

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*
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