

**LIFE INSURANCE  
BUSINESS  
IN JAPAN**

2004/2005

**The Life Insurance Association of Japan**

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# Message from the Chairman

***In a Bid to Achieve  
a Prosperous, Reassuring,  
and Bright Future  
of Long-living Society***



Our nation has been transforming itself into a super-aged society at an unprecedentedly rapid pace, without parallel in the world. Now we are at the threshold of a new age in which more and more people come to live to be 100 years old and over. A century-long life span, or “the era of centenarians,” might no longer be a fantasy.

Such a future, however, does not always provide us with rosy views only. Among the various risks looming over our lives, the so-called “longevity risk,” the risk which a longer life would entail, has been growing in particular: sufficient funds will have to be secured not only to support the life of retirees but also to prepare for contingency, such as diseases or nursing care. Although our country’s social security system has long been playing an essential part to deal with such risks, its future is at stake, causing increasing uncertainty over both its sustainability and the levels of its future benefit.

The word “long-living society” is synonymous with an “aged society.” Longevity itself is a phenomenon to be welcomed. However, due to a lack of adequate preparatory measures for risks incidental to longer life, if instead it becomes a source of incessant anxiety or anguish, it would certainly not be the kind of long life that we envision.

To date, Japanese life insurance industry has been striving to contribute to the common welfare and the stability of people’s life through primarily the provision of a “death benefit.” In addition to that, our role will become increasingly significant in the sphere of a “living benefit” as well, such as annuities, medical or nursing care coverage, etc., to cope with the unforeseeable risks of longevity.

With this in mind, we set the above existing “death benefit” and the “living benefit” as the two main pillars of the industry’s coming social mission, to serve as the infrastructure for people’s “prosperous, reassuring, and bright future of long-living society.” To this end, we are determined to devote ourselves wholeheartedly to address various challenges ahead of us. And in our every effort, your further understanding and cooperation for our industry will be invaluable.

A handwritten signature in black ink that reads "S. Yokoyama". The signature is written in a cursive, flowing style.

Shinichi Yokoyama  
Chairman  
The Life Insurance Association of Japan

# Summary of Life Insurance Business in Japan

## (Fiscal 2004)

### A. Industry Overview

The Life Insurance Association of Japan (LIAJ) is a trade association of which the membership is made up of all life insurance companies operating in Japan. As of the end of fiscal 2004 (the end of March 2005), the number of LIAJ member companies was 39, a decrease of one company from the previous fiscal year.

With regard to distribution channels, although sales agents have long been the linchpin of the life insurance sales activities in Japan, they continue to fall in number, to around 260 thousand in 2004, after peaking at approximately 440 thousand in 1990. Meanwhile, the number of agency employees has been on the rise since its growth in 2002, when Japanese banks started selling individual annuity products in October of the same year.

The number of stock companies has almost doubled over the past decade, contrasting starkly to the 1960s where only four stock companies were registered with the LIAJ. This surge can be mainly attributed to the drastic revision to the Insurance Business Law (IBL), which came into effect in April 1996.

As the revised IBL included the introduction of a demutualization scheme which allows a mutual insurance company to be converted into a stock insurance company, it prompted several existing mutual companies to demutualize. Also the removal of the ban on the reciprocal entry between two insurance sectors paved the way for non-life insurance companies to newly join the life insurance market by means of establishing a subsidiary stock company (or vice versa). With the gradual participation of foreign life insurance companies as another factor, all the above changes have contributed to the increase in the number of stock companies<sup>1</sup>.

**Table 1. Industry Overview**

Fiscal Year	LIAJ Member Companies	Sales Agents/Agencies (in thousand)		
		Agents	Agencies	Agency Employees
1960	20 (4) <sup>a</sup>	160	-	-
1970	20 (4)	318	-	-
1980	22 (6)	306	-	-
1990	30 (14)	444	-	-
2000	47 (33)	315	182	232
2001	44 (32)	302	145	296
2002	42 (34)	284	139	693
2003	40 (33)	268	130	713
2004	39 (33)	263	124	721

<sup>a</sup> Numbers in parentheses are those of stock companies.

<sup>1</sup> As of 1 October 2005, the Association has a total membership of 38 companies, comprised of 32 stock companies and 6 mutual companies.

## B. Balance Sheet

At the end of fiscal 2004, the assets held by all life insurers operating in Japan amounted to ¥191 trillion (or roughly \$1.79 trillion)<sup>2</sup>, an increase of 3.9 percent from the previous fiscal year.

Liabilities expanded by 3.5 percent as a result of the buildup of liability reserves (a 3.1 percent increase), other reserves and other liabilities. Following the recovery of stock prices in particular, price fluctuation reserves were built up substantially, adding ¥236.8 billion (\$2.2 billion) to the prior year's ¥770 billion (\$7.2 billion) and topping ¥1 trillion (\$9.41 billion).

The total capital held by all member life insurers has surpassed ¥10 trillion (\$94 billion) with a significant increase of 12.0 percent from the previous fiscal year.

**Table 2. Balance Sheet of Member Companies as a Whole<sup>3</sup>** (billion ¥)

Fiscal Year	Assets		Liabilities			Capital
	Total	Nominal GDP(%)	Total <sup>a</sup>	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	127,939	118,032	-	3,679
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	36.7	175,326	160,714	770	9,003
2004	191,523	37.9	181,442	165,705	1,007	10,080
G.R.(%) <sup>b</sup>	3.9	1.2 points	3.5	3.1	30.7	12.0

<sup>a</sup> The total amount of liabilities includes other liabilities not shown in the above table.

<sup>b</sup> Hereinafter G.R. stands for growth rates from the previous fiscal year.

<sup>2</sup> The Yen/US Dollar currency rate at ¥106.97 (as of the end of March 2005) is applied to the translation of the dollar-based figures. Hereinafter all dollar-based figures in parentheses represent approximate values converted using this rate.

<sup>3</sup> Rounding errors may be observed wherever percentages or total amounts are summed up.

## C. Asset Distribution

Securities constitute the core component of the life insurers' total assets, accounting for about 69 percent at ¥131,834.7 billion (\$1,232 billion) out of overall assets of ¥191 trillion (\$1,790 billion). Loans, the second major component which account for 20 percent at ¥38.3573 trillion (\$358 billion), continue to fall short of the previous fiscal year in value, reflecting mainly weak corporate demand for funds.

With regard to securities holdings, the share of domestic stocks in the total assets (11.5 percent) has been on an upward trend, in contrast to the share of corporate bonds (9.5 percent) which has been shrinking slightly in recent years. As the domestic interest rate remains very low, insurers have been continuing global asset diversification and raised the portion of foreign securities holdings, which marked the largest share in fiscal 2004 with 19.1 percent, since industry-wide statistics began.

**Table 3. Asset Distribution**

(billion ¥, %)

Fiscal Year	Total Assets <sup>a</sup>	Total <sup>a</sup>	Securities						
			Domestic Securities			Subtotal <sup>a</sup>	Foreign Securities		
			JGB <sup>b</sup>	Corporate Bonds	Stocks		GB <sup>b</sup>	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
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	35,524	18,877	21,362	33,789	11,936	15,467	2,787
2004	191,523	131,834	41,931	18,275	22,070	36,534	10,736	18,156	2,930
		<68.8> <sup>c</sup>	<21.9>	<9.5>	<11.5>	<19.1>	<5.6>	<9.5>	<1.5>

(Continued from the 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
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	4,356	37,364	4,926	7,598
2004	38,357	4,168	34,188	4,335	7,332
	<20.0>	<2.2>	<17.9>	<2.3>	<3.8>

<Reference> (billion ¥, %)

Fiscal Year	Loans Abroad
1960	-
1970	-
1980	524
1990	6,345
2000	4,085
2001	4,220
2002	3,668
2003	3,331
2004	2,587
	<1.4>

<sup>a</sup> The amount of total assets, total securities and subtotal of the foreign securities include other assets, securities and foreign securities respectively.

<sup>b</sup> JGB and GB stand for Japanese government bonds and government bonds respectively.

<sup>c</sup> Figures in angle brackets are the proportion of each asset to the total assets.

## D. Distribution of Life Insurers' Revenues and Expenditures

### 1. Premium Income

Thanks mainly to the continuing brisk sales of individual annuity products, premium income for fiscal 2004 grew by 4.1 percent year-on-year to ¥27.022 trillion (\$252 billion).

**Table 4. Total Premium Income** (billion ¥, %)

Fiscal Year	Total Premium Income <sup>4</sup>	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
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
2004	27,022	14,885	6,294	1,274	4,297	12
G.R.(%)	4.1	0.1	35.7	-1.7	-11.8	-25.0

### 2. Payments

The amount of life insurers' payment for insurance claims significantly reduced by 12.0 percent to ¥21.336 trillion (\$199 billion) in fiscal 2004. Although the total amount of payments for annuity and for reinsurance grew by 8.3 percent to ¥0.19 trillion (\$1.7 billion), a considerable decrease was confirmed in the total amount of payment for benefits and repayments, by 14.2 percent to ¥3.1 trillion (\$28.9 billion). As a result of the life insurers' persistent efforts for increased efficiency, operating expenses were held down at ¥3.567 trillion (\$33 billion), almost the same amount as in the previous year.

**Table 5. Total Payments** (billion ¥, %)

Fiscal Year	Total <sup>4</sup>	Payments under Life Insurance Contracts			Addition to Reserves	Operating Expenses
		Benefits	Annuity	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
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	11,517	1,581	10,380	3,652	3,570
2004	21,336	10,188	1,659	8,605	5,756	3,567
G.R.(%)	-12.0	-11.5	4.9	-17.1	57.6	-0.1

### 3. Basic Profit

Despite the harsh environment for sales and investment activities, the basic profit, an indicator of a life insurer's basic earning capacity, demonstrated significant growth in fiscal 2004 to ¥2.462 trillion (\$23 billion) compared to the previous year. An increase in operating profit played a key role in this upturn.

**Table 6. Basic Profit** (billion ¥)

Fiscal Year	Basic Profit
2000	2,237
2001	2,259
2002	2,151
2003	2,191
2004	2,462

<sup>4</sup> The total amount of Table 4 and Table 5 includes other premium income and other payments respectively.

## E. Sales

### 1. New Business and Business in Force

Because of the continuing shift in consumers' demand to products highlighting especially medical and nursing benefits away from products with sizable death protection, new business written for individuals was down from fiscal 2003 both in terms of number (by 4.4 percent) and in terms of amount (by 10.1 percent).

Accordingly, the business in force (the sum of individual insurance, individual annuity and group insurance) at the end of fiscal 2004 shrank slightly by 2.5 percent to ¥1,568.662 trillion (\$14,664 billion) from the previous year. The business in force of individual insurance, group insurance, and group annuity also declined, while individual annuity continues to enjoy robust growth.

**Table 7. New Business**

(Number: in thousand, Amount: in billion Yen)

Fiscal Year	New Business				
	Individual Insurance <sup>a</sup>		Individual Annuity <sup>a</sup>		Group Insurance
	Number	Amount	Number	Amount	Amount
1960	6,568	1,913	1	(0.1) <sup>b</sup>	134
1970	9,807	19,151	76	(11)	4,154
1980	12,135	80,020	168	(76)	6,938
1990	16,686	207,535	2,167	13,076	23,175
2000	12,430	133,559	886	3,605	7,054
2001	14,109	128,098	511	1,910	16,603
2002	13,830	120,712	750	3,408	14,189
2003	13,166	101,381	1,113	5,199	13,797
2004	12,592	91,159	1,369	7,467	10,165
G.R.(%)	-4.4	-10.1	22.9	43.6	-26.3

<sup>a</sup> The number of contracts of both individual insurance and individual annuity includes converted contracts. The amount of the contracts of individual insurance and individual annuity reflects the net increase arising from the conversion accordingly.

<sup>b</sup> As regards the amount of individual annuity, the figures in parentheses from 1960 through 1980 represent the annual annuity amount, and from 1990 onward, the amount shows the accumulated capital for annuity at the commencement of annuity payments.

**Table 8. Business in Force**

(Number: in thousand, Amount: in billion Yen)

Fiscal Year	Business in Force						
	Total Amount (excluding Group Annuity)	Individual Insurance	Individual Annuity	Group Insurance		Group Annuity	
		Amount	Amount	Amount	Number	Amount	Number
1960	6,996	6,002	(0.1) <sup>a</sup>	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 <sup>b</sup>	471,430	-	31,439	-
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
2004	1,568,662	1,112,170	74,109	382,382	66	32,666	59
G.R. (%)	-2.5	-4.4	6.5	-1.2	-1.2	-6.5	-10.4

<sup>a</sup> The figures of the individual annuity from 1960 through 1980 in parentheses represent the annual amount (not the accumulated amount) and are excluded from the total amount which is shown in *italics*.

<sup>b</sup> The figures of the individual annuity from 1990 onward represent the sum of the accumulated capital at the commencement of annuity payments and the amount of liability reserves after the commencement of annuity payments.

## 2. Business in Force and the Domestic Economy

The amount of business in force per household and per person shrank slightly to ¥31.47 million (\$0.29 million) and to ¥12.36 million (\$0.12 million), respectively.

**Table 9. Scale of Business in Force<sup>a</sup> in the Domestic Economy**

Fiscal Year	As a Percentage of National Income (%)	Per Household <sup>b</sup> (million ¥)	Per Capita <sup>c</sup> (million ¥)
2000	473	38.00	14.29
2001	467	36.12	13.73
2002	452	34.44	13.15
2003	434	32.66	12.69
2004	429	31.47	12.36

<sup>a</sup> The "Business in force" represents the total amount of individual insurance, individual annuity and group insurance policies.

<sup>b</sup> The number of households is based on the "Population Summary of the Basic Resident Registers" from the Japan Geographic Data Center (JGDC).

<sup>c</sup> The data on population are taken from the Statistics Bureau of the Ministry of Internal Affairs and Communications (MIC).

## 3. Percentage of the Types of Policies

The whole life-with-term insurance has been the mainstay of individual life insurance sales, accounting for nearly 40 percent of the total business in force in terms of amount. However, in terms of the amount of new business written during fiscal 2004, its share plunged to 14 percent, whereas adjustable interest rate funding whole life insurance and term insurance products remain relatively firm with rising shares of approximately 20 percent and 27 percent respectively. These shifts suggest the preference of customers for diversifying types of insurance products.

**Table 10. Individual Insurance Share by Type (Fiscal 2004)** (%)

	Business in Force		New Business	
	Number	Amount	Number	Amount
Whole Life	12.3	8.0	11.8	6.1
Whole Life-with-Term	16.3	39.7	4.3	14.0
Adjustable Interest Rate Funding Whole Life	5.7	11.8	9.9	20.4
Term	11.7	14.0	15.8	26.6
Endowment	9.2	3.0	5.3	2.3
Endowment-with-Term	2.7	2.1	0.6	1.1
Variable	1.0	0.7	1.4	0.9
Others	41.1	20.7	50.9	28.6

## F. Summary of Portfolio Investment

### 1. Investment Income

The investment climate in fiscal 2004 was epitomized by the continuing super-low interest rate policy of the Bank of Japan and general uncertainty about the country's economic prospects which are opaque and continue to fluctuate. The rallying trend of Japanese stock prices, which have remained almost within the same price range of the year before when a surge took place, pushed up the amount of payments for interests and dividends, with the lowering interest rate as another factor. However, investment income shrank by 13.5 percent from the previous year to ¥5.441 trillion (\$50 billion), due to a sharp drop in gain on the sales of securities and the asset investment profit in the special accounts.

### 2. Investment Expenses

In fiscal 2004, investment expenses largely diminished by 22.3 percent to ¥1.316 trillion (\$12 billion), since losses on the sales of securities, those of stocks in particular, were curtailed sharply by 32.7 percent from a year earlier.

**Table 11. Asset Management**

Fiscal Year	End of Fiscal Year (¥) <sup>a</sup>		Working Assets Income (billion ¥)			Asset Management Costs (billion ¥)		
	Nikkei 225 Average	Yen-to-Dollar Rate	Total <sup>b</sup>	Interests and Dividends	Profit on Sales of Securities	Total <sup>b</sup>	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
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
2004	11,668	106.97	5,441	4,005	736	1,316	451	63
G.R.(%)	-47 Yen	1.33 depreciation of Yen	-13.5	1.6	-17.9	-22.3	-32.7	15.9

<sup>a</sup> Figures of Nikkei 225 Average and Yen/Dollar rate are as of the end of each fiscal year (the end of March).

<sup>b</sup> The total amount of working assets income and asset management cost include other income and other costs respectively.

### 3. Income on Invested Assets Held in the General Account

Despite the ongoing tendency of extremely low interest rates, the investment yield on assets held in the general account rose slightly by 0.21 points to 2.15 percent in fiscal 2004 from the previous year, owing mainly to a substantial decrease in asset management costs and a large increase in the currency gain.

**Table 12. Yields on Working Assets in General Account**

Fiscal Year	Total <sup>a</sup>	Yields on Working Assets in the General Account <sup>b</sup> (%)		
		Bonds	Stocks	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
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
2004	2.15	1.56	3.75	3.03
Growth (point)	0.21	-0.14	2.91	0.27

<sup>a</sup> The total amount of the yields on working assets includes the yields on other assets not shown in the table.

<sup>b</sup> Yield on working assets in general account = (Working assets income - Asset management cost + Appraisal profit\*) / Average daily balance of working assets in the general account x 100 (%).

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

# Activities and Outline of the LIAJ

## A. Requesting and Representing Opinions

### 1. Activities Related to the International Association of Insurance Supervisors (IAIS)

#### **Comments on *Draft Supervisory Standard on Suitable Forms of Capital***

The LIAJ submitted written comments on the “Draft Supervisory Standard on Suitable Forms of Capital” under the date of 12 March 2004 of the IAIS Solvency and Actuarial Issues Subcommittee. The outline of the comments is as follows.

**a) The Treatment of Unrealized Profit and Loss (Paragraph 15)**

The treatment of unrealized profit and that of unrealized loss are asymmetric and inconsistent. It is more consistent not to impose restrictions on inclusion of unrealized profit.

**b) Interest Payment on the Foundation Fund (Paragraph 43)**

Foundation fund, whose interest payment is strictly restricted by laws, is very similar to capital. When the supervisory authorities of each jurisdiction regulate the interest payment strictly, it is appropriate that ‘cumulative’ should be permitted in paragraph 43. Also, it is appropriate not to require prior-approval. Prior-approval should be provided as an example in paragraph 43.

#### **Comments on *Draft Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism***

The LIAJ submitted written comments on the draft “Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism” under the date of 16 April 2004 of the IAIS Insurance Fraud Subcommittee. The outline of the comments is as follows.

**a) Use of National Health Insurance Cards for Identification and Verification Purposes (Paragraph 51)**

In Japan, a national health insurance card is delivered only to the identical person who is registered under the strict process. Therefore, it cannot be “easily obtained in any name”. It is not appropriate to exemplify a national health insurance card as a document which can be “easily obtained in any name” uniformly in any jurisdiction.

**b) Risk Management Arrangements (Paragraph 82)**

There is no problem that the board of directors and senior management receive reports not regularly but when a concern arises. There seems no necessity in keeping the board of directors and senior management regularly informed of all matters when there is no change in interoffice measures.

**c) Record Keeping (Paragraph 86)**

It is physically difficult to preserve large volume of information simply in the form of documentation. It should be clarified that other forms such as electronic media (FD, CD-R, etc.) as options to store the information are admitted.

**d) Screening of Staff (Paragraph 91)**

The necessity of appropriate assessment of the fit and proper requirement of key staff should be endured. However, individual human rights and privacy also should be taken into account sufficiently.

In Japan, from the viewpoint of preventive measures to protect human rights and avoid discrimination in recruiting process, the corresponding law places a certain degree of restrictions on employers when they collect the private information of their prospective employees.

Therefore, it should be ensured that each jurisdiction can introduce the measures to assess the fit and proper requirement of key employees in line with individual human rights and the legal system of the jurisdiction.

**Comments on Consultation Paper on the Draft Standard on Disclosures Concerning Investment Performance and Risks for Insurers and Reinsurers**

The LIAJ submitted comments on “Consultation paper on the draft standard on disclosures concerning investment performance and risks for insurers and reinsurers” under the date of 17 September 2004 of the IAIS Enhanced Disclosure Subcommittee. The comments included the ones on issues of disclosure requirements and measures.

**2. Activities Related to the International Accounting Standards Board (IASB)**

**Comments on a Consultation Paper, *Strengthening the IASB’s deliberative processes***

The LIAJ and the American Council of Life Insurers (ACLI) jointly issued on 4 June 2004 written comments on “Strengthening the IASB’s deliberative processes” published on 24 March 2004 by the International Accounting Standards Committee (IASC) Foundation. In addition, the LIAJ submitted a separate statement on 25 June 2004, including its comments on the consultation paper. The outline of the statement is as follows.

- a) To improve the transparency of the discussions and to aid the comprehension of interested parties, we propose to open to the public the same information as given to the Board throughout the deliberation processes of the IASB.
- b) We suggest to change the deliberative processes to show on the IASB website the IASB’s position not only on the comment letters to exposure drafts or discussion papers but also on some other letters, such as a letter representing opinions of broad specialists about an issue under discussion.
- c) It is necessary to use the Working Group or existing Advisory Group more than ever.
- d) We suggest issuing discussion papers for those projects with still many issues yet to be resolved in order to collect various opinions.
- e) We believe that a big change in an approach from an exposure draft should have been re-exposed and a process to hear various opinions should have been taken.
- f) We suggest that an approval of final standards should require no less than three quarters of the IASB Board members.
- g) We believe that the IASB should give consideration to countries whose native languages are not English.

- h) The IASB needs to make efforts in harmonizing itself with various standard-setters.

**Comments on *The Fair Value Option: Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement***

The LIAJ submitted on 15 July 2004 written comments on the exposure draft of “The Fair Value Option: Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement” published on 21 April 2004 by the IASB. The outline of the comments is as follows.

- a) Adoption of Fair Value Option might impair the comparability of financial statement. In addition, expanding the use of fair value for the profit/loss statement items diverts from the underlying purpose of profit and loss statement aiming at adequately displaying the business performance of a corresponding fiscal year.
- b) We agree on the direction of the proposed amendment placing some restrictions on the use of the fair value option. We are also in favour of seeking verifiability of fair value when using the fair value option.
- c) <Permitting entities to designate arbitrarily on initial recognition any financial assets or financial liabilities other than loans and receivables as one to be measured at fair value with gains and losses recognised in profit or loss> might impair the comparability of financial statements. It might also divert from the underlying purpose of profit and loss statement aiming at adequately displaying the business performance in a given fiscal year. Therefore, we oppose to this clause of the amendment.
- d) Regarding the application of the fair value option to “all” financial assets or financial liabilities that contain one or more embedded derivatives, it is desirable to strengthen the limitations.

**Comments on *Actuarial Gains and Losses, Group Plans and Disclosures: Proposed Amendments to IAS 19 Employee Benefits***

The LIAJ submitted on 15 July 2004 written comments on “Actuarial Gains and Losses, Group Plans and Disclosures: Proposed Amendments to IAS 19 Employee Benefits” published on 29 April 2004 by the IASB. The outline of the comments is as follows.

- a) Current IAS 19 has certain support in practice and several countries employ similar perspectives. This proposal encompasses the risk of preventing the international efforts to converge accounting standards.
- b) We oppose to the proposal that entities recognise the actuarial gains and losses outside profit or loss and the effect of the limit on the amount of a surplus that can be recognised as an asset outside profit or loss, in statement of recognised income and expense.
- c) Recognition outside a profit or loss statement, recycling issue, and recognition within retained earnings are currently under discussion. It is thus not appropriate to stipulate amendments and handlings of such items at this stage as no conclusion has been drawn yet.

- d) The proposed requirements for disclosure and further disclosures are excessively burdensome to financial statement preparers and might result in the cost deficiency of operation.

**Comments on *Combinations by Contract Alone or Involving Mutual Entities: Proposed Amendments to IFRS 3 Business Combinations***

The LIAJ submitted on 15 July 2004 written comments on the “Combinations by Contract Alone or Involving Mutual Entities: Proposed Amendments to IFRS 3 Business Combinations”, which was published by the IASB on 29 April 2004. The outline of the comments is as follows.

- a) We strongly oppose to the amendment.
- b) In the ED 3 Business Combinations, published in December, 2002, it was proposed to delay the application of IFRS 3 to business combinations involving two or more mutual entities until the IASB issued the guidance on the application of the purchase method. It is against the due process to make such a proposal in an attempt to apply IFRS 3 to business combinations, involving mutual entities, despite the guidance has not been fully developed in the subsequent discussions of the board.
- c) It would be currently impracticable and impermissible at practice level to measure fair value of insurance liability, even if it was required to apply the purchase method to such business combinations.
- d) With regard to the accounting procedure for business combinations between mutual companies, it should be considered first that thorough consideration whether the application of the purchase method to such a case would be appropriate or not. Thus, it is preferable that the former IAS 22 should continue to apply until achieving the conclusion.

**Comments on *Financial Guarantee Contracts and Credit Insurance: Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts***

The LIAJ submitted comments under the date of 8 October 2004 on “Financial Guarantee Contracts and Credit Insurance: Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts” published by the IASB on 8 July 2004. The outline of the comments is as follows.

**General Remarks**

IASB requires entities to use the same accounting for similar financial instruments. While credit insurance is an insurance product which possesses insurance risk, a financial guarantee contract is simply a credit transaction, hence the nature of each differs widely. Therefore, it is not appropriate to comprehensively apply the same accounting to them within the scope of IAS 39.

IASB ensured that we would defer detailed reviews of general issues to discussion on Phase II and restrict the provisional change in the process of developing IFRS 4 in order to avoid causing unnecessary paperwork, change

of system, and accompanying expense for insurers. In fact, the discussion on Phase II has already started. Therefore, the accounting treatment for credit insurance should remain intact at this point and be the same as the one used for insurance contract.

#### **Individual Issues**

- a) The proposed scope is not appropriate.

We consider that there is a fundamental difference between credit insurance and financial guarantee contracts. While credit insurance is the insurance product with the function of diversifying risk, financial guarantee contract is a simple credit transaction. Specifically, the former rests on the premise that it protects the debtors as a group against risk, and the latter basically protects individual or particular debtors.

Credit insurers manage credit risk by using theory of probability or pooling individual risk within a portfolio. This risk diversification method is a characteristic of insurance business, which should be appropriately reflected in financial statements, is also one of the key issues to be discussed in Insurance Contract Phase II. Therefore, we should not determine how the credit insurance is treated in IFRS at this point.

- b) The proposal on subsequent measurement is not appropriate.

Credit insurance should be measured in the same way as other insurance contracts.

- c) The proposed effective date and transition are not appropriate.

In principle, any new proposals should not be applied retrospectively. Issues of credit insurance should be discussed in Insurance Contract Phase II.

#### **Joint letters on *Guiding Principles: Phase II of IASB's Insurance Project***

The LIAJ jointly developed with insurance associations in the United States and Europe the "Guiding Principles: Phase II of IASB's Insurance Project," a set of guidance and principles that specify the nature of the insurance business and promote the development of sound accounting standards for the business. The outline of the joint letter, which was submitted on 11 October 2004, is as follows.

- a) The accounting standard should reflect the reality of the insurance business.
- b) The accounting standard should be consistent with or even contribute to "sound (internal) risk management and control" practices in insurers. Accordingly, they should provide a neutral, prudent, relevant and reliable framework for the generation of high quality accounting information.
- c) The accounting standard should facilitate market discipline by promoting transparent financial reporting of insurers' financial position and performance, as well as its risk management activities. In this context, accounting volatility should be avoided.
- d) The accounting standard should not only have a sound theoretical foundation, but also be workable in practice.
- e) The accounting standard should not be overly complex. Understandability and the ability to audit are essential.

- f) The accounting standard should generate consistent measurements of similar or related items.
- g) The accounting standard should be sufficiently precise to ensure consistent application.
- h) Disclosures should be sufficiently comprehensive and meaningful for an assessment of an insurer's financial position and performance, as well as risk management activities.

#### **Comments on *ED 7 Financial Instruments: Disclosures***

The LIAJ submitted on 22 October 2004 written comments on "ED 7 Financial Instruments: Disclosures," which proposed improvement in disclosures of financial instruments in financial statements, published on 22 July 2004 by the IASB. The outline of the comments is as follows.

- a) Regarding the disclosure of the fair value of collateral and other credit enhancements, the LIAJ is opposed to the proposed requirement for disclosure of the fair value of collateral and other credit enhancements.
- b) The LIAJ is opposed to the proposed disclosure of a sensitivity analysis.
- c) Regarding the capital disclosures, the proposal is not applicable to a financial institution under supervision by regulatory authorities.
- d) The LIAJ is opposed to disclosing risks arising from financial instrument as a part of financial statements.
- e) Regarding the consequential amendments to IFRS 4, the LIAJ is opposed to amending risk disclosure requirements in IFRS 4.
- f) Regarding the Implementation Guidance, it is a concern that the part of the examples illustrated in the Implementation Guidance might cause misunderstanding for users, if disclosed, therefore it is not appropriate to do so.

#### **Comments on *Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts and Credit Insurance***

The LIAJ and the German insurance association, GDV, jointly submitted on 2 November 2004 opinions on the exposure draft "Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts and Credit Insurance." The outline of the comments is as follows.

- a) It is important to understand that credit insurance contracts and financial guarantees are two different issues. Whereas financial guarantees are financial instruments, credit insurance contracts are insurance contracts meeting the definition of an insurance contract in IFRS 4. It is not consistent for credit insurance contracts to be within the scope of IAS 39.
- b) One cannot develop a single set of high quality and understandable accounting standards on the one hand, and, on the other hand, require contracts to be outside the scope of a standard although the standard covers all types of those contracts.

- c) IFRS 4 as the resulting Standard of Phase I introduces just limited changes and we welcome this approach. However, IASB intends to exclude credit insurance contracts from this approach. It is IASB's idea to introduce major changes to the accounting of credit insurance contracts. The consequence is that contracts with identical characteristics, i.e. credit insurance contracts and all other insurance contracts, are treated in different ways. From our perspective, an approach distinguishing between credit insurance contracts and all other contracts is arbitrary and useless. We will return to this point.

**Comments on IASC Foundation's Consultation Paper, *Proposals for Change: Review of the Constitution***

The LIAJ submitted on 23 February 2005 comments on "Proposals for Change: Review of the Constitution," the consultation paper published on 23 November 2004 on IASC Foundation's review of the constitution. The outline of comments is as follows.

**a) The Oversight Role of the Trustees**

The constitution should clearly provide that the Trustees have the power to require the IASB to start again from the beginning if inappropriate deliberative process and due process are found in the standard-setting process on the IASB review of the compliance of such processes.

**b) The Composition of the IASB**

To secure the diversity in the background of the Board members, specific upper limits should be set for specific elements (e.g. the proportion of the people from a particular country should be limited to a certain percentage, 25% for instance).

**c) The Appropriateness of the IASB's Existing Formal Liaison Relationships**

As an effort to get international accounting standards accepted in the capital markets around the world, at least, those board members who are responsible for liaising with standard setters in the main capital markets of the world, e.g. Japan, U.S., Europe and Canada, should be stipulated.

**d) Consultative Arrangements of the IASB**

Non-mandatory procedures of the IASB, including public hearings and on-site verification, should be, in first place, mandatory procedures, in terms of ensuring both validity and efficacy in practice and transparency in deliberation processes. The Sunset Review should be conducted by parties other than direct participants to the project under review to improve the efficacy.

**e) Voting Procedures of the IASB**

As in the IASC deliberation process, any final standard should require the approval of no less than three quarters of the IASB Board members in order to be adopted.

**f) Others**

When developing standards, public interest and understandability and enforceability of accounting standards should have priority to the Conceptual Framework.

### **3. Comments on the draft on “Revision of Funding Rules of Policy Reserve Relating to Variable Annuities, Etc.” by the Cabinet Office**

The Financial Services Agency issued a draft on “Revision of Funding Rules of Policy Reserve Relating to Variable Annuities, Etc.” for public comments on 10 August 2004. While policyholders are to assume investment risks for particular products including variable annuities, the minimum amount equivalent to the premiums paid is generally guaranteed upon the death of the insured or the inception of the annuity payment. For such reasons, the revision of Cabinet Office rules and notices related to these products was drafted to lay down the rules to allow proper funding of policy reserves taking into account the minimum guarantee risks of products owned. Following the publication of the draft, the LIAJ submitted the comments outlined below to the Financial Services Agency.

- a) It is required for the life insurance business to manage risks properly through such activities as funding of enough policy reserves that correspond to the level of risks, as the coverage is for a long time.
- b) In recent years, risks associated with underwriting, which are assumed by insurance companies, are expanding as companies have been developing and providing new types of products in response to the diversification of customer needs. It is very important to lay down proper rules about risk management for such products in an effort to secure the soundness of insurance companies and to develop customer confidence.
- c) Under such circumstances, rules have been introduced or are being considered in several countries, as insurers assume the minimum guarantee risk or, in other words, they are required to bear the shortfall in guaranteed minimum caused by a deterioration in investment environment.
- d) Thus, we believe that it is very meaningful for the life insurance business to keep developing an environment that contributes to the protection of policyholders and to stable profits by ensuring the sound operation of insurance companies.
- e) We request your continuous review on the operating environment of life insurance companies for sound development of the business.

### **4. Postal Privatization Related Activities**

On 10 September 2004, the Council on Economic and Fiscal Policy finalized the “Basic Policy on the Privatization of the Japan Post,” and the policy was approved at the special cabinet meeting on the same day. Further, a promotion headquarters headed by the prime minister was set up to carry forward the postal privatization efforts, including the preparation of related bills and presentation thereof to the Diet.

On the same day, the Chairman of the LIAJ issued a statement on the Basic Policy, the outline of which is as follows.

Concerning the Basic Policy, we have the following five requests as it still contains several points of concern that may prevent a level playing field from being achieved.

- a) Upon privatization of Japan Post in 2007, not only should the governmental guarantees be abolished and the same tax obligations be imposed as private life insurance companies, but also the insurance business of the privatized company should be completely governed by the Insurance Business Law and placed under the oversight of the Financial Services Agency.
- b) The privatized company should be completely separated and independent from the government, not taking the form of a government-linked special corporation or a holding company.
- c) The profit/loss resulting from the accounts of Japan Post after the termination of its operation should not be mixed with that of the privatized company; instead, it should be allotted to existing policyholders. Further, the new company should maintain the client information accumulated by the pre-privatized governmental organization with considerable stringency and take preventive measures against the use of such information in soliciting new contracts.
- d) The governmental involvement in the postal insurance business including government funding, which is in substance a government guarantee, should be dissolved at an early stage.
- e) Until a level playing field is fully achieved and during the preparatory period up to the initiation of the privatization in 2007, the line of postal insurance products should not be expanded and the maximum amount of insurance benefits allowed for a policyholder should be lowered rather than being maintained.

In addition, the LIAJ together with eight other private-sector financial organizations placed on 28 February 2005 a joint advocacy ad in five major national newspapers, requesting an equal footing of the privatized postal company.

On 4 April 2005, the government decided the outline of six postal privatization related bills. On 27 April 2005, the six bills were approved at the fourth meeting of the promotion headquarters, decided at a special cabinet meeting on the same day, and submitted to the ordinary diet session for deliberation. The outline of the bills is as follows.

**a) Location of Post Offices (Consideration for Resident Accessibility)**

- (1) The placement of Post Offices to universally render services for the people will be legally obliged. (Specific criteria will be provided in a ministerial ordinance.)
- (2) The current level of the post office network will be retained for under-populated areas.

**b) Consideration for Unified Operations**

- (1) Form of organizations
  - (a) The postal savings company and the postal life insurance company will be operated as general companies under the commercial laws, not as government-linked special corporations. Their shares will be disposed of in phases.
  - (b) In essence, all of their shares will be disposed of before the privatization is completed.

(2) Cross-shareholdings

- (a) After the transitional period for the privatization, postal units will be allowed to cross-hold their shares based on their business judgments as other private financial institutions, taking their characteristics as government-linked special corporations into account.
- (b) During the transitional period, unified operation of the postal units will be secured by legally obliging agency contracts between the over-the-counter services network unit and other units and by the holding shares of the postal savings company and postal insurance company by the holding company.

(3) Universal postal savings and postal insurance services

- (a) When deemed licenses are issued to the postal savings bank and postal insurance company, these companies will be obliged to maintain solid agency agreements until they become independent.
- (b) The over-the-counter services network unit and the postal services unit will develop a “regional contribution business plan” and “social contribution business plan.” It will be legally obliged that the network unit respect the opinions of local intellectuals in the process. Part of the gain on sales of shares of the postal savings company and the postal insurance company and dividend income will be appropriated to a “regional social contribution fund” created within the holding company.

**c) Degree of Operational Freedom during the Transitional Period**

In the beginning of the transitional period, the extent is the same as the public corporation. It will increase in phases until the companies can finally operate as private-sector companies.

**d) Response to System Risk**

Systems will be prepared for the new operational structure by April 2007. In preparation for potential system risk, a risk correspondence scheme will be set up, whose introduction can be put off by up to six months (up to October 2007) as necessary.

**e) Official Certificate**

For special mail-delivery services of the current Japan Post, including the delivery of content-certified mails, new official certificates will be required after the privatization in order to ensure the confidence of customers.

**f) Defense Measures against Hostile Takeover**

Defense measures will be taken against hostile takeover by utilizing the stipulations in the common business laws (i.e. the privatized companies will issue class shares with the provision of forcible conversion of such shares into shares without voting rights).

**g) Taxation**

Necessary measures will be taken to ensure a smooth transition to the new entities.

## 5. Regulatory Reform Related Activities

During the 2004 business year, two administrative bodies were set up to promote regulatory reform in Japan. One is the Council for the promotion of regulatory reform and opening to the public-private partnership (the Council) and the other is the Office for the promotion of regulatory reform and opening to the public-private partnership (the Office). The Council was established under the Cabinet Office on 1 April 2004 at the request of the prime minister, and consists of 13 experts from the private sector and the Office was established under the Cabinet on 25 May 2004. The promotion of regulatory reform and opening to the public-private partnership by the government has thus been commended to the two organizations.

Representing the life insurance industry, the LIAJ has submitted requests for the regulatory reform to the Council and to Japan Business Federation.

Our main requests for the 2004 business year are as follows.

- a) The ban on fiduciary services and related clerical services commissioned by insurance companies to be lifted.
- b) The ban on the conclusion of contracts by life insurance companies to upkeep the deposit upon issuance of advance payment type certificates to be lifted.
- c) The ban on financial advisory services by subsidiaries of insurance companies for real estate investment to be lifted.
- d) The Income Dependency Regulation regarding subordinate business carried out by subsidiaries of insurance companies to be relaxed.
- e) Special accounts to be secured upon bankruptcy of insurance companies.
- f) Rules for policyholder protection related to the operations of mutual aid association (Kyosai) to be established.

- Item b), "The ban on the conclusion of contracts by life insurance companies to upkeep the deposit upon issuance of advanced payment type certificates to be lifted," was approved on 10 September 2004 for reflection in the Three-Year Program for Promoting Regulatory Reform and Privatization, and the implementation was ensured.
- Japan Business Federation published on 16 November 2004 its requests on the regulatory reform for the 2004 business year. The requests include five of the six items above (except Item b), which had been enacted by then).
- The Three-Year Program for Promoting Regulatory Reform and Privatization was decided on 25 March 2005 at a cabinet meeting. Four of the six requests above (except Item b) and item e), which had been enacted by then) have been included in the Program.
- The requested item d), "The Income Dependency Regulation regarding subordinate business carried out by subsidiaries of insurance companies to be relaxed," and item e), "Special accounts to be secured upon bankruptcy of insurance companies," have been reflected in the revised Insurance Business Law published on 22 April 2005.

## 6. Tax Reform Related Activities

As Japan transforms into a rapidly aging society, the combined use of the public social security system and private coverage such as life insurance and individual annuity by people's voluntary self-help efforts has been indispensable in order to realize a vibrant welfare society for the aging population.

To promote a favourable tax system for life insurance and individual annuities, which can efficiently cover various types of insurance needs including "the bereaved," "medical," "nursing care," and "retirement" coverage through the mechanism of mutual aid, and to encourage such efforts of the people, the LIAJ submitted on 17 September 2004 to the related parties a paper containing the following requests concerning tax law changes for the 2004 business year. The substantial issues addressed are:

- Increase in the tax-deductible limit for life insurance premium payments to ¥100,000 for individual income tax;
- Increase in the tax-deductible limit for individual annuity premium payments to ¥100,000 for individual income tax; and
- Addition of the sum of (¥5,000,000 of death benefit received by the spouse) plus (¥5,000,000 of the death benefit received by a dependent legal heir underage) x (the number of such dependent heirs) to the existing exemption limit for inheritance tax applicable to sums payable at death under insurance contracts.

Moreover, as an effort to realize those requests, the LIAJ, in collaboration with the National Federation of Life Insurance Workers' Unions of Japan, carried out a one-month questionnaire survey on the internet from 26 July through 27 August 2004.

The tax-deductible limit for premiums was left unchanged for the 2005 business year.

## **B. Social Contribution and Improving Services for the Policyholders**

### **1. Activities for Social Contribution**

Through the concerted efforts to enhance the public understanding and the trust of life insurance business and to achieve the public benefit, the Association conducts the following projects to contribute to the society and each community:

- a) Support activities to reinforce the Elderly Care System for those who in need of nursing care (through Scholarship program for education of care workers)
- b) Scholarship Program for privately-funded foreign students in Japan
- c) Child-rearing support to provide financial aid for non-profitable institutions or groups which support those who are raising preschooler(s) in the community (including expectant mothers)

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

Its main activities are as follows:

- a) Activities for donating wheelchairs or vans equipped with nursing equipment through fund-raising campaigns
- b) Blood donation activities
- c) 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 burden of clerical work at a client company and enable insurers to render more efficient services.

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

- a) Accounting settlement of corporate pension and group term policies which are jointly insured by companies
- b) Data exchange of individual policies whose monthly premiums are collected through payrolls
- c) Data exchange of asset-formation insurance
- d) Checking of medical life insurance
- e) Registration of licensed life insurance solicitors
- f) Registration and providing information of contract contents to prevent moral hazard
- g) Data distribution of national pension fund insurance
- h) Data collection system regarding life insurance business statistics
- i) Data exchange of joint Employee's Pension Fund Insurance report
- j) Data inquiry system for assessing insurance claims (started operating in January 2005)

## **C. Public Relations**

As life insurance business in Japan has been playing increasingly an important role to protect people's lives, the life insurance industry has been more and more conscious of its social responsibilities. The Association promotes public relations activities in a bid to reflect consumers' needs in its conduct of business and to help consumers have a correct idea of life insurance business.

The main pillars of its activities are as follows:

### **1. Public Relations Activities**

The Life Insurance Association of Japan conducts various publicity and advertising activities including on-line information update on its website to enhance consumer's understanding of life insurance business (<http://www.seiho.or.jp/>).

### **2. Round-Table Meetings on Life Insurance**

In order to secure a sound understanding of life insurance business among consumer administrative agencies and consumer groups as well as the media, the Life Insurance Association of Japan holds the Round-Table Meetings on Life Insurance with those parties nationwide. Through discussions at such meetings with consumer-related organizations, the Association strives to grasp consumers' needs, seeking a way to better reflect the outcome of these meetings in the life insurance business.

### **3. Providing Information**

To promote understanding of life insurance business among consumers, the Life Insurance Association of Japan compiled a "Disclosure Pamphlet", also called "Toranomaki" ( - Tiger's manual - a word derived from a title of ancient Chinese books about tactics, which now means a "useful manual" in Japanese). It intends to explain to customers concisely and clearly about the disclosure pamphlets which are published independently by each life insurance company under different names.

The Association prepared a box file containing each copy of disclosure pamphlets of all member companies as well as the "Disclosure Pamphlets - Toranomaki". The whole set of copies in the box file are available for reading at the Life Insurance Consultation Center and at our Association's local offices. The pamphlets are also distributed to local consumer centers for public perusal.

## **D. 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 Consultation Centers located at the LIAJ and fifty-three local offices, providing consultation and receiving complaints by telephone or face-to-face from 9:00 a.m. to 5:00 p.m. 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 and Arbitrating Advisory Committee**

In March 2001, the Consultation Center underwent structural reform and additionally founded the Arbitration Council, which functions as 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 the 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 the LIAJ.

The Arbitrating Advisory Committee is continuously updated with reports on the operation of the Arbitration Council. It 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.

## **E. Measures Taken Against Moral Hazard**

For the purpose of preserving sound management of life insurance business, 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.

Primary countermeasures against moral hazard are as follows:

### **1. Strengthening the Cooperation with the Police**

In order to prevent insurance-related crimes and eliminate moral hazard, liaison meetings have been regularly held between the Association and the National Police Agency since June 1980. The meeting was arranged in response to the concerns of the National Police Agency, with regard to the high incidents of insurance-related crimes. In addition, the "Liaison Conference between Life Insurers and Police" was established between local Association offices and police. As a result, crime prevention measures came to work out proving effectiveness in each area.

### **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 or death benefit. Before issuing a new policy, insurance companies refer to data 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.

### **3. Policy Data Inquiry System**

From April 2002, the LIAJ and National Mutual Insurance Federation of Agricultural Cooperatives introduced a "Policy Data Inquiry System" to store the information to be used when they received applications or claims for insurance policies. Through this system they inquire the policy contents reciprocally.

### **4. Introduction of Assessment Data Inquiry System for Claim Payment**

From January 2005, aiming at further strengthening the countermeasure against possible moral hazard, the LIAJ created and started operating a data inquiry system for assessing insurance claims as a complement 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:

- a) This system involves all the member companies of the LIAJ as well as National Mutual Insurance Federation of Agricultural Cooperatives (Zenkyoren), National Federation of Workers and Consumers Insurance Cooperatives (Zenrosai) and Japanese Consumers' Co-operative Union (Nihon Seikyoren or JCCU).
- b) If judged necessary from the viewpoint of moral hazard prevention, the member companies obtain the information on their policyholders, through the network center operated by the LIAJ, concerning insurance policy contents, claim payment, and the amount of benefit payment as a reference for claim assessment.

## **F. Common-to-Industry Educational System**

The life insurance industry introduced a general course examination common to the industry in 1963, and 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 examinations. Compilation of textbooks and examinations for each course are undertaken by the Life Insurance Association of Japan.

### **1. Education of Agents**

#### **a) 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.

#### **b) Professional Course**

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

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

#### **c) 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.

#### **d) 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.

**e) Variable Life Insurance Sales Qualification**

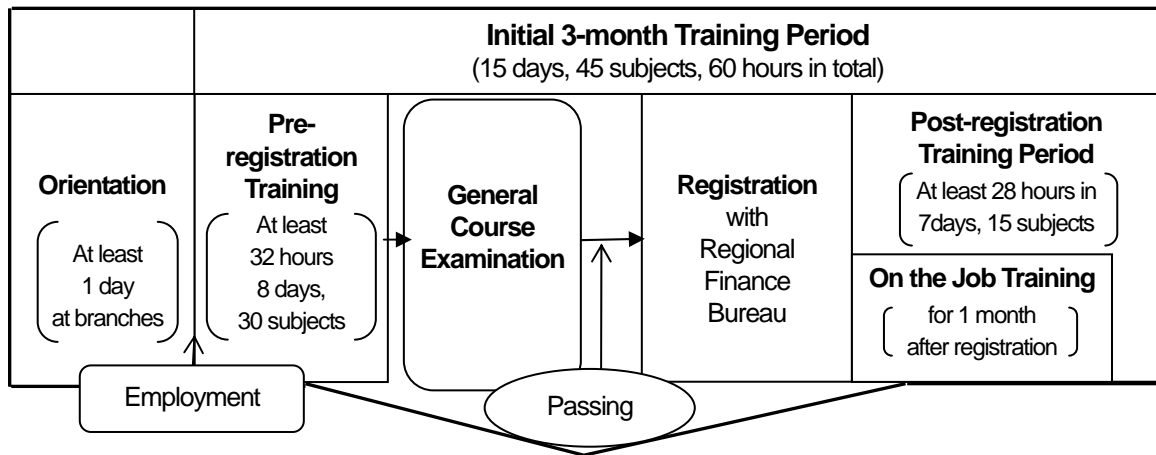
Variable life insurance is quite different from traditional products (fixed-sum policies), as its sum insured reflects the result of fund management (except the guaranteed basic portion of death benefits). The sale of the products, therefore, requires specific knowledge on the part of solicitors. For 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.

**f) Education of Clerical Employees**

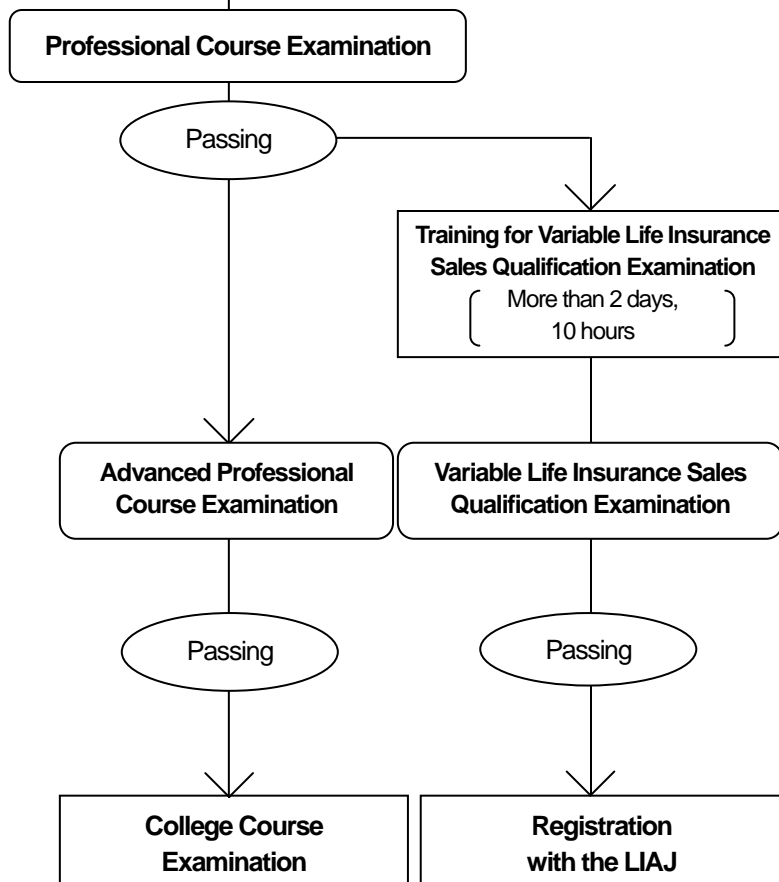
Besides solicitor education, there is a self-tutorial course offered to clerical employees of life insurance companies. The clerical course is comprised of eight subjects, including taxation law, accounting, and risk selection relating to life insurance. The purpose of the clerical course is to have 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)



## G. Internationalization

### 1. Foreign Participation

Since February 1973 when the US-based American Life Insurance Company (ALICO) first come to Japan to participate in the market, a number of foreign life insurance companies (with more than 50% foreign capital) have engaged in life insurance business in Japan. As of 1 October 2005, the LIAJ has fifteen foreign member companies operating in Japan, as shown in the table below in two categories, in alphabetical order respectively.

Domestic Companies with Foreign Participation			Branch Offices of Foreign Companies
AIG Edison Life	Gibraltar Life	MassMutual Life	ALICO Japan
AIG STAR LIFE	Hartford Life	PCA Life	American Family Life
AXA Life	ING Life	Prudential Life	CARDIF Assurance Vie
CREDIT SUISSE LIFE	Manulife Life		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:

#### a) 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 1 June 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 Japanese market.

#### b) Participating in the International Conference

There are many international insurance conferences, such as EAIC, PIC. The 22nd EAIC (East Asian Insurance Congress) was held in Bangkok, Thailand from 20 through 25 November 2004 and around 1,200 attendants including about 120 from the Japanese insurance industry participated in the Congress.

## H. The Association (LIAJ)

The Life Insurance Association of Japan started as an incorporated association with formal sanction by the authorities concerned in 7 December 1908. 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

- a) Research and study of theories and practices relating to life insurance
- b) Public relations relating to life insurance
- c) Statement on life insurance
- d) Close contact and promotion of friendly relations among life insurers
- e) Other functions considered necessary to attain the purpose of the Association

### 3. Membership

38 companies (as of 1 October 2005)

### 4. Main Activities

#### a) 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.

#### b) 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.

#### c) 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 26-28)

#### d) 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 22)

**e) 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 22)

**f) 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 23)

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.

**g) Consulting Activities**

The Association deals with inquiries and complaints concerning life insurance by telephone, mail and interviews. (Refer to page 24 )

**h) Measures Taken Against Moral Hazard**

The Association takes a variety of measures to promote sound operation of life insurance business. (Refer to page 25)

**i) Others**

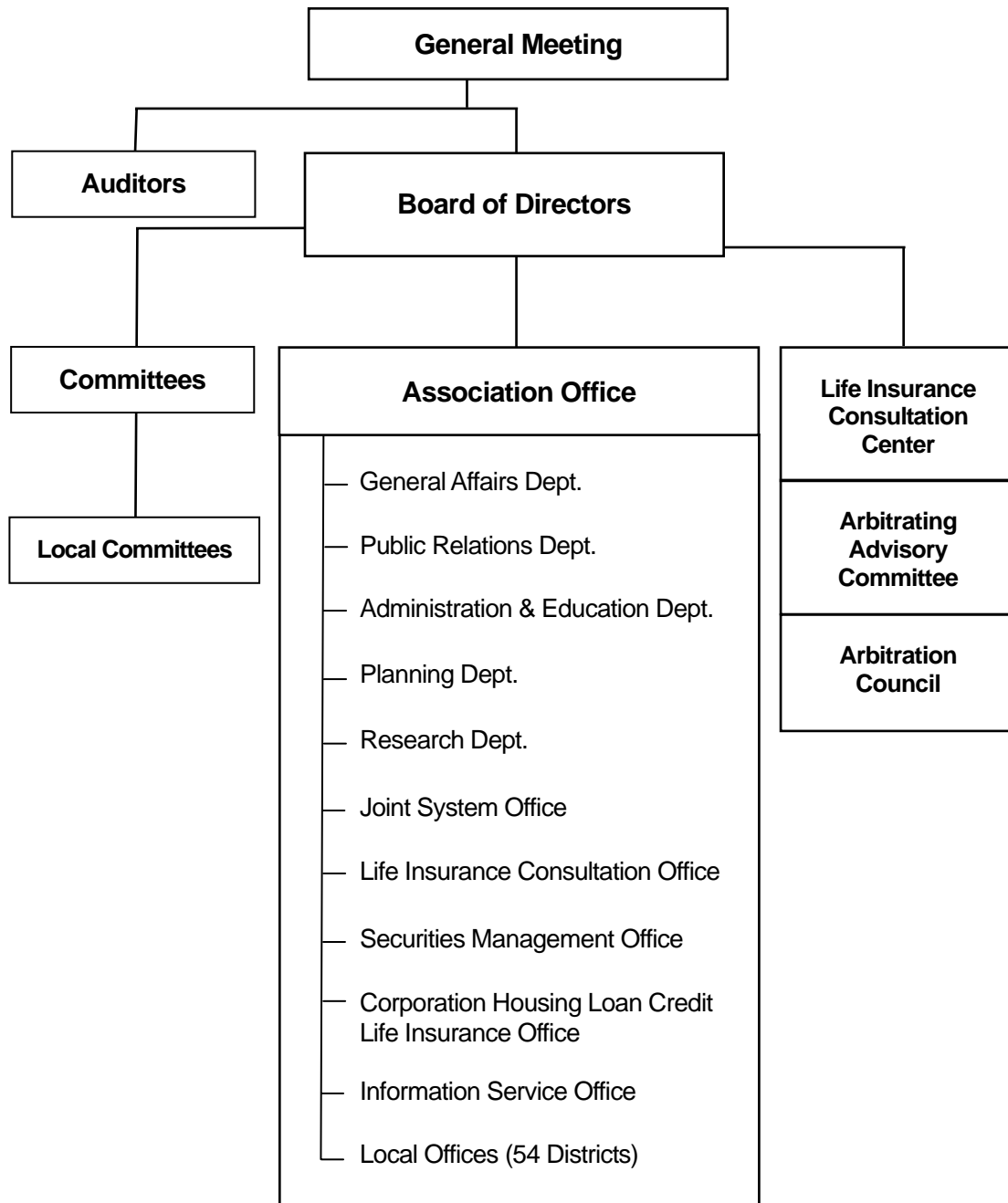
Library

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

# Organization Chart

(As of September 2005)

## The Life Insurance Association of Japan



## LIAJ Board Members

(As of 16 September 2005)

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### Chairman

---

Shinichi Yokoyama    President, Sumitomo Life Insurance Co.

---

### Vice Chairmen

---

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

---

Tomofumi Akiyama    President, Fukoku Mutual Life Insurance Co.

---

Haruo Kuramochi    President, Daido Life Insurance Co.

---

### Directors

---

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

---

Kunie Okamoto    President, Nippon Life Insurance Co.

---

Sukeaki Ohta    President, Tokio Marine & Nichido Life Insurance Co., Ltd.

---

Akiyoshi Kawashima    President, Sony Life Insurance Co., Ltd.

---

Izumi Mizumori    President, ORIX Life Insurance Corporation

---

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

---

Takeo Nakazono    President, YAMATO LIFE INSURANCE CO.

---

Geoff Crickmay    President, Manulife Life Insurance Company

---

Hidezo Hirano    President, MassMutual Life Insurance Company

---

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

---

Kazunori Kataoka    President, AIG Edison Life Insurance Company

---

Toru Yamaguchi    Executive Vice President, ING Life Insurance Company, Ltd.

---

Philippe Donnet    President, AXA 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

---

Hiroshi Nishimura    President, Mitsui Life Insurance Company Limited

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### Auditors

---

Shuichi Yamamoto    Representative for Japan, Zurich Life Insurance Company Ltd.

---

Atsushi Sakauchi    Representative for Japan, CARDIF Assurance Vie

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Hitoshi Morita    President & CEO, PCA LIFE Insurance Co., Ltd.

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Tokugoro Murayama    Certified Public Accountant

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Yoshimitsu Takishima    Vice Chairman, The Life Insurance Association of Japan

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Tadao Nishioka    Vice Chairman, The Life Insurance Association of Japan

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Shigeru Suwa    Senior Managing Director, The Life Insurance Association of Japan

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Yosuke Takenouchi    Director, The Life Insurance Association of Japan

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**LIAJ Member Companies**

(As of 1 October 2005, in alphabetical order)

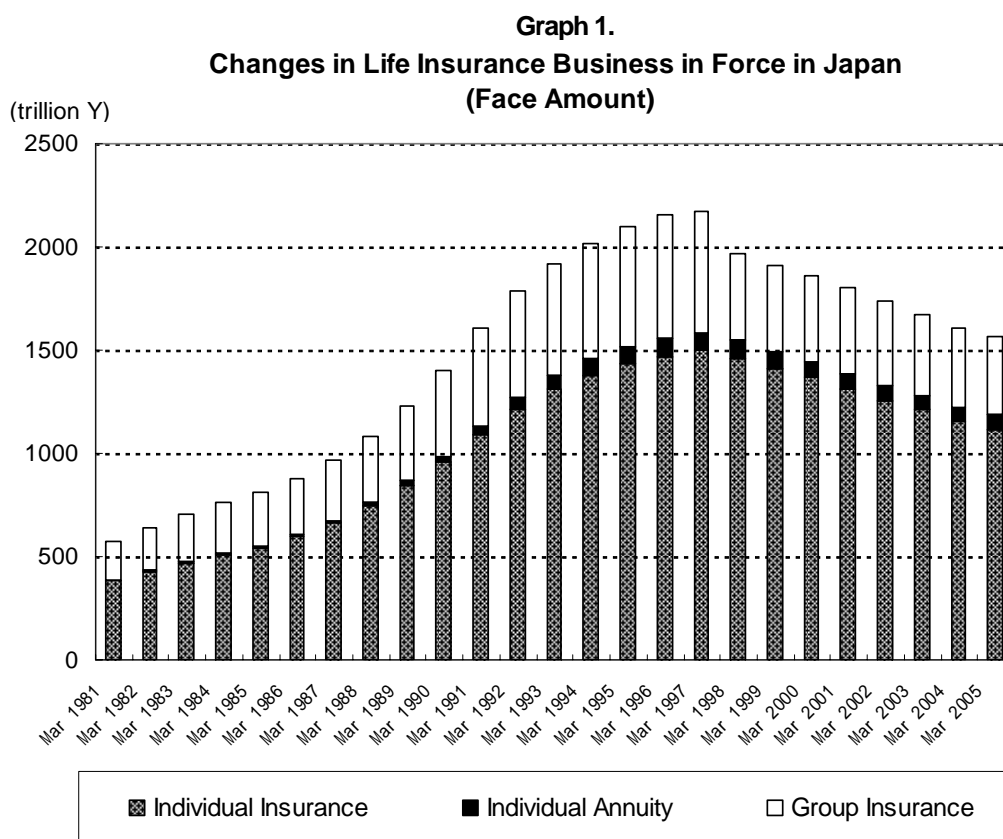
<b>AIG Edison Life Insurance Company</b>	<a href="http://www.AIGedison.co.jp/">http://www.AIGedison.co.jp/</a>
Triton X 44 F, 1-8-10, Harumi, Chuo-ku, Tokyo 104-6044	
<b>AIG STAR LIFE INSURANCE CO., LTD.</b>	<a href="http://www.aigstar-life.co.jp/">http://www.aigstar-life.co.jp/</a>
Triton Square Z 31-33 F, 1-8-12, Harumi, Chuo-ku, Tokyo 104-6231	
<b>Aioi Life Insurance Co., Ltd.</b>	<a href="http://www.ioi-life.co.jp/">http://www.ioi-life.co.jp/</a>
28-1, Ebisu 1-Chome, Shibuya-ku, Tokyo 150-0013	
<b>American Family Life Assurance Company of Columbus</b>	<a href="http://www.aflac.co.jp/">http://www.aflac.co.jp/</a>
1-1, Nishishinjuku 2-Chome, Shinjuku-ku, Tokyo 163-0456	
<b>American Life Insurance Company</b>	<a href="http://www.alico.co.jp/">http://www.alico.co.jp/</a>
AIG Bldg. 1-3, Marunouchi 1-Chome, Chiyoda-ku, Tokyo 100-0005	
<b>Asahi Mutual Life Insurance Co.</b>	<a href="http://www.asahi-life.co.jp/">http://www.asahi-life.co.jp/</a>
6-1, Ote-machi 2-Chome, Chiyoda-ku, Tokyo 100-8103	
<b>AXA Life Insurance Co., Ltd.</b>	<a href="http://www.axa.co.jp/">http://www.axa.co.jp/</a>
2-19, Higashi 1-Chome, Shibuya-ku, Tokyo 150-8020	
<b>CARDIF Assurance Vie</b>	<a href="http://www.cardif.co.jp/vie/">http://www.cardif.co.jp/vie/</a>
9 F Infoss Tower, 20-1, Sakuragaoka-cho, Shibuya-ku, Tokyo 150-0031	
<b>CREDIT SUISSE LIFE INSURANCE CO., LTD.</b>	<a href="http://www.cslife.co.jp/">http://www.cslife.co.jp/</a>
10 F Shinjuku First West, 23-7, Nishishinjuku 1-Chome, Shinjuku-ku, Tokyo 160-8335	
<b>Daido Life Insurance Co.</b>	<a href="http://www.daido-life.co.jp/">http://www.daido-life.co.jp/</a>
2-1, Edobori 1-Chome, Nishi-ku, Osaka-shi 550-0002	
<b>Fukoku Mutual Life Insurance Co.</b>	<a href="http://www.fukoku-life.co.jp/">http://www.fukoku-life.co.jp/</a>
2-2, Uchisaiwaicho 2-Chome, Chiyoda-ku, Tokyo 100-0011	
<b>Hartford Life Insurance K.K.</b>	<a href="http://www.hartfordlife.co.jp/">http://www.hartfordlife.co.jp/</a>
3 F Kamiyacho MT Building, 4-3-20, Toranomon, Minato-ku, Tokyo 105-0001	
<b>ING Life Insurance Company, Ltd.</b>	<a href="http://www.ing-life.co.jp/">http://www.ing-life.co.jp/</a>
26 F New Ohtani Garden Court 4-1, Kioicho, Chiyoda-ku, Tokyo 102-0094	
<b>Manulife Life Insurance Company</b>	<a href="http://www.manulife.co.jp/">http://www.manulife.co.jp/</a>
34-1, Kokuryo-cho 4-Chome, Chofu-shi, Tokyo 182-8621	
<b>MassMutual Life Insurance Company</b>	<a href="http://www.massmutual.co.jp/">http://www.massmutual.co.jp/</a>
Cerulean Tower, 26-1, Sakuragaoka-cho, Shibuya-ku, Tokyo 150-8512	
<b>Meiji Yasuda Life Insurance Company</b>	<a href="http://www.meijiyasuda.co.jp/">http://www.meijiyasuda.co.jp/</a>
1-1, Marunouchi 2-Chome, Chiyoda-ku, Tokyo 100-0005	
<b>Mitsui Life Insurance Company Limited</b>	<a href="http://www.mitsui-seimei.co.jp/">http://www.mitsui-seimei.co.jp/</a>
2-3, Otemachi 1-Chome, Chiyoda-ku, Tokyo 100-8123	
<b>Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.</b>	<a href="http://www.ms-kirameki.com/">http://www.ms-kirameki.com/</a>
3-24-4, Kandnishikicho, Chiyoda-ku, Tokyo 101-0054	
<b>Mitsui Sumitomo MetLife Insurance Co., Ltd.</b>	<a href="http://www.msi-metlife.com/">http://www.msi-metlife.com/</a>
4 F Kishimoto-Building, 2-1, Marunouchi 2-Chome, Chiyoda-ku, Tokyo 100-0005	

<b>Nippon Life Insurance Co.</b>	<a href="http://www.nissay.co.jp/">http://www.nissay.co.jp/</a>
5-12, Imabashi 3-Chome, Chuo-ku, Osaka-shi 541-8501	
<b>NIPPONKOA Life Insurance Company, Limited</b>	<a href="http://www.nipponkoa.co.jp/life/">http://www.nipponkoa.co.jp/life/</a>
4-2, Tsukiji 3-Chome, Chuo-ku, Tokyo 104-8407	
<b>ORIX Life Insurance Corporation</b>	<a href="http://www.orix.co.jp/ins/">http://www.orix.co.jp/ins/</a>
23F Shinjuku Monolith, 2-3-1, Nishishinjuku, Shinjuku-ku, Tokyo 163-0923	
<b>PCA LIFE Insurance Co., Ltd.</b>	<a href="http://www.pcalife.co.jp/">http://www.pcalife.co.jp/</a>
10F ATT New Tower, 2-11-7, Akasaka, Minato-ku, Tokyo 107-0052	
<b>Sompo Japan DIY Life Insurance Co., Ltd.</b>	<a href="http://diy.co.jp/">http://diy.co.jp/</a>
68-2, Nakano 5-Chome, Nakano-ku, Tokyo 164-0001	
<b>Sompo Japan Himawari Life Insurance Co., Ltd.</b>	<a href="http://www.himawari-life.com/">http://www.himawari-life.com/</a>
1-1, Nishishinjuku 2-Chome, Shinjuku-ku, Tokyo 163-0435	
<b>Sony Life Insurance Co., Ltd.</b>	<a href="http://www.sonylife.co.jp/">http://www.sonylife.co.jp/</a>
1-1, Minamiaoyama 1-Chome, Minato-ku, Tokyo 107-8585	
<b>Sumitomo Life Insurance Co.</b>	<a href="http://www.sumitomolife.co.jp/">http://www.sumitomolife.co.jp/</a>
4-35, Shiromi 1-Chome, Chuo-ku, Osaka-shi 540-8512	
<b>The Dai-ichi Mutual Life Insurance Co.</b>	<a href="http://www.dai-ichi-life.co.jp/">http://www.dai-ichi-life.co.jp/</a>
13-1, Yurakucho 1-Chome, Chiyoda-ku, Tokyo 100-0006	
<b>The Fuji Life Insurance Company, Limited</b>	<a href="http://www.fujiseimei.co.jp/">http://www.fujiseimei.co.jp/</a>
18-17, Minamisemba 1-Chome, Chuo-ku, Osaka-shi 542-0081	
<b>The Gibraltar Life Insurance Co., Ltd.</b>	<a href="http://www.gib-life.co.jp/">http://www.gib-life.co.jp/</a>
Prudential Tower 2-13-10, Nagata-cho, Chiyoda-ku, Tokyo 100-8953	
<b>The Kyoei Kasai Shinrai Life Insurance Company, Limited</b>	<a href="http://www.kyoeikasai.co.jp/ss/top.htm">http://www.kyoeikasai.co.jp/ss/top.htm</a>
J. CITY Bld. 8-20, Takamatsu 5-Chome, Nerima-ku, Tokyo 179-0075	
<b>The Prudential Life Insurance Co., Ltd.</b>	<a href="http://www.prudential.co.jp/">http://www.prudential.co.jp/</a>
Prudential Tower 2-13-10, Nagata-cho, Chiyoda-ku, Tokyo 100-0014	
<b>Taiyo Life Insurance Company</b>	<a href="http://www.taiyo-seimei.co.jp/">http://www.taiyo-seimei.co.jp/</a>
11-2, Nihonbashi 2-Chome, Chuo-ku, Tokyo 103-0027	
<b>Tokio Marine &amp; Nichido Financial Life Insurance Co., Ltd.</b>	<a href="http://www.tmn-financial.co.jp/">http://www.tmn-financial.co.jp/</a>
Hiroo Plaza 6-6, Hiroo 5-Chome, Shibuya-ku, Tokyo 150-0012	
<b>Tokio Marine &amp; Nichido Life Insurance Co., Ltd.</b>	<a href="http://www.tmn-anshin.co.jp/">http://www.tmn-anshin.co.jp/</a>
5-3-16, Ginza Chuo-ku, Tokyo 104-0061	
<b>T &amp; D FINANCIAL LIFE INSURANCE COMPANY</b>	<a href="http://www.tdf-life.co.jp/">http://www.tdf-life.co.jp/</a>
5-2, Uchisaiwaicho 1-Chome, Chiyoda-ku, Tokyo 100-8555	
<b>YAMATO LIFE INSURANCE CO.</b>	<a href="http://www.yamato-life.co.jp/">http://www.yamato-life.co.jp/</a>
1-7, Uchisaiwaicho 1-Chome, Chiyoda-ku, Tokyo 100-0011	
<b>Zurich Life Insurance Company Ltd.</b>	<a href="http://www.zurich.co.jp/life.jsp">http://www.zurich.co.jp/life.jsp</a>
Shinanomachi Rengakan 35 Shinanomachi, Shinjuku-ku, Tokyo 160-0016	

# Related Information

## A. Changes in Life Insurance Products 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 ¥1,568 trillion in 2005, which has been a continuing trend for eight consecutive years after peaking at ¥2,175 trillion in 1997 (see Graph 1).



Regarding the breakdown in ratio of these figures, in 1981 individual insurance accounted for 66.9 percent, individual annuity for 0.4 percent, group insurance for 32.7 percent. In 2005, individual insurance still occupies the largest share of total value, which is 70.9 percent, and individual annuity 4.7 percent.

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)

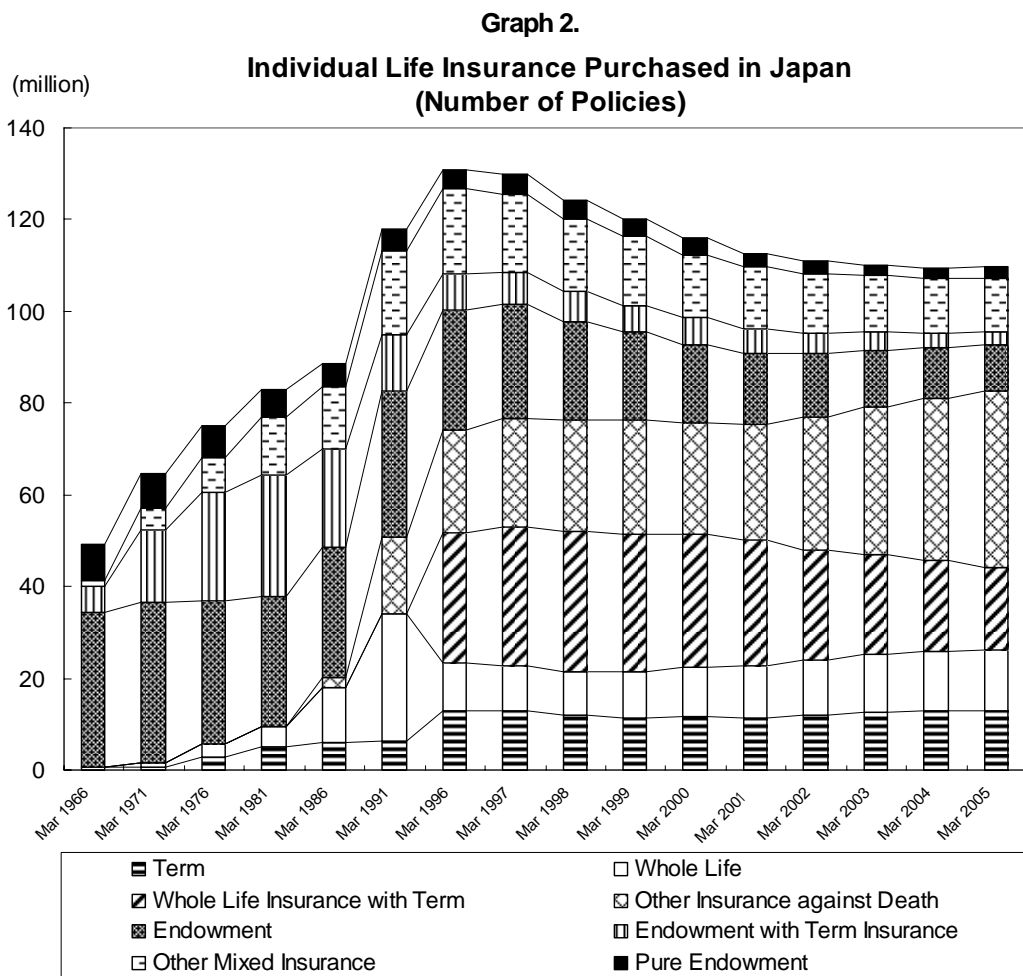
The trend of seeking larger protection with minimum premium payment became apparent, reflecting the accelerating inflation triggered by rapid economic growth and the increasing number of nuclear family type households. As a result, after the mid 60's, the core product of the insurance industry shifted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



- 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 eight consecutive years, and that is still the continuing trend as of the end of March 2005. Under this circumstance, each life insurance company is making a rigorous effort to develop original and unique products as described below.

**a) For Responding to the Rate of Premium:**

Offer overall premium discount to each customer individually.

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

**b) 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.

**c) 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.

**d) For Developing an Investment Type Life Insurance Product:**

Offer individual variable annuity.

**e) 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.

## **B. Supervision and regulation system**

### **1. Description of Insurance Related Law**

#### **a) 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 contents 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.

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.

#### **b) 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.

#### **c) 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.

## **2. 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.

- a) 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.
- b) 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.

### C. Deregulation and Liberalization of the Japanese Life Insurance Market

The following outlines chronologically a series of regulatory reforms that have been carried out to date since the amendment to the Insurance Business Law was implemented in April 1996, which marked a drastic revision for the first time in 56 years in its history of more than 100 years.

---

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

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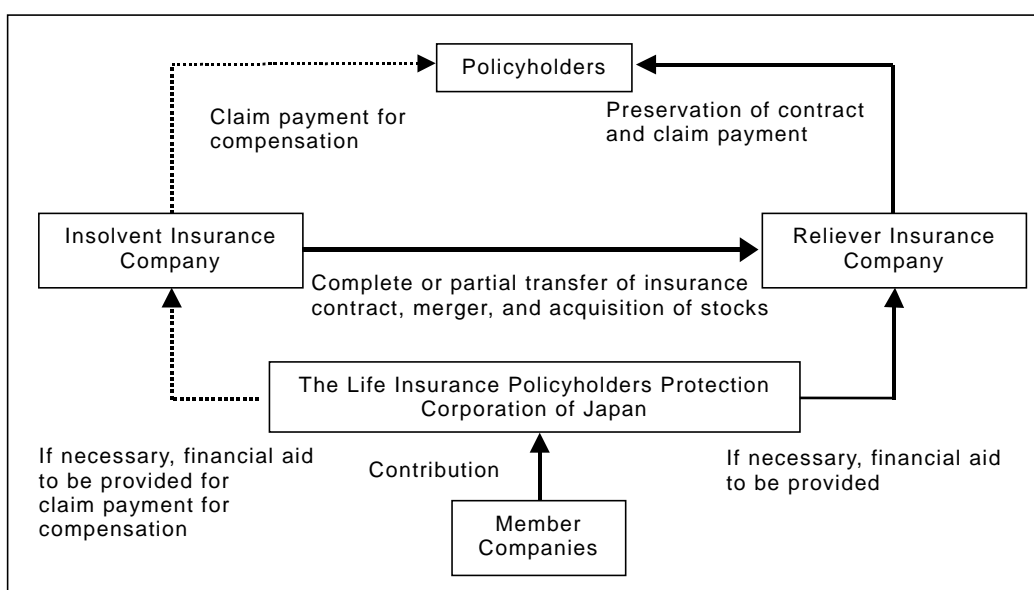
<b>March 2002</b>	<p>The Enforcement Regulations of the Insurance Business Law were revised.</p> <ul style="list-style-type: none"> <li>- The lower end of the dividend rate applied to the surplus of a mutual insurance company was brought down from 80% to 20%.</li> </ul>
<b>October 2002</b>	<p>The Enforcement Regulations of the Insurance Business Law and other related Laws were revised.</p> <ul style="list-style-type: none"> <li>- By this revision, the following insurance products were added to the products to be sold over-the-counter by banks. <ul style="list-style-type: none"> <li>* Individual annuity</li> <li>* Individual annuity and accident insurance</li> <li>* Zaikei savings personal accident insurance</li> </ul> </li> </ul>
<b>June 2003</b>	<p>The Revised Insurance Business Law was enforced.</p> <ul style="list-style-type: none"> <li>- 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).</li> <li>- The scope of insurers' activities (subordinate activities) was partially expanded, thus making it possible for insurers to act as an agent or intermediary on behalf of other financial institutions.</li> </ul>
<b>August 2003</b>	<p>The Revised Insurance Business Law was enforced.</p> <ul style="list-style-type: none"> <li>- 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%.</li> </ul>
<b>May 2005</b>	<p>The Revised Insurance Business Law was promulgated.</p> <p>With regard to the introduction of policyholders protection rules for unauthorized Kyosai:</p> <ul style="list-style-type: none"> <li>- Review of the scope of Kyosai to which the Insurance Business Law applies from the viewpoint of policyholders' protection and application of the Insurance Business Law in principle to businesses that underwrite insurance "vis-à-vis specified persons"</li> <li>- Introduction and creation of the "small-amount short-term insurance providers" scheme as a new legal framework</li> <li>- Transitional measures to be provided for existing Kyosai to deal with the new law</li> </ul> <p>With regard to the review of the life insurance safety net:</p> <ul style="list-style-type: none"> <li>- Review of compensation rate upon the failure of an insurer considering the type, assumed interest rate, and contents of the contract</li> <li>- Prolongation of the validity period of government support provisions for another three years reviewing the way in which the insurers bear the financial burden to be used by the Life Insurance Policyholders Protection Corporation</li> </ul>

## D. The Life Insurance Policyholders Protection Corporation of Japan

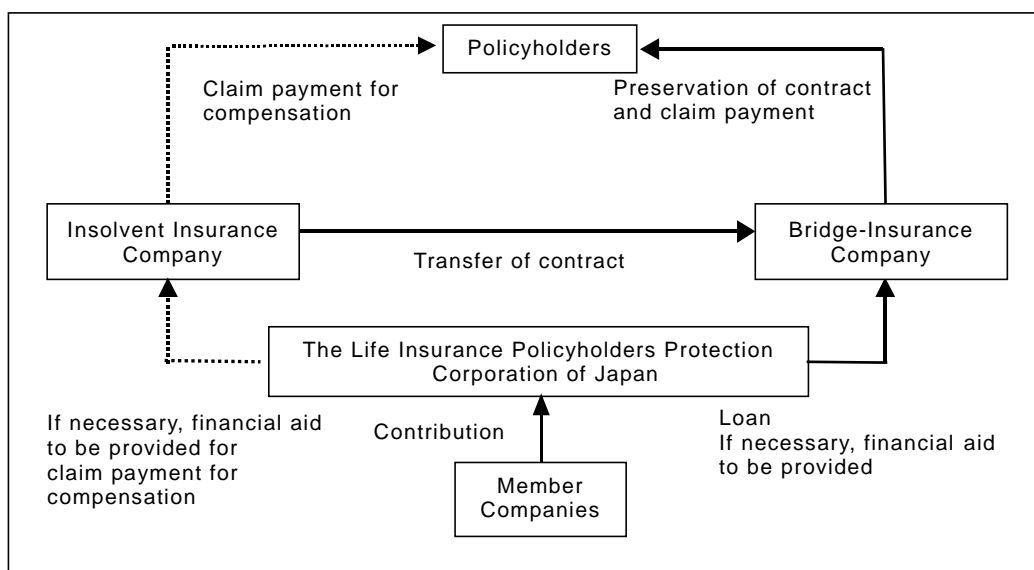
The Life Insurance Policyholders Protection Corporation of Japan (PPCJ) was established on 1 December 1998 aiming to provide policyholders with protection in case of failure of insurers. All life insurers operating in Japan have joined the Corporation excluding Kampo, the insurance operated under Japan Post, and Kyosai, cooperative societies that also provide insurance services.

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

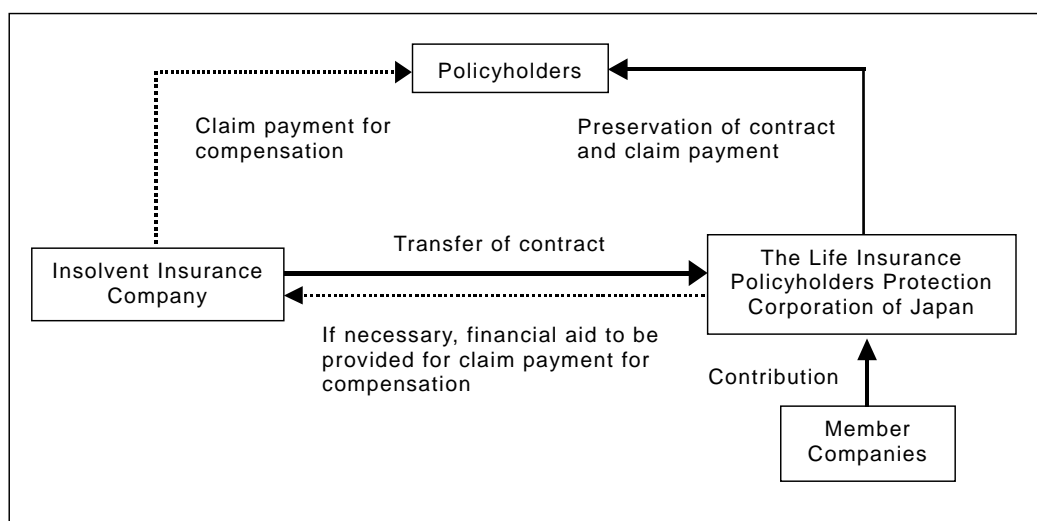
- a) Provide financial aid to a reliever insurance company to which the insurance contracts of an insolvent insurance company are transferred.



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



- c) 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 insurance contracts (except reinsurance contracts) that are valid when an insurance company becomes insolvent. When initiating bankruptcy proceedings in accordance with the court-guided rehabilitation law, PPCJ shall act fully on behalf of the affected policyholders.

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 a subsidy from the government to PPCJ within the amount specified by the budget.

The life insurance policyholder protection scheme is subject to the revision of the Insurance Business Law that will be established in April 2005 and will come into effect as of 1 April 2006.

Its two major changes are:

- The compensation rate will be subject to review taking into account the type, assumed interest rate or other contents of the contracts to be covered.
- The burden of life insurance companies to finance the Corporation shall be reviewed to a certain extent, then the period in which the government support would be provided shall be extended by three more years, and companies which might go bankrupt between April 2006 to the end of March 2009 shall be covered by this scheme.

## **E. Topics in Fiscal 2004**

### **1. Measures to Protect Personal Information in the Life Insurance Business**

#### **a) Background**

The LIAJ keeps striving to respond timely and appropriately to customers' data protection related problems, as part of its ongoing efforts to promote confidence-building of the life insurance industry. In this context, the LIAJ has been elaborating a set of common-to-industry guidelines for life insurers on personal data protection since 1987.

With an eye to the enactment of the "Act for Protection of Computer Processed Personal Data" (hereinafter referred to as "Personal Data Protection Law") in May 2003 and the enforcement of regulations to be imposed on the relevant businesses in April 2005, the LIAJ established a project team to deal with this matter in November 2003. One of the project team's immediate tasks was to draft up revised guidelines so as to make them conform to that law.

At its Board of Directors meeting held on 18 February 2005, the LIAJ approved two sets of guidelines: the "Guidelines for life insurers' personal data protection (Life Insurers' Guideline)" and the "Practical guidelines for life insurers' security control measures to secure personal data protection (Life Insurers' Practical Guideline)."

On 1 April 2005, the LIAJ was recognized as a duly-authorized organization in compliance with the Personal Data Protection Law by the Director-General of the Financial Services Agency (FSA).

#### **b) Regarding the Life Insurers' Guideline on Personal Data Protection**

In accordance with the Personal Data Protection Law and other guidelines developed by the FSA such as the Guidelines on personal data protection in the financial sector and the Practical guidelines on personal data protection and security control measures in the financial sector, the LIAJ revised drastically the contents and composition of the Life Insurers' Guideline.

##### **(1) Objectives, etc.**

The Life Insurers' Guideline aims to contribute to an improved personal data protection system in which life insurers can handle customers' information appropriately. In line with the provisions of the Personal Data Protection Law, the Guideline will present various suggestions regarding restrictions on the purposes of information usage, measures related to data protection, procedures to disclose information to an inquirer, and other matters.

##### **(2) Main points and contents of the Life Insurers' Guideline**

###### **(a) Specifying purposes of information usage**

In the handling of personal information, the purpose of using such information must be clarified to the extent that the person that the information concerns can predict generally and reasonably how the information about him or her will be used at a life insurance company or other relevant workplace.

###### **(b) Limitation of information usage depending on purposes**

Except as otherwise provided by laws or other arrangements, life insurers and other relevant parties must not handle information beyond the extent

necessary for their original purposes that would be only accomplished with the use of the information, without obtaining prior consent from the person that the information concerns.

(c) Sensitive information

Except as otherwise provided by laws or other arrangements, life insurers and other relevant parties shall not obtain, use or provide a third party with information about the political views, faith (referring to religion, thought and belief), membership of a labor union, status of one's human rights and racial background, family origin and legally registered address, healthcare and sexual life, as well as criminal record of an individual.

(d) Complaints

When life insurers and other relevant parties receive a complaint related to their handling of personal information, they must examine the complaint and try to process it promptly and appropriately within a reasonable period.

Also, life insurers and other relevant parties must strive to establish a system necessary to deal with complaints promptly and appropriately, for example by compiling complaint-handling manuals, setting up a department specialized in receiving customers' complaints, or providing adequate education or training programs for people in charge of processing complaints.

(e) Information leakage or related troubles

If personal information-related accidents such as leakage of information occur, life insurers and other relevant parties shall immediately report to the corresponding supervisory authorities about the occurrence. To prevent secondary disasters and the recurrence of similar accidents, life insurers and other relevant parties shall also swiftly make public facts relevant to the accident and non-recurrence measures.

(f) Declaration of protection of personal information

Life insurers and other relevant parties shall develop and publicize a declaration stating their views and policies regarding the protection of personal information.

**c) LIAJ's Practical Guideline on Personal Information Security Measures**

The LIAJ's Practical Guideline, which provides security control measures for personal data protection, was edited as a separate volume of the revised Life Insurers' Guideline.

Its main features are as follows:

(1) Objectives

It sets industry rules necessary and appropriate to safely manage personal data at life insurers or other relevant parties and urges them to establish a system to better implement such rules.

(2) Contents specified in the Life Insurers' Practical Guideline

In conformity with the provisions specified in the FSA's practical guideline, types of rules and implementation system to be established in life insurance companies or other relevant parties are specified. The Life Insurers' Practical Guideline also requires setting up safety handling instructions of data at different steps; acquisition and input, utilization and processing, saving and storage, transference and

transmission, deletion and disposal. Other points to be taken into consideration in setting up such rules (such as leakage prevention) were also included.

- (3) Examples of the other points to be taken into consideration
- (a) In using mobile devices during sales activities, necessary measures must be taken, such as authentication of the user, encryption of the personal data stored in computer systems, or prevention of data leakage and data destruction.

Examples:

- i) Insurers should apply a user authentication system which requires a private key specific to a single PC or a password to access the personal data on mobile devices.
- ii) Insurers should apply a protective system which will automatically lock the personal computer when it is left untouched for a certain period of time.
- iii) Insurers should apply encryption technology to retained registered personal data to render the data illegible so that unlawful attempts by someone who might try to remove the hard disk and read the information will fail.
- (b) Life insurers and other relevant parties must restrict access to personal data according to their usage purpose or significance of the data.

For example, access to individuals' medical or health information shall be exclusively limited to designated terminals or systems at specified locations.

**d) Authorized Personal Data Protection Organization<sup>5</sup>**

As an authorized Personal Data Protection Organization, the LIAJ will implement necessary measures such as providing member companies with advice that would contribute to ensuring appropriate handling of personal data and dealing with complaints related to the handling of personal information in the workplace.

**2. Revision of the IBL (Unregulated Kyosai and Policyholder Protection)**

Under the Second Subcommittee of the Financial System Council (an advisory body for FSA) a working group was set up to focus on basic issues concerning the insurance business. Since April 2004, the working group has been discussing: "How to deal with unregulated Kyosai" and "How to review the Insurance Policyholder Protection Scheme," and by December of the same year, it finished compiling a report on these subjects. Based on the working group's discussions, a bill for partial amendments to the Insurance Business Law and its enforcement regulations was submitted to the Diet on 11 March 2005, enacted at the Diet on 22 April 2005, and finally promulgated on 2 May 2005.

The outline of the amendments is as follows:

**a) Unregulated Kyosai**

- (1) Review of the definitions related to "Insurance Business" in Article 2 of the IBL
- (a) In the first paragraph of Article 2, the phrase "vis-à-vis *unspecified* persons"

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<sup>5</sup> About the "Authorized Personal Information Protection Organization":  
This refers to an organization authorized by the corresponding minister under the Law for the Protection of Computer-Processed Personal Data Held by Administrative Organs. An authorized organization shall perform the following duties aiming to ensure the appropriate handling of personal information at the relevant entities:

i. Dealing with complaints about the handling of personal information at the entity.

ii. Providing information that would contribute to ensuring the appropriate handling of personal information by the entity.

iii. Taking other measures deemed necessary in order to secure the appropriate handling of personal information.

shall be removed. In principle, with this removal the provisions of the IBL will become also applicable to businesses which will underwrite insurance “vis-à-vis *specified* persons.”

- (b) What will be exempted from the application of the above provisions will be enumerated. The main examples are as follows:
  - i) Regulated Kyosai like National Mutual Insurance Federation of Agricultural Cooperatives (Zenkyoren) and National Federation of Workers and Consumers Insurance Cooperatives (Zenrosai), etc.
  - ii) Labor unions, corporate cooperatives, etc.
  - iii) Those run by small businesses having fewer than a certain number of people
- (2) Creation of a scheme for “Small-amount Short-term Insurance Providers”
  - (a) For companies which deal only with small-amount and short-term insurance contracts within a limited business scale, a framework of new regulatory schemes will be introduced, for example, to enable such companies to start business on a registration basis.
  - (b) For existing entities, adequate provisional measures will be taken, for example, a two-year transitional period will be provided.
  - (c) This scheme shall be re-examined within five years from the enforcement of the law, and necessary measures shall be taken if needed.

#### **b) Policyholders Protection Scheme**

- (1) Reviewing the compensation scheme considering the characteristics of each insurance contract
  - (a) Compensation rate will be determined taking into account the type of contracts, assumed interest rate or other contract details. (Coverage of high assumed interest rate insurance contracts will range from around 85 percent to 90 percent.)
  - (b) Investment returns-indexed insurance contracts will be treated separately from other contracts. (Compensation rate will be 100 percent guaranteed.)
  - (c) Regarding general insurance including automobile insurance, a compensation system in which policy replacement to other insurance companies will be encouraged. (Insurance amount can be 100 percent compensated for three months since the failure of the insurance company occurred.)
- (2) Reviewing the measures related to financial resources of the Life Insurance Policyholders Protection Corporation of Japan
  - (a) The existing temporary measure which would allow as much as ¥500 billion (\$4.7 billion) of payment will be abolished and replaced with a new system in which compensation will be covered in principle by the contribution of insurance companies within the borrowing limit of the Life Insurance Policyholders Protection Corporation of Japan.
  - (b) The governmental support system will be kept as it is. (Failures that might occur during fiscal 2006 to 2008 will be subject to this system.)
  - (c) Within three years of this enforcement, a review should be made on how to share the financial burden to finance resources for compensation and whether the government regulated supplementary support needs to be continued.



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