

Activities and Outline of LIAJ

1. Requesting and Representing Opinions

(1) IAIS

Revision to the Insurance Core Principles and Methodology

LIAJ was invited to comment on the Revision to the Insurance Core Principles and Methodology by IAIS on January 31, 2003, and submitted the comments on March 28, 2003. Our comments addressed a wide range of issues, hoping that the Insurance Core Principles would be revised in light of the specific conditions and supervisory policies of each country. The Revision Draft to the Core Principles and Methodology, our comments, and the results of the related discussion by the “IAIS Working Group for the Revision to the Core Principles” were published on July 1, 2003, in which our comments were partially reflected.

Finally, the “Revised Insurance Core Principles and Methodology” was adopted at the IAIS General Meeting held in Singapore in October 2003.

Submission of comment on the IAIS Consultation Paper (Disclosure Standard/Stress Test Guidance)

On March 13, 2003, IAIS again invited LIAJ to comment on the “Standard on Disclosures Concerning Technical Performance and Risks for Non-life Insurers and Reinsurers (Draft)”. The outline of our comments submitted on May 14, 2003 was,

(Preface)

We notice the statement, “later on, a standard on technical performance and risks for life insurers is envisaged”. Since it is important to duly consider the nature of the life insurance business in drafting a standard for life insurers, the standard for non-life insurers and reinsurers should not be simply applied to life insurers. Therefore, opinions from members and observers of IAIS should be invited and considered while drafting a standard for life insurers, then appropriately reflected in it.

(Paragraphs 1-2)

Paragraph 1-2 itemizes the kind of information that should be disclosed by insurers. Since the information could be related to the internal decision-making policy of life insurers, it should not be widely disclosed to third parties. In this regard, we propose that this paragraph should contain a provision that the standard for disclosing the information should be decided in accordance with the supervisory policies in each country.

(Paragraphs 5-46)

Insurers are required to “disclose a broad outline of the sensitivity, stress testing and scenario analysis that have been undertaken”, according to Paragraphs 5-46. These matters are internal information for management to use in deciding insurers’ business strategies, and also some of the information shows the results obtained under scenarios which assume the economic situation will be aggravated in the future. We are concerned that disclosing such data may incur misunderstanding among investors and policyholders. Therefore, disclosing such data is not appropriate, and we request to have this part deleted.

Regarding the "Stress Test Guidance Paper", LIAJ submitted comments on July 17, 2003, responding to the invitation sent on April 10, 2003, by IAIS.

Outline of our comments:

The criteria that are used by each jurisdiction for the purpose of supervision should be deliberately considered based on the accounting principles, supervisory regimes and market environment of each country.

(Paragraph 12)

LIAJ would suggest that the sentence below should be added in paragraph 12.

"Criteria including scenarios used for standard stress tests should be developed in such a way that the risk environment of each jurisdiction is duly taken into consideration"

(2) IASB (International Accounting Standards Board)

IFRS 4 Insurance Contract

The establishment of the international accounting standards for insurance contracts was under discussion at the meeting of the International Accounting Standards Board (IASB) held in May 2002. IASB published the Exposure Draft of Insurance Contracts Phase I (ED5) on July 31, 2003, as its provisional standard on which the Board decided to widely seek public comment through October 31, 2003.

LIAJ submitted its comments to IASB on October 31.

The outline of the comments

As we comment, we take the fundamental position that the accounting standards for insurance companies should meet the following requirements.

1. The accounting system must be useful from the standpoints of the financial soundness and the protection of policyholders which are required of the insurance industry.
2. The financial statement must properly reflect the business activities of an insurance company (recognizing revenue when the insurance company is released from the underwriting risks, not recognizing it at inception).
3. Accounting standards must make it practically possible to recognize and measure insurance liabilities with reliability and comparability.
4. The system must ensure that preparing the financial statement is possible within a reasonable cost and time frame considering the balance between benefit and cost.

Regarding the content of an IFRS Insurance Contract, our proposal was:

1. The scope of the IFRS should not be limited to insurance contracts alone, and furthermore should aim at properly representing the overall financial standing of an insurer.
2. The establishment of a new category for an asset held to back insurance liabilities or the relaxation of the criteria of IAS39 for classifying financial assets as held-to-maturity.
3. In deliberating Phase II, discussion should include reconsideration of the question whether or not the current definitions of assets and liabilities in the conceptual framework are appropriate for insurance.
4. The fair value disclosure issue should be discussed anew after the Phase II recognition and measurement standards are determined.

Due process of the IFRS

LIAJ proposed to eliminate the deliberations and decisions that are being premised on the undetermined items in the Draft, reflect the opinions of insurance experts such as the Insurance Advisory Committee, and clearly separate Phase I from Phase II.

On the same day, LIAJ also submitted the joint comment letter, in collaboration with the seven associations of the four countries, which included Japan, the United States, Germany, and Austria, to IASB.

Based on the received public comments, IASB published the IFRS 4, Phase I Insurance Contract on March 31. Reflecting the comment on ED5 of more than 130 letters opposing the disclosure requirement of fair value, on which LIAJ also took the same position, IASB decided to withdraw the requirement.

IASC Foundation Constitution Review

The constitution of the IASC Foundation provides the operation procedure for both the IASC Foundation and IASB, and mandates a review of the constitution every five years. Therefore, the trustees established the Trustees' Constitution Committee, and announced "Identifying Issues for the Constitution Review" on November 12, 2003, on which comment was widely invited through February 11, 2004.

LIAJ's comments submitted on February 11 was,

Outline

The potential effect of the Insurance Contracts Project could be significant to the industry. LIAJ believes that the IASB should ensure transparent, fair discussion and deliberate in a more diligent and appropriate manner in order to reach a consensus among the associates.

IASB sometimes makes a decision on a crucial policy on the grounds (partially) of consistency with the IASB Framework. However, the IASB Framework is not the absolute principles, but by its nature subject to continuous review of its appropriateness.

Paragraph 4 in the Introduction of the IASB Framework states: “The Framework will be revised from time to time on the basis of the Board’s experience of working with it”. However, it is not clearly stated how the revision of the Framework should be made, for example, by whom and by what procedure, and we believe that it should be clarified.

On the same day, LIAJ also submitted joint comments in collaboration with the seven associations of the four countries, including Japan, the United States, Germany, and Austria, to IASB.

(3) Submission of our comment to OECD on corporate governance

The Principles of Corporate Governance were enacted by the OECD (Organization for Economic Co-operation and Development) in 1999. At the OECD Council Ministerial Level in May 2002, the revision of the Principles was resolved, followed by an invitation to public comment on the proposed draft on January 12, 2004. Responding to the invitation, the Life Insurance Association of Japan submitted its comments to OECD on February 5, 2004, as follows:

General remarks (outline)

It would be important to continuously analyze and review the issues regarding corporate governance, in light of the socioeconomic environment of each country.

The Principles of Corporate Governance should be minimal and appropriate, so that they enable us to respond promptly and flexibly to the socioeconomic environment of each country based on its historical and cultural background.

Particular Issues

I-F

The revision of the Principles has been based on the survey conducted from 2002 through 2003, which cites an example of a US mutual funds case in relation to the requirement of disclosing the voting records of an institutional investor acting in a fiduciary capacity. Nevertheless, we consider that the Principles should be minimal, and it is not appropriate to revise the Principles based on a case of US mutual funds where its effectiveness had never been verified. Hence, I-F “The voting record of such investors should also be disclosed to the market on an annual basis” should be deleted.

Annotations to I-F

Certainly there are some institutional investors who act in a fiduciary capacity, but laws and regulations that entitle such investors to fiduciary responsibility vary country-by-country, and so do the contents of responsibility. In some cases, voting rights may not be recognized as a part of the investment. From this point of view, it is inappropriate to uniformly exemplify “an institutional investor acting in a fiduciary capacity” in the Annotations to the Principles, which are supposed to be minimal, without verifying systems, regulations and substantial facts in each country. Therefore,

“Pensions, fund, mutual investment schemes and some activities of insurance companies”, cited as examples of institutional investors acting in a fiduciary capacity in the Annotations to I-F, should be deleted.

(4) Introduction of Kampo’s new product to the Japanese market

In September 2003, Japan Post applied for approval of its new whole life insurance product (whole life insurance with double protection policy), explaining it as a measure for “upgrading the product and service of Kampo”.

This product pays only a half or one fifth of the entitled death benefit to the insured after the insured reaches the designated age of payment completion, while offering lifetime coverage. The product bears very close resemblance in nature to the “whole life insurance with a term rider” which has been a major product offered by the private life insurance companies. Worse, since the product offers a lifetime medical rider with lower premium than existing whole life insurance does, it competes with third sector products such as medical insurance.

Fearing the new product would interfere with the business of the private sector, on the date application was filed, LIAJ published its comment under the name of the chairman that the association firmly takes a position of opposition to the introduction of such a product.

Since then, as a part of continuous efforts, LIAJ has submitted its opposing opinion under the name of the chairman to Mr. Ikuta, who is the president of Japan Post, as well as requesting the Ministry of Public Management, Home Affairs, Post and Telecommunications to thoroughly examine the application for approval by taking the impact of the new product on the private life insurance sector into consideration. Nevertheless, on November 14, 2003, the Minister of Public Management, Home Affairs, Post and Telecommunications gave approval to the new Kampo product, being based on the ground that there is no citation of “impact on the private sector” in the examination standard used for approval; hence, the new product meets the standard.

Taking objection to the approval, the chairman of the LIAJ again made comments, strongly requesting that Japan Post should make a discerning decision to suspend the introduction of such a product by paying attention to the developing opinions against it and the ongoing discussions on privatization of Japan Post.

Despite our efforts, Japan Post launched the product in the market in January 2004, based on the judgment that it would impact the private sector only to a minimum extent.

The sales figures for the new product as of March 2004 reached 84,000 in number of policies and ¥231.4 billion in value. It occupies approximately 10% of the newly underwritten insurance policies in number and was ¥27.4 billion in value per policy.

(5) Privatization of Japan Post

On September 22, 2003, the second term cabinet led by Prime Minister Junichiro Koizumi published its “Key Economic Policy”, announcing government plans to privatize the nation’s postal service (postal savings, Postal Life Insurance (Kampo), mail delivery) in stages beginning in 2007, to finish preparing the draft by fall of 2005, and to submit the Bill for Reform to the Diet in the same year.

Subsequently, discussion of Japan Post Privatization was initiated at the Council on Economic and Fiscal Policy. On October 3, the council published the “Five Principles for Japan Post Privatization” and announced the schedule to draw up the interim report by sometime in spring 2004, and the final report by fall 2004.

The Five Principles are to,

1. Revitalize the Japanese economy by practicing the Basic Policy on Economic and Fiscal Management and Economic and Social Structural Transformation for 2003 - “leaving what can be handled by private enterprises in their hands” (Principle of Revitalization)
2. Reform consistent with the ongoing structural reform as a whole (Principle of Consistency)
3. Reform taking the interests of people into consideration (Principle of Interest)
4. Reform by utilizing the existing resources of Japan Post such as a nationwide office network.
5. Thoroughly take the employment issue of Japan Post into consideration (Principle of Consideration)

Furthermore, the council published the following “10 key discussion issues” on November 18, 2003.

1. Current status of Japan Post
2. Privatization of Japan Post by practicing the basic principle “leaving what can be handled by private enterprises in their hands”
3. Ideal post-privatization business model
4. Relation to the Financial System Reform
5. Securing fair playing field in the market
6. Relation to the Financial Structural Reform
7. Securing the benefit of respective regions and people
8. Securing the existing management resource currently owned by Japan Post
9. Transitional period
10. Organizational structure of newly privatized entity

On April 26, 2004, the government published the interim report summarizing the preceding discussion. The report stated that Japan Post would be separated into four independent businesses, consisting of postal saving, Kampo, mail delivery, and management of nationwide over-the-counter service at post offices. It also specified the function of each in order to accomplish individual objectives. Nevertheless, it deferred discussion regarding future organizational structure and business model of the new entity.

The interim report summarizes the postal savings and Kampo issues as follows,

1. We will aim at establishing a business model that fully satisfies the needs of users.
2. The huge resources currently owned by Japan Post should be smoothly integrated into the financial system of the private sector.
3. We will fully consider a privatization plan that is consistent with the ongoing financial structural reform, the reform of government-affiliated financial institutions, government-affiliated corporations and others, and how the privatization might contribute to solid government bond sales.
4. For sound management of postal saving and Kampo prior to privatization, the guarantee level offered by the government should remain as before. For sound management after privatization, the guarantee level should conform to the regulation for the private sector.

On the same day, the "Preparatory Office for the Privatization of Japan Post" was launched. Yoshiaki Watanabe, the former Vice Minister of Agriculture, Forestry and Fisheries was appointed as its head. Shinichi Nabekura, the former Vice Minister for Policy Coordination of Public Management, Home Affairs, Posts, and Telecommunications, and Shokichi Takagi, the Commissioner of the Financial Services Agency, were appointed deputy heads.

In addition, the "Council on Privatization of Japan Post" was also launched with the purpose of assisting and directing the drawing up of a concrete draft and bill for the privatization, and the submissions from associated parties had been conducted.

The members of the council are,

Motoshige Ito	Professor of Tokyo University
Sakon Uda	Principal of McKinsey & Company
Yuri Okina	Japan Research Institute, Limited
Akio Okuyama	President of the Japanese Institute of Certified Public Accountants
Atsushi Miyawaki	Professor of Hokkaido University
Naoyuki Yoshino	Professor of Keio University

On July 12, Vice Chairman of LIAJ, Mr. Takishima, was invited to the hearing session of the council in order to deliver a statement (outlined below).

Simultaneously, the Liberal Democratic Party of Japan launched the "Select Commissions on Japan Post Privatization" on January 29, 2004, began discussion of the privatization, and conducted hearings of the associated parties and administrations, which continued until June of this year.

In February 2004, LIAJ published the brochure that summarized the ideal future of the Kampo business. The outline of our basic ideas is,

1. Now that private insurers are capable of providing various products and services that meet consumers' needs in any district, there are no products or services provided exclusively by Kampo.
2. In the course of the discussion on the future of public investment and the government-affiliated corporation, if public finance is to be scaled back, accordingly the role of Kampo as a raiser of public finance needs to be diminished.
3. The Kampo business is no longer relevant and is potentially detrimental to the development of a sound life insurance market. It should be reduced or abolished, by following the basic policy of the structural reform "leaving what can be handled by private enterprises in their hands".
4. The business advantages as a governmental enterprise, if Kampo were to be privatized, should be eliminated; hence, identical conditions of competition to those of a private life insurer are essential.
5. If Kampo is privatized without an equal competitive footing being achieved, and its entry into the market is approved without limitation on its scope of business, it is clear that the dominant position of Kampo in the life insurance market would be further promoted, which is highly likely to affect consumers' interests gained through healthy competition in the market.

(6) Submission of LIAJ's request for Regulatory Reform

Representing the insurance industry, LIAJ regularly submits requests to the Council for Regulatory Reform (organization established under the Cabinet at the request of the prime minister to comprehensively investigate and deliberate basic issues on necessary reforms from the perspective of promoting economic and social structural reform) and to the Japan Business Federation.

Our request for 2003 was to,

1. Allow the insurance industry to perform fiduciary business and act as an agent to perform back office operations.
2. Expand the scope of business concurrently conducted by subsidiaries of insurance companies, which act as agents for insurance companies and perform back office operations for insurance related business.
3. Allow subsidiaries of insurance companies to provide counseling for real estate investment.
4. Relaxation of the Income Dependency Regulation regarding subordinate business of insurance company subsidiaries.
5. Secure special account in the event that an insurance company becomes insolvent.
6. Receive, transfer from/to and directly inject premiums to the special account, and in the form of real assets such as stocks and securities.

7. Review Postal Life Insurance.

8. Clarify application standards of the Insurance Business Law on unregulated Kyosai.

- On October 21, 2003, the Japan Business Federation published the “Request for Regulatory Reform by the Japan Business Federation 2003”, in which six of our requests were included.
- On December 22, 2003, the Council for Regulatory Reform published the “Third Report Regarding Promotion of Regulatory Reform” in which three of our requests were included.
- On March 19, 2004, the Cabinet Council resolved the “Three Year Program for Promoting Regulatory Reform” in which four of our requests were included.
- Our request No. 2, “Expand the scope of business concurrently conducted by subsidiaries of insurance companies, which act as agents for insurance companies and perform back office operations for insurance related business”, was realized by the partial revision of the enforcement regulation of the Insurance Business Law on July 7, 2004.

(7) Request for Tax Reform

As Japan is transforming itself into a rapidly aging society, it has become indispensable for people to have lifetime coverage through the combination of the public social security system, life insurance, and private coverage such as individual annuity which is offered by people's voluntary self-help efforts.

Encouraging such efforts, LIAJ submitted a request concerning the tax law changes for 2004 to the associated authorities on September 19, 2003. The request addressed the substantial issues:

To raise tax-deductible limits for life insurance premiums applicable to income tax, to ¥100,000.

To raise tax-deductible limits for individual annuity premiums applicable to income tax, to ¥100,000.

To add ¥5,000,000 of spouse benefit + (the number of dependent heirs apparent under 18 years old) × ¥5,000,000 to the current exempt limit for inheritance tax applicable to sums payable at death.

Moreover, as a part of efforts to realize those requests, LIAJ, in collaboration with the National Federation of Life Insurance Workers' Union of Japan, collected approximately 11,080,000 signatures nationwide from September 29 through October 10, 2003.

As a result, the government decided that the tax-deductible limits for premiums should remain unchanged for fiscal 2004.

- (8) Promulgation of the Personal Data Protection Law, and submission of LIAJ's comments on the draft for the Legislative Bill.

The Personal Data Protection Law was approved on May 23, 2003, and promulgated on May 30, 2003. Chapters 1 through 3 provide the objective and fundamental philosophy of the law, which had taken effect immediately on the promulgation date. Chapters 4 through 6 that provide the obligation of those who handle personal data are scheduled to take effect on the date designated by the cabinet within two years from the promulgation date.

On September 26, 2003 the draft for the Legislative Bill to determine the date for partial enforcement of the "Personal Data Protection Law, the Government Ordinance for the enforcement of Personal Data Protection" was announced, on which public comment was invited. On October 24, 2003, LIAJ's comments were submitted to the cabinet.

Outline of LIAJ's comments

1. With regard to the draft Legislative Bill to determine the date for partial enforcement of the Personal Data Protection Law:

For its smooth enforcement, we request the government to immediately establish a fundamental policy which pays attention to the substantial facts of personal data handling by entities, and to provide those entities with the information in a timely and appropriate manner.

2. With regard to the information which is to be excluded from kept personal data:

Assuming that a number of companies possess the personal data as a list with the purpose of preventing anti-social behavior and criminal acts, LIAJ would like to verify that the information should be categorized as "the information described in the draft Legislative Bill that might endanger the life of a third person, body and property, and promote and trigger illegal or wrongful behavior by its existence being revealed".

3. With regard to the method used by business enterprises to disclose personal data:

Unless there is no clear customers' will to disclose their personal data, the information should be given out verbally, not in writing.

4. With regard to a person who requests the disclosure of personal data on behalf of the customer:

As long as it is presumed that the disclosure is indispensable for business operation, the information might be disclosed to the person who acts on behalf of the customer even without request from the customer.