

Activities and Outline of the LIAJ

A. Representing the Interests of Life Insurers

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

Comments on *Standard on Disclosures Concerning Investment Performance and Risks for Insurers and Reinsurers*

The LIAJ submitted its comments to questions for the draft *Standard on Disclosures Concerning Investment Performance and Risks for Insurers and Reinsurers*, which the IAIS had presented. The outline of the comments is as follows:

a) Reliability of Disclosures

As far as the life insurance contracts, which take on very-long-term obligations, are concerned, it is difficult to provide reliable quantitative information on future events that would arise 20 to 30 years from today. In addition, if quantitative information is disclosed without careful consideration based on some assumptions, it is highly possible that the users of such information make wrong decisions according to it. Therefore, we believe the criteria for determining the extent to consider the reliability of disclosed information should be added in paragraph 10 of the draft.

b) Objectivity of Information

It is necessary to request the disclosures of objective information after all if the goal of the standard lies in promoting the market disciplines to better function. When certain quantitative disclosures on risks are also required, it might be appropriate to facilitate the estimation of the amount of risks by users in a manner that objective comparability is retained in the light of objectives of the standards.

Comments on *Towards a Common Structure and Common Standards for the Assessment of Insurer Solvency: Cornerstones for the Formulation of Regulatory Financial Requirements*

The LIAJ submitted its comments on the consultation paper *Towards a Common Structure and Common Standards for the Assessment of Insurer Solvency: Cornerstones for the Formulation of Regulatory Financial Requirements*, on which the IAIS had invited comments. The outline of the comments is as follows:

Regarding the consultation paper, the LIAJ also submitted a joint trade letter together with the American Council of Life Insurers (ACLI), the Austrian Insurance Association (VVO), the National Association of Mutual Insurance Companies (NAMIC), the Property Casualty Insurers Association of America (PCI) and the Reinsurance Association of America (RAA).

< General Remarks >

- The LIAJ supports the IAIS; that is to establish a common structure and common standards for the benefit and protection of policyholders.
- It is very important for a standard setter to provide enough flexibility to the common structure and common standards so that they can satisfy both local and global aspects of insurance business.

< Cornerstones I, III, IV and V >

- It is very difficult to derive the best estimates for distant future, such as 20 years and 30 years later, while maintaining a particular level of prudence for the life insurance contracts that serve very long periods of time. It is important to set an appropriate time horizon and a method to quantify them.
- The LIAJ does not believe that the valuation using “generally available information” “as far as possible” is necessarily an appropriate valuation, as insurance companies have different regional characteristics and products depending on their jurisdictions. Therefore, the LIAJ recommends the expression “as far as possible” should be replaced with “if appropriate.”
- The consistency in the time horizon for measurement of assets and liabilities should be considered.

< Cornerstone VI >

- It is desirable for the solvency regime to value assets and liabilities at more appropriate interest rates.
- The role of the cornerstones is to indicate key points to be reviewed in future. From this point of view, it is not desirable to limit the discount rate to risk free interest rate when it is published as a cornerstone.

Comments on *Comments Regarding Issues Arising as a Result of the International Accounting Standards Board’s Insurance Contracts Project – Phase II*

The LIAJ submitted its comments on *Comments Regarding Issues Arising as a Result of the IASB’s Insurance Contracts Project – Phase II*, on which the IAIS had invited comments. The outline of the comments is as follows:

In many jurisdictions, statutory accounting has been considered as one of the significant elements in prudential supervision, and it has served as a basis for protection of policyholders as well as ensuring insurers’ soundness. Therefore, it is important for the IAIS to have a dialogue with the IASB about the requirements on which it regards necessary in terms of prudential supervision, during the course of the development of internationally unified insurance accounting standards, and we support such an effort.

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

The LIAJ submitted its comments on *Draft Supervisory Standard on Suitable Forms of Capital*, on which the IAIS had invited comments. The outline of the comments is as follows:

< Paragraph 24, 31 and 32 >

- When quantitative limits are set “according to quality”, there should be considerations of such natures as differences in insurance products, macroeconomic environments, and capital adequacy and solvency regimes across various jurisdictions.
- However the basis for the specific percentage of lower and upper limits cited in the paper is unclear. As such limits cannot reflect the above-mentioned diverse natures among different jurisdictions, citing specific percentage is inappropriate even as a “broad benchmark” or an “example.”

< Paragraph 55 >

- Foundation funds paying interest at a fixed interest rate may not necessarily be considered a “lower” quality capital when such payments from capital are subject to clear regulation. Therefore, we suggest the following modification:

“However some funds pay interest at a fixed interest rate (payment of which can be suspended) and, based on the assessment of the extent to which the criteria for recognizing capital are met, would not be considered a core capital, except when interest payments from capital are subject to clear regulations including, as appropriate, the requirement for prior supervisory approval.”

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

Comments on *Due Process of the IASB: Draft Handbook of Consultative Arrangements*

The LIAJ submitted its comments on *Due Process of the IASB: Draft Handbook of Consultative Arrangements* by the International Accounting Standards Committee (IASC) Foundation. The outline of the statement is as follows:

- a) Although investors may be the primary users of financial statements, their needs may not automatically encompass the needs of other users.
- b) We request the IASB to actively consult with working groups on many of the important issues under discussion.
- c) Although public comments are invited following the publication of a discussion paper (DP), any comments or suggestions from any interested parties (in addition to those 'invited parties') should also be considered when the Board develops the paper or its views if possible.
- d) We recognize field tests as an extremely important step in the standard-setting process. Thus they should be employed as far as possible, preferably at an early stage of the development so that the results of such tests can effectively be reflected in the deliberation process, in particular when the participating entities have sufficient resources and are willing to cooperate.

Comments on *The Exposure Drafts of Proposed Amendments to International Financial Reporting Standards (IFRS) 3: Business Combinations and International Accounting Standard (IAS) 37: Provisions, Contingent Liabilities and Contingent Assets*

The LIAJ submitted its comments on *the Exposure Drafts of Proposed Amendments to IFRS 3: Business Combinations and IAS 37: Provisions, Contingent Liabilities and Contingent Assets*. The outline of the comments is as follows:

< IFRS 3: Business Combinations >

While the Board's direction toward the development of a uniform set of accounting standards for business combinations is understandable, we do not agree with the application of the acquisition method to business combinations involving two or more mutual entities due to the following reasons:

- a) Business combinations between mutual entities are different from those between stock companies as the policyholders' equity of the mutual entities involved may continue to exist. In such business combinations, it should be taken into consideration that the application of the acquisition method may not faithfully represent their economic realities.

- b) Because business combinations between mutual entities may not involve the payment of reliably measurable considerations, the acquisition method is practically difficult to apply to such business combinations.
- c) In the case of insurance contracts, there are no active markets and thus future cash flows from such contracts are highly uncertain. Therefore, it should be considered that the discussion of measuring an acquired company at fair value has not reached to the conclusion, including whether such measurement is possible or not, in the discussion of the Insurance Contracts Phase II.

* Comments on individual questions are omitted.

< IAS 37: Provisions, Contingent Liabilities and Contingent Assets >

From the standpoint of developing universal accounting standards on non-financial liabilities, we appreciate the effort to revise this standard. However, the proposed revision of this time involves the general concept of liabilities and the impact could be enormous. Especially, we would like to request further discussions on the following points, including discussions under the conceptual framework project.

- a) The proposals of this revision are complicated and not clearly stated although they have enormous impact on ongoing projects currently under discussions. We believe further discussions are needed especially for unconditional obligations as well as conditional obligations and related stand-ready obligations because their definitions are not clear and their relationship is not certain.
- b) Although this revision proposes to omit the recognition criterion of “probability” and to consider “probability” as a measurement criterion instead, “probability criterion” included in the current standard should be retained. This is because it is not effective from the standpoint of practicality to recognize all unconditional obligations as liabilities. In addition, we would like you to take into account that this omission will conflict with current conceptual framework.
- c) We do not agree with the idea of measuring all non-financial liabilities at fair value. We believe further discussions are necessary on the measurement of such liabilities, including discussions under the conceptual framework project.

The LIAJ made a presentation on *Accounting Issues Relating to Participating Contracts* for the IASB Working Group held in London during the 12th and 13th January 2006.

3. Cooperative Insurance (Kyosai) Related Activities

The LIAJ submitted its comments on *The Organizational Coordination Subcommittee of the Small and Medium Enterprise Policy Council: Summary of Discussion*, on which the Small and Medium Enterprise Agency had invited public comments. The outline of the statement is as follows:

a) Segment Restrictions and Segment Reporting

Large-scale cooperative insurance associations should not be allowed to engage in other business segments. When exceptions are made, laws and statutes should clearly state that “only business segments already in existence are to be allowed, and only as a provisional measure for a prescribed period.” In this case, accounting misappropriations should not be permitted between cooperative insurance and other business segments. The same measures should apply to large-membership cooperative insurance associations.

b) Measures for Large-Membership Cooperative Insurance Associations

The same regulations should be applied as those for small-amount short-term insurance providers.

c) Restrictions on Cooperative Insurance Sales Force

It is inappropriate for laws and statutes to allow non-members to sell cooperative insurance products. For existing business arrangements in which sales activities are outsourced, outsourcing should be limited to the present scope and allowed to continue “for the time being” as a provisional measure, after which sales restrictions should be applied.

d) Revision of Sales Restriction to Non-Members

Restriction of product sales to non-members should not be eased without careful deliberation. If revised, laws and statutes should clearly state the specific method of calculating the ratio of non-member contracts, methods for confirmation and administration, and methods for supervision and guidance by authorities.

e) Acting as Agent for Insurance Companies, etc.

Business arrangements of cooperative insurance associations should be limited to the present scope. In addition, mandatory measures are necessary to, for example, prevent misidentification of insurance policies as cooperative insurance policies.

4. Postal Privatization Related Activities

On the 27th April 2005, postal privatization bills were submitted to the ordinary Diet session. The bills were rejected by the plenary session of the Upper House on the 8th August, and the Lower House was dissolved on the same day. After the general election of the Lower House, the bills were amended so that privatization would begin not in April 2007 but October 2007, and resubmitted to the special Diet session starting on the 21st September. The bills were passed into law on the 14th October. After passage, the LIAJ Chairman released comments regarding postal privatization. The outline of the comments is as follows:

< General Remarks >

- a) With regard to deliberations on future cabinet and ministerial ordinances, from the perspective of fully equalizing competition with private life insurers, it is vital to undo the elements that form an implicit government guarantee such as government funding, and to consider how to handle the old account carried over from the public company alongside the new account of the privatized company. Since the profit from the old account basically belongs to its policyholders, this profit should be used to maintain the old account's financial soundness or be paid out as dividends.
- b) From the standpoint of ensuring a sound life insurance market in Japan, we request that the postal life insurance business not expand its product line nor raise the issue limit of products until the conditions of competition become fully equalized with private companies.
- c) In the new postal privatization committee that will be launched, arrangements are needed to ensure the transparency and fairness of deliberations, such as: participation of experts in the management of private life insurance business, disclosure of deliberations to the public, and adequate hearings on the opinions of related parties including our association.

On the 26th May 2006, the Financial Services Agency (FSA) and Ministry of Internal Affairs and Communications (MIC) issued the *Draft of the Government Order Amending Part of the Enforcement Order for the Postal Privatization Law*, and the *Draft of the Order Concerning Operational Restrictions to the Postal Savings Bank and the Postal Insurance Company During the Transition Period*, and have invited public comments on these drafts.

On the 26th June, the LIAJ submitted its comments on the drafts to confirm that when privatization starts, the Postal Insurance Company will assume the same lineup of insurance products and claims limits as those currently in effect at Japan Post.

5. Activities Related to Regulatory Reform

In 2004 fiscal year, two administrative bodies were set up to promote regulatory reform in Japan: the Council for the Promotion of Regulatory Reform and Privatization (the Council), and the Office for the Promotion of Regulatory Reform and Privatization (the Office). The Council was established under the Cabinet Office on the 1st April 2004 at the request of the prime minister, and consists of 13 experts from the private sector. The Office was established under the Cabinet on the 25th May 2004. These two entities spearhead the government's effort to promote regulatory reform and privatization.

Representing the life insurance industry, the LIAJ has submitted requests for regulatory reform to the Council and to Nippon Keidanren.

Our main requests for the 2005 fiscal year are as follows:

- a) Lift the ban on fiduciary services and related clerical services commissioned by insurance companies.
- b) Lift the ban on business matching services by insurance companies.
- c) Clarify customer referral services by insurance companies to brokerage firms.
- d) Lift the ban on real estate investment advisory services by insurance company subsidiaries.
- e) Expand the range of specified subsidiaries (venture capital subsidiaries) in which insurance companies can own over 10 percent.
- f) Develop rules for policyholder protection at cooperative insurance associations (Kyosai).

- The Three-Year Program for Promoting Regulatory Reform and Privatization was decided on by the Cabinet on the 30th March 2006.
- Request "a) *Lift the ban on fiduciary services and related clerical services commissioned by insurance companies*" will be finalized during fiscal 2006 in the course of the Three-Year Program for Promoting Regulatory Reform and Privatization.
- Requests "b) *Lift the ban on business matching services by insurance companies,*" and "c) *Clarify customer referral services by insurance companies to brokerage firms*" were both accepted.

6. Activities Related to Tax Reform

As Japan transforms into a rapidly aging society, the combined use of the social security system and private coverage such as life insurance and individual annuities has become indispensable to realize a vibrant welfare society for the aging population.

Through the mechanism of mutual aid, life insurance and individual annuities can efficiently provide for all insurance needs including “survivor,” “medical,” “long-term care,” and “retirement” coverage. To promote a favorable tax system for these indispensable products, as well as to encourage efforts by the public to seek greater financial security, the LIAJ submitted the following requests concerning tax law changes for fiscal 2006 on the 16th September 2005. The main points are:

- a) Increase the tax-deductible limit for life insurance premium payments to Y100 thousand in the individual income tax;
- b) Increase the tax-deductible limit for individual annuity premium payments to Y100 thousand in the individual income tax; and
- c) Add the sum of (Y5 million in death benefit received by the spouse) + (Y5 million in death benefit received by underage dependent legal heir) x (number of such dependent heirs) to the existing exemption limit for inheritance tax applicable to sums payable at death under insurance contracts.

In support of the request for raising the tax-deductible limit for premiums, the LIAJ, in collaboration with National Federation of Life Insurance Worker’s Unions, conducted a month-long questionnaire survey on the Internet from the 17th September 2005 through the 14th October 2005.

The tax-deductible limit for premiums was left unchanged for fiscal 2006.