provision of the contract? There are no relevant regulations. Also, there is no legal requirement as to whether contract terms must be written in plain text. There are no rules of interpretation for beneficiaries in the formulation of provisions contained in applicable law (Meng, Adjorlolo, 2020).

- Others

The insurance market is still small as reinsurance rates are low, and access to reinsurance support for some niche risks is difficult. Meanwhile, Cambodia still needs relevant institutions' cooperation, willingness, and more advertising and promotion.

### **3. Japan's insurance historical context**

Japan is one of the world's largest and oldest insurance markets. The history of insurance in Japan began in 1868 after the Meiji Restoration. Geographically, Japan is an island nation off the east coast of Asia and one of the most geologically unstable regions in the world. The islands form a crescent-shaped archipelago that runs northeast-southwest parallel to the coast of the mainland, centered on the Sea of Japan. Japan has a high risk of natural disasters such as earthquakes, tsunamis, typhoons, and lightning strikes (Toa Reinsurance Co., Ltd., 2021). Flood risk also exists in Japan, mainly due to heavy rains in the summer. In the 20th century alone, there were 26 large earthquakes and an average of 3 typhoons each year. Flash floods and landslides are common and can occur almost anywhere in Japan. Today, Japan is one of the world's largest and oldest insurance markets, with Nippon Life, Dai-ichi Life, and Meiji Yasuda Life being the main Japanese groups.

Tokio Marine was established in 1879 as Japan's first full-fledged insurance company. Japanese society has a long history of dealing with fire risks. The Tokyo Fire Department was founded in 1887 and began operations in 1888. Meiji Fire and Nippon Fire entered the fire insurance market in 1891 and in 1892, respectively. Many other companies followed fire insurance, growing to more than 20 companies by 1990. In 1881, Japan's first life insurance company Meiji Life was born. At the beginning of the 20th century, more than 20 years after Japan's first insurance company was established, the domestic market was in a strong position to alienate foreigners and expand overseas. From 1911 to 1916, several Japanese insurance companies offered casualty, robbery, and automobile insurance as part-time jobs. World War II had a major impact on the Japanese insurance market. There was also a clear consolidation of the insurance industry after the war. The number of non-life insurance companies decreased from 43 to 16, and the number of life insurance companies decreased from 33 to 20. The end of World War II left Japan in a devastated state (Swiss Re, 2017).

Today, Tokio Marine Holdings, Inc., MS&AD Insurance Group Holdings, Inc., Sompo Holdings, Inc., and The Dai-ichi Life Insurance Group are considered the three largest insurance groups in Japan. Today, the Japanese insurance market ranks third in the world in terms of premiums. As of 2020, there are 53 non-life insurance companies and 42 life insurance companies in Japan (The Toa Reinsurance Company, Limited, 2021).

### **3.1. Types of insurances in Japan**

Life insurance is an insurance contract in which the insurer pays monetary benefits related to the life or death of a person, part of which is covered (Takahashi et al., 2022). Based on the Life insurance association of Japan, the main types of Life insurance in Japan are whole life insurance, whole life with term rider, whole life with variable accumulation ride, term insurance, variable insurance, endowment insurance, health insurance, cancer insurance, juvenile insurance, and others (MarketLine, 2018).

In Japan, General insurance is a type of insurance contract in which the insurance company promises to compensate for possible damage caused by a specific accident. General insurance contracts must cover the interest measured in money. The insured must hold insurance interest (Takahashi et al., 2022). As of 2020, there were 53 general insurance companies in Japan. In the general insurance industry in Japan, there are several types. Leading by voluntary automobile, followed by fire insurance, then personal accident insurance, comprehensive worker's accident insurance, facility liability insurance, moveable comprehensive insurance, temporary absence from work compensation insurance, product/completed operations liability insurance, contractor liability insurance, director and officers (D&O) liability insurance, employment practice liability insurance, information leakage liability insurance, trade credit insurance, and cyber insurance.

Since Japan is prone to earthquakes, General insurance companies are increasingly facing extreme weather risks such as floods and typhoons, which have impacted the profitability of the fire insurance segment in recent years. Fire insurance covers damages to home and household goods caused by fire and other weather phenomena. It does not cover earthquakes, for which a particular system was established in 1966. Private insurance companies, the government, and Japan Earthquake Reinsurance jointly operate the earthquake insurance system. The state acts as a reinsurance company to ensure payment of damages in the event of a significant earthquake. Earthquake insurance must be purchased in addition to fire insurance. Although the enrollment rate of household earthquake insurance has gradually increased in recent years, it remained at a low level of 33.9 percent (Statista, 2022).

Reinsurance is insurance for insurers. Risk should be distributed as much as possible. The more widely they are shared, the cheaper it is to cover them. Japan has two domestic reinsurance companies (Japan Earthquake Reinsurance and Toa Reinsurance) and several branches of foreign reinsurance companies (Takahashi et al., 2022).

### **3.2. The importance of the Japanese insurance**

Insurance in Japan is widespread inside and outside the country. One of the main reasons behind the successful growth is that Japan understands the concept and importance of insurance since they had the Insurance school (Non-life) Japan started in 1972. That makes the Japanese acknowledge insurance, and people are undoubtful to buy insurance, either life or nonlife. The insurance school promotes mutual understanding in the whole country and strengthens friendships among East Asian insurance markets by exchanging expertise, information, and opinion on general insurance. The institute holds the following courses to provide education and training in the non-life insurance business: Introductory course, regular/basic course, advanced course, and specific course; also provides seminars (one-day sessions specialized knowledge and information, direct and indirect, related to insurance), and online course.

Approximately 90% of the Japanese population have life insurance, which means that Life insurance is a real deal to Japanese people. According to a survey named *Reasons to purchase life insurance by Policyholders in Japan from 2015 to 2021*, conducted in 2021, 59 % of Japanese respondents said they buy life insurance due to the importance of medical and hospitalization expenses' importance, making this the first important reason to hold a life insurance policy. Then around 52,4% of those surveyed said the reason is to provide for families in an emergency, and only 0,20% have life insurance to acquire, extend, or renovate a house (Statista, 2021).

In another survey conducted in July 2021 for SMEs, approximately 64.9% of Japanese small and medium enterprises (SMEs) chose to purchase non-life insurance based on risk or loss prevention. About 40% of SMEs purchased property insurance because of an insurance company or agent offer, and barely 8,40% bought General insurance for their business due to TV commercials and ads (Statista, 2021).

### **3.3. The insurance market in Japan**

Japan is growing steadily in its economy. The Japanese insurance market is one of the world's largest markets. It is also a mature and well-established market. Through demographics, Japan is recognized as one of the fastest-aging countries in the world, fueled by a low fertility rate and the longest life expectancy in the world. Currently, the average life expectancy for Japanese men is 80 years, and for women, 86 years. About 30% of the population is over the age of 65, and this percentage will continue to grow. Japan ranked 11th in the world for 2020 population (MA & Wong, 2022). Not surprisingly, the average age in Japan is 48.4.



In 2020, there were 42 private life insurance companies in Japan. Meanwhile, general insurance increased to 53 from 52 in 2017. Of those 53 General insurance companies, there were 32 domestic insurance companies.

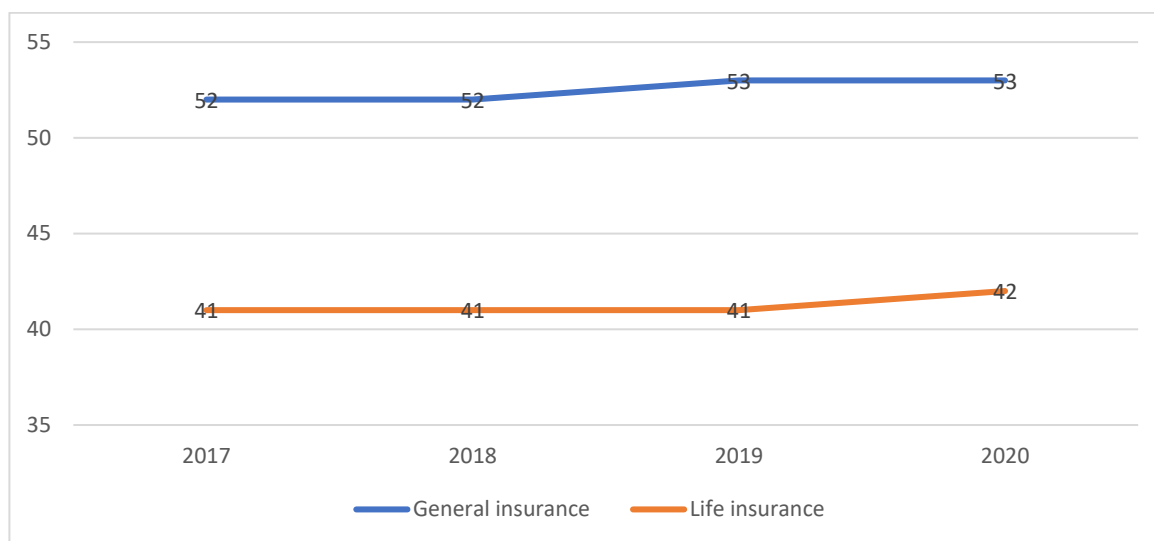


Figure 6 The number of Japanese insurance companies

Source: Author’s own work, data from the General Insurance Association of Japan, 2020

Insurance penetration and density in Japan declined as sales volumes declined during the pandemic due to various COVID-related measures to limit face-to-face contact to curb virus transmission. Some companies are adapting quickly to this situation by offering hybrid online-offline solutions to fill the gap (MA & Wong, 2022).

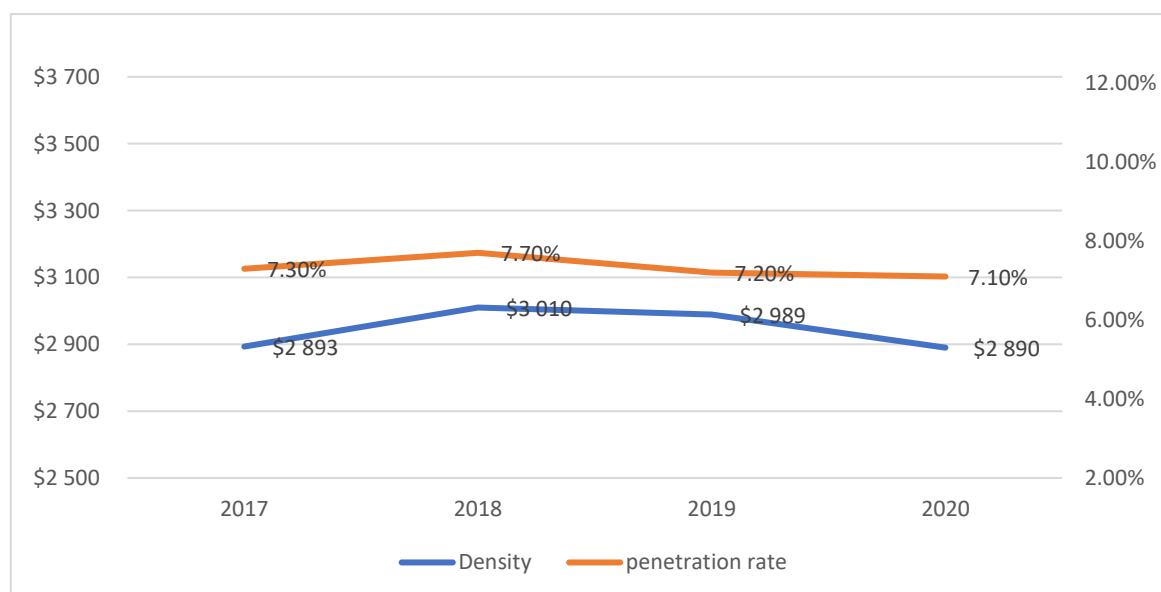


Figure 7 Japanese Insurance penetration rate and density

Source: OECD.Stat, 2022

Life insurance products in the Japanese market have been classified into nine significant types. Health insurance has the highest amount in the life insurance market in Japan from 2019 to 2020, then followed by whole life insurance and other insurance types.

*Table 6 Gross premium by types of Japanese life insurance products*

Life insurance	2017	2018	2019	2020
	(USD billion)	(USD billion)	(USD billion)	USD billion)
Whole life	1 358	1 410	1 425	1 455
Term	23	23	23	23
Cancer	2 078	2 205	2 265	2 295
Endowment	8	8	8	8
Juvenile	330	323	300	278
whole life with term rider	120	120	120	113
whole life with variable accumulation rider	788	645	525	443
variable insurance	443	360	308	263
others	113	128	135	165

Source: Author own work, data from The Life Insurance Association of Japan, 2021

The general insurance products in the Japanese market have been classified into 6 major types. The voluntary automobile was the highest in the general insurance market from 2017 to 2020, then followed by fire insurance, miscellaneous casualty insurance, and the lowest was marine and inland transit each year.

*Table 7 Gross premium by types of Japanese general insurance products*

General insurance	2017	2018	2019	2020
	(USD million)	(USD million)	(USD million)	USD million)
Voluntary automobile	30 989	30 975	31 390	32 067
Fire	11 065	11 750	12 782	13 329
Miscellaneous casualty	10 721	11 175	11 617	11 980
Compulsory automobile liability	7 502	7 328	7 364	6 702

personal accident	7 299	7 304	7 240	6 072
marine and inland transit	2 016	2 072	2 142	2 055

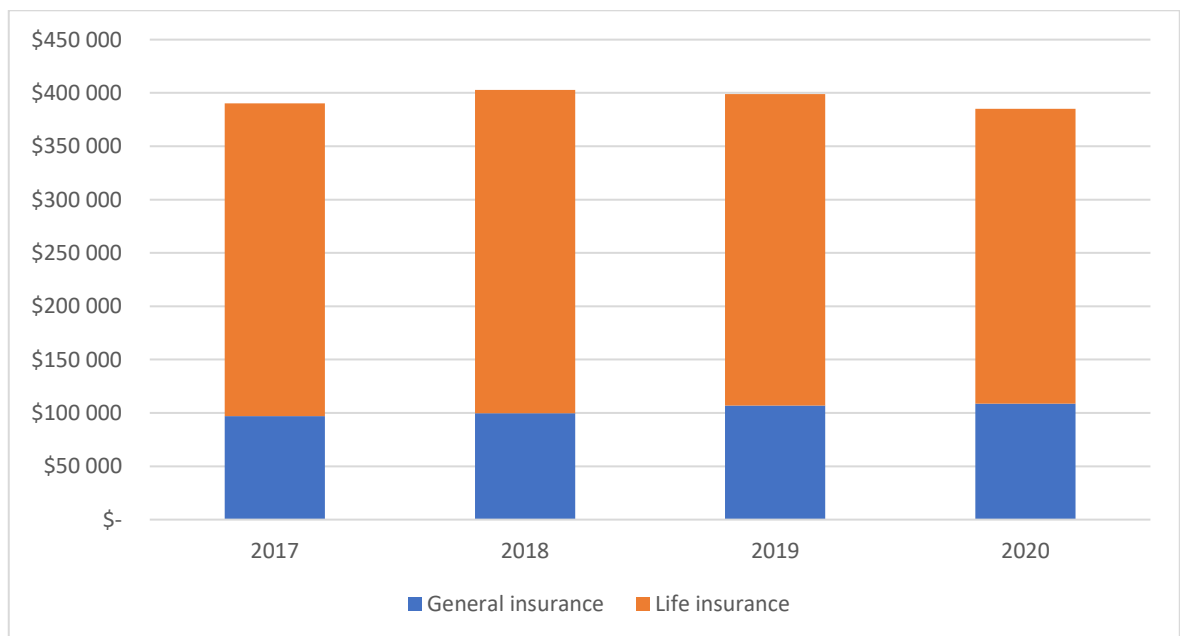
Source: Author own work, data from The General Insurance Association of Japan, 2020

The total gross premium insurance in Japan market dropped due to the COVID-19 pandemic causing a less-developed a decline in sales during the last couple of years.

*Table 8 Japanese Gross premium*

Gross premium	2017	2018	2019	2020
	(USD million)	(USD million)	(USD million)	(USD million)
General insurance	97 090	99 808	106 841	108 777
Life insurance	293 005	302 966	292 247	276 258
Total	390 095	402 774	399 087	385 035

Source: OECD. Stat, 2022



*Figure 8 Japanese Life and General insurance premium*

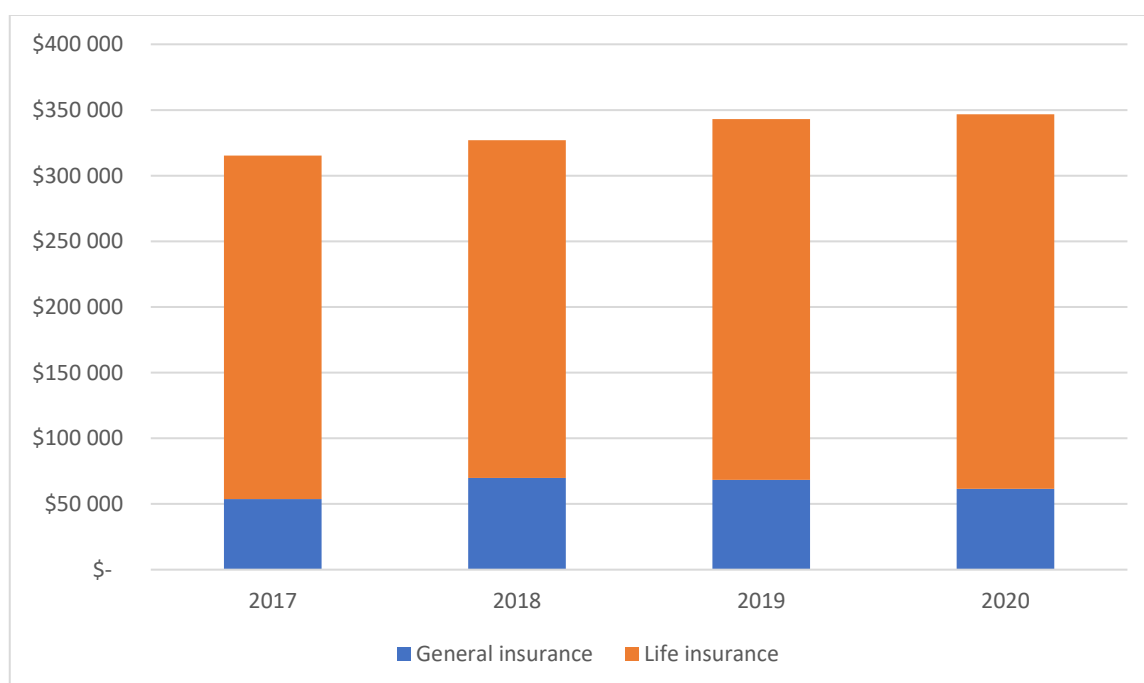
Source: OECD. Stat, 2022

- summary data claim paid from 2017 in millions of USD

*Table 9 Japanese Direct Claim paid*

Direct claim paid	2017	2018	2019	2020
	(USD million)	(USD million)	(USD million)	(USD million)
General insurance	53 782	69 741	68 254	61 560
Life insurance	261 401	257 147	274 909	285 159
Total	315 183	326 888	343 162	346 719

Source: OECD.Stat, 2022.



*Figure 9 Japanese Life and General insurance claim paid*

Source: OECD.Stat, 2022

### **3.4. Stakeholders of the Japanese insurance market**

The laws and regulators related to insurance and reinsurance in Japan are the Insurance Business Law, Insurance Law, and others. The insurance business act (IBA) regulates life insurance and general insurance companies. Reinsurance companies are regulated similarly to general insurance companies (Nishikino & Kanazawa, 2018). Other laws related to insurance there are: the financial instruments Sales Act, the consumer contract Act, the financial instruments, and

exchange act (FIEA), the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Anti-Monopoly Law), and the Act Against Unjustifiable Premiums and Misleading Representations also apply to the insurance business and insurance contracts (Takahashi et al., 2021).

The Prime Minister of Japan delegates powers to the Commissioner of the Financial Services Agency (except for certain mandatory powers such as granting or revoking licenses to insurance companies). The Financial Services Authority (FSA) is the government agency responsible for regulating insurance and reinsurance companies under the legal and regulatory framework of the Insurance Business Act (IBL), Law No. 105 of 1995, as amended. (Torchiana et al., 2017). The FSA Commissioner also delegates some powers to the Director of the Ministry of Finance's Local Finance Bureau (LFB). On the other hand, the Financial Services Agency (FSA) is the regulator of insurance and reinsurance companies in Japan. As a significant shareholder or insurance broker and agent, the FSA has broad powers to set rules, supervise insurers and reinsurers and impose penalties. Certain administrative functions, such as the registration of insurance brokers, are delegated to the Local Finance Offices, which report to the Financial Services Agency. Insurance products generally require inspection and approval by the Financial Services Agency before being sold to customers. (Nagashima, Ohno and Tsunematsu, 2020). Life insurance agents, non-life insurance agents, and small and short-term insurance agents must register with the Prime Minister through the Local Finance Bureau (LFB) of the Ministry of Finance (Takahashi et al., 2022).

According to Article 6 of the Insurance Business Law and Article 22 of the Enforcement Decree of the Insurance Business Act, the minimum capital of an insurance company is USD 7.5 million. During approval, the FSA will examine company documents such as the General Conditions of Insurance and Business Method Statement, an explanation of how insurance premiums and reserves are calculated, a business forecast (usually his ten years), and a director's resume. A foreign insurance company with an IBA license can conduct insurance business through a branch in Japan. An insurance business can only be conducted in Japan if it has established a branch office in Japan and has obtained the appropriate license from the Financial Services Agency. Foreign insurers have no capital in Japan and are required to deposit at least USD 1.5 million in depository institutions to protect policyholders.

### **3.5. Challenges in the Japanese insurance market**

- Getting license

Obtaining the necessary licenses from the Japanese Financial Services Agency is the biggest challenge for new entrants. The Financial Services Authority supports digital innovation and assists FinTech companies, but there is still a long way to go before the approval process is complete. The newcomer should have started negotiations with the FSA one and a half to two years before starting (Nishikino & Kanazawa, 2018).

- Low-interest rates and declined population.

In recent years, insurance companies have been facing challenges such as the low-interest rate environment, which has impacted the profitability of traditional life insurance products. That is one reason why sales of savings products are slowing. A decade ago, markets tried to take advantage of higher yields abroad return by selling foreign currency-denominated products (MarketLine, 2018).

Another challenge is the demographic change, characterized by declining birthrates and increasing life expectancy, which weakens the demand for life insurance. The birth rate in Japan is only 6,80%, and the death rate is 11,10% (WorldData.info, 2023). A shrinking population posed further challenges for insurance companies. Faced with a lack of growth potential in their domestic market, many companies have decided to expand overseas and have become increasingly involved in M&A activity (MA & Wong, 2022).

## **4. Research Methodology**

The research aims to study the Cambodian and Japanese insurance markets and then make an analysis that focuses on a comparative study of the Cambodian and Japanese insurance markets. The thesis's objectives are to understand the development of the Cambodian insurance market, research why the Cambodian insurance market is not functioning, and make recommendations on the effectiveness of the Cambodian insurance market through comparison with Japanese insurance.

### **4.1. Research questions**

The insurance sector is one of the most important sectors supporting the growth of the Cambodian economy in recent years. The insurance market in Cambodia is also doing very well and is still low in numbers and needs to continue growing and moving towards high numbers. In this study, we aim to answer the following questions:

1. What can be learned and benchmarked by Cambodia from Japan?
2. What does Cambodia need to improve in the Insurance sector?
3. How is insurance important to the Cambodian people?

### **4.2. Data collection**

The main data are sourced and collected from the official websites of the insurance regulators of Cambodia, OECD. Stat, and the Japanese life and general insurance association. Additional data are based on secondary data and information from publications, journals, research studies, articles, books, and newspapers in Cambodia and Japan. Moreover, the other main international databases are collected in Statista and Global Data.

### **4.3. Method**

The comparative method is the processing of the analysis of differences or similarities between two or more objects and subjects. This analysis will help improve the understanding of the problem and provide classifications of different processes. Especially this thesis's comparative studies will investigate, analyze, and evaluate the insurance market between Cambodia and Japan.

The strength of the comparative analysis is that it is easy to look for patterns of similarities and differences in the same context and learn from one side's strengths and opportunities. On the other hand, this comparative study aims to illustrate and better understand insurance processing

in both countries from the past to the latest market. For example, the Japanese insurance market is considered one of the most successful in Asia. Thus, Cambodia is also located in Asia, having a similar culture and good diplomatic relations with Japan. Cambodia has a potential market. Cambodia is a peaceful country with political stability, which catalyzes robust economic growth. Furthermore, Cambodia adheres to free market principles for investment policies, especially in the insurance sector. Cambodia is increasing in middle-income households who are the potential customers of the insurance market. There would be many things Cambodia can positively learn from.

The weakness of this comparative method is that after the comparison, we see that Japan and Cambodia are far different countries in some ways, such as economy, population, age, and education. However, all of these must be manageable obstacles for Cambodia. There are still chances to thrive if we look to another side of Cambodia. Cambodia's insurance market has grown rapidly over the past five years (Meng, Adjorlolo, 2020). Cambodia's birth and death rates also bode well for Cambodia's future insurance market.

Aiming to develop the insurance market or bloom this sector, one must learn and follow the path of the best one. A comparative analysis of Cambodia and Japan leads to recommendations for effective operation and growth of the Cambodian insurance market by comparing best practices of the Japanese insurance market. The main comparison between these two countries in this thesis will focus on 4 main parts: the number of insurance companies, the density and penetration, the total premium, and the total claim paid.



## 5. The comparative analysis

### 5.1. Cambodia and Japan's total insurance companies

The world faced the pandemic in 2019. During the COVID-19 crisis, Japan's insurance market as one of the biggest markets in the world also faced problems but still strived to grow. In 2019, the General insurance company in Japan was stable. It did not gain any company, but at least one company grew in Cambodia. Life insurance in Japan grew by 1 in 2020, while Cambodia gained 4 more companies. Cambodia's insurance market from 2017 to 2020 has continued significantly boosting and maintaining a strong financial position with positive growth in both Life and General insurance market.

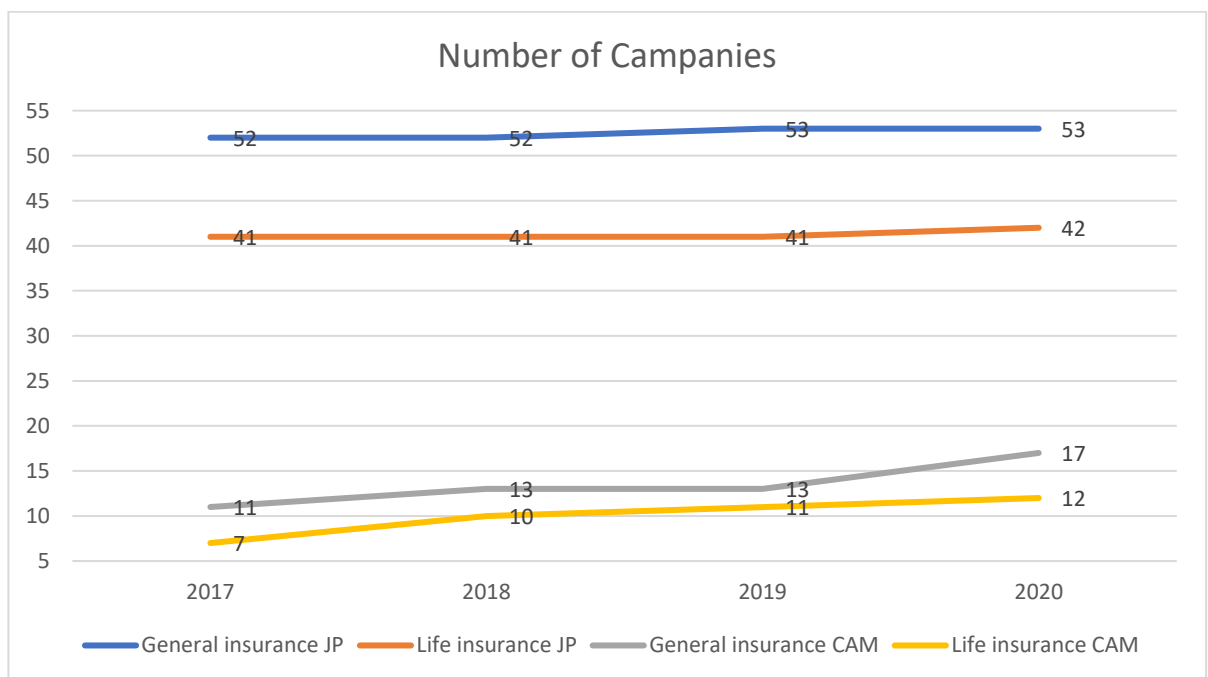


Figure 10 Comparative of the number of companies

Author's own work according to the Figure 1&3

### 5.2. Cambodia and Japan penetration and density

From 2018 to 2020, the penetration rate in the Japanese insurance market declined slightly, rising from 7.70% to 7.0%. The Cambodian insurance market increased from 0.69% in 2017 to 1.04% in 2020. Even with the prolongation of the Covid-19 pandemic worldwide, the insurance penetration rate is estimated at 1.10%, with an insurance density of 18.00 USD in 2021 (Fontaine, 2022).

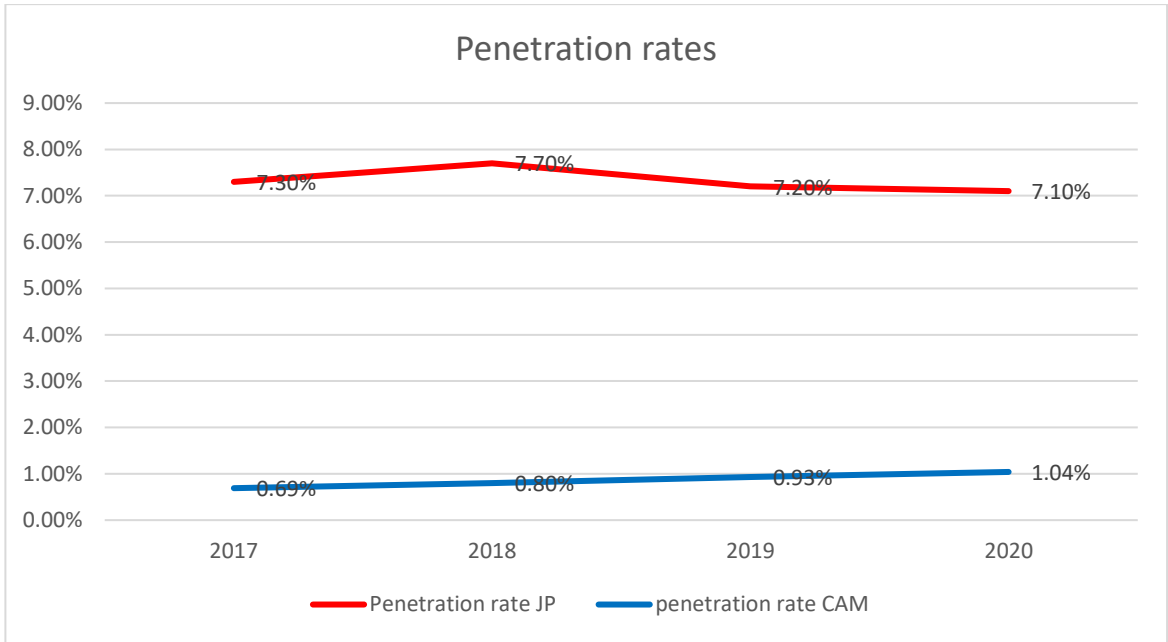


Figure 11 Comparative of the penetration rate

Source: Author own work, data from the Figure 2&4

Japan and Cambodia have such a big gap in insurance Density. However, the insurance density situation in Japan declined the same as the penetration rate case. Japan's market started to fall in 2019 and Cambodia still expanded with a good number from USD10.06 per capita in 2017 to USD17.30 per capita in 2020.

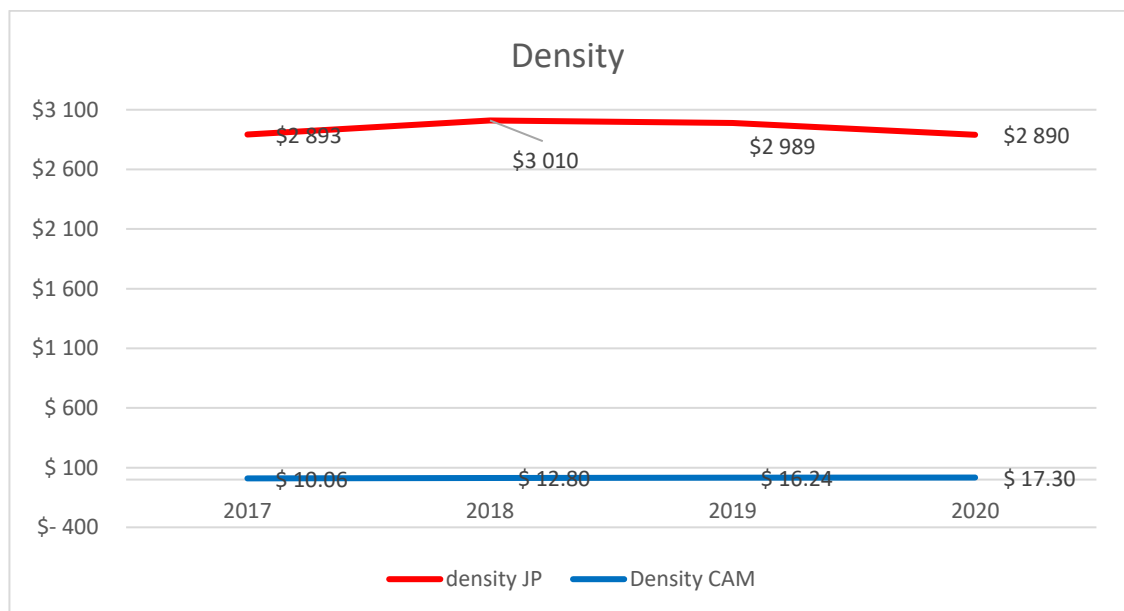


Figure 12 Comparative of the density

Source: Author own work, data from the Figure 2&4

### 5.3. Cambodia and Japan's total gross premium

The premium of Japan's insurance market again declined in 2019 and 2020 around 2000 million each year. Thus, Cambodian gross insurance premiums increased significantly from USD 143 million in 2017 to approximately USD300 million in 2020.

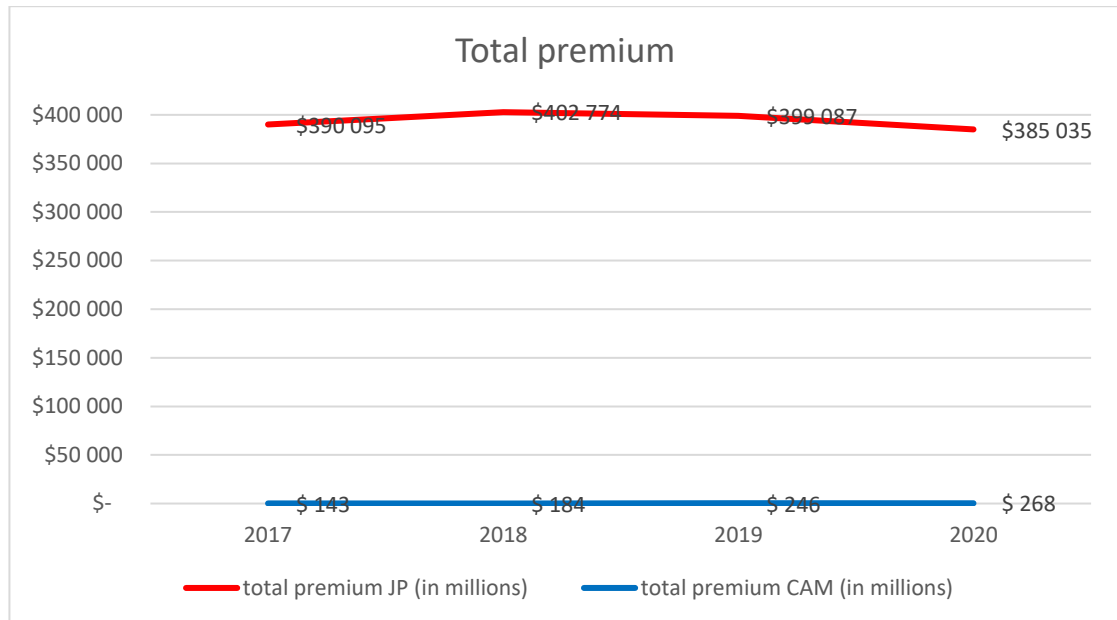
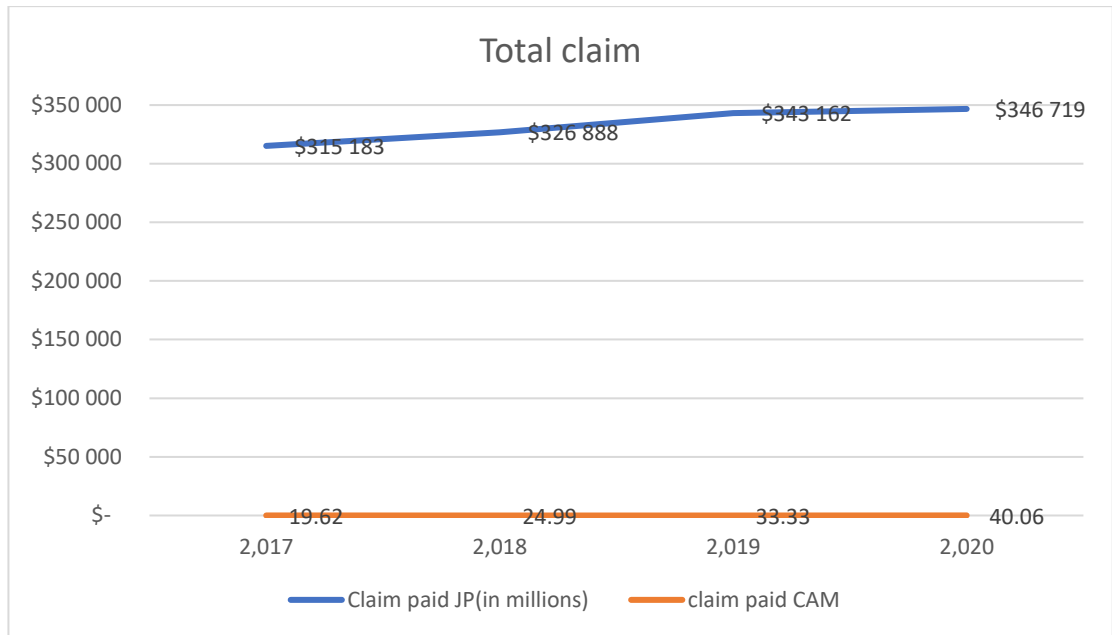


Figure 13 Comparative of the total premium

Source: Author own work, data from the Tables 3&7

### 5.4. Cambodia and Japan gross claim paid

Even though, the total premiums of Japanese insurance fall off due to Covid crisis, yet the claim paid is increased. In 2020, the total claim paid by insurance companies was USD 346 trillion increase by USD 3 557 million. Compared to 2019 the paid claim increased by 1,04 %. The claim paid in Cambodia's insurance market is increasing every year. In 2020, Cambodian market surprisingly increased by USD 6,73 million equal to 17% compared to 2019 which is a really good number.



*Figure 14 Comparative of the total claim paid*

Author's own work according to the Tables 4&8

## 6. Discussions and Conclusion

### 6.1. Discussion

As mentioned above, Cambodia's insurance market is one of the fastest growing markets in ASEAN in recent years. Japan has always been one of the best markets in Asia and the world. The significant parts that make these 2 markets too much different in this insurance market are because of a few reasons such as age, history, economy, population, education, and regulation.

Some of these would be the main reasons that affect the four factors discussed in the Comparative analysis part, such as the number of insurers, penetration and density, total premiums, and total claims.

**Education and awareness:** Japan have the Insurance School of Japan, the Association of life insurance and General Insurance, etc. The general insurance institution of Japan (GIIJ) started in 1933. It is a charitable organization authorized by the Prime Minister. The main purpose is to contribute to the development of the national economy by promoting the theoretical research of non-life insurance, harmonizing theory and practice, and continuing the training of experts. It is engaged in research and collection of material concerning general Insurance and its related business, as well as engaged lecturers, library maintenance, and general insurance publications (GIIJ, 2023). The Insurance School (Non-life) of Japan started in 1972. ISJ has many educational and training programs, advanced courses, and overseas seminars for insurance practitioners in 16 Asian countries (GIIJ, 2023).

The General Insurance Association of Japan (GIAJ) started in 1946. It is an association that represents all the licensed general insurance companies in Japan. The purpose of that association is to promote the improvement and maintenance of the reliability of the Japanese general insurance market, also to deepen public understanding of general insurance, moreover, to help solve common issues facing the general insurance industry and to achieve its goals, and lastly, to contribute to social welfare (GIAJ, 2023).

The Life Insurance Association of Japan was established in 1908 with the aim of striving to maintain the sound development and credibility of the life insurance industry (LIAJ, 2023).

This is always one of the biggest reasons for Japan's total premium, penetration, and density being really high other to other countries. Japan is such a natural disaster country, and people

understand the benefit of insurance. So, insurance is shortly going viral, and everyone has it as a part of living life.

Speaking of insurance education in Cambodia, it is truly a lack of awareness. It still seems new to Cambodian people. It is a big part of the reasons affecting the slow growth of the number of insurers in the Cambodian market and also the total premium like in the case of Ukraine (Melnichuk et al., 2019). Therefore, Cambodia should work with the Ministry of Education, Youth and Sports to improve insurance courses in higher education institutions and discover potential job markets for the Cambodian insurance sector. Cambodia should be inserting insurance as a subject to study in public and/or private schools as other subjects in the general education system for society to acknowledge and awareness. The government should establish an Insurance Institution to build trust and get the concept of insurance acceptance by young and older adults. This subject study can help people understand how it works, its importance, and especially to build the quality of human resources, the future of high-standard professional employees, and employers in this sector for faster growth. Not only by improving school education, but also by participating in international forums and updating the Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS).

However, Cambodia should also have an association of Insurance which is helpful for insurance business holders in Cambodia and also the young generation who want to work in this sector, so they quickly get information or any related documents from the association. Moreover, Cambodia should produce spots to be broadcasted on TV and other media. At the same time, Cambodia should also participate in various talks to promote the insurance sector.

**Legal framework and institutional quality:** Law must protect the consumers. Japan has many types and requires/compulsory Insurance. There are several Insurance-related laws in Japan, such as the Insurance contract act (2008), the insurance business act (1995), the Act on non-life insurance rating organizations (1948), the automobile liability security act (1995), the Act on earthquake insurance (1966), Consumer contract act (2000), Act on sales of financial instruments (2000), Act on protection on Personal information (2003).

Law is genuinely one of the reasons that affect the total premium and total claim high due to the fact that people are stable and peacefully rely on the insurance companies. People are willing and ready to pay premiums and not worried when they need to claim the money back in any case happening.

Total premiums and total claims paid are high in Japan since Japan is a country that has many catastrophes, and most of the population they can depend on their law, and they trust the insurance companies. For example, Japan also has less corruption than other countries, and the Japanese government is known as an honest and trustworthy nation. Thus, it provides people with a sense of responsibility and reliability toward their government. This encourages people to purchase more insurance premiums as the government could interfere with the relationship between insurers and insured insurance if unexpected events happen in the future.

While in Cambodia, compared to Japan, has a much more corruption rate. In addition, as mentioned in Chapter 1.5, some laws need to be clarified and still doubtful in Cambodia as it does not structure well. This leads people to question insurance companies' quality, and people hardly trust the company and the government.

To sum up, the legal framework in Japan is more structured, while Cambodia is still struggling to fight corruption. Cambodia should build a strong legal framework of insurance and enhance infrastructure quality. For example, the Cambodian government should slowly stop people corruption or bribery. The government should act against people who engage in corruption to make people trust and can rely on the government. Government should create a law that must stand with and for their people. The weak legal framework system, lead to less interest from people. The country should create more insurance-related laws, like Japan as an example, and make each of them trustable and reliable. Additionally, reviewing regulations relating to the prudential supervision of insurance and developing new regulations.

## **6.2. Conclusion**

This thesis aims to study the insurance market in Cambodia and Japan and see how important it is. This study makes an analysis that focuses on a comparative study of the Cambodian and Japanese markets case, aiming to come up with suggestions for effective operation and enlargement of the Cambodian insurance market through benchmarking the best practices of the Japanese insurance market.

Japan's insurance market is one of Asia's most successful markets. Meanwhile, Cambodia is one of the fastest-growing economies (Fontaine, 2022). Both countries are located in continental Asia and have a similar culture and good diplomatic relations with Japan. Cambodia has a less effective insurance market. Today, Japan is a developed country known as a high-income country with an average salary of USD 3500 per month, with a population of almost 126 million in 2020. Japan is considered a long-life country with a median age of 48

(WorldData.info, 2023). Japan is one of the most important markets and one of the most successful, but Japan still has room for improvement. For example, get an insurance license. Processing can take over a year, which is a big issue in Japan.

Cambodia is a developing country with low-middle income, and by 2030 Cambodia plans to become an upper-middle income (The world bank in Cambodia, 2022). With a population of 16 million, the median age in Cambodia is 25 (WorldData.info, 2023); this small country has many different areas to improve for the development of the insurance market.

As discussed earlier, both countries' insurance market is driven by education, awareness, and legal framework. Education and awareness: Japan have many insurance companies, insurance schools, insurance associations and has a long history in the insurance market. In addition, Japanese insurance has a clear purpose and strong legal framework. Japan also has a natural disaster every year, which gives an advantage to the insurance company, and people have a social awareness of insurance claims, increasing insurance penetration and density in Japan. Thus, the Japanese have a longer possible to use and buy insurance premiums which would create longer demand for Japan. While in Cambodia, there are also high traffic accidents; however, people need to be made aware of the importance of the insurance market, and there is no sufficient insurance campaign. So, insurance premiums are oversight or taken for granted. Legal framework: Japanese insurance market is well-structured, has a strong framework, and is reliable which adds value and credibility to an insurance company. At the same time, Cambodia has a weak legal framework due to unclear laws and high corruption cases. So, the insurance market needed to be better trusted and strongly visible to people.

This analysis study results focusing on the general insurance market and Japan insurance market will help Cambodia adopt some lessons or policies from the Japanese strengths: legal framework, education, and awareness. Cambodia can enhance education first, then a legal framework to expand this insurance market.

### **6.3. Recommendation**

It suggests that Cambodia should improve first on education and regulation. To do this, the government should establish an Insurance Institution to build trust and get the concept of insurance acceptance by young and older adults. In addition, the Ministry of Education, Youth and Sports should improve insurance courses at higher education or universities to discover potential job markets in Cambodia's insurance sector. Cambodia should also participate in global forums and update the Insurance Core Principles (ICPs) of the International Association



of Insurance Supervisors (IAIS) to create awareness as was found by Lenel & Steiner (2017) that introduction of formal insurance provide motivation for people to purchase insurance rather than the mutual support peers used to receive in place of insurance. Finally, Cambodia should create more law-related to Insurance like Japan and make each of them clear, reviewing regulations related to prudential supervision on insurance and developing new rules.

More importantly, it is essential to know that this bachelor thesis analysis study mainly focuses on the general and Japanese insurance markets. This study is not applied to any specific private insurance company. Therefore, only some of these main recommendations in this paper may apply. For further researchers, this study could be used to understand the fundamentals of the insurance market in Cambodia and Japan and as a reference to analyze deeper on the different factors.

To conclude, after studying the comparison with Japan as a dominant insurance market, Cambodia's insurance market has a huge potential to grow due to a very low penetration rate and insurance density compared to other countries in the region as well as in the world. Cambodia also has a high probability of accidents every day, so when the knowledge is absorbed by most of the population to make people safely trust. It implies that the Cambodian insurance market would grow remarkably and attract more investors, creating more jobs in this sector.

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