A leader and a thinker, Denis Kessler is a real connoisseur of Japan. Here he talks frankly about thirty years of passion as well as current affairs.

Japan has recently experienced a terrible catastrophe. What does a reinsurer say about such a disaster? How does he react to improbable, unthinkable events like these? Does he have the tools to evaluate such damage?

This catastrophe, which was extraordinary in every sense, moved the entire world and particularly those, like myself and my colleagues at SCOR, who have a long history with Japan and are attached to its people and its culture. We immediately concerned ourselves with the fate of our employees and the way in which we could best help our clients to confront such an event. Even though the earthquake and the tsunami were of an unprecedented intensity, it is our job to be prepared for such events and to face up to them. Of course, we have tools to estimate the probability of natural catastrophes across the world and to model them. We also have very sophisticated technology to absorb the costs, with diversification of the risks which we underwrite and various types of cover to reduce the impact of these risks on our balance sheet, such as retrocession or “catastrophe bonds”. Each new event is taken into account in our models and completes our knowledge of risks.

For how long have you been coming to Japan?

I first came to Japan in 1975, 36 years ago. I was an intern at the property and casualty insurance company Tokio Marine. In the 1970s there were just a handful of Frenchmen who were interested in Japan: Daniel Lebègue, Louis Gallois, Jean-Marc Sauvé (Vice President of the French Council of State), Christian Sautter (Former finance minister) and Denis Antoine (banker).

Do you think there are any lessons learned by Japan which are not taken on board by France?

I’ve followed Japan’s ups and downs. Japan Inc. was led by the real estate boom, sustained growth, exports and revolutionary production techniques. We were told we should manage our companies like the Japanese. This success story turned on its head in the 1990s and was replaced by an extended period of deflation and the growing importance of China. It seems unbelievable now to realize the extent to which Japan was relegated to second place, or even ignored. For example, in Davos, there is no longer any interest in Japan; everyone talks about China.

How can we explain this stagnation?

Japan has the problem of societies which look for consensus at all costs and cannot cut the Gordian knots of history.
It should cut its public expenditure and increase taxes, but it can’t... and the result of this chronic indecision is the state of its public finances. Each successive government lets them deteriorate even further. Ultimately, it is the acceptance of a relative decline that is striking. And to think I knew Japan the conqueror! Japan’s shift from second to third place in the global economy is now well confirmed. Take the example of the aviation industry. Tokyo could easily have become the key hub of the Asia region, as Japan was already relatively open compared to the rest of the region. Today, the main hubs are Hong Kong, Shanghai, Singapore and even Seoul.

**But aren’t they safe because they hold their own debt?**

That’s not the problem. For now, public debt is rising constantly and is remunerated at 1% as there is neither economic nor demographic growth. But regarding the debt, they ought to repay the principal. If the savings rate continues to decline, which is expected in countries with an ageing population, the interest rates will rise and the debt could explode.

**What is Japan’s place in international debates?**

Recent events have shown the difficulty that Japan has had in communicating, in the true sense of the word, with its neighbours and the international community. Japan was confronted with a catastrophe, the consequences of which extend well beyond its borders, with the shockwave reaching the entire world. Japan’s integration on the world stage remains difficult. From an economic and regulatory point of view, we are experiencing a historical period in terms of the creation of global standards. These standards will last for several decades. And Japan is not really a leader in any field. The Japanese watch the “standards trains” go past without climbing onboard, without driving the train and without managing the points. They watch and they consider how they can apply them. Why don’t they come up with any proposals? The Chinese, on the other hand, want to actively participate in drawing up new standards. They no longer accept that they are decided upon by a small group of western countries.

**Aren’t there any reasons for optimism?**

What does make me optimistic about Japan is the importance of their scientific and technological research in relation to their GDP. It’s a considerable effort. Furthermore, their research fields could enable them to surf the next technological wave. For example, they are leaders in nano-technologies. They retain their passion for innovation in key areas such as robotics.

However, the laborious management of the nuclear crisis at the Fukushima power plant showed a number of areas of weakness and reveals the need for deep-seated change in the relationship between
science and technology and society. We can only allow ourselves to be optimistic if Japanese society actively purses its scientific and technological progress and reconciles itself with the political elite.

Japan has refused every trend followed by developed societies for 30 years: it has refused immigration, refused to question authority, refused the “shareholder is king” model, refused performance-based remuneration...could it have become an anti-model?

There was social cohesion and wealth-sharing, indeed, but at the same time there was a loss of strategic bearings and stagnation. The definitive choices have not yet been concluded. If we compare the destiny of Singapore with that of Japan over the last 30 years, the difference is unbelievable! Singapore has opened up permanently, it has become a link between India, China and south-east Asia, has accepted immigration, has sound public finances, has been able to attract capital and has accumulated a large sovereign wealth fund, whereas Japan is gradually falling behind. The political instability of the country is not helping resolve the problems in a timely fashion. At least France has the European constraints to allow it to grow and reform.

But isn’t this model, which guarantees full employment, extremely commendable? After all, the fight against unemployment has been the priority of every government in France for 30 years, without success...

When I arrived at the hotel earlier, there were two people to welcome me and take me to the reception. Socially-speaking it’s very commendable but is more contestable from an economic point of view! You know as well as I do that it is very difficult to cut down on staff in Japan. Instead, adjustments are made to the detriment of savers, with interest rates close to zero. And this is what’s astonishing: the Japanese continue to save even though their savings are barely remunerated. The country has decided to encourage job-sharing, irrespective of the consequences. For example, at Davos last year, the Japanese Prime Minister talked of social cohesion, not of the financial or economic problems.

Japan is managed like a family in some respects; the social model finds its inspiration in the family. The relationships are hierarchical and foreigners don’t really have their place in the system. Everyone has his role. As you know there isn’t any unemployment in a family. But I don’t think that this model, which has its scope and its limits, can be reproduced elsewhere.

What development model do you recommend for Japan?

The production costs, the exchange rate and the ageing population will force the Japanese to leave their borders a little more and to open up, even if they will predominantly remain an insular people. Their capacity to adapt can be improved upon, to say the least. They do well abroad what they do well in Japan, but what they don’t do abroad, they don’t do in Japan. Finally they haven’t fully grasped
globalisation, which represents, like it or not, a hybridisation of cultures, of management methods, of practices...

Japan could perhaps follow the same fate as that of the UK, another former industrial power: one possible scenario would be that Japan becomes a kind of financial holding, a pension fund, which invests abroad and lives off the exploitation of its property rights, particularly its patents, licences and dividends. This would only be possible under certain conditions: international stability, the possibility to repatriate its capital as it wishes, the respect of its property rights, etc. Yet the world is unstable, capital movements are still not as fluid as we would like them to be and property rights are often flouted.

**What about the Japanese insurance sector, which you know very well?**

In 1975 there were a great deal more insurance companies, both Life and P&C, than there are today. There are only really three or four groups who are active in both Life and P&C. These groups share between them most of the domestic insurance market which is tending to stagnate. They have been following a new internationally-oriented strategy for several years, particularly geared towards Asia (China, India, Malaysia, Singapore, etc.). They have historically accompanied Japanese exporters in their global development; they now want to extend beyond this and carry out “domestic” insurance elsewhere. In brief, alongside insuring Japanese interests in India they also want to insure Indian interests in India. This will require a cultural transformation; it requires a veritable somersault to make them global and “multi-domestic”. They need to become Japanese in Japan and French in France. Because it is those groups which are able to feel at home across the world, which will succeed in globalisation.

The catastrophe of 11 March might curb this movement in the short term, as Japanese insurers are currently concentrating on settling the claims and on their clients who are durably affected by this catastrophe. But in the long run, this kind of extreme event only goes to reinforce the necessity for Japanese insurers to be more diversified, present in different countries and continents.

**It is often said that insurance saved the banks in Japan, is this true?**

Yes. Japan saw a transfer of wealth in the 1990s from insurance to the banks. The crises, particularly the real estate and credit crises, were largely absorbed by the insurers and the insured, whilst the policy holders were remunerated at 0%.

**Does Japan still fascinate you?**

We work in 160 countries. Japan is still an exceptional country. It has a complete, organised and coherent culture ranging from flowers to cooking, architecture, cinema, literature...It still manages to escape the cultural hybridisation that other countries succumb to. Japan continues to fascinate me as it
is unique and it is very difficult to comprehend. Its challenge is to survive the 21st century whilst keeping hold of its position, its power and its originality.