

**LIFE INSURANCE
BUSINESS
IN JAPAN**

2003/2004

The Life Insurance Association of Japan

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MESSAGE FROM THE CHAIRMAN

Aiming at sound development
and
enhanced reliability
of
the life insurance business



The life insurance business, alongside the social security system, plays a role as one of the twin pillars of social infrastructure that support people's lives, and its responsibility is increasing ever more in the aging society with a low birthrate .

The life insurance business has its origin in the idea of "mutual aid", and the nature of the business is to appropriately undertake risks and develop a sound group of insured in order to continue providing coverage to policyholders in the long term. The reform and liberalization of regulations in Japan have made our business options more diversified. Our own consciousness and responsibility based on the nature of the business are indispensable for the sound development of this trend.

Each life insurance company is required to maintain soundness of business operations, without forgetting the nature of the business, in order to complete the mission of continuing to provide coverage to policyholders throughout the next era, while recognizing that the life insurance industry is part of the social infrastructure supporting people's self-help efforts, and is required to respond to customers' reliance.

Considering the above, we recognize that the principal mission of the Life Insurance Association of Japan (LIAJ) is as follows:

1. Consolidating the disciplines and standards that are necessary for the sound development of the life insurance business
2. Making these disciplines and standards well established in each life insurance company
3. Informing people of the activities of the LIAJ, and promoting their understanding concerning the significance and importance of the life insurance industry

The LIAJ will continue to dedicate all its efforts to contribute to the sound development of the life insurance business in order to meet people's increasing expectations.

A handwritten signature in black ink, which appears to read "Ikuo Uno". The signature is fluid and cursive.

Ikuo Uno
Chairman
The Life Insurance Association of Japan

Summary of Life Insurance Business in Japan (Fiscal 2003)

1. Organizational Structure

The Life Insurance Association of Japan (LIAJ) represents all life insurance companies operating in Japan. During fiscal 2003, the number of member companies increased to 40 from the previous year of 42.

Also, the number of agents, the mainstay of distribution channels, began to fall after peaking at 440,000 in 1990, and decreased to around 270,000 in 2003. Meanwhile, given the further deregulation of sales of individual annuity by banks started from October 2002, the number of employees of agencies dramatically increased. Currently, the members of LIAJ consist of 33 stock companies, 7 mutual companies. In 1960, there were only 4 stock companies registered as members. This recent increase in the number of member stock companies is mainly attributed to the enforcement of the Revised Insurance Business Law in April 1996, which approved the non life insurance companies' entry into life insurance market by a subsidiary stock company, and the conversion of a mutual insurance company into a stock insurance company.

Table 1. Organizational Structure

Fiscal Year	Number of Member Companies	Agent, Agency		
		Agent (thousand)	Agency (thousand)	No. of Employees of Agencies (thousand)
1960	20(4)	160	-	-
1970	20(4)	318	-	-
1980	22(6)	306	-	-
1990	30(14)	444	-	-
1999	47(32)	336	187	204
2000	47(33)	315	182	232
2001	44(32)	302	145	296
2002	42(34)	284	139	693
2003	40(33)	268	130	714

(Notes) The numbers in brackets are the number of stock companies in member companies

2. Balance Sheet

At the end of 2003, the amount of assets held by member life insurers increased by 2.5 % from the previous year to ¥184 trillion (or roughly \$1744 billion), increased for the first time in three years. Because new businesses were written at the same levels at which business were cancelled or lapsed, liabilities showed a slight decline of 7.3%. While liability reserves slightly increased by 0.7 % from the previous year due to the recovery of stock market, as a result, there was 303 billion yen (or roughly ¥ 2.8 billion) buildup in price fluctuation reserves. The capital increased by 62.1 % to ¥ 9 trillion (or roughly \$85 billion).

YEN/US Dollar=¥105.64 (as of the end of March 2004) is applied to translation into dollar-denominated prices.

Table 2. Balance Sheet

(billion ¥)

Fiscal Year	Assets		Liabilities			Capital
	Total	% of Nominal GDP	Total	Liability Reserves	Price Fluctuation Reserves	Total
1960	752	4.5	710	628	0	41
1970	5,854	7.8	5,567	5,070	0	287
1980	26,257	10.7	24,689	22,019	-	1,568
1990	131,618	29.7	126,595	118,032	-	3,655
1999	190,032	37.0	185,610	168,103	707	4,422
2000	191,730	37.6	185,673	166,857	783	6,057
2001	184,370	36.6	177,299	161,221	603	7,071
2002	179,831	36.1	174,276	159,649	467	5,554
2003	184,329	36.8	161,484	160,714	770	9,003
G.R. (%)	2.5	0.7	- 7.3	0.7	303	62.1

3. Asset Distribution

At the end of 2003, assets held by life insurers amounted to \$184 trillion (or roughly \$1741 billion), Securities, the largest component of assets, amounted to ¥ 120.457 trillion (or roughly \$ 1140 billion), which accounted for 65 percent of total assets.

Loans were the second largest component, and amounted to ¥41.720 trillion (or roughly \$394 billion), which accounted for 23 percent of total assets.

With the regard to securities holdings, the percentage of domestic stock accounted for 11.6 percent, and exceeded corporate bonds of 10.2 percent. As interest rate remained low, insurers have invested their assets in various foreign securities, the percentage of foreign securities holdings was a record high of 18.3 percent. Reflecting weak corporate demand for funds, loans decreased to 22.6 percent, which was a further decline from the previous year.

Table 3. Asset Distribution

(billion ¥, %)

Fiscal Year	Total Assets	Securities							
		Total	Government Bonds	Corporate Bonds	Stocks	Total	Foreign Securities		
							Government Bonds	Corporate Bonds	Stocks
1960	752	185	0.2	10	171				
1970	5,854	1,274	33	85	1,145	0.2			
1980	26,257	7,976	604	1,422	4,520	668	426	173	28
1990	131,618	58,887	4,961	5,257	28,916	17,199	6,470	4,960	3,763
1999	190,032	104,993	29,767	15,329	28,434	22,032	8,030	7,475	4,614
2000	191,730	110,414	31,779	17,819	29,467	21,910	6,519	8,530	4,135
2001	184,370	111,020	32,832	17,926	24,707	26,419	7,308	12,287	3,635
2002	179,831	110,494	34,809	19,217	17,228	28,965	8,609	14,317	2,682
2003	184,329	120,457 <65.3>	35,524 <19.3>	18,877 <10.2>	21,362 <11.6>	33,789 <18.3>	11,936 <6.5>	15,467 <8.4>	2,787 <1.5>

Figure shown in < > is a ratio to aggregate assets

(Continued from above table)

Fiscal Year	Total	Loans		Cash Reserves + Call Loans	Real Estates
		Policy Loans	Financial Loans		
1960	463	56		19	75
1970	3,928	393		94	516
1980	15,685	1,117		660	1,647
1990	49,894	3,219		8,161	7,186
1999	54,761	4,848	49,913	11,671	9,150
2000	49,997	4,844	45,152	10,257	8,158
2001	47,056	4,691	42,364	6,303	8,081
2002	44,468	4,559	39,908	5,388	7,593
2003	41,720 <22.6>	4,356 <2.4>	37,364 <20.3>	4,926 <2.7>	7,682 <4.2>

< Reference > (billion ¥, %)

Fiscal Year	Loans Abroad
1960	
1970	
1980	524
1990	6,345
1999	4,398
2000	4,085
2001	4,220
2002	3,668
2003	3,331 <1.8>

4 . Distribution of Life Insurers' Revenues and Expenditures

(1) Premium Income

Thanks to the good sales of individual insurance, premium income for fiscal 2003 increased by 1.8 percent from the previous year to ¥25.9608 trillion (or roughly \$245 billion).

Table 4. Premium Income

(billion

¥、 %)

Fiscal Year	Total of Premium Income	Individual Insurance	Individual Annuity	Group Insurance	Group Annuity	Reinsurance
1960	255	242	0.0	12	-	-
1970	1,800	1,589	26	84	98	-
1980	8,226	6,596	66	694	814	6
1990	27,320	16,648	1,601	1,368	7,177	150
1999	27,607	16,675	2,134	1,375	6,912	128
2000	26,940	16,164	2,172	1,372	6,839	41
2001	26,185	15,671	2,135	1,356	6,631	31
2002	25,511	15,722	3,022	1,318	5,135	21
2003	25,960	14,867	4,638	1,296	4,870	16
G.R. (%)	1.8	- 5.4	53.5	- 1.7	- 5.2	- 23.8

(2) Life Insurers' Expenditures

Life insurers' payment under life insurance policies increased by 2.5 % from the previous year to ¥24.2445 trillion (or roughly \$229 billion). The result is attributed to the increase in repayment by 11.1 percent to ¥ 1 trillion (or roughly \$9 billion) even though the benefit payment decreased by 28.9 percent to ¥ 3.6 trillion (or roughly \$34 billion). Reflecting the cost-cutting efforts by every life insurer, operating expenses were ¥3.5706 trillion yen (or roughly \$33 billion), which is a decrease by 0.7 percent from a year ago.

Table 5. Expenditures

(billion ¥、 %)

Fiscal Year	Total	Payments under Life Insurance Contracts etc.			Addition to Reserves	Operating Expense
		Benefit Payment	Annuity Payments	Repayments		
1960	48	35	-	12	-	81
1970	572	351	4	214	-	465
1980	3,293	2,446		843	2,846	1,954
1990	12,785	8,462	277	3,999	13,149	4,202
1999	28,826	14,639	1,198	12,647	2,615	3,795
2000	25,051	12,622	1,274	10,885	2,551	3,809
2001	28,492	12,949	1,386	14,017	1,634	3,756
2002	23,648	12,478	1,470	9,339	2,297	3,595
2003	24,244	8,876	1,581	10,380	3,652	3,570
G.R. (%)	2.5	- 28.9	7.6	11.1	58.3	- 0.7

(3) Basic Profit

Despite harsh environment for sales and investing activities, the basic profit of life insurers slightly increased from the previous year to ¥ 2.1916 trillion yen (roughly \$20 billion) This is mainly attributed to companies' effort to curtail business expenditures.

Table 6. Basic Profit (billion ¥)

Fiscal Year	Basic Profit
1999	
2000	2,237
2001	2,259
2002	2,151
2003	2,191

5. Sales

(1) New Business and Business in Force

Because of continued shift in consumers' needs to medical and nursing insurance products from sizable life insurance products, new business written for individuals decreased by 4.8 percent in terms of number, or 16.0 percent in terms of amount. Accordingly, business in force at the end of fiscal 2003 (sum of individual insurance, individual annuity, group insurance) declined by 3.9 percent to ¥1609.2730 trillion (or roughly \$15233 billion).

Individual insurance, group insurance, and group annuity except for individual annuity declined from the previous year.

Table 7. Growth of New Business

Fiscal Year	New Business				
	Individual Insurance		Individual Annuity		Group Insurance
	Number (million)	Amount (billion ¥)	Number (thousand)	Amount (billion ¥)	Amount (billion ¥)
1960	6.5	1,913	1	(0.1)	134
1970	9.8	19,151	76	(11)	4,154
1980	12.1	80,020	168	(76)	6,938
1990	16.6	207,535	2,167	13,076	23,175
1999	12.4	134,278	815	3,215	8,951
2000	12.4	133,559	886	3,605	7,054
2001	14.1	128,098	511	1,910	16,603
2002	13.8	120,712	750	3,408	14,189
2003	13.1	101,381	1,113	5,199	13,797
G.R. (%)	- 4.8	- 16.0	48.4	52.6	- 2.8

(Note) For individual insurance and individual annuity, number includes ones after conversion, and amount includes net increase from conversion. As to amount of individual annuity, figures from 1960 through 1980 represent annual amount, and after 1990, figures show accumulated capital.

Table 8. Growth of Business in Force

Fiscal Year	Business in Force					Business in Force (Group Annuity)	
	Total Amount (billion ¥)	Individual Insurance	Individual Annuity	Group Insurance		Amount (billion ¥)	Number of Groups (thousand)
		Amount (billion ¥)	Amount (billion ¥)	Amount (billion ¥)	Number of Groups (thousand)		
1960	6,996	6,002	(0.1)	994	-	-	-
1970	78,262	60,674	(32)	17,556	-	222	-
1980	572,487	384,331	(160)	187,996	-	3,292	-
1990	1,605,337	1,092,117	41,790	471,430	-	31,439	-
1999	1,859,880	1,364,751	77,873	417,256	104	46,145	95
2000	1,802,073	1,311,992	74,096	415,985	93	44,807	90
2001	1,734,211	1,255,623	69,593	408,995	83	40,395	84
2002	1,675,181	1,210,245	68,276	396,658	73	37,360	74
2003	1,609,273	1,152,648	69,563	387,060	66	34,937	65
G.R. (%)	- 3.9	- 4.8	1.9	- 2.4	- 10.3	- 6.5	- 11.2

(Note) For Individual Annuity, figures from 1960 through 1980 represent annual amount, which is not included in total, and figures from 1990 represent the sum total of amount of accumulated capital before the start of annuity payments and amount of liability reserves of after the start of annuity payments.

(2) Business in Force and National Economy

Business in force per household and per person was ¥32.66 million (or roughly \$ 0.30 million), 12.69 million (or roughly \$0.12 million), respectively.

Table 9. Size of Business in Force

Fiscal Year	Business in Force / National Income (%)	Business in Force / Households (10 thousand ¥)	Business in Force / Population (10 thousand ¥)
1999	487	3,973	1,478
2000	473	3,800	1,429
2001	467	3,612	1,373
2002	452	3,444	1,315
2003	434	3,266	1,269

(Note) 1. Business in force represent total amount of policies in individual insurance, individual annuity and group insurance.

(3) Percentage of Types of Policies Written

Whole life-with-term insurance, the mainstay of individual life insurance accounted for some 45 percent of total business in force. Meanwhile, in terms of amount of new business written during fiscal 2003, the percentage of whole life-with-term insurance fell to 21 percent, whereas term insurance accounted for 26 percent. Adjustable interest rate funding whole life insurance accounted for 19 percent, which indicated that wider range of insurance policies had been purchased.

Table 10. Individual Insurance by Type (2003)

	Business in Force		New Business	
	Number (%)	Amount (%)	Number (%)	Amount (%)
Whole Life	11.8	7.7	11.4	5.5
Whole Life-with-Term	18.2	44.7	6.7	20.7
Adjustable Interest Rate Funding Whole Life	4.8	10.1	9.5	18.5
Term	11.8	13.1	16.7	25.8
Endowment	10.1	3.1	5.1	2.1
Endowment-with-Term	3.1	2.4	0.6	1.0
Variable	0.1	0.0	0.0	0.0
Others	40.1	18.9	50.0	26.4

6. Summary of Portfolio Investment

(1) Investment Income

As for the investment environment for fiscal 2003, despite the Bank of Japan's super-low interest rates policy and uncertainty of country's economic outlook, the rising stock prices by approximately 47 percent, and some other factors contributed to the increase in investment income and dividends by 11.5 percent from the previous year to ¥ 6.2925 trillion (or roughly \$ 59 billion), offsetting the decrease in profit for interest and dividend resulting from lowering interest rate.

(2) Investment Expenses

In fiscal 2003, the investment expenses decreased by 63.6 percent from the previous year to ¥ 1.6940 trillion yen (or roughly \$16 billion) since the devaluation losses on securities, mainly on stock, dropped sharply by 97.1 percent,

Table 11. Asset Management

(billion ¥)

Fiscal Year	End of Fiscal Year		Working Assets Income			Asset Management Cost		
	Nikkei 225 Average (¥)	Yen-to-Dollar Rate (¥)	Total	Interests and Dividends	Profit on Sales of Securities	Total	Losses on Sales of Securities	Devaluation Losses on Securities
1960	1,116	360	69	55	12	2	0	0.5
1970	2,523	360	447	408	32	88	3	7
1980	6,556	249.7	1,818	1,785	-	113	43	40
1990	29,980	157.6	11,304	7,041	3,653	3,550	1,964	1,125
1999	20,337	106.15	10,151	5,185	4,057	5,543	2,987	1,199
2000	12,999	123.90	5,873	4,347	1,347	2,597	730	446
2001	11,024	133.25	5,736	4,105	1,326	4,195	831	1,561
2002	7,972	120.20	5,644	3,970	1,283	4,660	909	1,877
2003	11,715	105.64	6,292	3,943	897	1,694	671	55
G.R. (%)	47	14.56 appreciation of yen	11.5	- 0.7	- 30.1	-63.6	- 26.2	- 97.1

(Note) Figure of Nikkei 225 Average and YEN/DOLLAR Rate are as of the end of March.

(3) Income on Invested Assets Held in the General Account

Despite low interest rate, rising stock prices contributed to reducing devaluation losses, and investment yield on assets held in the general account increased 0.79 points from the previous year to 1.94 percent.

Table 12. Yield on Working Assets in General Account

Fiscal Year	Total (%)	Yield on Working Assets in General Account		
		Bond (%)	Stock (%)	Foreign Securities (%)
1960	8.74	-	-	-
1970	7.94	-	8.30	-
1980	7.56	8.08	3.94	11.05
1990	6.42	5.08	10.26	6.44
1999	2.31	2.63	6.23	- 2.69
2000	2.15	2.58	2.44	2.46
2001	1.31	2.38	- 5.14	4.51
2002	1.15	2.60	- 9.58	4.12
2003	1.94	1.70	0.84	2.76
G.R. (%)	0.79	- 0.9	10.42	- 1.36

(Note) Yield on working assets in general account= (working assets income-asset management cost + appraisal profit*)/ average daily balance of working assets in general account × 100 (%)

Appraisal profit referred to here is set forth in Section 112 of the Insurance Business Law.

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 parities 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.

2 . Social Contribution and Improving Services for the Policyholders

(1)Activities for Social Contribution

Considering the benefit for public, in order to further enhance the public understanding and the trust of life insurance business, the Association conducted the following projects to contribute to the society:

- *Support activities to reinforce the Elderly Care System(Scholarship for education of care workers):

- *Scholarship Program for foreign students in Japan.

Also, the Association's 54 local offices across the nation carry out various Community Relations(CR) activities to contribute to the communities they belong to. The activities were initiated in order to bring about better relations between life insurance industry and the community.

Main activities are as follows:

- *Activities for donating vans equipped with nursing facilities or wheelchairs by fund-raising campaigns;

- *Blood donation activities;

- *Providing information on nursing care;

- *Volunteer activities such as clean-up and beautification of the environment.

(2)Improving Services for Policyholders' Convenience

Life Insurance Network Center

The life insurance companies established the common-to-industry network called "Life Insurance Network Center" or LINC. This system can reduce the amount of clerical work at a client company and enable insurers to render better services.

The main functions of the Life Insurance Network Center are as follows:

- *Accounting settlement of corporate pension and group term policies which are jointly insured by

- companies;

- *Data exchange of individual policies whose monthly premiums are collected through payrolls;

- *Data exchange of asset-formation insurance

- *Checking of medical life insurance

- *Registration of licensed life insurance solicitors;

- *Registration and providing information of contract contents to prevent moral hazard.

- *Data distribution of national pension fund insurance

- *Statistical reporting system

- *Data exchange of joint Employee's Pension Fund Insurance report

3 . Public Relations

As life insurance business in Japan plays an important role to protect people's lives, the life insurance industry has been more conscious of its social responsibilities. The Association promotes public relations activities to reflect consumers' needs in conducting business and to help consumers fully understand life insurance.

Main activities are as follows:

(1)Public Relations Activities

The Life Insurance Association of Japan conducts publicity and advertising activities to enhance consumer's understanding of life insurance business.

(2)Round-Table Meeting on Life Insurance

In order to help consumer administrative agencies, consumer groups and the media increase their understanding of life insurance business, the Life Insurance Association of Japan has held Round-Table Meetings on life insurance. Through discussions at the meetings with consumer-related organizations, the Association strives to grasp consumers' needs, and in turn tries to reflect the results of each meeting into life insurance businesses.

(3)Providing Information

To promote understanding of life insurance business among consumers, the Life Insurance Association of Japan compiles "Disclosure Pamphlets--Toranomaki", which explains in brief "Disclosure Pamphlets"("Disclosure Pamphlets" are made by each life insurance company, hence, titles of which vary).

The Association also makes a box file which contains both "Disclosure Pamphlets" as well as "Disclosure Pamphlets--Toranomaki", makes it available at our local Association offices and distributes it among local consumer centers for public perusal.

4. Consultation Service

(1) Life Insurance Consultation Center

The Life Insurance Association of Japan has for a long time been engaged in the task of providing consultation and receiving complaints from life insurance policyholders, etc. In March 1961, the Life Insurance Consultation Center, as a fair and neutral organization to respond to complaints not only from policyholders but also from their associated parties and consumers, was founded, and headed by the chairman of the Life Insurance Association of Japan.

As an organization, there are the Consultation Center located at LIAJ and fifty-three local offices, providing consultation and receiving complaints by telephone or face-to-face from 9:00 am to 5:00 pm on weekdays.

If, despite all the mediation and reconciliation efforts made at the head office, the problem should persist for more than a month after the claim being filed, the complainant may petition the Arbitration Council for a dispute settlement.

Furthermore, we provide free legal advice on life insurance by lawyers at the Consultation Center once a month in response to inquiries from policyholders, etc.

(2) Arbitration Council, Arbitrating Advisory Committee

In March 2001, the Consultation Center underwent structural reform and additionally founded the Arbitration Council, which functions as a part of the Alternative Dispute Resolution (ADR), with the purpose of arbitrating from a fair and neutral standpoint.

The Arbitration Council consists of five members, including lawyers, consumer life consultants, and the head of the Consultation Center located at LIAJ.

The Arbitration Council judges the appropriateness of the petition filed and decides whether it is acceptable or not, then if the case is accepted, the Council examines it in a fair and neutral manner in light of the provisions. The Arbitration Council also provides that every life insurance company should respect the reached verdict.

The Arbitrating Advisory Committee was founded with the purpose of monitoring the operation of the Arbitration Council, and its members are scholar, lawyer, doctor, representative of consumers and full-time director of LIAJ. The Arbitrating Advisory Committee is always updated with reports on the operation of the Arbitration Council, and provides advice and suggestions in order to promote the fair and smooth operation of the Consultation Center, responding to counseling and consultation from the head of the Consultation Center.

5. Measures Taken Against Moral Hazard

Life insurance industry is taking various countermeasures to prevent moral hazard, i.e. fraudulent claims to collect hospital benefits, intentional murder to collect life insurance proceeds, etc. for the purpose of preserving sound management.

Primary countermeasures against moral hazard are as follows:

(1) Strengthening the Connection with the Police

In order to prevent insurance-related crime and eliminate moral hazard, liaison meetings have regularly held between the Association and the National Police Agency since June 1980. The meeting was set up in response to the concerns of the National Police Agency, with regard to the high incidents of insurance-related crimes. In addition, "Liaison Conference Between Life Insurers and Police" was established between local Association offices and police. As a result, crime prevention measures were worked out to produce effective results in each region.

(2) Policy Data Registration

The life insurance companies may register the policy contents with the registration center of the Life Insurance Association of Japan in case where they receive claims or applications for insurance policies with a hospitalization rider. Registration is made with the consent of policyholders and insureds. Before issuing a new policy, insurance companies refer to information stored at the Association to decide whether to accept or decline the application for the new policy. The companies also take this information into account when they receive claims in deciding whether the payment should be made.

Policy data registered at the Association are 1) name, date of birth, gender and address of the insured 2) policyholder's name 3) the amount of benefit payable when death or accident occurs 4) type of hospital benefit and amount of hospital benefit per day 5) date when policy was issued 6) date when policy was reinstated 7) name of the company from which the policy was issued.

(3) Policy Data Inquiry System

From April, 2002, LIAJ and National Mutual Insurance Federation of Agricultural Cooperatives introduced "Policy Data Inquiry System" for the information when they receive applications or claims of insurance policies. Through this system they inquire the policy contents each other.

(4) Introduction of Assessment Data Inquiry System for Claim Payment

On June 18, 2004, aiming at further strengthening the countermeasure against possible moral hazard, LIAJ announced the introduction of "assessment data inquiry system for claim payment" beginning in January 2005, as a supplement to the policy data registration system and policy data inquiry system. This new system makes it possible for the member companies to exchange the information on their policyholders such as policy and payment status. The system is briefly described below,

*All the member companies of LIAJ are required to participate in the system.

***If judged necessary from the viewpoint of moral hazard, the member companies obtain the information on their policyholders, through the network center operated by LIAJ, concerning insurance policy contents, claim payment, and amount of benefit payment for using them as a reference for claim assessment.**

***If the information on the insured, such as “name, date of birth, gender and address, date when policy was issued, date when accident occurred, date of decease, date of hospitalization, and other details”, are requested by a certain member company, it would be responded by the other member companies along with additional data such as name of insured, and beneficiaries, their relationship to insured, amount of payable when death or accident occurs, content of each rider, claim and payment.**

6. Common-to-Industry Educational System

The life insurance industry introduced a general course examination common to the industry in 1963, and further in 1965 set up a professional course in order to contribute to the higher education of agents. In 1977, a common-to-industry educational system was founded on these bases. In 1992, the system was revised drastically, and the outcome is seen in the current series of educational systems: general, professional, advanced professional, college course and variable life insurance sales qualification examination. Compilation of textbooks and examinations for each course are undertaken by the Life Insurance Association of Japan.

(1) Education of Agents

General Course

From 1963, when the General Course was introduced, to 1977, only registered agents were eligible for the examination. In 1977, it was revised and passing the examination is now a prerequisite for candidates to be registered with the government as solicitors. This General Course is regarded as a rule in the life insurance industry for all life insurance companies that belong to the Life Insurance Association of Japan.

Professional Course

The Professional Course is for those who intend to acquire professional and related knowledge of life insurance sales in addition to basic knowledge acquired in the General Course, and to develop their basic ability to respond to clients' needs.

The Association holds qualification examinations for course participants three times a year, and grants the title of Life Consultant, LC to its successful examinees.

Advanced Professional Course

The Advanced Professional Course is for those who further seek practical and applicable knowledge based on the knowledge acquired in Professional Course, with the purpose of obtaining comprehensive knowledge essential for financial planning services for customers.

The Association holds qualification examinations three times a year, and grants the title of Senior Life Consultant, SLC to its successful examinees.

College Course

This course aims at nurturing life insurance financial planners by granting a more professional and pragmatic level of knowledge on life insurance, and other related knowledge needed for financial planning services. Those who are endorsed by the company and accredited by the Life Insurance Association of Japan, besides passing examinations, have conferred upon them the highest title in the industry: Total Life Consultant, TLC.

Variable Life Insurance Sales Qualification

Variable life insurance is quite different from traditional products (fixed-sum policies), as its sum insured reflects the result of fund management (except the guaranteed basic portion of death benefits). The sale of the products, therefore, requires specific knowledge on the part of solicitors. For this reason, the Association holds qualification examinations for selling variable insurance three times a year for solicitors who have passed the professional course examination and taken the specified training course. This examination is considered the same as the

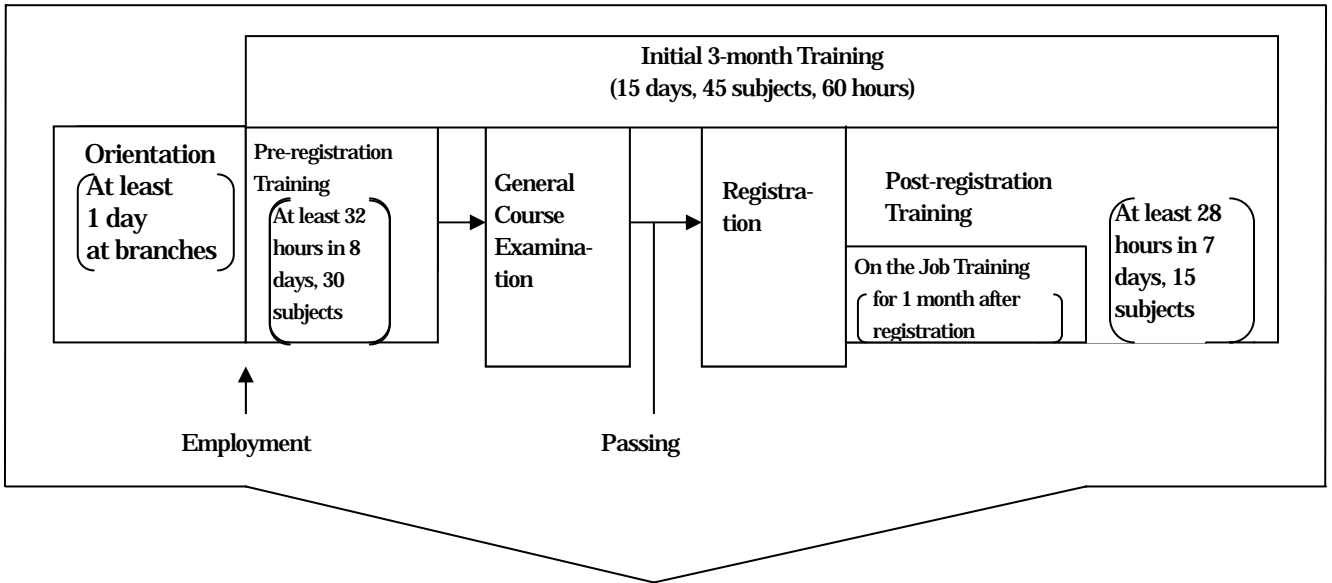
General Course, regarded as a rule in the life insurance industry. A solicitor may sell variable insurance products only after being registered at the Association as having passed this examination.

(2) Education of Clerical Employees

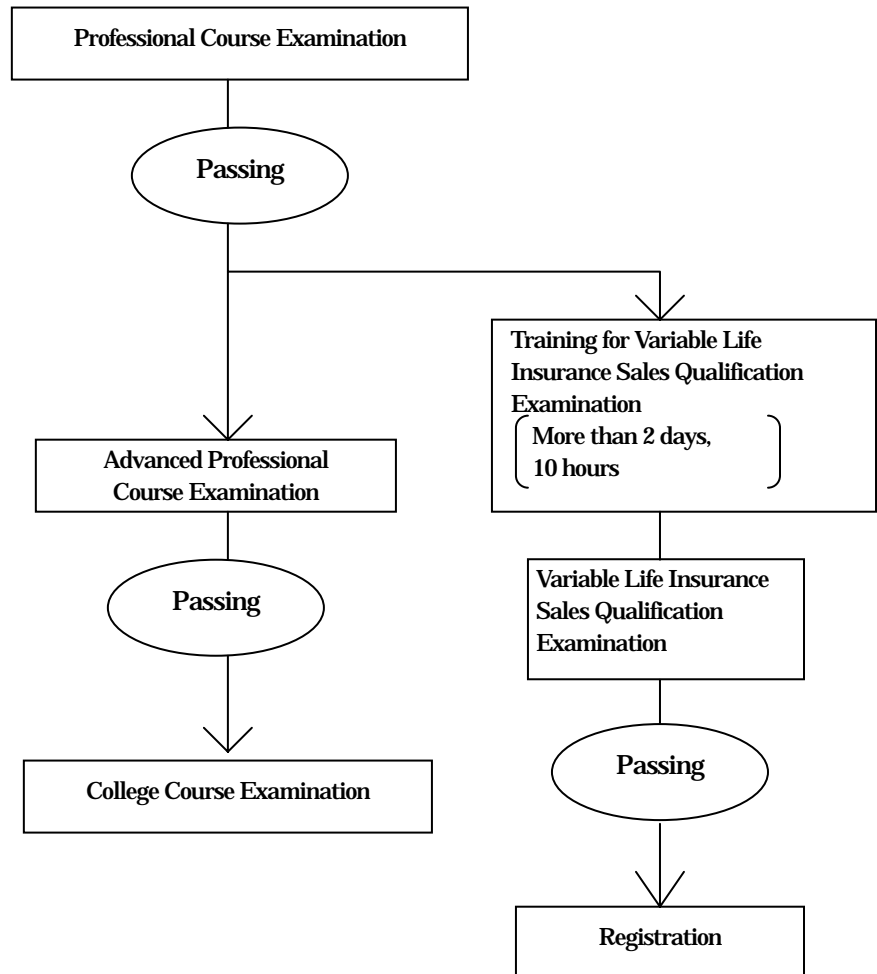
Besides solicitor education, there is a self-study course offered to clerical employees of life insurance companies. The clerical course is comprised of eight subjects, including taxation law, accounting, and risk selection relating to life insurance. The purpose of the clerical course is to have them acquire a wide range of basic knowledge of the life insurance business and to develop their ability to work in different departments of the business.

Employees are expected to study on their own with textbooks provided for the course, and to take examinations held regularly in large cities. Many life insurance companies regard the passing of these examinations as a prerequisite for promotion.

Common-to-Industry Educational System



Training for Professional Course
(More than 2 days, 12 hours)



7. Internationalization

(1) Foreign Participation

Since February 1973 when the United States-based American Life Insurance Company(ALICO) first come to Japan to participate in the market, seventeen foreign life insurance companies(with more than 50% foreign capital) have been engaged in business(as of July, 2004).

(Domestic companies with foreign participation)

AIG Edison Life AIG STAR LIFE Aoba Life AXA Group Life AXA Life
CREDIT SUISSE LIFE Gibraltar Life Hartford Life ING Life Manulife Life
MassMutual Life PCA Life Prudential Life

(Branch Offices of foreign companies)

ALICO Japan American Family Life CARDIF Assurance Vie Zurich Life

(2) Liaison Business Overseas

The Association responds to inquiries and receives visits from foreign countries. The Association also carries out liaison business relating to international insurance conferences.

Recent main activities are as follows:

1) Information Service Office for Foreign Companies

The Japanese life insurance industry has always endeavored to promote mutual understanding with foreign life insurers through inter-industry personnel exchanges.

In May 1982, the Government announced a policy to liberalize the secondary market as part of the efforts to eliminate trade frictions with other countries. On June 1, 1982, shortly after this announcement, the Association set up the "Information Service Office" in order to better serve the needs of potential foreign participants. The office serves as a window to provide information to foreign companies who seek to enter and operate in Japan.

2) Participating in the International Conference

There are many international insurance conferences, such as EAIC, PIC. The 21st PIC(Pacific Insurance Conference) was held in Hong Kong from October 12 to 15, 2003 and around 260 attendants including about 10 from the Japanese life insurance industry participated in the Conference.

8. The Association (LIAJ)

The Life Insurance Association of Japan started as an incorporated association in December 7, 1908 with formal sanction by the authorities concerned. Since then, the Association has continued to make efforts for the sound development of the life insurance industry.

(1) Purpose

To strive for the sound development of the life insurance industry and the maintenance of its reliability.

(2) Functions

- (i) Research and study of theories and practices relating to life insurance;
- (ii) Public relations relating to life insurance;
- (iii) Statement on life insurance;
- (iv) Close contact and promotion of friendly relations among life insurers;
- (v) Other functions considered necessary to attain the purpose of the Association.

(3) Membership

40 companies (as of July, 2004)

(4) Main Activities

1) Representing the Opinions of Life Insurance Industry

The Association mediates opinions among the life insurance industry concerning financial, economic, social welfare, tax or other problems which are occasionally related to life insurance. The Association conveys ideas and requests of the members whenever necessary to organizations in charge.

2) Conducting Surveys, Research and Taking Statistics

The Association conducts studies of overseas life insurance industry or of its associated industries. The Association is further in charge of collecting and compiling life insurance materials of reference, releasing publications and English brochure, and also taking statistics on life insurance.

3) Educational Activities

The Association offers education and examination systems which can be commonly applied throughout the industry to sales agents and office personnel. (Refer to page 25)

4) Operating Life Insurance Network Center

In order to expand computer networks and related joint arrangements within the life insurance industry, Life Insurance Network Center (LINC, established in May 1986) operates to improve the services for policyholders, etc. (Refer to page 20)

5) Social Service Activities

The Association is engaged in a variety of social service activities in order to promote the understandings of and reliance of society by widely contributing to public interests. (Refer to page 20)

6) Public Relations Activities

The Association seeks to provide information to help consumers fully understand and also improve its public relations through advertisement and communication with mass media, consumer

groups and opinion leaders in various industries.(Refer to page 21)

In 1976, Japan Institute of Life Insurance (JILI), a foundational juridical person, was established as one of the information providing institutions. It aims to develop relationship between the public and life insurance industry. The Association maintains a cooperative relationship with JILI in providing life insurance-related information.

7) Consulting Activities

The Association deals with inquiries and complaints concerning life insurance by telephone, mail and interviews.(Refer to page 22)

8) Measures Taken Against Moral Hazard

The Association takes a variety of measures to promote sound operation of life insurance business. (Refer to page 23)

9) Others

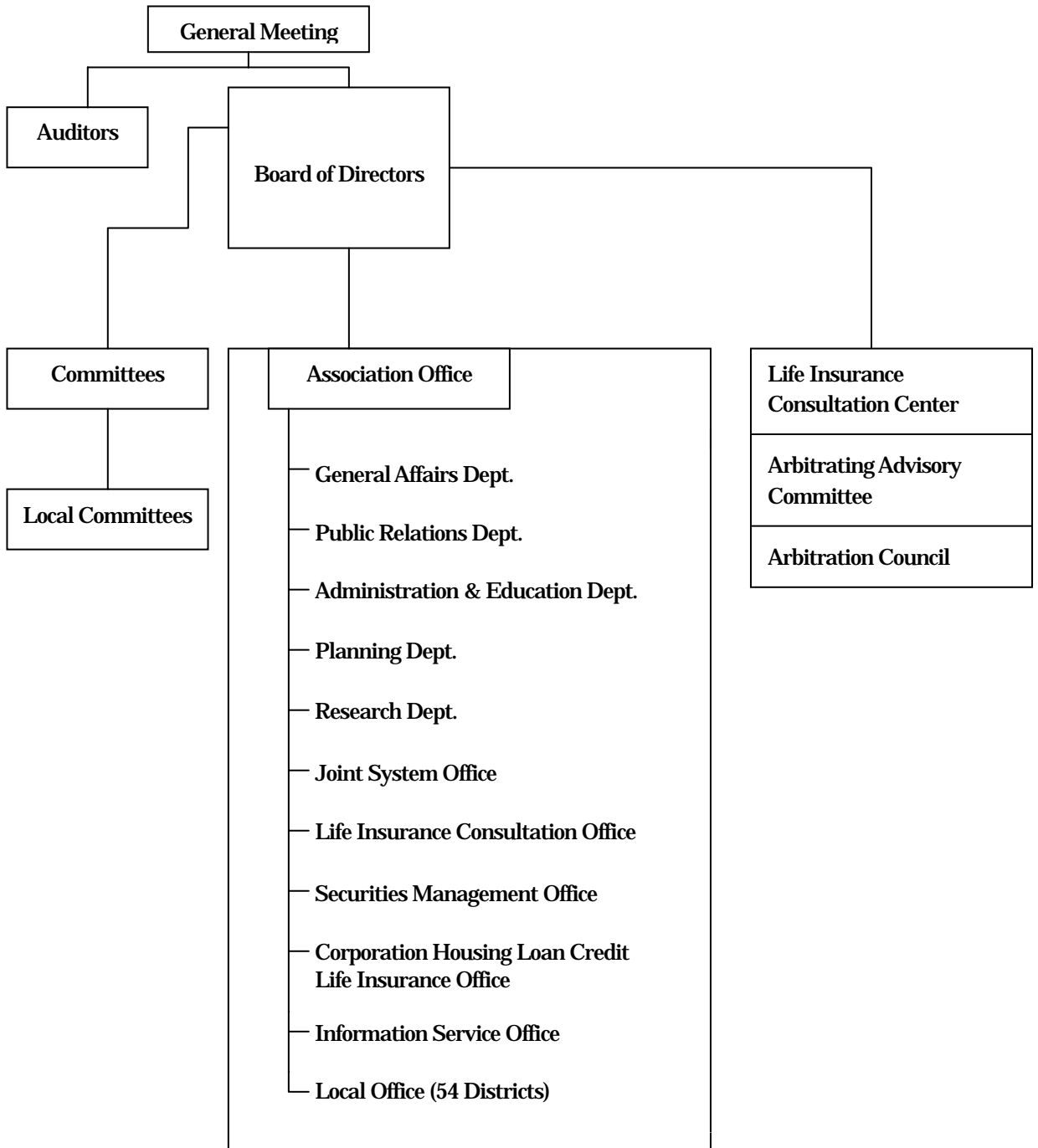
- Library

The Association has a collection of approximately 25,000 books and materials which mainly features life insurance.

Organization Chart

The Life Insurance Association of Japan

(As of July, 2004)



Board Members (As of July 22, 2004)

Chairman

Ikuo Uno
President
Nippon Life Insurance Co.

Vice Chairmen

Ryotaro Kaneko
President
Meiji Yasuda Life Insurance Company

Masahiro Yoshiike
Chairman
Taiyo Life Insurance Company

Hiroshi Nishimura
President
Mitsui Life Insurance Company Limited

Directors

Timothy P. Schiltz
President
Hartford Life Insurance K.K.

Shuichi Yamamoto
Representative for Japan
Zurich Life Insurance Company Ltd.

Atsushi Sakauchi
Representative for Japan
CARDIF Assurance Vie

Katsutoshi Saito
President
The Dai-ichi Mutual Life Insurance Co.

Akiyoshi Kawashima
President
Sony Life Insurance Co., Ltd.

Yasuyuki Tayama
President
Sompo Japan Himawari Life Insurance Co.,
Ltd.

Directors

Mitsuo Kawahara
Deputy President
CREDIT SUISSE LIFE INSURANCE CO.,
LTD.

Hidezo Hirano
President
Mass Mutual Life Insurance Company

Tomofumi Akiyama
President
Fukoku Mutual Life Insurance Co.

Yutaka Sanmori
President
The Prudential Life Insurance Co., Ltd.

Toru Yamaguchi
Managing Director
ING Life Insurance Company, Ltd.

Tomio Miyamoto
Representative in Japan
American Life Insurance Company

Takashi Kasagami
Co-President
Aoba Life Insurance Company Limited

Yoshiya Ichinose
President
AXA Group Life Insurance Co., Ltd.

Yuzuru Fujita
President
Asahi Mutual Life Insurance Co.

Charles D. Lake II
Representative in Japan
American Family Life Assurance Company of
Columbus

Directors

Hitoshi Morita
COO & Representative Director
PCALIFE Insurance Co., Ltd.

Shinichi Yokoyama
President
Sumitomo Life Insurance Co.

Auditors

Izumi Mizumori
President
ORIX Life Insurance Corporation

Masato Mori
President
YAMATO LIFE INSURANCE CO.

Geoff Crickmay
President
Manulife Life Insurance Company

Tokugoro Murayama
Senior Adviser
Representative Partner
Chuo Aoyama Audit Corporation

Yoshimitsu Takishima
Vice Chairman
The Life Insurance Association of Japan

Shigeru Suwa
Senior Managing Director
The Life Insurance Association of Japan

Yosuke Takenouchi
Director
The Life Insurance Association of Japan

Member Companies

(As of July, 2004)
(in alphabetical order)

AIG Edison Life Insurance Company
Triton X 44 F
1-8-10, Harumi, Chuo-ku
Tokyo 104-6044
<http://www.AIGedison.co.jp>

AIG STAR LIFE INSURANCE CO., LTD.
Triton Square Z 31-33 F
1-8-12, Harumi, Chuo-ku
Tokyo 104-6231
www.aigstar-life.co.jp

Aioi Life Insurance Company Limited
28-1, Ebisu 1-Chome, Shibuya-ku
Tokyo 150-0013
<http://www.ioi-life.co.jp>

American Family Life Assurance Company
of Columbus
1-1, Nishishinjuku 2-Chome, Shinjuku-ku
Tokyo 163-0456
<http://www.aflac.co.jp/>

American Life Insurance Company
AIG Bldg.
1-3, Marunouchi 1-Chome, Chiyoda-ku
Tokyo 100-0005
www.alico.co.jp

Aoba Life Insurance Company Limited
3-6-30, Aobadai, Meguro-ku
Tokyo 153-8523
<http://www.aoba-life.co.jp/>

Asahi Mutual Life Insurance Co.
7-3, Nishishinjuku 1-Chome, Shinjuku-ku
Tokyo 163-8611
<http://www.asahi-life.co.jp/>

AXA Group Life Insurance Co., Ltd.
2-19, Higashi 1-Chome, Shibuya-ku
Tokyo 150-8020
<http://www.axa.co.jp>

AXA Life Insurance Co., Ltd.
2-19, Higashi 1-Chome, Shibuya-ku
Tokyo 150-8020
<http://www.axa.co.jp>

CARDIF Assurance Vie
9 F Infoss Tower
20-1, Sakuragaoka-cho, Shibuya-ku
Tokyo 150-0031
<http://www.cardif.co.jp/vie/>

CREDIT SUISSE LIFE INSURANCE CO., LTD.
10 F Shinjuku First West
23-7, Nishishinjuku 1-Chome, Shinjuku-ku
Tokyo 160-8335
<http://www.cslife.co.jp/>

Daido Life Insurance Co.
2-1, Edobori 1-Chome, Nishi-ku
Osaka-shi 550-0002
<http://www.daido-life.co.jp/>

Fukoku Mutual Life Insurance Co.
2-2, Uchisaiwaicho 2-Chome, Chiyoda-ku
Tokyo 100-0011
<http://www.fukoku-life.co.jp>

Hartford Life Insurance K.K.
3 F Kamiyacho MT Building
4-3-20, Toranomom, Minato-ku
Tokyo 105-0001
<http://www.hartfordlife.co.jp>

ING Life Insurance Company, Ltd.
26 F New Ohtani Garden Court
4-1, Kioicho, Chiyoda-ku
Tokyo 102-0094
<http://www.ing-life.co.jp>

Manulife Life Insurance Company
34-1, Kokuryo-cho 4-Chome, Chofu-shi
Tokyo 182-8621
<http://www.manulife.co.jp>

MassMutual Life Insurance Company
Cerulean Tower
26-1, Sakuragaoka-cho, Shibuya-ku
Tokyo 150-8512
<http://www.massmutual.co.jp>

Meiji Yasuda Life Insurance Company
9-1, Nishishinjuku 1-Chome, Shinjuku-ku
Tokyo 169-8701
<http://www.meijiyasuda.co.jp/>

Mitsui Life Insurance Company Limited
2-3, Otemachi 1-Chome, Chiyoda-ku
Tokyo 100-8123
<http://www.mitsui-seimei.co.jp/>

Mitsui Sumitomo CitiInsurance Life Insurance
Co., Ltd.
4 F Kishimoto-Building
2-1, Marunouchi 2-Chome, Chiyoda-ku
Tokyo 100-0005
<http://www.msiciti-life.com/>

Mitsui Sumitomo Kirameki Life Insurance
Co., Ltd.
3-24-4, Kandanishikicho, Chiyoda-ku
Tokyo 101-0054
<http://www.ms-kirameki.com/>

Nippon Life Insurance Co.
5-12, Imabashi 3-Chome, Chuo-ku
Osaka-shi 541-8501
<http://www.nissay.co.jp/>

NIPPONKOA Life Insurance Company, Limited
4-2, Tsukiji 3-Chome, Chuo-ku
Tokyo 104-8407
<http://www.nipponkoa.co.jp/life/>

ORIX Life Insurance Corporation
17-5, Shinjuku 5-Chome, Shinjuku-ku
Tokyo 160-0022
<http://www.orix.co.jp/ins/>

PCA LIFE Insurance Co., Ltd.
ATT New Tower
2-11-7, Akasaka, Minato-ku
Tokyo 107-0052
<http://www.pcalife.co.jp>

Sompo Japan DIY Life Insurance Co., Ltd.
68-2, Nakano 5-Chome, Nakano-ku
Tokyo 164-0001
<http://diy.co.jp>

Sompo Japan Himawari Life Insurance Co., Ltd.
1-1, Nishishinjuku 2-Chome, Shinjuku-ku
Tokyo 163-0434
<http://www.himawari-life.com>

Sony Life Insurance Co., Ltd.
1-1, Minamiaoyama 1-Chome, Minato-ku
Tokyo 107-8585
<http://www.sonylife.co.jp/>

Sumitomo Life Insurance Co.
4-35, Shiromi 1-Chome, Chuo-ku
Osaka-shi 540-8512
<http://www.sumitomolife.co.jp/>

The Dai-ichi Mutual Life Insurance Co.
13-1, Yurakucho 1-Chome, Chiyoda-ku
Tokyo 100-0006
<http://www.dai-ichi-life.co.jp/>

The Fuji Life Insurance Company, Limited
18-17, Minamisemba 1-Chome, Chuo-ku
Osaka-shi 542-0081
<http://www.fujiseimei.co.jp/>

The Gibraltar Life Insurance Co., Ltd.
Prudential Tower
2-13-10, Nagata-cho, Chiyoda-ku
Tokyo 100-8953
<http://www.gib-life.co.jp>

The Kyoei Kasai Shinrai Life Insurance
Company, Limited
J. CITY Bld.
8-20, Takamatsu 5-Chome, Nerima-ku
Tokyo 179-0075
<http://www.kyoeikasai.co.jp/ss/top.htm>

The Prudential Life Insurance Co., Ltd.
Prudential Tower
2-13-10, Nagata-cho, Chiyoda-ku
Tokyo 100-0014
<http://www.prudential.co.jp>

Taiyo Life Insurance Company
11-2, Nihonbashi 2-Chome, Chuo-ku
Tokyo 103-0027
<http://www.taiyo-seimei.co.jp/>

Tokio Marine & Nichido Financial Life
Insurance Co., Ltd.
Hiroo Plaza
6-6, Hiroo 5-Chome, Shibuya-ku
Tokyo 150-0012
<http://www.tmn-financial.co.jp/>

Tokio Marine & Nichido Life Insurance
Co., Ltd.
5-3-16, Ginza, Chuo-ku
Tokyo 104-0061
www.tmn-anshin.co.jp

T & D FINANCIAL LIFE INSURANCE
COMPANY
5-2, Uchisaiwaicho 1-Chome, Chiyoda-ku
Tokyo 100-8555
<http://www.tdf-life.co.jp>

YAMATO LIFE INSURANCE CO.
1-7, Uchisaiwaicho 1-Chome, Chiyoda-ku
Tokyo 100-0011
<http://www.yamato-life.co.jp/>

Zurich Life Insurance Company Ltd.
Shinanomachi Rengakan
35 Shinanomachi, Shinjuku-ku
Tokyo 160-0016
<http://www.zurich.co.jp/life.jsp>

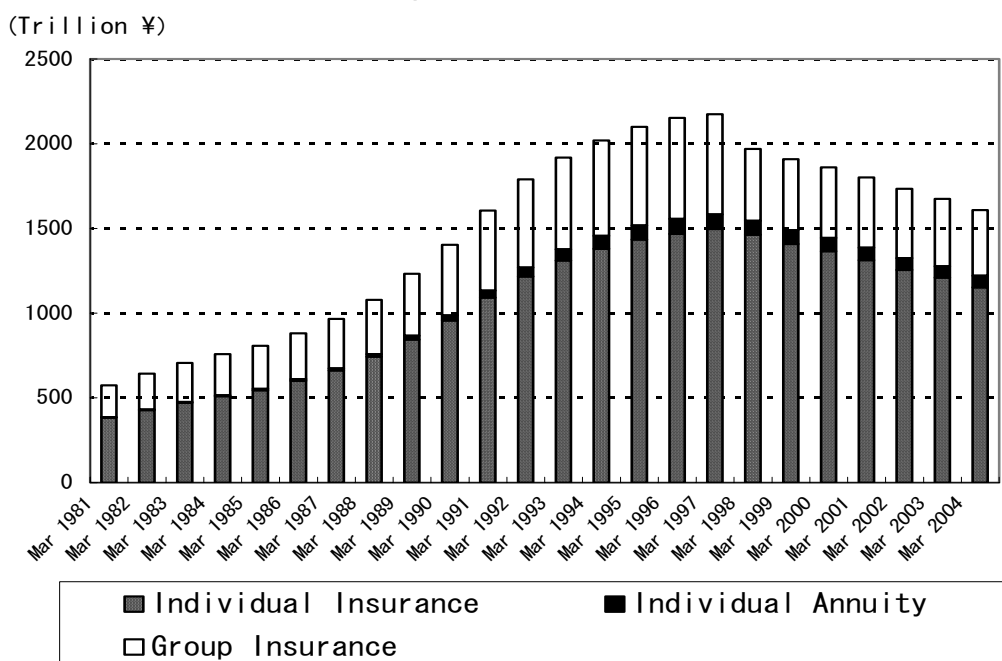
Related Information

1. Change in life insurance product in Japan

The value of life insurance policies in force (total value of policies in individual insurance, individual annuity, and group insurance) purchased from the private life insurance companies was ¥574 trillion in 1981, then gradually expanded. However, it fell to ¥1,609 trillion in 2004, which has become a continuing trend for seven consecutive years after peaking at ¥2,175 trillion in 1997 (see Graph 1).

<Graph 1>

Change in Life Insurance Business in Force in Japan (Face Amount)



As for the breakdown in ratio of these figures, in 1981 individual insurance accounted for 66.9%, individual annuity for 0.4%, group insurance for 32.7%. In 2004, individual insurance still occupies the largest share of total value, which is 71.6%, and individual annuity 4.3%.

The individual life insurance purchased in Japan by type has changed over time, which is explained below in chronological order (see Graph 2).

(1) From the beginning of the 60's through the first Oil Crisis (1973)

The trend of seeking larger protection with minimum premium payment became apparent, reflecting the accelerating inflation triggered by rapid economic growth and the increasing number of nuclear family type households. As a result, after the mid 60's, the core product of the insurance industry shifted from endowment insurance to endowment with term insurance.

(2) From the middle of the 70's through the beginning of the 80's

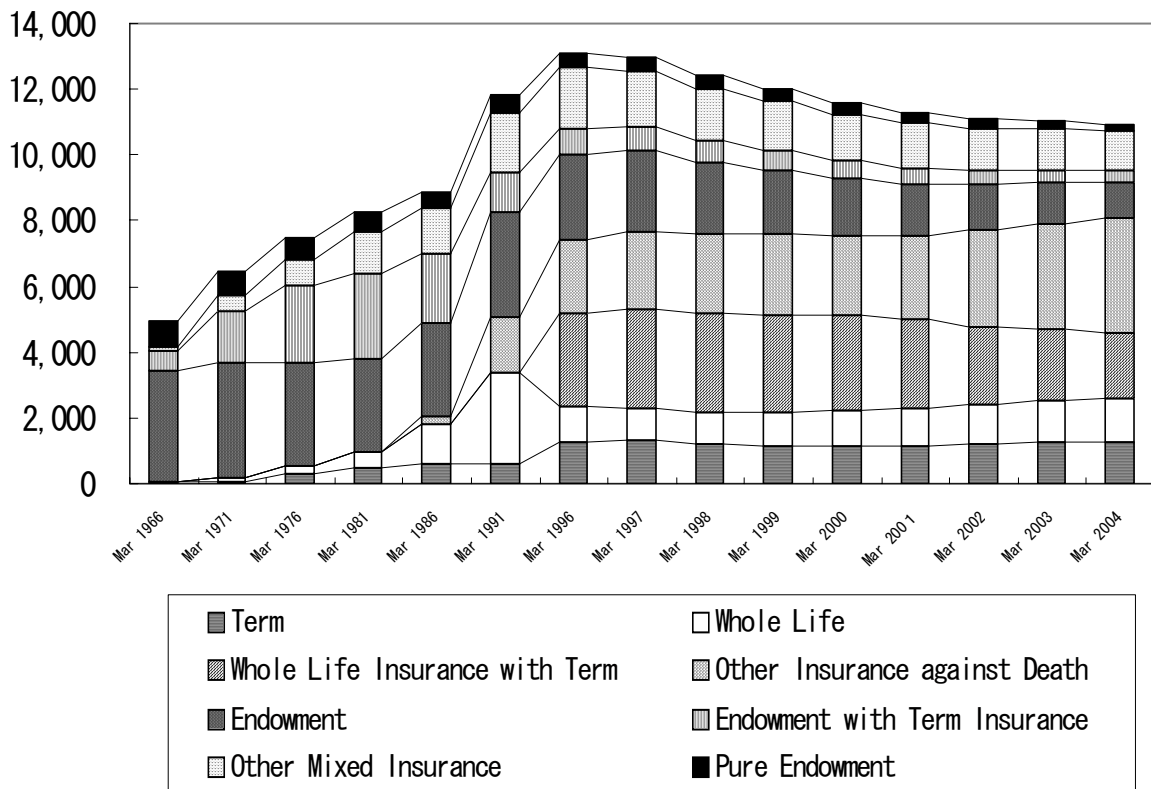
Endowment with term insurance with multiple rate protection (10 times, 15 times) appeared. Since such industrial movement timely matched the people's preference for larger protection with minimum premium payment, endowment with term insurance established a solid position as a primary insurance product in the Japanese market.

(3) 1980's

As average life expectancy went up, people became more interested in whole life insurance that provides life-time coverage with minimum premium payment, and rapidly shifted away from endowment with term insurance to whole life insurance, especially after the rate of premium payment was brought down in 1985.

<Graph 2>

Individual Life Insurance Purchased in Japan
by Type (Policies)



*Since around 1993, endowment with term insurance has been separated from whole life insurance.
 **"Other insurance against death" is the sum of variable life insurance (whole life type), joint life insurance, medical life insurance, nursing care insurance, overseas travel accident insurance and others.
 ***"Other mixed insurance" is the sum of variable life insurance (definite term type), term insurance with survival benefits, joint life insurance, juvenile insurance, and others.
 ****"Pure endowment" is the sum of juvenile insurance, savings insurance, and others.

(4) 1990's through present

After the so-called bursting of the bubble, the market for protection against death insurance became saturated. In addition, lower interest rates forced insurance companies to bring down the assumed interest rate, and as a result, savings type insurance became less appealing to consumers. This was effectively the beginning of the hard time for the life insurance industry.

The number of individual insurances in force peaked at the end of March 1997, but after that kept decreasing for seven consecutive years, and that is still the continuing trend as of the end of March 2004. Under this circumstance, each life insurance company is making a rigorous effort to develop an original and unique product as described below.

1) For responding to rate of premium:

Offer overall premium discount to each customer individually.

Offer insurance policy with low premium and low cash surrender value.

2) For upgrading the benefits for coverage:

Offer medical insurance that covers even short-time (e.g. one night two days) hospitalization.

Offer nursing care insurance.

Offer waiver of premium during disability in the event of sickness such as cancer.

Offer a rider for hospitalization to cover extended hospital stay.

3) For seeking flexibility:

Offer a life insurance product that requires no conversion of policy when renewing the content of coverage.

Offer a product that allows the changing of premium and suspension of payment.

4) For developing an investment type life insurance product:

Offer individual variable annuity.

5) For developing optional service:

Offer more comprehensive card service for the withdrawal of accumulated dividend, and loans to policyholder, repayment, usage of CD, ATM at the post office, bank, etc.,

Offer referral and agency service to nursing care providers, and provide health and nursing care counseling.

Provide information and sell insurance policies through the Internet.

2. Supervision and regulation system

Description of insurance related law

Insurance Business Law (1995)

This is the Commercial Special Law to be applied prior to the Commercial Law.

The objective of this law, with due consideration of the public responsibilities of the insurance business, is to protect policyholders' interests by ensuring the sound management of insurance companies and fairness of insurance soliciting activities, thereby contributing to the stability of people's lives and the sound development of the national economy.

All insurance companies (life and non-life insurers and foreign life and foreign non-life insurers, etc.) that run an insurance business should comply with this law.

Major content of the law

Regulations concerning supervision of insurance companies:

The law provides that no person shall carry on an insurance business without obtaining a license from the proper authorities, that management forms available for an insurance company are limited to stock, mutual, and branch of insurance company, etc. The law also sets the regulations concerning the scope of insurance business operation, accounting, examination of insurance product, measures taken for maintaining the soundness of insurance companies, and policyholder protection measures in the event that an insurance company fails.

The regulations for the supervision of insurance soliciting:

The law provides for issues concerning the registration of insurance solicitors, the prohibition of any unfair, unlawful act at the time of insurance soliciting, the examination to be conducted of insurance solicitors, the orders to be issued by the competent authorities, and a cooling-off system.

Consumer Contract Act (2000)

The purpose of this Act is to protect the interests of consumers by permitting the complete avoidance of the contract, in cases where customers are mistaken or distressed by certain acts of an insurance solicitor such as notification of untrue fact, inappropriate explanation, failure to leave a place where a consumer resides or does business in defiance of consumer's display of intention for them to leave. The law also aims at protecting the interests of consumers by invalidating certain clauses of the Act that limit the scope of responsibility borne by a solicitor for non-performance and unlawful acts.

The Law on Sales of Financial Product (2000)

The law mandates that a sales agent of a financial product should provide the customer with the essential information on the financial product at the time of solicitation, such as price fluctuation risk, credit risk, etc. Under the law, a sales agent who fails to do so and causes any damage to customers, should assume full responsibility for compensation for damage caused by such behavior. The law also has the purpose of promoting the protection of customers by forcing a sales agent to establish his or her policy on solicitations and to publish it.

Furthermore, an insurance company should comply with other laws such as the Commercial Law, the Bank Law, the Security and Exchange Law, the Act against Unjust Premiums and Misleading Representations, and the Antimonopoly Act.

Supervisory Agency

All insurance companies are under the supervision of the Financial Services Agency(FSA). The role of FSA is to secure the stability of domestic financial function by means of the inspection and oversight of banks, insurance companies, and securities companies, while protecting depositors, insurance policyholders, and securities investors, to ensure smooth operation of the financial system.

FSA is engaged in the following tasks concerning insurance business.

- (1) Plan and coordinate the system for domestic financial business.
- (2) Inspect and supervise persons who run insurance businesses and insurance holding companies.
- (3) Ensure the fair activities and operation of the Policyholders Protection Corporation.
- (4) Accredite the appropriateness of transfer of portfolio from an insolvent company in respect of the financial aid provided by the Policyholders Protection Corporation.

FSA shall take the following actions based on the Insurance Business Law.

- (1) Require an insurance company to submit an explanatory report which describes the condition of its operation and assets.
- (2) Conduct on-site inspection (the staff of the Agency visit the counters and branches of the insurance companies and inquire about the condition of business operation and its assets, or inspect documentation such as accounting books).
- (3) Order amendments to the statement of the Scheme of Operation declared by an insurance company.
- (4) Order an entity to submit a self-improvement plan.
- (5) Suspend business operation, cancel license, etc.

3. Deregulation and Liberalization of the Japanese Life Insurance Market

The fifty-six year history of regulatory reform since the enforcement of the Insurance Business Law, which was revised thoroughly in April 1996, is outlined below in chronological order.

April 1996	<p>The Revised Insurance Business Law was enforced.</p> <ul style="list-style-type: none">*Mutual entry into life and non-life insurance business by subsidiaries*Conversion of a mutual company into a stock company*Introduction of the brokerage system*Introduction of Solvency Margin Ratio, etc.
December 1997	<p>The Revised Insurance Business Law corresponding to the Maintenance Law for Insurance Holding Company, etc, was enforced.</p> <ul style="list-style-type: none">*Lifting of the ban on insurance holding companies
December 1998	<p>The Revised Insurance Business Law corresponding to the Financial System Reform was enforced.</p> <ul style="list-style-type: none">*Introduction of early warning measure*Establishment of the Policyholders Protection Corporation*Mutual entry beyond the firewall among banks, securities companies, insurance companies.
August 1999	<p>The Revised Enforcement Regulations of the Insurance Business Law were enforced.</p> <ul style="list-style-type: none">*The kind of insurance product to which the notification system applies was expanded
June 2000	<p>The Revised Insurance Business Law and the Special Law concerning Reorganization Proceedings of Financial Institutions were enforced.</p> <ul style="list-style-type: none">*Facilitation of the conversion of a mutual company to a stock company (improving the procedure for reorganizing a mutual company to a stock company)*Amended the Insolvency Law (created public fund allotment of ¥400 billion)
January 2001	<p>Lifting of the ban on mutual entry of life and non-life insurance companies into the third sector by their subsidiaries</p>
April 2001	<p>The Enforcement Regulations of the Insurance Business Law and other related Laws were revised</p>

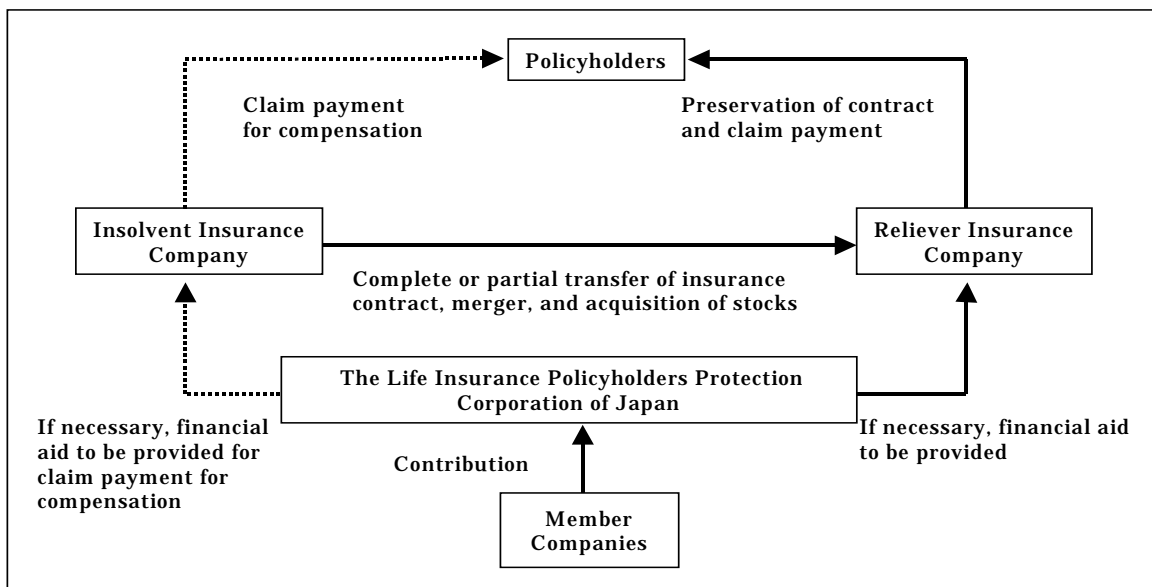
	<p>*Partial lifting of the ban on over-the-counter sales by banks of long-term fire insurance associated with housing loans, credit life insurance, and overseas travelers' personal accident insurance</p>
July 2001	<p>Lifting of the ban on mutual entry of life and non-life insurance companies into the third sector</p>
March 2002	<p>The Enforcement Regulations of the Insurance Business Law were revised.</p> <p>*The lower end of the dividend rate applied to the surplus of a mutual insurance company was brought down from 80% to 20%.</p>
October 2002	<p>The Enforcement Regulations of the Insurance Business Law and other related Laws were revised.</p> <p>*By this revision, the following insurance products were added to the products to be sold over-the-counter by banks:</p> <ul style="list-style-type: none"> -Individual annuity -Zaiki savings (i.e. asset formation) insurance -Individual annuity and accident insurance -Zaiki savings personal accident insurance
June 2003	<p>The Revised Insurance Business Law was enforced.</p> <p>*The life insurance safety net was rebuilt (¥400 billion public fund to be secured, which will be carried forward to March 2006, and ¥100 billion contribution by the insurance industry to be secured).</p> <p>*The scope of insurers' activities (subordinate activities) were partially expanded, thus making it possible for insurers to act as an agent or intermediary on behalf of other financial institutions.</p>
August 2003	<p>The Revised Insurance Business Law was enforced.</p> <p>*Streamlined the system for changing contract terms by a voluntary procedure between an insurance company and policyholders. The government ordinance determined that the assumed interest rate should not fall below 3%.</p>

4. The Life Insurance Policyholders Protection Corporation of Japan

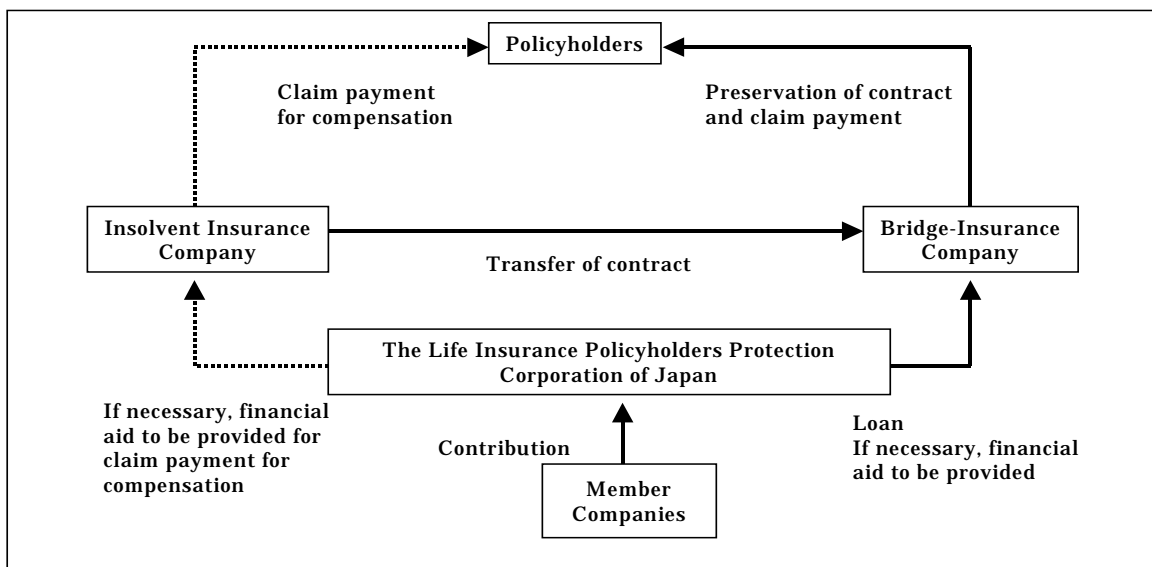
The Life Insurance Policyholders Protection Corporation of Japan(PPCJ) was established on December 1, 1998. All life insurers operating in Japan have joined the Corporation, excluding Kampo, which is the insurance operated under Japan Post, and Kyosais, which are cooperative societies that provide insurance services.

PPCJ is to protect consumers in the event that an insurance company becomes insolvent, by applying the one of the following measures.

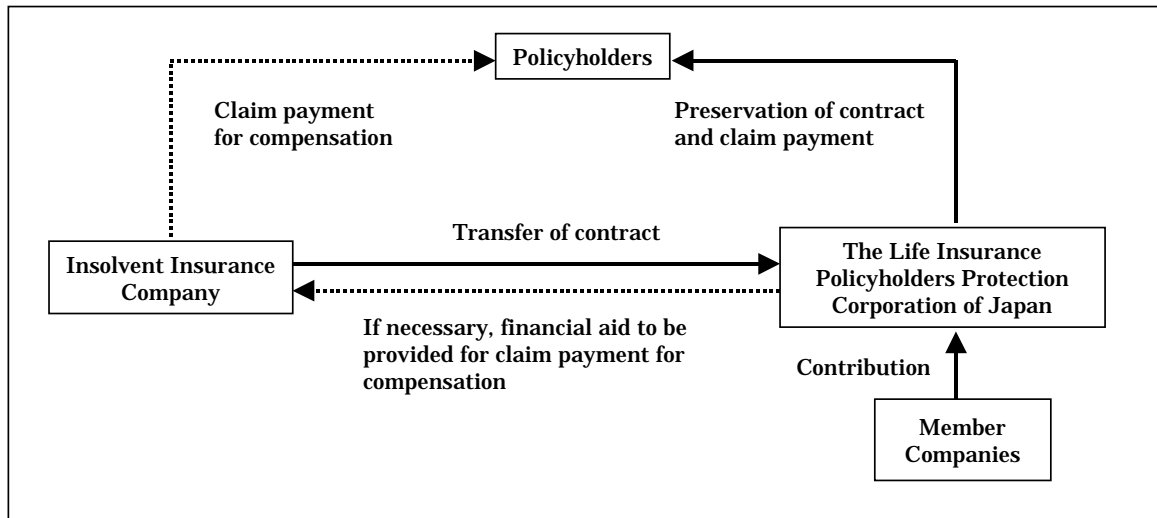
1. Provide financial aid to a reliver insurance company to which the insurance contracts of an insolvent insurance company are transferred.



2. Transfer the insurance contracts of an insolvent company to a “bridge-insurance company” established as a subsidiary of PPCJ, if no other reliver insurance company appears.



3. The Policyholders' Protection Fund itself undertakes the contracts of an insolvent insurance company.



In any case, PPCJ shall compensate up to 90% of the policy reserves of the insurance contract (except reinsurance contracts) that is valid when an insurance company becomes insolvent.

The Corporation is usually financed by contributions from the member insurance companies. Nevertheless, in the event that an insurance company fails and its insolvency cannot be covered solely by the contributions of the member companies, and if that occurs before the end of March 2006, the corporation would be financed by the subsidy of ¥400 billion yen from the government.

5. Topics in 2003

(1) Recent movement regarding unregulated Kyosais

In Japan, the number of unregulated Kyosais has increased dramatically during the past several years. It is considered that unregulated Kyosais are not against the Insurance Business Law (IBL) even if the business is run without adequate licenses. This is because a Kyosai is not categorized as an insurance business since it writes policies with reference to only specific groups of persons, simply paying compensation. Furthermore, they are not required to comply with any laws or regulations governing their activities, nor are they subject to any regulatory supervision.

However, among the unregulated Kyosais, there certainly are suspicious cases in which a Kyosai runs the business without reference to specific groups of persons. As ignoring such activities might cause a variety of problems from the viewpoint of policyholder protection, LIAJ is currently taking the following actions.

Conduct periodical survey of substantial facts since March 2002.

In response to increasing inquiries from consumers, in June 2003 LIAJ decided to carry a Q&A section on our website (<http://www.seiho.or.jp/>) (as of 31 March, 2004, the number of visits to our website hit 26,156 (93.7 average per day).

In November 2003, as our comments on the Regulatory Reform, LIAJ submitted a request to the Council for Regulatory Reform (reorganized to the Council for Promoting Regulatory Reform) to clarify the application standard of the Insurance Business Law for unregulated Kyosais. Concurrently, the members of the Second Subcommittee of the Financial System Council raised the issue regarding the necessity of regulation of unregulated Kyosais, and the possible appropriate measure to put it into effect. As a matter of fact, the Working Group of the Second Subcommittee has been discussing the matter since April 2004. In addition, the Administrative Evaluation Bureau of the Ministry of Public Management, Home Affairs, Post and Telecommunications published the interim survey report on unregulated Kyosais on June 8, 2004.

(2) The revision of the Insurance Business Law to streamline the procedures for changing terms and conditions of a policy

Reflecting the fundamental concept of streamlining the procedures for changing terms and conditions of a policy by voluntary agreement between the insurance companies and policyholders, and in order to safeguard against problems such as negative spread and to protect policyholders, the revision of the Insurance Business Law (Article 240, clause 2-13) was approved at the Diet on July 18, issued 25 July, and brought into effect 24 August, 2003.

The detailed procedure for changing terms and conditions of a policy is as follows,

Application filed by the insurance company to change the terms and conditions (in a case where it is highly probable that the company cannot continue to run its insurance business unless the change is made)

Approval by the administrative authorities

Preparation of the draft for the change of terms and conditions by the insurance company (for a mutual insurance company, a special resolution by the representative meeting and general meeting is required, and for a stock company one by a shareholders' meeting)

Approval of the draft for the change in terms and conditions by the administrative authorities

Representations by policyholders who will be affected by the change in terms and conditions
(the proposed change would be denied if more than a tenth of policyholders made objections
during a designated filing period, which lasts more than one month)
Announcement of the applicable change, and notice to the policyholders

Article 36, clause 3, of the Insurance Business Law provides that the assumed interest rate could be brought down as low as 3%.

Since this law was put into effect, no application for change in the terms and conditions of a policy has been submitted from the life insurance companies as of August 2004.

The Life Insurance Association of Japan

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