



The Life Insurance Association of Japan

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1. Overview of the Life Insurance Business in Japan in Fiscal 2007

a) New Business including Converted Contracts

The number of contracts of new business for individual insurance has been in a downtrend after peaking in fiscal 1993 due to a significant decrease in the amount of death benefit products and the shrinking market size stemming from declining birth rate and aging population. The aftermath of the inappropriate handling of claims also affected the number of contracts of new business for individual insurance, and recorded 96.8 percent year-on-year* in fiscal 2007. The amount of new business continued to decline to Y58,649 billion (86.3 percent y/y).

Following privatization and corporate division of former Japan Post (Corporation), JAPAN POST INSURANCE Co., Ltd. started its business operation in October 2007. Including JAPAN POST INSURANCE, the number and the amount of new business for individual insurance amounted to 11.31 million and Y60,284 billion respectively.

The number of contracts of new business for individual annuity had been in an upward trend since fiscal 2002, however this year the number and the amount for individual annuity decreased from the previous year to 1.45 million and Y8,023 billion (90.0 percent y/y) respectively. (Including JAPAN POST INSURANCE, the number and amount stood at 1.51 million and Y8,240 billion respectively.)

The new business written for group insurance has been in a downtrend since the traditional group term insurance was switched to general welfare group term insurance in fiscal 1997. This year the amount continued to slide down to Y5,046 billion (92.4 percent y/y).

Table-1 New Business

(Number: in ten thousands; Amount: Y billion)

Fiscal Year	New Business				
	Individual Insurance ^a		Individual Annuity ^a		Group Insurance
	Number	Amount	Number	Amount ^b	Amount
2003	1,316	101,381	111	5,199	13,797
2004	1,259	91,159	136	7,467	10,165
2005	1,220	80,753	154	8,621	7,796
2006	1,107	67,991	157	8,915	5,462
2007A	1,072	58,649	145	8,023	5,046
YY (%)	96.8	86.3	92.3	90.0	92.4
2007B	1,131	60,284	151	8,240	5,046

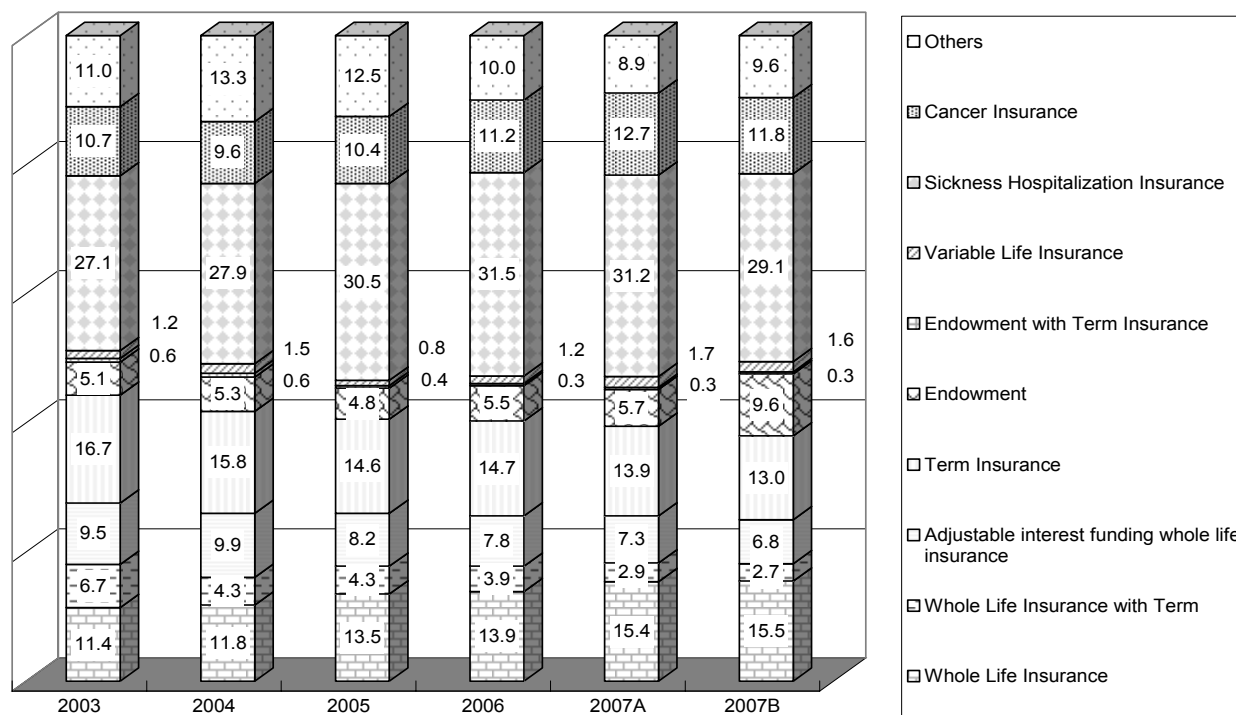
a. The number of contracts of both individual insurance and individual annuity includes converted contracts. Accordingly, the amount of the contracts of individual insurance and individual annuity reflects the net increase arising from the conversion.

b. The amount of individual annuity shows the accumulated capital for annuity at the commencement of annuity payments.

Hereinafter, unless otherwise noted, 2007A indicates the figures excluding JAPAN POST INSURANCE and 2007B indicates the figures including JAPAN POST INSURANCE.

*YY (%) is the percentage of 2007A divided by 2006.

Figure: Percentage Distribution of Individual Insurance by Type (Number of New Business)



b) Business in Force

The amount of individual insurance business in force decreased from the previous year to Y979, 437 billion (95.4 percent y/y), which marked below Y1, 000 trillion level for the first time since fiscal 1989. (Including JAPAN POST INSURANCE, the amount was Y981, 064 billion.)

The number of individual annuity business in force, after hitting a record high at 15.02 million in fiscal 1995, had dwindled until it finally turned to rise at the end of fiscal 2003, owing to a slight improvement in cancellations and lapsed policies, as well as solid performance in over-the-counter sales by banks. This year it continued to expand. The amount of individual annuity business in force showed the same trend and increased to Y87, 927 billion (102.4 percent y/y). (Including JAPAN POST INSURANCE, the amount was Y88, 143 billion.)

The group insurance business in force has been in a downtrend since fiscal 1997 (Y423, 326 billion). The number of the insured (after the name identification process) decreased to 41.92 million (98.3 percent y/y), but the amount in force slightly rose to Y374, 216 billion this year (100.4 percent y/y).

Table-2 Business in Force

(Amount: Y billion)

Fiscal Year	Individual Insurance	Individual Annuity	Group Insurance	Group Annuity
	Amount	Amount ^c	Amount	Amount
2003	1,152,648	69,563	387,060	34,937
2004	1,112,170	74,109	382,382	32,666
2005	1,070,570	80,416	380,595	32,744
2006	1,026,335	85,863	372,704	33,117
2007A	979,437	87,927	374,216	32,314
Y/Y (%)	95.4	102.4	100.4	97.6
2007B	981,064	88,143	374,216	32,314

c. The figures of the individual annuity 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.

c) Revenues and Expenditures

(1) Premium Income

Total premium income fell short of the previous year and recorded Y27, 023 billion (97.3 percent y/y). (Including JAPAN POST INSURANCE, the amount was Y30, 909 billion.) As shown below, the amounts decreased in individual insurance (Y14, 947 billion, 99.4 percent y/y), individual annuity (Y6, 577 billion, 89.6 percent y/y) and group insurance (Y1, 195 billion, 95.4 percent y/y), while slightly increased in group annuity (Y4, 060 billion, 104.6 percent y/y).

Table-3 Breakdown of Premium Income by Product

(Amount: Y billion; %)

Fiscal Year	Total Premium Income ^a	Individual Insurance	Individual Annuity	Group Insurance	Group Annuity	Reinsurance
2003	25,960	14,867	4,638	1,296	4,870	16
2004	27,022	14,885	6,294	1,274	4,297	12
2005	28,332	15,072	7,584	1,264	4,151	14
2006	27,766	15,039	7,340	1,252	3,883	14
2007A	27,023	14,947	6,577	1,195	4,060	15
Y/Y (%)	97.3	99.4	89.6	95.4	104.6	107.1
2007B	30,909	15,383	6,769	1,195	4,060	3,274

a. The amount of total premium income includes other premium income.

(2) Payments

The total amount paid by all member companies under life insurance contracts in fiscal 2007 was more than Y20 trillion, increased by 6.2 percent from the previous year. The payments in insurance money, benefits, and annuity were Y6, 194 billion (108.2 percent y/y), Y3, 930 billion (105.0 percent y/y), Y2, 106 billion (110.0 percent y/y), respectively. As for provision for reserves, however, significantly declined to 41.1 percent y/y. Operating expenses amounted to Y3, 750 billion, almost the same as the previous year.

Table-4 Breakdown of Payments

(Amount: Y billion; %)

Fiscal Year	Total Payments	Payments under Life Insurance Contracts				Provision for Reserves	Operating Expenses
		Insurance Money	Benefits	Annuity	Repayments		
2003	24,244	7,295	4,221	1,581	10,380	3,652	3,570
2004	21,336	6,341	3,846	1,659	8,605	5,756	3,567
2005	20,536	6,543	3,678	1,767	7,551	9,149	3,667
2006	18,972	5,727	3,742	1,914	6,612	8,663	3,714
2007A	20,141	6,194	3,930	2,106	7,034	3,563	3,750
Y/Y (%)	106.2	108.2	105.0	110.0	106.4	41.1	101.0
2007B	26,291	12,342	3,930	2,107	7,035	3,563	4,017

d) Balance Sheet

The assets held by all member life insurers in Japan as of the end of fiscal 2007 amounted to Y213, 899 billion, a decrease of 2.9 percent from the previous year. Liabilities slightly increased by 0.1 percent as a result of the buildup of liability reserves and other reserves, with an increase of liability reserves by 1.6 percent. Net assets shrank to Y10, 938 billion, down by 37.2%.

Table-5 Balance Sheet of Member Companies as a Whole

(Amount: Y billion)

Fiscal Year	Assets		Liabilities			Capital
	Total	Nominal GDP (%)	Total ^a	Liability Reserves	Price Fluctuation Reserves	Total
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
2005	209,879	41.5	194,387	175,388	1,211	15,491
2006	220,217	43.7	202,804	183,891	1,352	17,412 ^b
2007A	213,899	41.5	202,960	186,856	1,459	10,938 ^b
Y/Y (%)	97.1	-	100.1	101.6	107.9	62.8
2007B	326,423	63.3	314,580	291,591	2,018	11,843 ^b

a. The total amount of liabilities includes other liabilities not shown in the above table.

b. Due to a change in accounting standards, the figures represent the amount of "net assets".

e) Ordinary Profit and Basic Profit

The ordinary profit (after subtraction of ordinary expenses from ordinary revenue) of member companies shrank to Y1, 332 billion (75.9 percent y/y) due to net capital loss and net nonrecurring loss.

The basic profit of member companies, which represent profitability of life insurance business for the fiscal year, decreased to Y2, 555 billion (88.3 percent y/y) from the previous year due to diminution of premium and other incomes, a lower return on asset management and increases in insurance and other payments.

Table-6 Ordinary Profit and Basic Profit

(Amount: Y billion)

Fiscal Year	Ordinary Profit	Basic Profit
2003	1,509	2,191
2004	1,593	2,462
2005	1,822	2,668
2006	1,754	2,893
2007A	1,332	2,555
Y/Y (%)	75.9	88.3
2007B	1,344	2,822

* Basic profit = ordinary profit - capital gain/loss - nonrecurring income/loss

f) Asset Distribution

At the end of fiscal 2007, total assets of the life insurers shrank to Y213, 899 billion (97.1 percent y/y) from the previous year. (Including JAPAN POST INSURANCE, the amount was Y326, 423 billion.) The amount of total securities, which had been in an upward trend until the previous year, fell to Y155, 300 billion (95.7 percent y/y) this year. (Including JAPAN POST INSURANCE, the amount stood at Y240, 869 billion.)

Among items of securities, JGB comes in first with Y49,727 billion, followed by foreign securities (Y41, 585 billion), domestic stocks (Y23, 921 billion), and corporate bonds (Y19, 462 billion).

Table-7 Breakdown of Assets

(Amount: Y billion; %)

Fiscal Year	Total Assets ^a	Total ^a	Securities						
			Domestic Securities			Subtotal ^a	Foreign Securities		
			JGB ^b	Corporate Bonds	Stocks		GB ^b	Corporate Bonds	Stocks
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
2005	209,879	150,815	44,783	18,335	30,931	39,396	10,408	19,560	3,615
2006	220,217	162,197	48,733	19,146	32,367	41,435	9,831	21,153	4,462
2007A	213,899	155,300	49,727	19,462	23,921	41,585	9,118	22,157	4,385
Y/Y (%)	97.1	95.7	102.0	101.7	73.9	100.4	92.7	104.7	98.3
2007B	326,423	240,869	118,687	29,849	23,921	44,095	11,322	22,461	4,385

(Continued)

Fiscal Year	Sub Total	Loans		Cash Reserves + Call Loans	Real Estates
		Policy Loans	Financial Loans		
2003	41,720	4,356	37,364	4,926	7,598
2004	38,357	4,168	34,188	4,335	7,332
2005	36,728	4,027	32,700	5,484	6,834
2006	35,077	3,897	31,179	5,656	6,671
2007A	34,179	3,787	30,391	4,759	6,592
Y/Y (%)	97.4	97.2	97.5	84.1	98.8
2007B	54,101	3,787	50,313	7,628	6,594

a. Total assets, total securities and subtotal of the foreign securities include other assets, other securities and other foreign securities respectively.

b. "JGB" and "GB" stand for Japanese government bonds and government bonds respectively.

1. Overview of the Life Insurance Business in Japan in Fiscal 2007

Reference:

(Amount: Y billion)

Fiscal Year	Loans Abroad	Fiscal Year	Investment Yield on Assets in General Accounts (%)
2003	3,331	2003	1.94
2004	2,587	2004	2.15
2005	2,670	2005	2.42
2006	2,624	2006	2.45
2007A	2,764	2007A	1.90
2007B	2,764	2007B	1.30

g) Number of Member Companies and Sales Force

The number of the LIAJ member companies, all life insurers operating in Japan, stood at forty-one as of the end of March 2008.

With regard to distribution channels, tied sales agents have long been the linchpin of life insurance sales activities in Japan. However, after peaking at approximately 440 thousand in 1990, the number of agents continued to decline, and in 2006 it fell to slightly below 250 thousand. Meanwhile, the number of sales representatives at agencies has been rising sharply since Japanese banks started selling individual annuity products subsequently to the partial lifting of the ban on bancassurance in October 2002.

The number of stock companies has been increasing significantly from the 1960s when 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. In addition, the gradual penetration of foreign life insurance companies in the Japanese market was also another important factor for the increase in the number of stock companies.

Table-8 Number of Member Companies and Agents/Agencies

Fiscal Year	Member Companies ^a	Number of Sales Force (in thousands)		
		Tied Agents	Agencies	Sales Reps at Agencies
2003	40 (33)	268	130	713
2004	39 (33)	263	124	721
2005	38 (32)	259	122	747
2006	38 (32)	248	115	776
2007B	41 (34)	245	108	912

a. Numbers in parentheses are those of stock companies.

Reference: Member Companies with Foreign Participation (as of 31 March 2008)

Domestic Companies with Foreign Capital			Branch Offices of Foreign Companies
AIG Edison Life	Crédit Agricole Life	Manulife Life	ALICO Japan
AIG STAR LIFE	Gibraltar Life	MassMutual Life	American Family Life
AXA Life	Hartford Life	PCA Life	CARDIF Assurance Vie
AXA Financial	ING Life	Prudential Life	Zurich Life

Allianz Life Insurance Japan Ltd. joined the LIAJ in April 2008. As of December 2008, the number of foreign companies is 17.

2. Activities related to Tax Reform

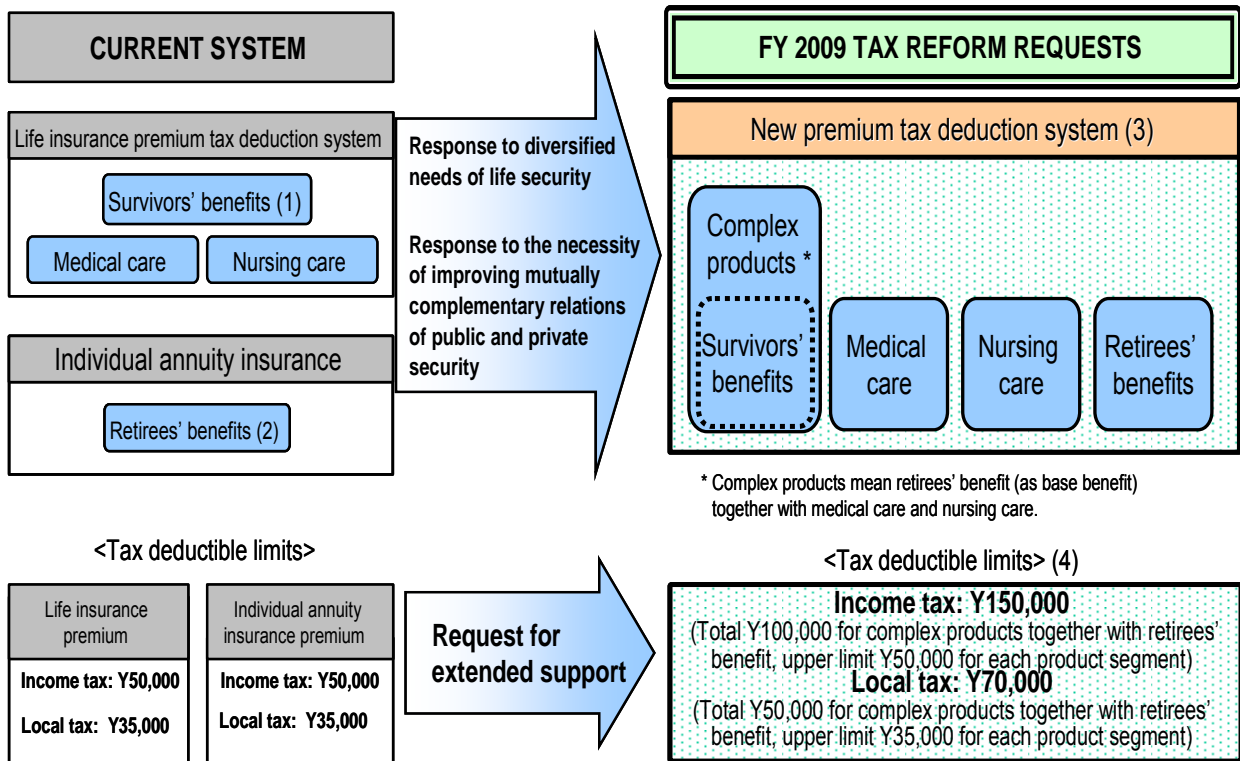
The LIAJ believes that private security measures for individuals will become more and more important in the context of an anticipated overhaul of the tax and social security system (burdens/benefits), and that we need a system which will respond to diversified personal needs.

Last year the LIAJ conducted a survey in the form of questionnaires on “life insurance premium tax deduction system.” It found that most respondents wanted their self-help efforts to be actively supported and that, if the system were enlarged, they would consider more favorably contracting an insurance policy or increasing insurance amounts.

In view of these opinions, the LIAJ decided to request the unification of the current life insurance premium tax deduction system and the individual annuity insurance premium tax deduction system in order to improve a self-help support model (by creating a new premium tax deduction system) so that each person could prepare for a wide-range of life security measures including survivors’ benefits, medical care, nursing care and retirees’ benefits.

Key requests:

- Unification of the current life insurance premium tax deduction system and the individual annuity insurance premium deduction system for the purpose of creating a new self-help support model (a new premium tax deduction system) in which public and private security systems complement each other to meet individual needs, such as survivors’ benefits, medical care, nursing care and retirees’ benefits.
- Tax-deductible limits for a certain percentage of annual net paid-up premiums of life and annuity insurance should be raised to Y150, 000 for income tax and Y70, 000 for local tax.



(1) Including those not in the categories of medical care, nursing care and retirees' benefits.

(2) Only individual annuities that meet certain criteria are eligible for the individual annuity premium tax deduction. All other individual annuities are subject to the life insurance premium tax deduction.

(3) Product segmentation depends on its base contract.

(4) The amount of income tax deductible limit is calculated by adding the amount for each product segment, while the ceiling would be the tax deductible limit of the system as a whole.

2. Activities related to Tax Reform

- In order to secure survivors' living funds, the exemption limit for inheritance tax applicable to death benefits should be as follows:

The sum of (¥ 5 million in death benefits received by the spouse) plus (¥ 5 million in death benefits received by an underage dependent legal heir) multiplied by (the number of such dependent heirs), together with the current limit (¥ 5 million multiplied by the number of legal heirs).

We further request that even in the case a new taxation formula is introduced, the revised tax exempt limit should be the current one plus the said additional amount.

- Some measures should be taken to make a transition as smooth as possible for the tax-qualified retirement pension.

Other requests:

a) Issues related to corporate pension

Special corporate tax imposed on reserve funds of corporate pension plans (defined benefit type corporate pension plans, employees' pension funds, qualified retirement pension plans) and of defined contribution pension plans should be abolished as these plans complement the public pension system.

b) Issues related to asset management

- Taxation related to real estate should be comprehensively reexamined.
- The applicable scope of taxation system against "tax-haven-related activities" should be reexamined.

c) Others

- For the corporate enterprise tax on life insurance companies, the current taxation formula should be maintained.
- To extend the accounting periods for companies to deduct losses carried forward from taxable income, implement refunding of losses carry-back and extend loss carry-back periods.
- Currently the real estate acquisition tax is exempted for banks acquiring real estate (land, etc.) from failed insurance companies. This measure should be made permanent, or at least extended during a longer period.
- To make the tax exemption a permanent measure in connection with private foreign bonds that nonresidents or foreign corporations receive.
- When a life insurance company reorganizes itself from a mutual company to a stock company, it should be made possible for its members (policyholders) to incorporate their newly allotted stocks into the specified account for withholding.

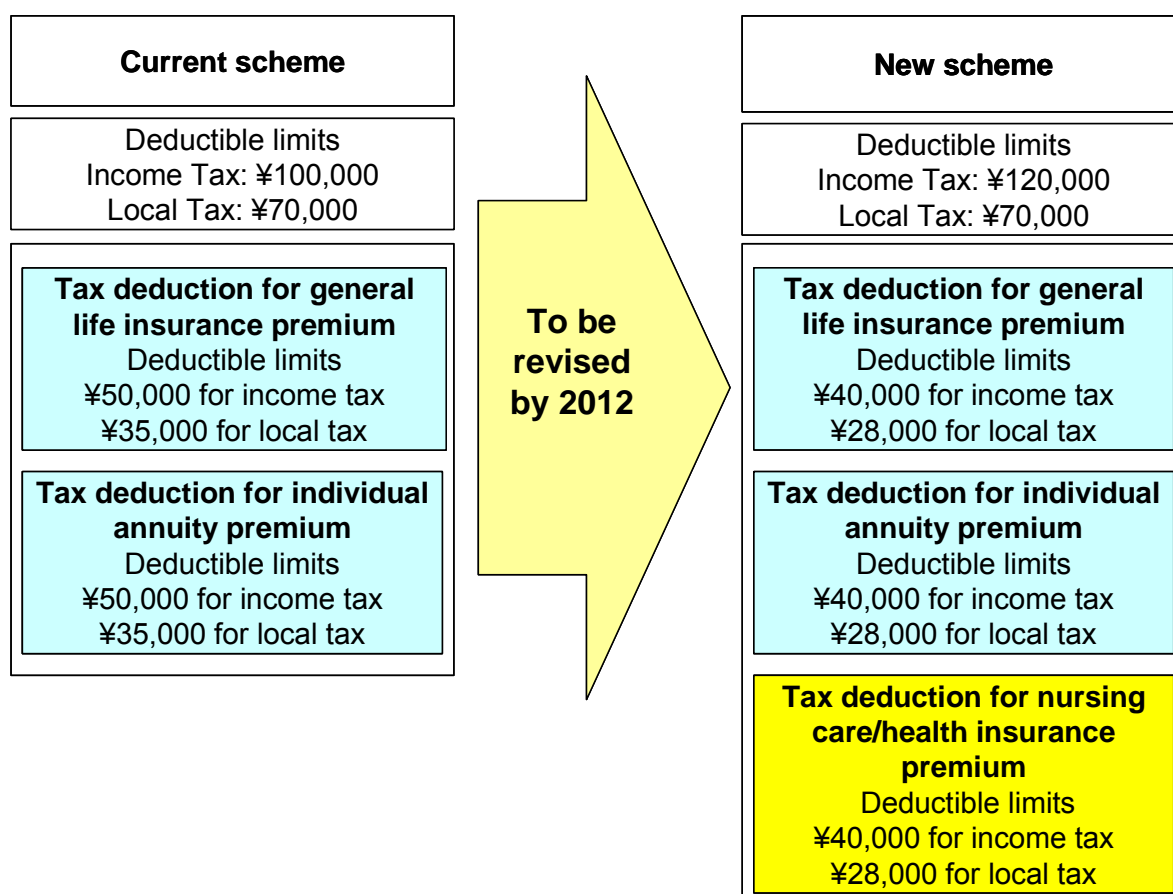
FY 2009 Tax Reform:

On 12 December 2008, the ruling parties drafted a “Fiscal 2009 Tax Reform Outline.”

The LIAJ conducted an internet-based opinion survey from 1 to 26 September 2008, and called for the new life insurance premium tax deduction system to be adopted.

As a result, the ruling parties inserted in its Tax Reform Outline the following clause: “Considering the importance of sectors complementing the social security system and the diversified insurance needs, a new category for ‘nursing and medical care insurance premium tax deduction’ should be added to the current tax deduction system.”

The “Outline” thus clearly expressed the ruling parties’ intention to change both, the life insurance premium tax deduction system, and the individual annuity insurance tax deduction system, and raise the tax-deductible limits for insurance premiums.

Summary of Tax Reform

The total of deductible limits for new and existing systems will be ¥120,000 for income tax and ¥70,000 for local tax.

3. Activities related to the IASB

a) Comments on the Discussion Paper – *Fair value Measurements*

The International Accounting Standards Board (IASB) published a discussion paper – *Fair Value Measurements* on 30 November 2006.

In the responses and comments submitted on 2 May 2007, the LIAJ did not focus on insurance contract measurement issues; rather, it intended to respond more generally to the issues which may impact its present and future practices.

Please refer to **<Appendix> 1** (page 35) for the LIAJ comments.

b) Comments on the Discussion Paper – *Preliminary Views on Insurance Contracts*

The IASB published a discussion paper – *Preliminary Views on Insurance Contracts* on 3 May 2007.

The LIAJ submitted its comments on 16 November 2007, on the position that an accounting system for insurers should be discussed in consideration of the following requirements.

- (1) The accounting system should be useful from the viewpoints of soundness and policyholder protection as well, which insurance business has to secure.
- (2) The insurance business has a role to underwrite risks over a long period while diversifying such risks into various insurance portfolios. Insurers' financial statements should properly reflect the results of insurance business (e.g. by recognising profits upon an insurer's release from risks, instead of recognising future profits at inception).
- (3) The standard should enable insurers to reliably recognise and measure an insurance liability with sufficient comparability.
- (4) Preparation of financial statements should be possible within reasonable costs and time frame from a cost-benefit perspective.

c) Comments on the Discussion Paper – *Financial Instruments with Characteristics of Equity*

The IASB published a discussion paper – *Financial Instruments with Characteristics of Equity* on 28 February 2008.

The LIAJ submitted its comments on 5 September 2008 in terms of basic stance, evaluation of three approaches, implications on insurance contracts and consistency with other standards.

Please refer to **<Appendix> 2** (page 37) for the LIAJ comments.

d) Comments on the Discussion Paper – *Reducing Complexity in Reporting Financial Instruments*

The IASB published a discussion paper – *Reducing Complexity in Reporting Financial Instruments* on 19 March 2008.

The LIAJ submitted its comments on 19 September 2008 along with its answers to questions set out in the discussion paper. The outline is as follows:

General opinions

Since we see recognition and measurement of financial instrument issues as essential items among the projects treated by the IASB, which has a great influence over the direction of developing standards, we believe that the review should be conducted meticulously and take into account comments from respondents, while ensuring consistency with other major accounting standards. At present, as issues about measuring financial instruments at fair value through profit or loss remain undecided, further considerations will be necessary to resolve these issues.

This project, which focuses on reducing complexity, should not only take into account "complexity of accounting standard(s)", but also a position on reducing "complexity in practice". Furthermore, the matter must be considered thoroughly through discussion, with the measurement of financial instruments at fair value through profit or loss striving to achieve "a single measurement method for all types of financial instruments" for reducing "complexity of accounting standard".

Answers to questions on the Discussion Paper(abstract)

- Regarding fair value through profit or loss, many issues remain unresolved at this time. Therefore, as further consideration is necessary, we oppose the requirements with the assumption of the adoption of the fair value through profit or loss.
- Hedge accounting is necessary and should not be eliminated. This is due to its complex statistical methods and assessment models, which are used to judge effectiveness. There are difficulties in the measurement method and/or risks associated with arbitrariness in the designation of derivatives by using derivatives instruments as a means of hedge or to judge hedge effectiveness. However, when recognizing profit or loss on hedging instruments and hedged items at the same time and in the same proportion, hedge accounting has an advantage in reducing fluctuations of profit over a series of periods. Therefore, hedge accounting should remain.
- It would be best if a simplification of hedge accounting included discussions of the elimination of retrospective effectiveness assessment and the mitigation of restriction on portfolio hedge accounting.
- Partial hedges should be accepted because the disadvantage of significantly reduced flexibility of investment technique with hedging by not using partial hedges outweighs the advantage of simplification by not permitting partial hedges.
- There are a number of issues to be resolved for measuring all financial instruments at fair value through profit or loss. Therefore, further considerations are necessary to resolve these issues including:
 - Concern about reliability of fair value based on inputs of unobservable market data (i.e. level 3 inputs of SFAS 157). In response to the sub-prime loan crisis, a technical advisory panel has been established and is discussing fair value assessment for securitized instruments with low liquidity at this time. This discussion should be concluded carefully and in accordance with the direction of panel discussions; and
 - If single measurements are required to measure all financial instruments at fair value, present measurement methods are not unified and a wide range of inputs are unobservable in the current market. Therefore, it is not necessarily possible to state that single measurements would improve comparability.
- As for concerns about fair value measurement of financial instruments, we would like to supplement this as follows:
 - Regarding the relevance of changes in fair value, policyholders, in the case of a life insurance company, are also users of financial information. However, it would not always be relevant for a life insurer to report profit or loss based on temporary changes of fair value at the reporting date to policyholders who hold super long-term contracts; and
 - Reliable fair value assessment of financial instruments with little (or no) observable information is in the process of development. At this time, however, this assessment has difficulty with the reliable fair value measurement within a rational range of cost for financial instruments except marketable securities.
- It is important to ensure consistency with other standards or projects for appropriate definitions of financial instruments or for objectives of accounting standards for financial instruments.
- We have found that, while the IASB is concentrating its efforts to complete major projects by 2011, the content of the Discussion Paper, even intermediate approaches, may bring about big changes and require significant resources to complete it by 2011. This could potentially have a major impact on other projects. Therefore, we believe that improvements to the accounting process for financial instruments should be done in actual and small stages, with a focus on other major projects set for 2011.

e) Comments on the Discussion Paper –*Preliminary Views on Amendments to IAS 19 Employee Benefits*

The IASB published a discussion paper –*Preliminary Views on Amendments to IAS 19 Employee Benefits* on 27 March 2008.

On 26 September 2008, the LIAJ submitted its general opinions along with its responses to the questions set out in the discussion paper. The outline is as follows:

General opinions

It is understandable to tackle complex issues step by step; however we have a deep concern that a limited scope could impair the reliability and comparability of financial statements and may hinder providing financial information which is truly useful to the users.

Regarding immediate recognition in the statement of financial position, we have some understanding of its direction based on post-retirement cost presented in the other comprehensive income, but not presented in profit or loss. However, we think that there are still some outstanding issues to discuss about the measurement method of defined benefit promises before a final decision. We also oppose the classification of defined benefit promises and contribution-based promises as proposed in the Discussion Paper, and we hope that the Board will give careful consideration to this issue.

The Discussion Paper proposes that all changes in the value of liabilities and in the fair value of plan assets arising from a contribution-based plan should be presented in profit or loss, while also proposing three approaches for the presentation of defined benefit promises. Even if the immediate recognition in the statement of financial position is adopted, we propose that actuarial gains or losses and past service costs or credits, which arise during the period but are not recognized as components of net periodic benefit costs under the current IAS 19, be presented in the other comprehensive income separately from profit or loss. As a result, actuarial gains or losses and past service costs or credits can be subsequently recycled as they are recognized as components of net periodic benefit cost.

Responses to Questions in the Discussion Paper(abstract)

- We believe that it is desirable to maintain a clean surplus relation and, therefore, the full amount presented in other comprehensive income should be eventually presented in profit or loss, although they are deferred.
- The Board basically thinks that credit risk should be included in measurement of the liability of contribution-based promises. It should be noted, however, that net assets of an entity will increase as its credit deteriorates, while net assets of the entity will decrease as its credit improves. It is doubtful whether such changes in net assets consistently reflect the entity's overall risk profile. Therefore, we are opposed to the reflection of credit risk in measurement of the post-employment benefit liabilities.
- It is doubtful whether it is appropriate to call the measurement amount proposed for contribution-based promises "fair value" because the term "fair value" is not used for measurement of insurance liabilities in the Insurance Contracts Project, which is also considering a measurement method employing three building blocks. The Board's assumption – to exclude the risk that the terms of the benefit promise change – does not incorporate part of the risks that are possibly included in a current exit value proposed as a measurement attribute of insurance liabilities. As a result, it would be less appropriate to call the proposed measurement of liabilities for a contribution-based promise as fair value than the measurement of insurance liabilities.
- The liability for benefits in the payout and deferment phases is economically the same in both defined benefit promises and contribution-based promises. Therefore, it will be problematic to apply different measurement methods and have different measurements amount to the liability in payout and deferment phases. Thus, we take the view that a separate measurement method should be developed, but only for cash balance plans during the accumulation phase.
- To address the issues on measurement of benefits that depend on future returns on assets, exceptions could be made, such as permitting higher discount rates in hedge accounting where the asset liability management is in place. We think it is possible to disaggregate the changes in liabilities of cash balance plans into components, such as required in defined benefit promises.

f) Comments on the Discussion Document – *Review of the Constitution: Public Accountability and the Composition of the IASB - Proposals for Change*

The IASB published a discussion document –*Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change* on 21 July 2008, as the first part of the Constitution Review.

The LIAJ submitted its comments on 19 September 2008. It also jointly developed with six insurance trade associations in the United States and Europe, the Joint Insurance Trade Letter, which was submitted on the following day, 20 September 2008.

Please refer to **<Appendix> 3** (page 39) for the LIAJ comments. The outline of the trade associations' comments is as follows:

- While we support the formation of the Monitoring Group, we believe the implementation of the Monitoring Group does not go far enough in terms of achieving the overall goals of the Proposal. We agree with the statement of ECOFIN that the Monitoring Board should have sufficient powers to provide the necessary oversight of the IASCF. It should ensure that Trustees effectively discharge their oversight role towards the IASB, play an active role in the selection of Trustees, and approve their final selection. We believe that the MOU describing the interaction between the Trustees and the Monitoring Group should be exposed for public comment and review prior to its final agreement.
- Communications with the IASB illustrate the need for more thorough and responsive formal dialogue mechanisms between the IASB and stakeholders as proposed standards are being developed. While the IASB has improved the transparency of its meetings and made more documents publicly available, there still needs to be a clear statement of presumptive openness for all advisory and working groups. Unless there is a valid reason for closing a session or not making documents public, all IASB board and working group meetings should be open and the documents should be public.
- Five years ago, during the previous Constitutional Review, representatives of insurance trade associations from around the world filed a letter calling for changes in the supermajority requirement. We continue to support the supermajority concept and encourage the Committee to retain the provision. If the decision is made to expand the IASB to 16 members, 11 members should constitute a supermajority. If the Board is expanded to 15 members, 10 members would constitute a supermajority. The requirement should apply to all exposure drafts and final accounting standards. At this level of acceptance, it is highly likely there would be world-wide acceptance from standard setters and the requirements would not be so onerous as to restrict the development of high quality accounting standards.
- We also support the view that an appropriate impact assessment should be part of the due process in the development of high quality robust international accounting standards. The objective of this requirement would be to ensure that proposed standards are practicable and workable in all environments. The Preliminary Views on Insurance Contracts, which contains fundamental, far-reaching, and theoretical changes from existing practice, is an example to illustrate why impact assessment is necessary.

4. Efforts of the Life Insurance Industry to Restore Consumers' Confidence

Facing recent troubles related to insurance payout, the life insurance industry embarked on reviewing the "Code of Conduct" and the voluntary guidelines for the purpose of managerial improvement to implement customer-oriented management initiatives. Life insurance companies are also trying hard to develop a better system covering all steps related to customer services ranging from offering and provision of products to claims payment. In concrete terms, they include the following:

a) Follow-up on the Voluntary Guidelines

The LIAJ is now encouraging member companies' observance of the voluntary guidelines so that the purpose of such guidelines may be well reflected in their business activities. The LIAJ is also collecting examples of best practices adopted by member companies to improve customer services. The information will be shared among all members.

b) Implementation of Examination for Life Insurance Claims Assessors

The LIAJ supports member companies' efforts for human resources development designed to train staff engaged in insurance payout activities. It initiated the examination system to qualify "Life Insurance Claims Assessors" and held its first examination in October 2007 in order to cultivate staff members' basic knowledge and skills as required in this type of work.

c) Enhancement of Training for Agents and Agencies

In order to further enhance "customer-oriented education programs", the LIAJ now proceeds to review contents of education related to accountability, compliance and after-sales services. We intend to set up a continuing education system and produce special textbooks for this system.

d) Utilization of Complaint Information

The LIAJ regularly provides member companies with information regarding various complaints and requests posed by customers. We consider that the customers' opinions given directly to the LIAJ, or to its members, should be used for developing the life insurance business. At the same time, we are disclosing both, information of such complaints, and each company's improvement plan, on LIAJ's and members' home pages in an attempt to make customers gain an understanding about our efforts. We are also planning on disclosing information relating to insurance money and benefit payment/non-payment cases. This information will be disclosed from June 2009.

e) Guidebook for Insurance Payout Procedure

The Japan Institute of Life Insurance (JILI) has published a guidebook for customers intending to claim insurance moneys or benefits for the first time, so that they can understand the coverage and how to file an insurance claim. The guidebook describes contacts for claims, steps from claims to payment of insurance moneys or benefits, concrete examples when the claim is paid or not paid, and instructions of how to ensure that all insurance claims are duly made.

f) Promotion of Computer Printing of Medical Certificate

Most troubles over a shortfall in payment of insurance moneys or benefits in the past were caused by mistakes and failures on the part of insurers' staff when they read hand-written medical certificates. To improve this situation, and with the collaboration of the Japan Medical Association, the LIAJ has embarked on the promotion of electronic medical certificates to be submitted by the doctors concerned. In this promotion campaign, the LIAJ authorizes computer programs meeting certain requirements to print out medical certificates. The LIAJ also subsidizes medical institutions procuring such programs. As of November 2008, a total of 604 hospitals have already introduced, or promised to introduce, the said software.

g) Qualification Improvement of Insurance Solicitors

It is scheduled that each life insurer shall start a continuing education system for its solicitors from April 2009. The standard contents of the program are as follows:

- Concept of compliance and its significance, and outline of laws and regulations to be observed by insurance solicitors
- Legal knowledge and know-how for making proper insurance solicitation
- After-sales activities including insurance payout
- Rules and regulations regarding insurance solicitation at agencies and banks

h) Information Sharing of Best Practices and Development of the Voluntary Guidelines (concerning how to advise customers on the processing of insurance claims)

On 3 July 2008, the Financial Services Agency (FSA) requested the LIAJ to consider a better way for insurance payout procedures, including compilation of best practices of life insurance companies (which should be feed-back to each company) and development of the voluntary guidelines, if necessary, or revision or enhancement of such guidelines.

On 18 July 2008, the LIAJ Board of Directors agreed to make further efforts to improve payout procedures and address other relevant issues identified by member companies.

On 19 December 2008, a LIAJ committee submitted its "Guidelines for Advising Customers on How to File a Claim" and its "Best Practices for Dealing with Insurance Claims" to the LIAJ Board of Directors.

The above-mentioned Guideline roughly divides the processing of insurance claims into the following two categories:

- A) The customer recognizes the occurrence of an insured event and notifies the insurance company about it.
- B) Though the customer is not aware of any insured event, the insurance company recognizes the possibility of its occurrence.

The basic idea of how to handle each category of insurance claims is clearly stated in the Guidelines. In the case of B) in particular, it describes how to advise customers not aware of the possibility of the occurrence of an insured event on how to file a claim.

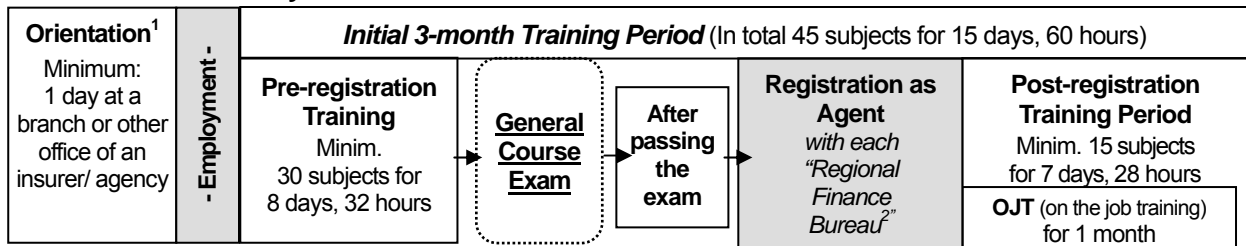
5. Disclosure

Measures taken to date

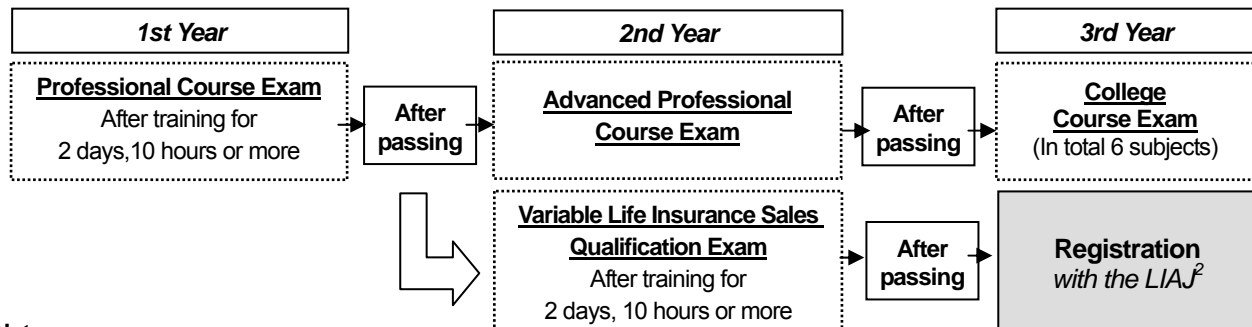
Year	Descriptions
1979	Prepared "Industry-wide Uniform Standards for Disclosure"
1984	Prepared box files of "Information on Business Results" by life insurers
1990	"Annual Financial Statements" were prepared by life insurers based on the "Industry-wide Uniform Standards for Disclosure" and provided together with the "Information on Business Results," at their head offices and branches for public perusal.
1996	In line with provisions of Article 111 of the revised Insurance Business Law, the Life Insurance Association of Japan prepared a new set of disclosure standards. Three types of disclosure materials: 1. "Financial Statements," 2. "Information on Business Results" and 3. "Current Status" (of each individual insurer) were integrated into a newly unified "Disclosure Materials." The contents of these materials were revamped with additional disclosure items.
1998	The revisions to the Insurance Business Law and the Enforcement Regulation provided the detailed items that need to be disclosed (preparation of consolidated financial statements, reports on the results of principal business operations in the last five business years, etc.)
2000	Disclosure of "basic profit" and "cash flow statement." Introduction of fair value accounting for financial instruments, review of calculation basis for "solvency margin ratio," etc.
2001	Disclosure of "policy reserve balance" per period of contract conclusion. Disclosure of the breakdown of "solvency margin ratio." Upgrade of disclosure brochures.
2002	Changes in the structure of "Equity" section in the balance sheet and the addition of items to "Assets" section in the balance sheet. Changes in items in the status of equity participation in the status of stocks. Modifications to the breakdown of stocks held per sector, the breakdown of loans offered per industry, etc.
2003	Added a category about "policyholder qualification acquisition per period" to the categorized composition of policyholder representatives. Newly disclosed "status of principal shareholders"
2004	The information of "the status of loans per category of debtors" was added to notes. Newly disclosed (annualized premium income of) "medical benefits/living benefits, etc." on the basis of business in force. Newly disclosed "the status of changes in contracts." Newly added the breakdown items such as "general account" and "special account" for policies by product category (individual insurance, individual annuities, group insurance, group annuities, others, subtotal) and the total amount.
2005	Newly disclosed annualized premium income for individual insurance, individual annuities and their total amount on the basis of policies in force as well as newly underwritten policies, in addition to new business for "medical benefits/living benefits, etc."
2006	Following the enactment of the New Corporate Law, "Equity" section in the balance sheet was changed to "Net Assets," and "statements on changes in foundations, etc. (changes in shareholders' equity, etc.)" were newly disclosed. The "status of reinsurance" was also newly disclosed.
2007	Revisions related to the solvency margin ratio calculation standards New disclosure standards for consultation and complaints-handling systems in each life insurer, and examples of business improvements reflecting complaints from customers.

6. Common-to-Industry Educational System

a) Current Educational System



Trainings and Exams after being employed³



Note:

1. In the case of agencies, they will hold a briefing session for business consignment before pre-registration training starts.
2. The registration after passing the General Course Exam will be made at each examinee's Regional Finance Bureau, while the registration after passing the Variable Life Insurance Sales Qualification Exam will be made at the LIAJ.
3. This is a suggested sample training schedule to acquire sales skills in three years.

b) Outline of each Course and Exam

Courses (certificates)	Exams	Purposes and Descriptions
General Course	12 times /year	This course aims to enable candidates to gain basic knowledge of life insurance that would be required to become agent or agency staffer. Only successful examinees of the General Course Exam are entitled to register with Regional Finance Bureau, and to begin insurance sales activities.
Professional Course (Life Consultant: LC)	3 times /year	In addition to basic knowledge of life insurance gained through the General Course , this course provides new agents with more extensive knowledge of, for example, social security or other financial sectors. Agents are also expected to deal with customer demands more effectively and to offer better policy maintenance services.
Advanced Professional Course (Senior Life Consultant: SLC)	3 times /year	This course intends not only to deepen the knowledge of tax or corporate insurance, etc., but also to cultivate more practical skills or applicability of what they have learned so far, e.g. interest rate, taxation, or other finance business, so that they can render better financial planning services.
College Course (Total Life Consultant: TLC: LIAJ-authorized financial planner)	Once /year	This course is intended to further develop expertise to be able to provide further enhanced financial planning services, such as : - financial planning - study on individual insurance products - planning for asset management (financial products, real estate) - taxation and inheritance related to life insurance - products in other financial sectors and social security - study on business insurance products
Variable Life Insurance Sales Qualification Course	3 times /year	It intends to equip candidates with the knowledge needed for the sales of variable insurance products. Only those who passed this exam and registered with the LIAJ are allowed to sell variable life insurance products.

7. Consultation Services

a) Life Insurance Consultation Center

The LIAJ has for a long time been providing consultation and receiving complaints from people in particular life insurance policyholders. In March 1961, the Life Insurance Consultation Center was founded to be a neutral and impartial institution to be able to respond to complaints not only from policyholders but also from the related parties or general consumers. The chairman of the LIAJ shall also hold an additional post as the head of the Center.

The Life Insurance Consultation Center is located at the LIAJ, and its corresponding offices are also set up at its local offices as well. The Center and its offices are open to the public from 9:00 a.m. to 5:00 p.m. on weekdays and provide consultation and receive complaints or inquiries by telephone or face-to-face.

If, despite all mediation and reconciliation efforts made at the Center, the problem has persisted for a month or longer after the claim had been filed by the Center to the relevant insurance company, the complainant may petition the Arbitration Council for a dispute settlement.

The Center also provides free legal advice on life insurance by lawyers at the Consultation Center once a month in response to inquiries from the public including policyholders.

b) Arbitration Council and Arbitrating Advisory Committee

In March 2001, the Consultation Center carried out a structural reform. As a result, the Arbitration Council, which takes charge the Alternative Dispute Resolution (ADR), was formed under the center, with the purpose of arbitrating from a fair and unbiased standpoint.

The Arbitration Council consists of seven members including lawyers, consumer life consultants, and the head of the Life Insurance Consultation Office 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 decision.

The Arbitrating Advisory Committee was founded with the purpose of monitoring the operation of the Arbitration Council. It consists of five members: 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.

c) Granted Certification of “Certified Investor Protection Organization”

The certified investor protection organization system was introduced by the Financial Instruments and Exchange Law that took effect on 30 September 2007 in order to contribute to the expansion of alternative dispute resolution mechanisms in the financial sector. Under this system, the FSA certifies private organizations (other than self-regulatory bodies) as voluntarily assisting in the resolution of disputes, while enhancing such organizations' credibility.

The LIAJ was granted by the FSA the qualification of a certified investor protection organization on the said date, and formulated its “Investor Protection Guidelines.” The Association is working to resolve complaints. It also mediates in disputes related to variable insurance, variable annuity insurance, foreign-currency denominated insurance and annuity insurance, life insurance with variable cash value, and other specified insurance contracts handled by life insurance companies dealing with the products stipulated under the Article 300-2 of the Insurance Business Law. This activity contributes to the sound development of the life insurance business and the protection of investors in general.

8. Social Contribution and Improvement of Policyholder Services

a) 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 interests, the Association conducts the following projects to contribute to the society and each community:

- (1) Support activities to reinforce the Elderly Care System for those who are in need of nursing care (through scholarship program for education of care workers)
- (2) Scholarship program for privately-funded international students in Japan
- (3) Child-rearing support to provide financial aid for non-profit institutions or groups which support those who are raising child(ren) in the community (including expectant mothers)
- (4) Highlighting the importance of “family bonds”

In order to promote communication between parents and their children, the LIAJ will donate books, including original picture story books, to organizations engaged in encouraging parents to read picture books to their children.

Also, the Association’s fifty-three (53) 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:

- (1) Activities for donating wheelchairs, or vans furnished with nursing equipment through fund-raising campaigns
- (2) Blood donation activities
- (3) Volunteer activities such as clean-up and beautification of the environment

b) Improving Services for Policyholders’ Convenience

The Life Insurance Network Center (LINC):

The life insurance companies established the common-to-industry network called LINC. This system can reduce the burden of clerical work at a client company and enables insurers to render more efficient services.

The main functions of LINC are as follows:

- (1) Accounting settlement of corporate pension and group term policies which are jointly insured by companies
- (2) Data exchange of individual policies whose monthly premiums are collected through payrolls
- (3) Data exchange of asset-formation insurance
- (4) Checking of medical life insurance
- (5) Registration of licensed life insurance solicitors
- (6) Registration and providing information of contract contents to prevent moral hazard
- (7) Data distribution of national pension fund insurance
- (8) Data collection system regarding life insurance business statistics
- (9) Data exchange of joint Employee’s Pension Fund Insurance report
- (10) Cross Reference System for Assessing Insurance Claims
- (11) Data exchange of corporate pension plans among principal companies
- (12) Statistics on incidence rates including mortality

9. Anti-Moral Hazard Measures

a) Policy Data Registration System

Without good faith of a large majority of policyholders and trustful relationships between policyholders and insurers, life insurance business would not work properly. To ensure a sound insurance institution and to promote its trustworthiness so that people can enroll in insurance with a greater sense of safety, in October 1980, the LIAJ established the Policy Data Registration System in which relevant data of policyholders are stored in the centralized database at the registration center within the LIAJ.

Each member life insurer can retrieve information from the database so that it assists insurers' decisions in underwriting a policy or in paying the insurance money or other benefits.

Reference: Main Items of the Policy Data Registration System

(a) Registration of Contents: Upon the filing of insurance application form by potential policyholders, the following data items may become subject to the registration of the center's database.	
(i) Name, date of birth, and sex of the insured.	(v) Type of hospitalization benefits and the amount of daily hospital stay benefit
(ii) Address (up to the level of city, ward or county) of the insured ¹	(vi) Date of issuance
(iii) Name of policyholder ²	(vii) Date of reinstatement (or of restoration, increase in insured amount, midterm addition of riders) ²
(iv) Insured amounts of death benefits or accidental death benefits.	(viii) Name of insurer
<p>Note:</p> <p>¹ If the insurer agreed, the address (up to the level of city, ward, or county) of policyholders is also entered.</p> <p>² Only when the amounts of death benefits or accidental death benefits need to be registered.</p>	
(b) Period of Registration and Availability	
<ul style="list-style-type: none"> - Up to five years from the date of issuance, reinstatement, restoration, increase in insured amount, and midterm addition of rider, the above data items are subject to record-keeping and can be used in the decisions over underwriting or payout. - The registered data on insurance contracts after five years from the date of issuance, reinstatement, restoration, increase in insured amount and midterm addition of rider, and the data on declined insurance contract applications will be deleted. 	

b) Policy Data Inquiry System

In April 2002, a cross-reference system for plural policy data registration systems, namely, the "Policy Data Inquiry System" was created. Now the data held by *Zenkyoren* (National Mutual Insurance Federation of Agricultural Cooperatives) and the data registered in the above-mentioned Policy Data Registration System by the LIAJ can be cross-referenced. It covers the data on policies written since April 2002 and aims to strengthen anti-moral hazard measures.

c) Cross Reference System for Assessing Insurance Claims

In January 2005, all LIAJ members and three other organizations, namely *Zenkyoren* (National Mutual Insurance Federation of Agricultural Cooperatives), *Zenrosai* (National Federation of Workers and Consumers Insurance Cooperatives) and Japanese Consumers' Co-operative Union (*Nihon Seikyoren* or *JCCU*) started operating jointly the "Cross Reference System for Assessing Insurance Claims." This new system makes it possible for all participants to cross-reference other parties' data on policyholders such as the status of policies or payment, in order to strengthen anti-moral hazard measures.

(1) Outline of the system

Upon receiving a claim, where judged necessary from the viewpoint of moral hazard prevention, member companies/organizations can be provided with relevant policyholder information, for example on policy contents, claim payment, and the amount of benefit. The cross reference of information is executed through a database located and operated in the network center within the LIAJ. Insurers can make use of information obtained when they have to make decisions as to whether or not to terminate or cancel an existing contract (legally, to rescind or nullify a contract) or to accept a claim from policyholder.

Information that can be cross-referenced will be limited to the data shown in the following paragraph (2), items (a) to (c), and will not be used for other purposes. Also, both the LIAJ member companies and the aforementioned three organizations are prohibited from disclosing the information obtained through this system to a third party.

(2) Information to be cross-referenced

The following data are cross-referenced, except for the data on the policies which expired more than five years ago.

- (a) Insured's name, date of birth, sex, and address (up to the level of city, ward, or county)
- (b) Date of realization of the insured event, date of death, date of hospital admission/discharge, and other information on insured events subject to claims (the data mentioned here cover up to five years from the date when inquiries were made)
- (c) Type of insurance, date of policy issuance, date of reinstatement, date of extinction of contract, name of policyholder and his or her relationship to the insured, as well as the sum insured for death benefit amount, amount of daily hospital benefit, details of each rider, premium amount and the way of premium payment

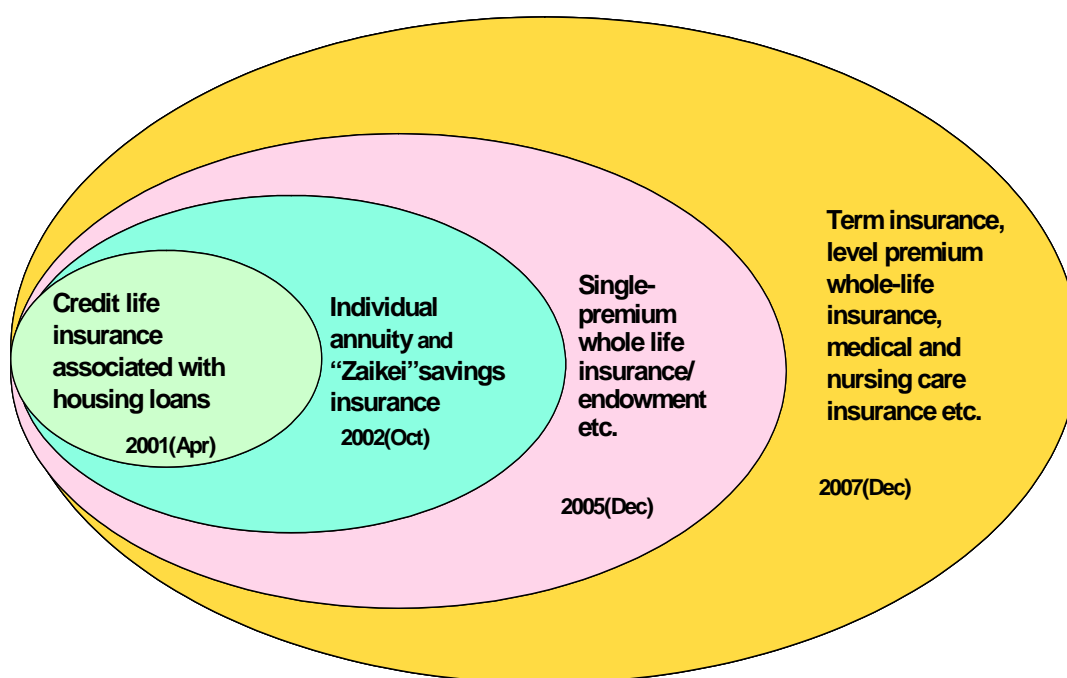
10. Complete Lifting of the Ban on Bancassurance

Following the Report of Insurance Council in 1997 and the amendment of the Insurance Business Law in 2000, the ban on over-the-counter (OTC) sales by banks of long-term fire insurance, long-term income indemnity insurance and credit life insurance (all associated with housing loans) as well as overseas travelers' personal accident insurance, was lifted on 1 April 2001. However, the credit life insurance policies that might be distributed by banks were limited to those of the life insurers which were either a bank's subsidiary or an affiliated company. At that time, the bancassurance in Japan was still in its early stages of development.

Later, in October 2002, the range of such products was extended to include individual annuity, 'zaikai' savings (asset formation) insurance, individual annuity and accident insurance, and 'zaikai' savings personal accident insurance. Also the restrictions on the credit life insurance (bank-subsidary rules) were removed. As a result, OTC sales by banks of life insurers' products practically started. On 22 December 2007, all restrictions on the sale of insurance products by banks were lifted. Accordingly, the following measures were introduced to prevent eventual negative effects of the deregulation:

- To stipulate a "split of work" rule between banks and insurers regarding after-sale activities (inquiries of policy contract, replies to claims and consultation services, etc.) and present it to customers
- To require banks to secure enough staff members to process the necessary work after selling insurance policies
- To make customers aware of the insurance solicitation guideline of banks through documents, oral explanations, in-store posters and notices, home pages and other means
- To assign staff with enough legal and practical knowledge of insurance business (about solicitation activities, policy contracts, etc.) in banks' internal audit departments
- To require banks engaged in this type of operations to comply with the "Comprehensive Guideline for Supervision of Insurance Companies" described in the "Concerning Unfair Business Practices following the Easing of the Regulation on Businesses of Financial Institutions and Expansion of Scope of Business Services" document

These regulations are to be re-examined in 2010 after being monitored by the FSA.



11. Review of the Policy Contract Rules

The bill on the new Insurance Contract Law was passed by the Diet on 30 May 2008 and promulgated on 6 June 2008. The rules of private law concerning insurance policy contracts, currently set forth in Chapter 10, Part 2 of the Commercial Code, will come into force as a special law by 5 June 2010.

The current rules and regulations related to insurance business were first established in 1899, when the Commercial Code was enacted, and partly amended in 1911. However, most of the said rules and regulations have remained with no particular change for almost a century. Accordingly, they did not only lack provisions concerning injury and/or illness-related insurance and liability insurance but constituted also somehow rigid rules based on old-fashioned theories.

As such, in several aspects, they were not suitable to modern insurance theories or current business practices. Recognition of these defects prompted the authorities to both, drastically review the basic civil laws regarding our economic activities, and amend the text of contract rules so that they may fit to current times and be easily understood by ordinary people. We have now this new Insurance Contract Law as a result.

The Insurance Contract Law provides the following measures to better protect insurance policyholders and maintain the soundness of the insurance system in Japan:

- a) Application of the Law to cooperative insurance: The Insurance Contract Law is now applicable to cooperative insurance policies to which provisions in the Commercial Code were applied *mutatis mutandis* previously.
- b) New regulations on injury and/or illness insurance-related contracts: The Insurance Contract Law stipulates provisions on not only life and non-life insurance contracts but also injury and/or illness insurance contracts, which were not specifically regulated by the Commercial Code.
- c) Unilaterally enforceable provisions clearly-stated: Most of provisions in the Commercial Code are understood as permissive rules that grant priority to the provisions of policy clauses. This Insurance Contract Law stipulates that, with respect to representation obligations, time of claims payment, rescissions due to a serious reason, and insurance reserve funds, among others, any unfavorable arrangement for policyholders should be declared void.

Provisions of the Insurance Contract Law exert a great impact on the business practice of the insurance industry. Newly-created or significantly-amended regulations are as follows:

- New rules against solicitors' activities encouraging misrepresentations from customers
- Lien of the victim in liability insurance
- Provisions on changes of beneficiary based on testaments
- Continuation of life insurance policies (injury and/or illness-related) based on beneficiary's own will
- Policy rescissions right due to a serious reason
- Provisions concerning the time of claims payment
- The Insurance Contract Law comes into force on the day specified by Cabinet Order within a period not exceeding two years from the date of promulgation.

In principle, the Insurance Contract Law may not apply to insurance contracts concluded before the enforcement of this Law except for:

- Consent of the insured regarding the assignment of right of insurance claims
- Decrease of insurance risk
- Policy rescission due to a serious reason
- Effect of policy rescission
- Time of benefits payout for insured events occurring after the enforcement of this Law
- Exercise of the right of intervention by garnishers against policy rescissions after the enforcement of this Law

12. Revision of the Solvency Margin Ratio

The solvency margin ratio was introduced through an amendment of the Insurance Business Law in 1996. The method for calculating the ratio has been revised as the need arises. In December 2004, the FSA announced the "Program for Further Financial Reform" that includes a review of the solvency margin. Then, in November 2006, the FSA set up a team to deliberate on the calculation standard of the solvency margin ratio. The team held a total of 11 meetings and published a report entitled "Regarding Solvency Margin Ratio Calculation Standards." This report made the following comments on the solvency margin ratio:

- Insurance companies are required to raise their solvency margin ratio to improve their financial position. On the other hand, other financial indicators, such as profit margins, must be used together with the solvency margin ratio in order to assess the financial soundness of insurance companies.
- If the insurers' solvency ratio falls below the 200% line, a "prompt corrective action" has to be taken depending on the level of the ratio. When revising the calculation method, it is necessary to improve the credibility of the solvency margin ratio by making it adequately reflect the actual situation of the financial market as well as enhancing the confidence level. Insurers also have to strengthen their financial control systems and improve their financial positions.
- Currently policy reserves are calculated based on the assumed rates by using a lock-in method, while risk amounts for the solvency margin are calculated based on a risk-factor approach. As a mid-term revision, the solvency valuation based on economic value should be realized to recognize the volatility of the net assets (the difference between the value of assets and the value of liabilities on an economic value basis) as the risk amount, and to manage the volatility appropriately. This is particularly important from the viewpoint of stakeholders who look at the corporate value index.

Major Revisions since FY 2001

Date	Major Revisions
30 March 2001	Reflection of valuation gains and losses on securities holdings (including unlisted securities) Risk amount calculation based on market value Introduction of price fluctuation risk of domestic bonds Restriction of "future profits" (from 100% to 50%) Negation of double-gearing with banks, etc. falling under the category of subsidies
22 October 2004	Creation of risk equivalent amounts corresponding to minimum guarantee risk
28 April 2006	Introduction of a stress test for risk assessment of third sector insurance products

<Current Solvency Regime>

1. Solvency Margin Ratio

Since the fiscal year ending in March 1998, life insurers in Japan have been disclosing their solvency margin ratio. It is calculated as follows:

$$\text{Solvency Margin Ratio (\%)} = \frac{\text{Total Amount of Solvency Margin}^a}{\text{Sum Total of Risks}^b \times \frac{1}{2}} \times 100$$

^a The "Total Amount of Solvency Margin" (numerator) is the total of the following:

= Total Capital + Price Fluctuation Reserve + Contingency Reserve + General Bad Debt Reserve + 90% of Variance of the Estimate of Other Securities* + 85% of Unrealized Gain or Loss on Real Estate* + Debt Capital Instruments + Deductible Items, and others.

* If these values are negative, 100% of the value is applied instead of 90% or 85%.

^b The "Sum Total of Risks" (denominator) is calculated as follows:

$$= \sqrt{R_1^2 + (R_2 + R_3 + R_7)^2} + R_4$$

The said “R”s represent the following risks respectively:

R₁: *Underwriting Risk* – Risk of massive insurance payouts following a disaster or catastrophe

R₂: *Assumed Interest Rate Risk* – Risk that investment return falls below the assumed interest rate

R₃: *Asset Management Risk* – Risk of a drastic devaluation of assets because of a crash in stock prices or sharp fluctuation in the currency market, and risk of a sharp increase in irrecoverable loans due to failures of borrowing companies

R₄: *Business Management Risk* – Business risk in excess of normal expectations

R₇: *Minimum Guarantee Risk* – Risk related to the minimum guarantee for benefits of variable insurance and variable annuity products

2. Early Warning Measures

Early warning measures were introduced by the FSA for the purpose of ensuring appropriate business operation of life insurers and protecting policyholders. The following is the outline of the measures.

Category	Solvency Margin Ratio	Directive
None	200% and over	None
Category 1	100% to less than 200%	Submission and implementation of a business improvement plan
Category 2	0% to less than 100%	a. Submission and implementation of a plan for adequate solvency of insurers b. Prohibition or limitation of dividends c. Prohibition or limitation of policy dividends or distribution of surplus to policyholders d. Change in calculation method of premium for policies to be newly underwritten e. Prohibition or limitation of directors' bonuses, limitation of other operating costs, etc.
Category 3	Less than 0%	Partial or total suspension of operation for a limited period

- Even if the solvency margin ratio is less than 0%, a company may be classified as category 2 if real net assets (= assets - liabilities - price fluctuation reserve - contingency reserve, etc.) are positive.
- Even if the solvency margin ratio exceeds 0%, a company may be classified as category 3 if real net assets are negative.

Based on the aforementioned report, the FSA published an “Outline of Revisions to the Solvency Margin Ratio (Draft)” in February 2008 in order to obtain public comments on the following issues:

- Revising risk coefficients based on the most recent data available
- Considering the method to calculate diversified investment effects based on asset composition (ratio) for each insurance company
- Raising the confidence level of risk coefficients from 90% to 95%
- Deliberating the way to adequately include deferred tax assets

13. The Life Insurance Association of Japan (LIAJ)

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

a) Objective

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

b) Functions

- (1) Research and study of theories and practices relating to life insurance
- (2) Public relations relating to life insurance
- (3) Statement on life insurance
- (4) Other functions considered necessary to attain the purpose of the Association

c) Membership

Forty-six (46) companies (as of 1 November 2008)

d) Main Activities

(1) Representing the Opinions of Life Insurance Industry

The Association gathers opinions from its member companies concerning financial, economic, social welfare, tax or other problems which are related to life insurance. The Association conveys ideas and requests of the members whenever necessary to organizations in charge.

(2) Conducting Research and Taking Statistics

The Association conducts studies and surveys 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 including this English brochure, and also taking statistics on life insurance.

(3) Educational Activities

The Association offers education and examination programs which can be commonly applied throughout the industry to sales agents/agencies and office personnel. (Refer to page 17)

(4) Operating Life Insurance Network Center

In order to expand computer networks and related joint arrangements within the life insurance industry, LINC (Life Insurance Network Center; established in May 1986) operates to improve the services for policyholders, etc. (Refer to page 19)

(5) Social Service Activities

The Association is engaged in a variety of social service activities in order to enhance the public understanding and the trust of life insurance business by widely contributing to public interests. (Refer to page 19)

(6) Public Relations Activities

The Association seeks to provide information to help consumers fully understand the life insurance business and also improve its public relations through advertisement and communication with mass media, consumer groups and opinion leaders in various industries.

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 the life insurance industry. The Association maintains a cooperative relationship with JILI in providing life insurance-related information. (Refer to page 32)

(7) Consultation Services

The Association deals with inquiries and complaints concerning life insurance by telephone, mail and interviews. (Refer to page 18)

(8) Anti-Moral Hazard Measures

The Association takes a variety of measures to promote sound operation of life insurance business. (Refer to page 20)

(9) International Activities

The Association responds to inquiries and receives visits from foreign countries. The LIAJ also supports arrangements for 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 (East Asian Insurance Congress) and PIC (Pacific Insurance Conference). The 24th EAIC was held in Hong Kong from 24 through 27 November 2008 and around 1, 000 attendants including about 70 from the Japanese insurance industry participated in the Congress.

(10)Others

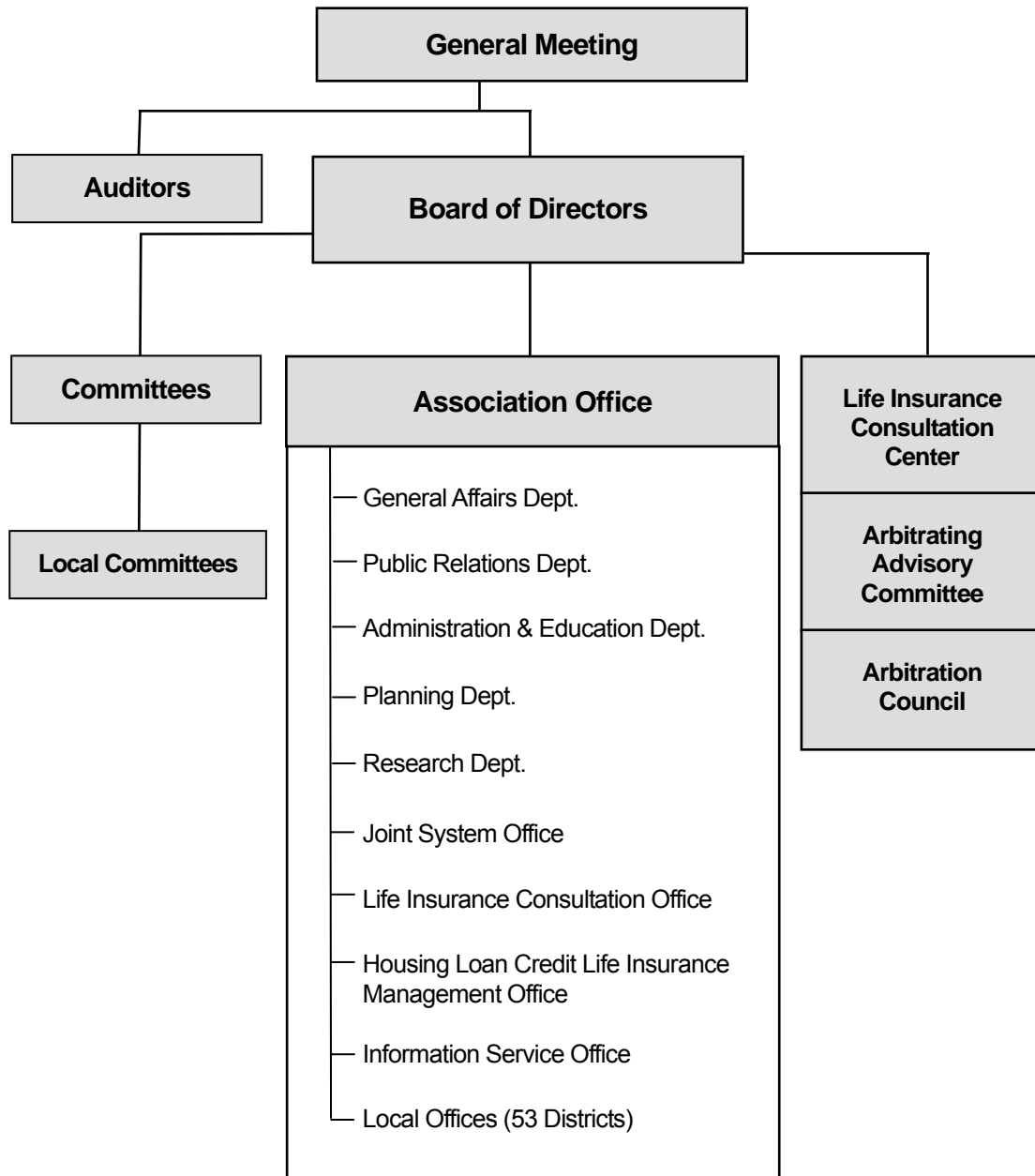
Library:

The Association has a collection of approximately twenty-five thousand books and materials which mainly features life insurance.

Organization Chart

(As of 18 July 2008)

The Life Insurance Association of Japan (LIAJ)



Board Members

(As of 18 July 2008)

Chairman

Kenji Matsuo	President, Meiji Yasuda Life Insurance Company
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Vice Chairmen

Yoshio Sato	President, Sumitomo Life Insurance Co.
-------------	--

Hiroshi Nishimura	President, Mitsui Life Insurance Company Limited
-------------------	--

Yoshiki Sato	President, Asahi Mutual Life Insurance Co.
--------------	--

Directors

Kazuhiko Sunagawa	Representative Board Director, Hartford Life Insurance K.K.
-------------------	---

Kunie Okamoto	President, Nippon Life Insurance Co.
---------------	--------------------------------------

Tomochika Iwashita	President, Tokio Marine & Nichido Life Insurance Co., Ltd.
--------------------	--

Katsuro Oishi	President, Taiyo Life Insurance Company
---------------	---

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

Taro Okuda	President, Sony Life Insurance Co., Ltd.
------------	--

Toshio Matsuzaki	President, Sampo Japan Himawari Life Insurance Co., Ltd.
------------------	--

Izumi Mizumori	President, ORIX Life Insurance Corporation
----------------	--

Craig Bromley	President, Manulife Life Insurance Company
---------------	--

Tomofumi Akiyama	President, Fukoku Mutual Life Insurance Co.
------------------	---

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

Norio Tomono	President, AIG STAR LIFE INSURANCE CO., LTD.
--------------	--

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

Kazuyuki Takahashi	Legal Representative in Japan, American Life Insurance Company
--------------------	--

Mark Pearson	President, AXA Life Insurance Co., Ltd.
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Tohru Tonoike	President, American Family Life Assurance Company of Columbus
---------------	---

Shizuka Sasaki	President, Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.
----------------	--

Vice Chairmen

Shizuharu Kubono	The Life Insurance Association of Japan (Full-time)
------------------	---

Hiroyuki Koizumi	The Life Insurance Association of Japan (Full-time)
------------------	---

Director

Hiroaki Tanase	The Life Insurance Association of Japan (Full-time)
----------------	---

Auditors

Yoshiaki Shinozaki	President, NIPPONKOA Life Insurance Company, Limited
--------------------	--

Hidezo Hirano	President, MassMutual Life Insurance Company
---------------	--

Yasuhiko Kubota	President, Aioi Life Insurance Co., Ltd.
-----------------	--

Kazuo Ohtake	Attorney at Law
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13. The Life Insurance Association of Japan (LIAJ)

Member Companies

(As of 1 November 2008, in alphabetical order)

AIG Edison Life Insurance Company Olinas Tower, 4-1-3 Taihei, Sumida-ku, Tokyo 130-8625	http://www.AIGedison.co.jp/
AIG STAR LIFE INSURANCE CO., LTD. Olinas Tower, 4-1-3 Taihei, Sumida-ku, Tokyo 130-8660	http://www.aigstar-life.co.jp/
Aioi Life Insurance Co., Ltd. 28-1, Ebisu 1-Chome, Shibuya-ku, Tokyo 150-0013	http://www.ioi-life.co.jp/
AIRIO Life Insurance Co., Ltd. Tradepia Odaiba 20F, 2-3-1 Daiba, Minato-ku, Tokyo 135-0091	http://www.airio.co.jp/
Allianz Life Insurance Japan Ltd. Anzen Building, 6-6, Motoakasaka, 1-Chome, Minato-ku, Tokyo 107-0051	http://life.allianz.co.jp/
American Family Life Assurance Company of Columbus 1-1, Nishishinjuku 2-Chome, Shinjuku-ku, Tokyo 163-0456	http://www.aflac.co.jp/
American Life Insurance Company AIG Bldg. 1-3, Marunouchi 1-Chome, Chiyoda-ku, Tokyo 100-0005	http://www.alico.co.jp/
Asahi Mutual Life Insurance Co. 6-1, Ote-machi 2-Chome, Chiyoda-ku, Tokyo 100-8103	http://www.asahi-life.co.jp/
AXA Life Insurance Co., Ltd. NBF Platinum Tower, 1-17-3 Shirokane, Minato-ku, Tokyo 108-8020	http://www.axa.co.jp/
AXA Financial Life Insurance Co., Ltd. 10F, Shinjuku First West, 23-7 Nishishinjuku 1-Chome, Shinjuku-ku, Tokyo 160-8335	http://www.axa-financial.co.jp/
CARDIF Assurance Vie 9F Infoss Tower, 20-1 Sakuragaoka-cho, Shibuya-ku, Tokyo 150-0031	http://www.cardif.co.jp/vie/
Crédit Agricole Life Insurance Company Japan Ltd. Shiodome Sumitomo Building 16F, 1-9-2 Higashi-Shimbashi, Minato-ku, Tokyo 105-0021	http://www.ca-life.jp/
Daido Life Insurance Co. 2-1, Edobori 1-Chome, Nishi-ku, Osaka-shi 550-0002	http://www.daido-life.co.jp/
Fukoku Mutual Life Insurance Co. 2-2, Uchisaiwaicho 2-Chome, Chiyoda-ku, Tokyo 100-0011	http://www.fukoku-life.co.jp/
Fukokushinrai Life Insurance Co., Ltd. 2-10, Shirokanedai 3-Chome, Minato-ku, Tokyo 108-0071	http://www.fukokushinrai.co.jp/
Hartford Life Insurance K.K. Shiodome Building 15 th Floor, 1-2-20 Kaigan, Minato-ku, Tokyo 105-0022	http://www.hartfordlife.co.jp/
ING Life Insurance Company, Ltd. 26 F New Ohtani Garden Court 4-1 Kioicho, Chiyoda-ku, Tokyo 102-0094	http://www.ing-life.co.jp/
JAPAN POST INSURANCE Co., Ltd. 1-3-2 Kasumigaseki, Chiyoda-ku, Tokyo 100-8798	http://www.jp-life.japanpost.jp/
LIFENET INSURANCE COMPANY Kojimachi NK Building 5F, 14-2, Kojimachi 2-Chome, Chiyoda-ku, Tokyo 102-0083	http://www.lifenet-seimei.co.jp/
Manulife Life Insurance Company 34-1, Kokuryo-cho 4-Chome, Chofu-shi, Tokyo 182-8621	http://www.manulife.co.jp/
MassMutual Life Insurance Company 2-5-7 Ariake, Koto-ku, Tokyo 135-0063	http://www.massmutual.co.jp/
Meiji Yasuda Life Insurance Company 1-1, Marunouchi 2-Chome, Chiyoda-ku, Tokyo 100-0005	http://www.meijiyasuda.co.jp/
Midori Life Insurance Company 6-3-43 Ohji, Kita-ku, Tokyo 114-8595	http://www.midori-life.com/

13. The Life Insurance Association of Japan (LIAJ)

Mitsui Life Insurance Company Limited 2-3, Otemachi 1-Chome, Chiyoda-ku, Tokyo 100-8123	http://www.mitsui-seimei.co.jp/
Mitsui Sumitomo Kirameki Life Insurance Co., Ltd. 3-11-1 Kandanshikicho, Chiyoda-ku, Tokyo 101-0054	http://www.ms-kirameki.com/
Mitsui Sumitomo MetLife Insurance Co., Ltd. 16F Yaesu First Financial Bldg., 1-3-7 Yaesu, Chuo-ku, Tokyo 103-0028	http://www.msi-metlife.com/
Nippon Life Insurance Co. 5-12, Imabashi 3-Chome, Chuo-ku, Osaka-shi 541-8501	http://www.nissay.co.jp/
NIPPONKOA Life Insurance Company, Limited 4-2, Tsukiji 3-Chome, Chuo-ku, Tokyo 104-8407	http://www.nipponkoa.co.jp/life/
ORIX Life Insurance Corporation 23F Shinjuku Monolith, 2-3-1 Nishishinjuku, Shinjuku-ku, Tokyo 163-0923	http://www.orix.co.jp/ins/
PCA LIFE Insurance Co., Ltd. 10F ATT New Tower, 2-11-7 Akasaka, Minato-ku, Tokyo 107-0052	http://www.pcalife.co.jp/
SBI AXA Life Insurance Co., Ltd. Izumi Garden Tower 18F, 1-6-1 Roppongi, Minato-ku, Tokyo 106-6018	http://www.sbi-axa.co.jp/
Sompo Japan DIY Life Insurance Co., Ltd. 68-2, Nakano 5-Chome, Nakano-ku, Tokyo 164-0001	http://diy.co.jp/
Sompo Japan Himawari Life Insurance Co., Ltd. 1-1, Nishishinjuku 2-Chome, Shinjuku-ku, Tokyo 165-0435	http://www.himawari-life.com/
Sony Life Insurance Co., Ltd. 1-1, Minamiaoyama 1-Chome, Minato-ku, Tokyo 107-8585	http://www.sonylife.co.jp/
Sumitomo Life Insurance Co. 4-35, Shiromi 1-Chome, Chuo-ku, Osaka-shi 540-8512	http://www.sumitomolife.co.jp/
The Dai-ichi Mutual Life Insurance Co. 13-1, Yurakucho 1-Chome, Chiyoda-ku, Tokyo 100-8411	http://www.dai-ichi-life.co.jp/
The Dai-ichi Frontier Life Insurance Co. Ltd. 1-8-10 Harumi, Chuo-ku, Tokyo 104-6015	http://www.d-frontier-life.co.jp/
The Fuji Life Insurance Company, Limited 18-17, Minamisemba 1-Chome, Chuo-ku, Osaka-shi 542-0081	http://www.fujiseimei.co.jp/
The Gibraltar Life Insurance Co., Ltd. Prudential Tower 2-13-10 Nagata-cho, Chiyoda-ku, Tokyo 100-8953	http://www.gib-life.co.jp/
The Prudential Life Insurance Co., Ltd. Prudential Tower 2-13-10 Nagata-cho, Chiyoda-ku, Tokyo 100-0014	http://www.prudential.co.jp/
Taiyo Life Insurance Company 1-2-3 Kaigan, Minato-ku, Tokyo 105-0022	http://www.taiyo-seimei.co.jp/
Tokio Marine & Nichido Financial Life Insurance Co., Ltd. 8F, ThinkPark Tower, 2-1-1 Osaki, Shinagawa-ku, Tokyo 141-6008	http://www.tmn-financial.co.jp/
Tokio Marine & Nichido Life Insurance Co., Ltd. 5-3-16 Ginza, Chuo-ku, Tokyo 104-0061	http://www.tmn-anshin.co.jp/
T & D FINANCIAL LIFE INSURANCE COMPANY 1-2-3 Kaigan, Minato-ku, Tokyo 105-0022	http://www.tdf-life.co.jp/
YAMATO LIFE INSURANCE CO. 1-7, Uchisaiwaicho 1-Chome, Chiyoda-ku, Tokyo 100-0011	http://www.yamato-life.co.jp/
Zurich Life Insurance Company Ltd. Shinanomachi Rengakan, 35 Shinanomachi, Shinjuku-ku, Tokyo 160-0016	http://www.zurichlife.co.jp/

14. Japan Institute of Life Insurance(JILI)

The origin of the Japan Institute of Life Insurance (JILI) dates back over a half century to the year 1956, when the Life Insurance Association of Japan (LIAJ) sent an overseas research delegation and visited the ILI (Institute of Life Insurance, now renamed the American Council of Life Insurers, or ACLI, as a result of merger and reorganization).

The visit prompted the LIAJ to create such an organization in Japan too, in the future. The report of the research trip states: it is necessary to establish a permanent organ dedicated to developing relationship between the public and the life insurance industry so that customers can have a better understanding of what the life insurance is.

After another overseas research trip conducted in 1974 and subsequent discussions at the now-defunct Insurance Council, a consultative body for the Minister of Finance, the Japan Institute of Life Insurance was established as an officially authorized foundation on 5 January 1976 and started operating on the same date.

The JILI aims to contribute to the sound development and diffusion of life insurance through research and study on life insurance, educational activities for the public, and dissemination of information.

Forty-five (45) life insurers are also members of the JILI which, with the asset management yield of the foundation and contributions in the form of membership fees, conducts activities as shown below:

- a) Study and research on life insurance and life insurance systems in Japan and abroad
- b) Survey and collection of information on the public attitudes and opinions on life insurance
- c) Educational activities for the public in order to spread knowledge about life insurance among the public
- d) Information dissemination activities offered to the public
- e) Information dissemination activities offered to the life insurance industry itself
- f) Assistance for studies and holding seminars on the subject of life insurance
- g) Any other operations necessary to achieve the purpose of the corporation

15. The Life Insurance Policyholders Protection Corporation of Japan

a) Purpose of establishing the Life Insurance Policyholders Protection Corporation of Japan (PPCJ)

The Life Insurance Policyholders Protection Corporation of Japan (so-called "PPCJ") was established on 1 December 1998 aiming to provide policyholders with protection in case of failure of insurers. The PPCJ's mission is to provide financial aid when policies are transferred from the insolvent insurer or when claim payment for compensation is necessary. All life insurers operating in Japan become automatically members of the Corporation.

b) Recent Developments

After six years since the policyholder protection system was created, relevant parties pointed to the need to review the system on various aspects, such as the method and level of compensation and as to how to operate the Corporation or how to share the costs of compensation.

In response to the report issued on 16 February 2005 by the Second Subcommittee of the Sectional Committee on Financial System of the Financial System Council entitled "Concerning the Review of the Life Insurance Policyholder Protection System (Draft)," the Financial Services Agency submitted to the Diet a "bill for partial revision of the Insurance Business Law, etc.," which was passed by the House of Councillors at the plenary session held on 22 April 2005, and was enacted as follows.

Rules Applicable from FY2006:

Compensation in accordance with characteristics of insurance policies				
<ul style="list-style-type: none"> ▪ The compensation ratio of financial assistance, etc. is determined by taking into account the contents of insurance policies, including types of contracts and the assumed rates of interest. <p>Previously, the compensation ratio was at a uniform 90 percent of policy reserves. However, the compensation ratio for policy reserves in relation to life insurance policies with high assumed rates of interest (policies whose assumed interest rates constantly exceeded the base rate* in the past five years) was changed as follows:</p> <p>The compensation ratio for policies with high assumed interest rates = 90 percent - { the sum of (each assumed interest rate in the past five years - the base rate) / 2 }</p> <p>*The base rate for policies with high assumed interest rates: 3 percent (as of April 2006)</p> <ul style="list-style-type: none"> ▪ Insurance policies whose benefits are linked to investment performance are managed and treated separately from other policies (so that the protection of 100 percent may be possible). 				
Funding scheme				
<p>This scheme, which is a reversion to the industry's burden-sharing rule set in 1998 when the Corporation was established, intends to be prepared for insurer failures that could occur in three years from FY2006</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; padding: 5px;"> Industry contributions: Y460 billion </td> <td style="width: 5%; text-align: center; vertical-align: middle;">+</td> <td style="width: 65%; padding: 5px;"> In case the amount of financial assistance exceeds the ceiling on industry contributions, government subsidies are available* </td> </tr> </table> <p>* Government subsidies may become available if the following scenario is predictable: the financial assistance being covered solely by life insurers' contributions could significantly deteriorate the insurers' financial conditions, and would cause difficulties to maintain the public confidence in the industry and eventually, instability of people's livelihood and financial markets.</p>		Industry contributions: Y460 billion	+	In case the amount of financial assistance exceeds the ceiling on industry contributions, government subsidies are available*
Industry contributions: Y460 billion	+	In case the amount of financial assistance exceeds the ceiling on industry contributions, government subsidies are available*		

16. Major Ongoing Efforts within the Industry vis-à-vis Consumers

Guidelines, etc. are developed for each step from conclusion of contract to payout of claims as follows:

Consumer Education	Life Insurance Buyer's Guide (September 2007 Revision) compiled by JILI
	Gives consumers a fair and unbiased explanation when shopping for life insurance: 1. Important things to consider; 2. How to choose life insurance; 3. How to review life insurance; 4. Things to consider when buying life insurance.
Presentation /Advertising	Guidelines for Appropriate Presentation of Life Insurance Products (September 2007)
	Aims to ensure appropriate presentation of insurance products in sales materials (including advertising), with consideration given to the characteristics of different media and products. The main focus is to prevent unreasonable product claims that may cause misunderstanding.
Solicitation	Guidelines for Policy Overview (September 2007)
	Specifies how to draft and compile the "Policy Overview" notice, which contains essential information on the contents of insurance products, etc.
	Guidelines for Warning Information (July 2008 Revision)
	Specifies how to draft and compile the "Warning Information" notice, which contains warnings that insurers should give customers regarding the contents of insurance contracts, etc.
	Guidelines for the Sales of Life Insurance with Market Risks (September 2007)
	Specifies appropriate advertising, solicitation, confirmation of customer's determination, needs or contents of contracts concluded.
Contracting/ Underwriting	Guidelines for Pre-contract Documentation (July 2008 Revision)
	Specifies attention to be paid in preparing Policy Overview and Warning Information in concluding contracts for insurance products with strong investment characteristics such as variable insurance.
	Guidelines for Obtaining Truthful Disclosure from Customers (May 2008 Revision)
Claims/ Payout	Specifies information policyholders must be made aware of to ensure truthful disclosure, and shows samples of sales materials and correctly completed nonmedical report (customer's disclosure). Also specifies suitable sales explanations, contents of solicitors' training program.
	Guidelines for Appropriate Insurance Payout Procedures (June 2008 Revision)
	Aims to promote an appropriate insurance payout control system by clarifying points for prompt and appropriate payout procedures. Also shows suitable explanations to provide when receiving claims and giving instructions, denying claims, etc. Specific efforts being made are as follows: Points to Consider in Nullifying a Contract due to Applicant's Misrepresentation (June 2005) (unpublicized) Facilitates the process of nullifying fraudulent contracts by identifying possible patterns of fraud and describing considerations in their cancellation. Also shows suitable explanations to provide at the time of solicitation and in case of cancellation.
	Cross Reference System for Assessing Insurance Claims (January 2005) Aims to eliminate moral hazard by cross-referencing information on policies to assist in payout judgments as necessary. System is operated jointly with Zenkyoren, Zenrosai and JCCU.
	Guidelines for Advising Customers on How to File a Claim (December 2008)
Handling of Complaints/ Listening to Users' Opinions	Describes the basic idea of how to handle insurance claims at each company, and provides concrete examples of how to advise customers.
	Measures to Improve Handling of Complaints and Inquiries (January 2006)
Dispute Resolution	Timely and substantive information on complaints received at the LIAJ is provided for member companies in a periodic report entitled the "Voice Report." Rules were compiled for warning information with respect to the management of member companies. Consumers' Voice Office and Council on Consulting Centers were set up. These aim to integrate complaint information, analyze complaint causes, and help companies share information on complaint processing.
	Measures for Upgrading Arbitration Council (January 2006)
Personal Information Protection	Increased the number of Council members, introduced a system in which medical doctors' advice can be offered, and strengthened rules to enhance transparency and neutrality.
	Procedural Guidelines for Personal Information Protection in the Life Insurance Business (April 2005 Revision)
	In accordance with the Act on Protection of Personal Information, guidelines regarding purpose of use, security measures, and procedures for providing policyholders with their own personal information upon request. The practical guidelines for security measures provide rules and measures needed to ensure safety.

< Appendix > 1

Comments from the LIAJ on the Discussion Paper - *Fair Value Measurements*

We welcome the discussions held on a global scale with regard to the fair value in financial statements and also appreciate your giving us an opportunity to submit our comments on this occasion. As the measurement issue constitutes a core element among issues to be discussed in the IASB's projects and would have a significant effect on the direction of accounting standards to be developed in the future, we request that sufficient discussions be made taking into consideration the comments you receive from various constituents.

We understand that this Discussion Paper does not intend to change the scope of the fair value measurements and recognise that separate IASB project on insurance liability is currently underway. We also feel it necessary to carefully monitor the development of regulatory (supervisory) reporting on the measurements of insurance contracts.

We also recognise that there is an argument, in the IASB's discussions on the insurance projects, that there are no significant differences between current exit value, as discussed in the Insurance Project, and fair value. However, in our comments, we do not focus on insurance contract measurement issues; rather, we aim to respond more generally to the issues which may impact our present and future practices.

Therefore, we would like you to understand that our comments are formed separately from the question as to whether the concept of fair value should be applied to insurance contracts.

Please find our comments as follows:

[Application to IFRSs already using the "fair value"]

The term "fair value" is a generic word that may encompass various measurement bases, and it is uncertain whether the term could be consistently used in an appropriate manner in each country. Sufficient discussions will be essential when establishing a single uniform standard for all "fair values".

We appreciate that the IASB's aim of issuing this Discussion Paper is to establish a clear and single guidance that would help alleviate the complexity of procedures in measuring the fair value and thus would enhance consistency.

Nevertheless, the "fair values" used in the IFRSs which were issued prior to this Discussion Paper were not, as a matter of course, reviewed within the discussions of the Discussion Paper. Therefore the application of this guidance to each of those "fair values" will need to be reexamined individually.

We do not believe the methodologies described in this Discussion Paper would be appropriate for all circumstances where fair value is used in the existing IFRSs.

[Measurement Attribute]

Considering that other measurement attributes are accepted under the term "fair value" where an active secondary market does not exist, it would not be appropriate to define fair value as a current exit value in all situations. Where a market is liquid, stable in supply and demand and flexible in pricing, exit value could be an appropriate measurement attribute; however, in practice, such a situation is rarely the case except for financial assets. In the cases where a market is not liquid or that even a market itself does not exist, measurement attributes other than exit value needs to be considered within the framework of "fair value."

[Timing of Revenue Recognition]

In considering an alternative to define fair value as an exit value when the exit value at initial recognition is different from the transaction price, the implications of this treatment on revenue recognition need to be sufficiently considered. The Discussion Paper seems to assume that any differences between an entry price and an exit price must be recognised at initial recognition. However, in the Discussion Paper, whether such treatment is appropriate for accounting purposes is not clearly discussed.

When discussing the fair value measurement methods, sufficient considerations should be given to its implications on revenue recognition, including the consistency over the handling of contracts which provide services over the long term in the future.

[Entity's Own Estimate]

For those contracts which have no secondary market and involve uncertain future events, such as insurance contracts, we do

not think it is necessarily appropriate to apply a market participant's view based on hypothetical transactions in a hypothetical market to all cases.

In the absence of an observable market, using a preparer's estimate which reflects the entity's strategies or management technique in performing its obligation may often provide more useful information than using a hypothetical market average.

It is implied that risk free rates should be used to discount future cash flows to determine the fair value of a liability. These risk free rates should not be the yields of generally traded government bonds, but rates that reflect the characteristics of a liability, such as the timing, currency or liquidity of the cash flows.

[Credit Risk]

We do not believe that non-performance risk including credit risk should be considered in measuring the fair value of a liability. Financial statements that would present gains when an entity's own credit standing deteriorates and present losses when its own credit standing improves would be misleading and not useful. Moreover, considering its own non-performance of an obligation in measuring a liability would conflict with the assumption of going concern stated in Paragraph 23 of the IASB Conceptual Framework.

We, the LIAJ, pay our greatest respect to the IASB for its energetic efforts towards establishing international accounting standards including those for insurance contracts. We earnestly hope that our comments stated herein will be reflected in your future discussions and we are more than happy to provide you with further information when necessary.

< Appendix > 2

**The LIAJ's Comments on the IASB Discussion Paper
*Financial Instruments with Characteristics of Equity***

[Basic Stance]

1. As stated in Paragraph 13 of the IASB Discussion Paper "Financial Instruments with Characteristics of Equity", IAS 32 *Financial Instruments: Presentation* sets out the guidance for distinguishing between liability and asset instruments and equity instruments, and defines an equity instrument as any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
2. In contrast, the FASB Preliminary Views "Financial Instruments with Characteristics of Equity" proposes three approaches for distinguishing equity instruments from non-equity instruments. These approaches will first determine which instruments should be classified as equity instruments.
3. We expect that the relevant standards, including the IASB conceptual framework, need to be finalized in a consistent manner. In this regard, the Discussion Paper addresses issues that go beyond specific standards-level.

[Evaluation of Three Approaches]

4. We are of the opinion that the basic ownership approach is the most appropriate among the three approaches proposed in the FASB documents because the distinction between equity and liability is clear and simple. It should be noted, however, that under the basic ownership approach "the most residual claim" is classified as equity while others are classified as liabilities, thereby classifying preferred stock as liabilities. We are concerned that such a definition might hinder diversification of financial instruments. Therefore, we propose that the definition of equity be expanded to include "the claims that have unconditionally¹ lower priority over any other ordinary claims regarding distribution of residual property", so that preferred stock should be classified as equity.

[Implications on Insurance Contracts]

5. We are aware that insurance contracts are not within the scope of either IAS 32 or the Discussion Paper. However, if the same distinction were applied to insurance contracts, the following issue might arise regarding discretionary future dividends.
6. As stated in Paragraph 247 of the IASB Discussion Paper "Preliminary Views on Insurance Contracts", the critical question for a participating contract in defining liability is whether the insurer has a present obligation to pay policyholder dividends. In this respect, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* identifies two categories of obligations as liabilities: legal obligations and constructive obligations; this is the case while amendments to IAS 37 have been under deliberation. We assume that the current discussion about the amendments will lead to a narrower definition of constructive obligation, such as the idea that the counterparty should have some legal remedy against the entity. This, consequently, may result in future dividends not being classified as liabilities in many cases.
7. On the other hand, the FASB has, in Paragraph 18 of its Preliminary Views, stated that a basic ownership instrument has both of the following characteristics: 1. The holder has a claim to a share of the assets of the entity that would have no priority over any other claims if the issuer were to liquidate on the date the classification decision is being made; and 2. The holder is entitled to a percentage of the assets of the entity that remain after all higher priority claims have been satisfied. Assuming that accounting standards for insurance contracts are changed and that future dividends of participating contracts are recognized/measured at economic value, the amount measured as future dividends, even if uncertain or unclaimed parts are included, will be classified not as equity, but as liabilities because it does not meet the definition of basic ownership instrument under the Paragraph 18. Accordingly, unenforceable future dividends may be classified as liabilities. Furthermore, insurance contracts will be classified as liabilities and not as equity in each of the three approaches because

¹ Here we use the term "unconditionally" to exclude a class of claims that are subordinate to the ordinary class of debts under certain conditions from equity. Such subordinated debts shall be included in liabilities.

insurance contracts are neither perpetual instruments nor indirect ownership instruments.

8. Concerning a liability consistent with the basic ownership approach, the FASB states, in Paragraph D11 of Appendix D of its document, that “a claim does not have to create an obligation to be considered a liability (for example, perpetual preferred stock with no dividend requirement)”, and that the definition would be similar to “a claim, the probability-weighted outcome of which would reduce the assets available for distribution to basic ownership instruments”. Stated in Paragraph D13, one essential characteristic of a liability under the basic ownership approach is that if an entity's obligation is forgiven, that forgiveness would directly affect the assets available to holders of basic ownership instruments. If the definition suggested in D11 is applied to insurance contracts, an unenforceable part of policyholder dividends will be recognized as liabilities because the assets available to holders of basic ownership instruments will increase when policyholder dividends (of insurance contracts) are forgiven.

[Consistency with Other Standards]

9. We believe that once the direction of the preliminary views has been fixed, this project requires greater consideration regarding consistency with other ongoing projects, such as the Conceptual Framework, Financial Statements Presentation and amendments to IAS 37, especially in view of the above-mentioned points.
10. Moreover, definitions of financial liability instruments and financial equity instruments based on any of the three approaches (including the basic ownership approach) seem to be inconsistent with the current Conceptual Framework to a varying degree. Therefore, if the any of the three approaches is adopted to distinguish between financial liability instruments and financial equity instruments, we believe that the current Conceptual Framework should be reviewed and amended accordingly.

< Appendix > 3

**The LIAJ's Comments on IASCF
Review of the Constitution**

We, The Life Insurance Association of Japan (LIAJ), would like to express our greatest respect to the International Accounting Standards Committee Foundation (IASCF) and the International Accounting Standards Board (IASB) for your continuing efforts to develop high quality and global accounting standards, and to also extend our gratitude for providing us with an opportunity to present our comments on the IASCF "Review of the Constitution".

The LIAJ is a trade association comprised of all (45) life insurance companies operating in Japan. Its purpose is to promote sound development of the life insurance industry in Japan and maintain its reliability.

Monitoring Group

Q1. Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?

(Response)

Basically, we agree to the creation of a link to the Monitoring Group in order to create a direct link of the IASCF's public accountability to official institutions.

Q2. The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.

(Response)

We support the proposals that contemplate that the Monitoring Group would initially be comprised of representatives of seven public authorities and international organizations with a link to public authorities. We believe that this composition reflects the interests of not only the authorities responsible for the adoption or recognition of financial reporting standards in major capital markets, but also of developing and emerging economies. The Monitoring Group should initially be comprised of the seven representatives and then, as described in the new Section 22, expansion of the membership could be reconsidered in the future if necessary.

Q3. The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfillment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?

(Response)

The proposed changes to IASCF Constitution are rather vague as to the responsibility of the IASCF to the Monitoring Group. The Monitoring Group should have sufficient powers to provide the necessary oversight of the IASCF. An interaction between the Monitoring Group and the IASCF should be clearly set out in the Memorandum of Understanding exposed to public. Furthermore, the Monitoring Group should monitor the work of the IASCF effectively, and thereby monitor the work of IASB.

Q4. Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustees

Appointments Advisory Group?

(Response)

None

Expansion of IASB membership and geographical allocation

Q5. Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?

(Response)

In order to ensure the IASB's diversity, its ability to consult, liaise and communicate properly across the world and its legitimacy, we support the expansion of the IASB's membership. However, to do so, we believe that membership should not only be expanded, but that presumptive openness and/or more frequent implementation of field tests covering major markets should also be required.

Q6. Do you agree with the geographical formulation suggested by the Trustees?

(Response)

We support the geographical formulation of the IASB membership to ensure the IASB's diversity. We recommend that two members from any area, subject to maintaining overall geographical balance, should be appointed in a way that a composition ratio of the membership should be closely related to that of capital markets across the world.

Q7. The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

(Response)

None

(Other comments)

A voting requirement should be a high-level requirement to enhance the reliability of standards adopted. Specifically, we support concept that the final standards should require approval:

- by nine (9) members if there are fewer than fifteen members;
- by ten (10) members if there are fifteen members; or
- by eleven (11) members if there are sixteen members.

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