

## EXECUTIVE INSIGHTS

# Japan's In-house Insurance Agencies at a Crossroads

Rising restructuring pressure in Japan's insurance distribution market following the 2026 amendments to the Insurance Business Act

## Introduction

Japan's insurance distribution market is undergoing major regulatory change with the 2026 amendments to the Insurance Business Act. These reforms are set to reshape the role of in-house insurance agencies, challenging models built on intragroup transactions and limited independence. As expectations around governance, transparency and competition increase, maintaining the status quo is becoming difficult.

At the same time, this shift is creating strategic pressure for corporate groups and opening opportunities for investors through consolidation and externalization.

This Executive Insights outlines how the market is evolving, the strategic options available and what will be critical for successful execution.

## 1. A structural inflection point: Why now?

Japan's insurance distribution market is entering its first major regulatory reform in decades, due to the 2026 amendments to the Insurance Business Act. Triggered by scandals involving ancillary agents and corporate insurance cartels, the reform aims to strengthen customer focus and fair competition(see Figure 1).

Its impact extends beyond prevention to reshaping agency governance, sales practices and distribution structures, prompting a reassessment of in-house agencies.

The reform will roll out in stages: initial rules in June 2026, with key changes like the "specific contract ratio" expected after approximately three years. Given restructuring timelines, delaying action is not viable — affected companies need early, proactive, strategy-aligned decisions.

**Figure 1**

The regulatory updates planned for 2026 aim to enhance consumer protection and a fair competitive environment. The significant effects on in-house agents are expected within the next three years.

**FSA Working Group discussions**

 <p><b>Customer-focused operations</b></p> <ul style="list-style-type: none"> <li>• Prohibition of inappropriate sales practices</li> <li>• Strengthening the effectiveness of conflict-of-interest management</li> <li>• Ensuring fee transparency</li> <li>• Ensuring the proper handling of insurance claims-related operations</li> </ul>	 <p><b>Fair and healthy competitive environment</b></p> <ul style="list-style-type: none"> <li>• Proper oversight of comparison-based recommendations by coregistered agents</li> <li>• Review of regulations for in-house agents</li> <li>• Promotion of insurance broker utilization</li> <li>• Strengthening the effectiveness of self-regulation</li> </ul>
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**Key items for 2026 amendments**

 <p>Introduction of governance requirements for large coregistered agencies</p>	 <p>Creating an environment to promote the use of insurance brokers</p>
 <p>Enhanced oversight of nonprofessional agents</p>	 <p>Revisiting regulations for in-house agents (start of transition period)</p>
 <p>Proper oversight of comparison-based recommendations (mandatory fee disclosure)</p>	 <p>Clarification of the prohibition on providing inducements</p>
 <p>Enhancing the effectiveness of insurers' supervision</p>	 <p>Measures to address the loss-making structure of fire insurance</p>

**Remaining issues and future outlook**

- **Preparation period (approximately three years)**
  - Review of the specific contract ratio regulation
    - Abolition of transitional measures
    - Expansion of the scope of specified parties (on a consolidated basis)
    - Review of the calculation method for the specific contract ratio
    - Clarification of exemption requirements (governance framework and fees)
- **After preparation period**
  - Application of the revised regulations
- **Other issues (timeline to be determined)**
  - Review of the commission system (with a focus on service quality)
  - Establishment of a third-party evaluation system (to assess service quality)
  - Streamlining of the insurance broker framework

Note: FSA=Financial Services Agency

Source: Prepared by L.E.K. based on Financial Services Agency Financial System Council, amended Insurance Business Act, draft revisions to FSA supervisory guidelines and industry association guidelines

## 2. The reality of in-house agencies: An overlooked segment

### 2.1. What is an in-house agency?

An in-house agency is an insurance agency established either as a department within a noninsurance operating company, such as large manufacturers, trading firms, utilities, telecoms and pharmaceuticals, or as a subsidiary within its group. It serves the insurance needs of the parent company, group companies and employees.

### 2.2. Scale and characteristics

Within the agency channel, which accounts for about 90% of non-life insurance distribution in Japan, in-house agencies have a distinct presence and unique characteristics:

- Approximately 9,530 entities are recognized as in-house agencies by the four major nonlife insurers (Financial Services Agency working group survey), indicating broad adoption particularly among large corporate groups
- Common in industries with multisite and multientity structures (manufacturing, trading, utilities, telecom), serving functions such as employee benefits administration and centralized group insurance management
- Product mix includes corporate risk coverage (property, liability, auto) alongside employee benefits such as group life insurance
- Transactions are typically conducted within relationships with specific insurers, often resulting in structurally tied arrangements
- Lean staffing, sometimes only a few employees, with reliance on secondees from insurers
- Unlike independent agencies that compete on sales and service differentiation, in-house agencies are built on organizational proximity to the parent company

Group life insurance is typically embedded in human resources (HR) and payroll as an employee benefit, unlike non-life insurance, where annual reviews and insurer switching are common — an important distinction for regulatory and strategic considerations.

### 2.3. Structural challenges

In-house agencies face inherent structural challenges rooted in their dual role as both insurer agents and part of the client corporate group:

- **Ambiguity of position**

Their dual identity makes it challenging to demonstrate neutrality in recommendations and effectively manage conflict. However, in life insurance, continuity of coverage through internal HR and payroll plans can benefit employees, offering an alternative view where stability aligns with customer interests.

- **Limited operational capability**

Lean staffing and reliance on external resources (often seconded from insurers) can hinder effective autonomous management of sales and compliance as an insurance agent.

- **Lack of independence**

Dependence on intragroup transactions weakens competitiveness in external markets and raises regulatory concerns, particularly regarding commission structures that may function as implicit premium discounts.

- **Distortion of fair competition**

Intragroup transactions often bypass competitive comparison, raising concerns about alignment with fair market conditions.

Historically, these structural challenges were not rigorously scrutinized. Under the new regulatory environment, the key question is whether these agencies can operate as genuinely independent businesses. The reform evaluates whether all these requirements can be met simultaneously.

### 3. Impact of regulatory tightening on in-house agencies

The regulatory tightening does not simply impose incremental requirements on in-house agencies; rather, it fundamentally reassesses whether they can operate as viable, independent agency businesses. Its impact manifests primarily in the following areas:

- **Constraints on intragroup transaction dependent models**

For agencies reliant on intragroup transactions, meeting regulatory requirements — particularly contract ratio thresholds — may be structurally difficult, making a fundamental reassessment of the business model unavoidable (see Figure 2).

- **Higher level of operational standards required**

As expectations for solicitation management and compliance rise, baseline operating standards are elevated. Agencies with lean staffing or reliance on insurer secondments may no longer be able to sustain their current operating models.

• **Pressure to reassess the business model**

Tighter requirements on comparison, recommendations and conflict management will force a reassessment of models reliant on specific insurers, with even established transaction structures facing greater scrutiny as explainability becomes expected.

These changes do not target isolated issues but instead collectively challenge whether in-house agencies can function as “independent agency businesses.” Consequently, affected agencies will find it increasingly difficult to avoid revisiting their fundamental business models.

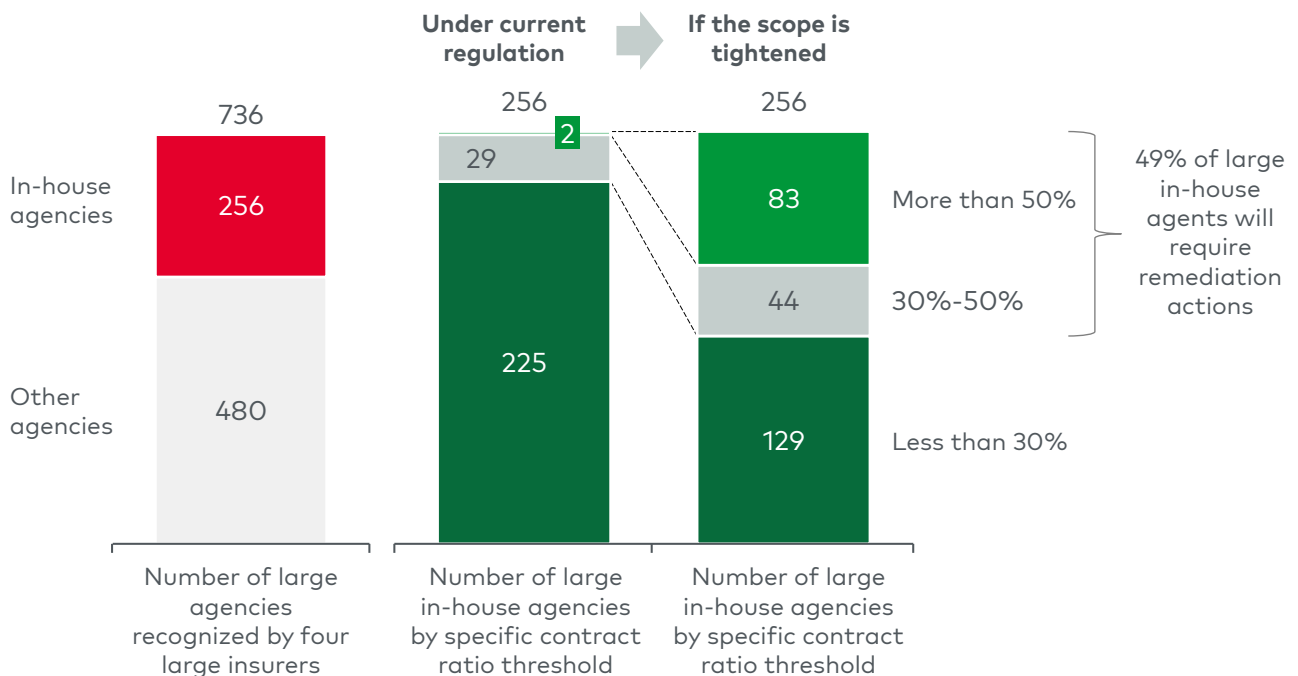
It should be noted that these regulations are primarily designed with non-life insurance agencies in mind. However, while group life insurance handled by in-house agencies is not directly subject to these regulations, its treatment becomes a key practical consideration in any restructuring of the agency business.

**Figure 2**

Almost half of in-house agents are expected to be affected once the ‘specific contract ratio’ regulation comes into force in the future

**Specific contract ratio regulation**

- In-house agent’s premium share from parent/group companies
- Must stay within 50% or face restrictions on group business (above 30% requires remediation actions)
- This regulation is likely to be tightened in three years, affecting many in-house agencies



Source: Financial Services Agency Financial System Council – Working Group based on Systems for the Non-Life Insurance Industry, L.E.K analysis

## 4. Strategic options

Companies that own in-house agencies are now compelled to make strategic decisions regarding the future of these entities, as maintaining the status quo is increasingly difficult. While each option has its own rationale, the appropriate path depends on alignment with corporate strategy, capabilities and capacity to respond to regulatory requirements.

### 4.1. Option A: Comply – Restructure to meet regulatory requirements and retain the agency

This option involves maintaining the in-house agency while restructuring its operations to comply with regulatory requirements. In practice, this requires reducing reliance on intragroup transactions by developing external customer relationships, as well as strengthening solicitation management and compliance frameworks to withstand scrutiny as an independent agency business.

In-house agencies often lack the sales infrastructure, brand recognition and incentive structures typically required to compete for external clients. As a result, transforming the business model requires significant time and investment.

Moreover, the cost of compliance may ultimately exceed the strategic value of maintaining the agency. In addition, regulatory uncertainty, such as potential future tightening of contract ratio thresholds, introduces the risk that required compliance levels may continue to evolve.

### 4.2. Option B: Divest – Carve out and externalize the agency business

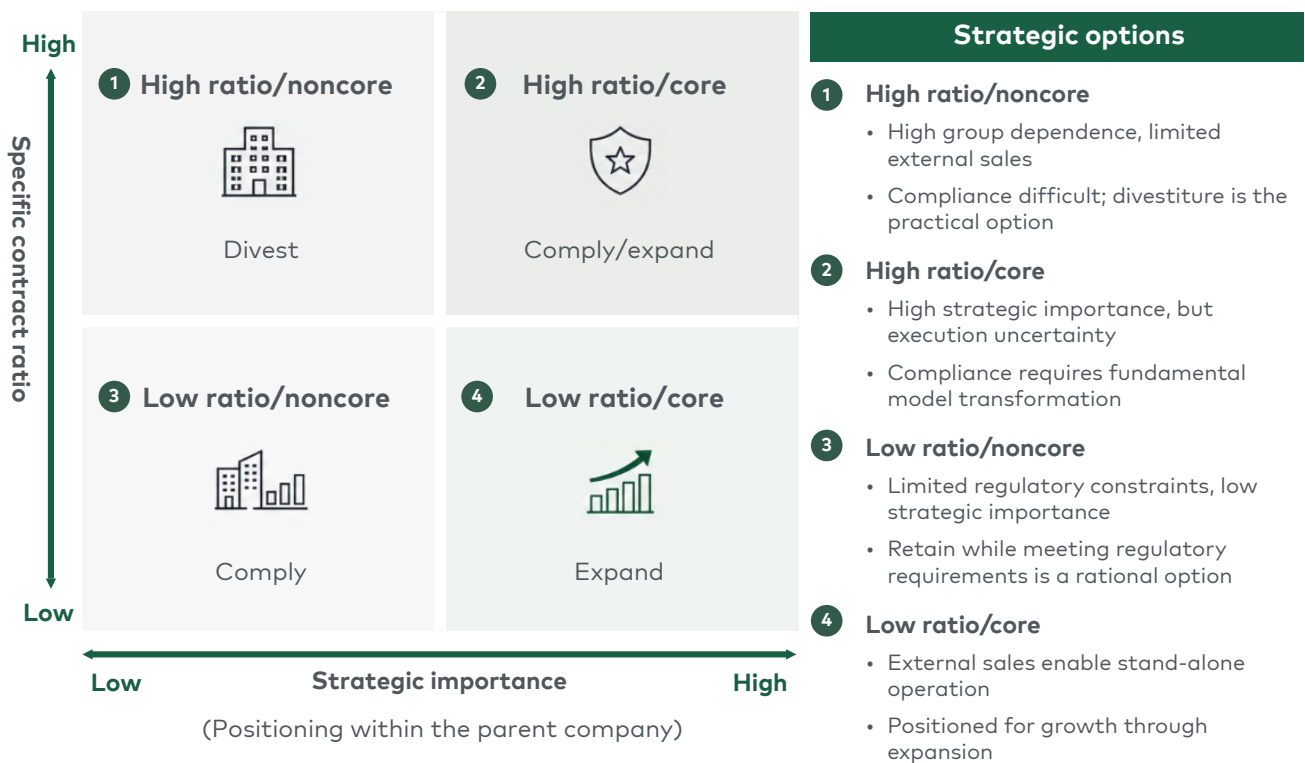
This option separates the agency from the group and transfers it to an external party, with the parent shifting to market-based procurement. It suits cases where the agency is noncore or regulatory burdens are high (see Figure 3).

Carve-outs must address employees, contracts and customer relationships, with continuity and trust critical due to intragroup integration. Buyers will focus on customer quality and revenue sustainability, while timing may affect valuations.

Group life insurance adds complexity, as its integration with HR and payroll limits transferability, requiring clear separation of program design, administration and placement.

**Figure 3**

Evaluating the particular contract ratio alongside the parent company's strategic goals concerning the insurance agency business provides clear direction for future steps



**4.3. Option C: Expand – Position the agency as a growth platform**

Under this option, the in-house agency is repositioned not as an internal support function but as a growth business. This involves expanding insurance provision to external clients and scaling the platform through acquisitions and integration of other agencies, while meeting regulatory requirements.

This path requires a transition from a group-centric model to one that actively serves external clients. It may involve acquisitions, integration efforts and talent development. While resource intensive, it offers potential not only for compliance but also for long-term growth of the agency business.

**4.4. How to choose among strategic options**

In-house agencies have multiple strategic options – comply, divest or expand – but these are not equally feasible for all companies. The critical question is not which option is theoretically optimal, but which is realistically executable.

Feasibility depends on regulatory requirements and on structural characteristics unique to in-house agencies, particularly in the following areas:

**Ability to transfer people (not just contracts)**

- In divestitures, the transfer of personnel is a central issue. Many in-house agencies rely on staff who simultaneously perform roles within the parent company, making full transfer difficult. This often results in situations where contracts transfer but personnel do not sufficiently follow.
- Even where staff are transferred, discrepancies may arise between prior workload and posttransfer expectations (e.g., full-time deployment), leading to inefficiencies or mismatches in staffing levels and threats to business viability.
- Therefore, securing dedicated personnel aligned with contract volume is a prerequisite for a viable stand-alone business.

**Ability to develop external customers**

- Both comply and expand strategies require growth in external business. However, in-house agencies are typically built around internal demand and often lack external sales capabilities, including sales infrastructure, brand recognition and incentive systems.
- Developing these capabilities requires more than incremental changes; it entails building a new commercial function and effectively transforming the business model.

**Timing relative to regulatory implementation (investment and lead time)**

- Organizational restructuring, talent reallocation and capability building require a long time. Given regulatory timelines, the range of feasible options is constrained by the time available.
- Furthermore, uncertainty around future regulatory changes increases investment risk, particularly for options requiring long-term commitments.

**Ability to separate intertwined plans (treatment of group life insurance)**

- Group life insurance, often embedded within HR and payroll, is difficult to separate from the parent organization. Even when externalizing the agency, the insurance plan itself typically remains with the parent, requiring a separation between system governance and insurance placement.
- The feasibility and design quality of this separation directly affect not just employees but also relationships with insurers and counterparties, thereby influencing the viability of strategic options.

In practice, while all options are theoretically viable, feasibility varies significantly by company. For many, externalization, including divestiture, emerges as the most practical path.

Given these constraints, it is important to determine the optimal direction for the company by considering both the level of the specific contract ratio and the strategic importance of the agency.

## **5. Emergence of a buyer's market: Strategic opportunities for private equity and platform players**

The impact of regulatory tightening is becoming increasingly visible, particularly as changes to the specific contract ratio make it difficult for agencies reliant on intragroup transactions to remain compliant. As a result, reviewing business models or pursuing externalization is becoming a realistic option.

Although in-house agencies vary in size and capability, they hold valuable assets, such as corporate client relationships, specialized talent and insurer ties, that are often underutilized on a stand-alone basis but can gain value through consolidation.

With more firms likely to consider externalization, and clear potential for value creation through integration, this creates a meaningful opportunity for investors and platform players.

### **5.1. Key buyer groups**

#### **Private equity (buyout funds)**

An increase in carve-out opportunities creates favorable conditions for roll-up strategies. By acquiring and integrating multiple agencies, buyers can drive efficiency through shared back-office functions, compliance frameworks and information technology platforms, while expanding into external markets. Given the fragmented nature of Japan's insurance distribution market, the potential for value creation through consolidation is substantial.

#### **Domestic independent agencies and platform players**

These players focus on expanding their customer base and enhancing portfolio quality. Relationships with large corporate clients held by in-house agencies are difficult to replicate through organic growth and represent high-value assets.

They may also seek to strengthen risk management capabilities, deepen sector expertise or enhance global service capabilities, while maintaining continuity with existing customer relationships.

#### **Global independent agencies and platform players**

Leveraging global networks and specialized expertise, these players pursue acquisitions to strengthen their presence in Japan and enhance service offerings. In-house agencies can be integrated into existing platforms to generate additional value.

The distinction from domestic players lies less in capability than in their approach, emphasizing globally standardized service delivery and expansion into specialized domains.

## 5.2. Key success factors in acquisitions

Even where acquisition opportunities arise, success depends on postacquisition value creation. Key factors include:

- **Activation of customer base and service expansion**  
Deepening engagement within existing corporate relationships and expanding service offerings is a practical path to revenue growth.
- **Integration of back-office functions**  
Consolidating fragmented administrative functions (policy management, compliance, finance) improves efficiency and reduces costs.
- **Digitalization and productivity enhancement**  
Digitizing processes across sales support, customer management, quoting, contracting and claims can significantly improve productivity.
- **Smooth stakeholder transition**  
Successful carve-outs depend on maintaining relationships across employees, customers and the parent company. In Japan, employment continuity, stable working conditions and service continuity are critical, making transparent, trust-based transition design as important as the postacquisition operating model for execution and value creation.

It is also expected that group life insurance programs will remain with the parent company, limiting the acquisition scope primarily to nonlife agency functions.

## Conclusion: The importance of acting now

The in-house agency landscape is at a structural inflection point driven by regulatory change. Previously tolerated business models are now being reassessed based on the in-house groups' ability to operate as independent agencies.

Companies face three strategic options — comply, divest or expand — none of which can be pursued passively. Each requires deliberate, strategy-aligned preparation, and given the regulatory timelines, delaying decisions is not viable.

As restructuring accelerates, market conditions may shift, with more sellers potentially impacting deal dynamics and transaction terms.

Ultimately, the priority is to define the in-house agency's role within the broader portfolio, shaping compliance, competitiveness and resource allocation. Deciding whether to retain, externalize or scale is no longer optional — it is a proactive strategic imperative.

## About the Authors



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Yoshi is a Partner in L.E.K. Consulting's Tokyo office with more than 25 years of management consulting experience in insurance and financial services across the Asia-Pacific region, including Japan and Australia. He advises insurers, brokers, MGAs, financial institutions, and non-financial services convergence players on growth strategy, cross-industry financial convergence, digital transformation, Insurtech and Fintech investments, M&A, operational efficiency, and large-scale transformation. His work spans both mature and high-growth markets across the region.



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