

# LIFE INSURANCE BUSINESS IN JAPAN

2008/2009

**The Life Insurance Association of Japan**



# Contents

<b>1. Overview of the Life Insurance Business in Japan in Fiscal 2008</b> .....	<b>2</b>
a) New Business.....	2
b) Business in Force.....	3
c) Revenues and Expenditures.....	4
d) Assets.....	7
e) Liabilities and Net Assets.....	8
f) Member Companies and Sales Force.....	9
<b>2. Requests and Proposals</b> .....	<b>10</b>
a) Tax Reform.....	10
b) Postal Reform.....	12
c) IASB.....	13
d) IAIS.....	19
<b>3. Our Activities</b> .....	<b>20</b>
a) Further Promotion of Customer-Oriented Management.....	20
b) Educational System.....	22
c) Life Insurance Consultation Center.....	24
d) Social Service Activities.....	26
e) Anti-Moral Hazard Measures.....	27
<b>4. Topics in Life Insurance Industry</b> .....	<b>28</b>
a) Bancassurance.....	28
b) Insurance Contract Law.....	29
c) Solvency Margin Ratio.....	30
d) Life Insurance Policyholder Protection Scheme.....	32
<b>5. The Life Insurance Association of Japan (LIAJ)</b> .....	<b>34</b>
Organization Chart.....	36
Board Members.....	37
Member Companies.....	38
<b>6. Japan Institute of Life Insurance (JILI)</b> .....	<b>40</b>
<b>&lt;Appendix&gt;</b>	
<b>1. Voluntary Guideline List</b> .....	<b>42</b>
<b>2. Comments submitted to the IASB</b> .....	<b>43</b>



## 1. Overview of the Life Insurance Business in Japan in Fiscal 2008

### a) New Business

The number of contracts of new business for individual insurance (including converted contracts) has been falling since peaking in fiscal 1993 due to a significant decrease in the amount of death benefit products and the shrinking market size stemming from the declining birth rate and ageing population. Nevertheless, it increased to 11.97 million from the previous year (111.8% y/y) due to the increase of the number of contracts of new business for whole life insurance, endowment insurance and cancer insurance. Meanwhile, the amount of new business declined for the twelfth successive year to Y53, 992 billion (92.3% y/y).

Including Japan Post Insurance, which started operations in October 2007, the number and amount of new business for individual insurance amounted to 13.88 million (122.7% y/y) and Y59,417 billion (98.6% y/y) respectively.

The number of contracts of new business for individual annuity had been rising until fiscal 2006; however, the number and amount have continued to decrease thereafter, to 1.4 million (96.6% y/y) and Y7, 314 billion (91.2% y/y) respectively. (Including Japan Post Insurance, the number and amount stood at 1.58 million (104.8% y/y) and Y7, 942 billion (96.4% y/y) respectively.)

The amount of new business for group insurance continued to slide to Y4, 471 billion (88.6 percent y/y).

**Table 1 New Business**

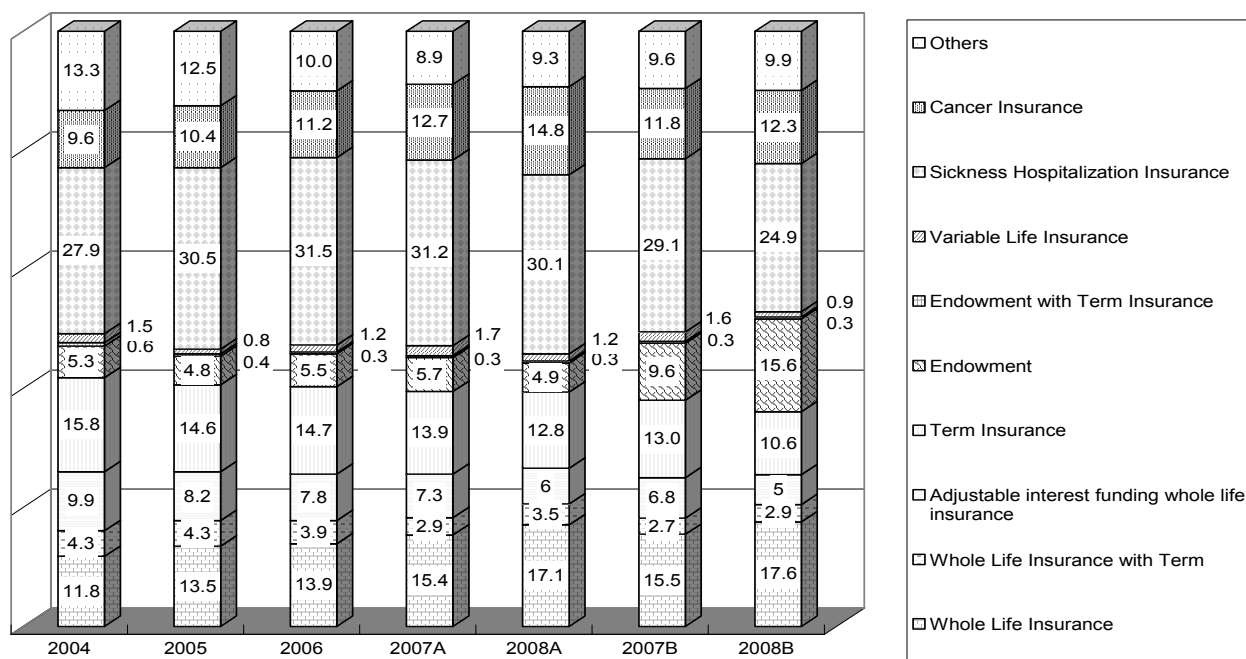
(Number: in ten thousands; Amount: Y billion)

Fiscal Year	New Business				
	Individual Insurance <sup>a</sup>		Individual Annuity <sup>a</sup>		Group Insurance
	Number	Amount	Number	Amount	Amount
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
2008A	1,197	53,992	140	7,314	4,471
Y/Y(%)A	111.8	92.3	96.6	91.2	88.6
2007B	1,131	60,284	151	8,240	5,046
2008B	1,388	59,417	158	7,942	4,471
Y/Y(%)B	122.7	98.6	104.8	96.4	88.6

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

Hereinafter, unless otherwise noted, A indicates the figures excluding Japan Post Insurance; B indicates the figures including Japan Post Insurance, excluding Yamato Life in fiscal 2008.

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



## b) Business in Force

The amount of individual insurance business in force has been falling since peaking in fiscal 1996, and it continued to decline for the twelfth successive year to Y932,971 billion (95.4% y/y). (Including Japan Post Insurance, the amount was Y939, 842 billion.)

The amount of individual annuity business in force had been falling since peaking in fiscal 1995 until it turned to increase in fiscal 2003 owing to a slight improvement in cancellation and lapsed policies, as well as the lifting of the ban on bancassurance. This year, it was almost the same level as in the previous year at Y88, 486 billion (100.7% y/y). (Including Japan Post Insurance, the amount was Y89, 310 billion.)

The amount of group insurance business in force had been falling since fiscal 1997, but rose slightly to Y375, 188 billion (100.3% y/y) from the previous year.

The amount of group annuity business in force declined to Y31, 173 billion (96.5% y/y) due to the increase in cancellations and decrease in share of the market.

**Table 2 Business in Force**

(Amount: Y billion)

Fiscal Year	Individual Insurance	Individual Annuity	Group Insurance	Group Annuity
	Amount	Amount	Amount	Amount
2004	1,112,170	74,109	382,382	32,666
2005	1,070,570	80,416	380,595	32,744
2006	1,026,336	85,863	372,704	33,117
2007A	979,436	87,927	374,216	32,314
2008A	932,971	88,486	375,188	31,173
Y/Y(%)A	95.4	100.7	100.3	96.5
2007B	981,064	88,143	374,216	32,314
2008B	939,842	89,310	375,188	31,173
Y/Y(%)B	95.8	101.3	100.3	96.5

**c) Revenues and Expenditures**

1) Premium Income

Total premium income declined to Y26, 182 billion (97.0% y/y) for the third successive year. (Including Japan Post Insurance, it was Y34, 063 billion.) As shown below, except individual insurance (Y14, 956 billion, 100.3% y/y), the amount decreased from the previous year in individual annuity (Y6, 099 billion, 92.7% y/y), group insurance (Y1, 128 billion, 94.5% y/y) and group annuity (Y3,737 billion, 92.1% y/y).

**Table 3 Breakdown of Premium Income**

(Amount: Y billion)

Fiscal Year	Total Premium Income <sup>a</sup>	Individual Insurance	Individual Annuity	Group Insurance	Group Annuity	Reinsurance
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	27,032	14,947	6,577	1,195	4,060	15
2008A	26,182	14,956	6,099	1,128	3,737	47
Y/Y (%)A	97.0	100.3	92.7	94.5	92.1	304.2
2007B	30,909	15,383	6,769	1,195	4,060	3,274
2008B	34,063	16,634	6,670	1,128	3,737	5,677
Y/Y (%)B	110.2	108.1	98.5	94.3	92.1	173.3

a. Including other premium income

2) Investment Results

Although profit on sales of securities increased to Y1, 038 billion (142.3% y/y) from the previous year, interest and dividends, which account for nearly 80% of total investment income, declined to Y4, 577 billion (93.7% y/y) from the previous year. Therefore, the total of investment income declined to Y5,834 billion (99.9% y/y). The breakdown of interest and dividends is interest income and dividends from securities Y3, 345 billion (92.4% y/y), interest income from loans Y741 billion (97.6% y/y), income from real estate for rent Y377 billion (102.3% y/y) and others Y112 billion (82.6% y/y).

Including Japan Post Insurance, interest and dividends was Y6, 223 billion (108.4% y/y) and its total is Y7, 548 billion (112.1% y/y).

The investment yield on assets in general accounts was ▲0.02%, decreasing from the previous year. Its breakdown was bonds 2.25%, domestic stocks ▲4.35% and foreign securities ▲2.98%. (Including Japan Post Insurance, the investment yield on assets in general accounts is 0.41 %.)

Table 4 Investment Income

(Y billion)

Fiscal Year	Total	Interest and Dividends				Profit on Sales of Securities	Total Investment Income <sup>a</sup>
		Securities	Loans	Real Estate	Others		
2004	4,005	2,667	922	357	57	736	5,441
2005	4,262	3,030	809	356	66	766	8,185
2006	4,617	3,379	776	357	103	833	6,664
2007A	4,901	3,633	760	370	136	736	5,861
2008A	4,577	3,345	741	377	112	1,038	5,834
Y/Y (%)A	93.7	92.4	97.6	102.3	82.6	142.3	99.9
2007B	5,740	4,180	1,046	370	143	767	6,732
2008B	6,223	4,451	1,265	377	129	1,104	7,548
Y/Y (%)B	108.4	106.4	120.9	101.8	90.2	143.9	112.1

a. Including other investment income

Table 5 Investment Yield on Assets

(%)

Fiscal Year	Total <sup>a</sup>	General Investment Yield on Assets in General Accounts		
		Bonds	Domestic Stocks	Foreign Securities
2004	2.15	1.56	3.75	3.03
2005	2.42	1.53	4.68	3.96
2006	2.45	1.42	5.30	4.03
2007A	1.90	1.77	3.26	2.18
2008A	▲0.02	2.25	▲4.35	▲2.98
2007B	1.30	1.12	3.26	1.85
2008B	0.41	1.72	▲4.35	▲3.01

a. Including other investment yields on assets

## 1. Overview of the Life Insurance Business in Japan in Fiscal 2008

### 3) Payments

The total amount paid by all member companies under life insurance contracts in fiscal 2008 was Y21,882 billion. (Including Japan Post Insurance, it was Y35,818 billion.)

Payment of insurance money decreased this year to Y6,098 billion (98.8% y/y). Meanwhile, payments of benefits and annuity were on an upward trend, with both of them rising again this year; payments of benefits was Y4,062 billion (103.5% y/y) and those of annuity was Y2,336 billion (111.0% y/y).

This year, operating expenses slightly increased from the previous year to Y3,776 billion (100.9% y/y). (Including Japan Post Insurance, the expenses were Y4,324 billion.)

**Table 6 Breakdown of Payments**

(Y billion)

Fiscal Year	Total Payments <sup>a</sup>	Payments under Life Insurance Contracts				Provision for Reserves	Operating Expenses
		Insurance Money	Benefits	Annuity	Repayments		
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
2008A	21,882	6,098	4,062	2,336	7,687	2,057	3,776
Y/Y (%)A	108.8	98.8	103.5	111.0	109.2	57.7	100.9
2007B	26,291	12,342	3,930	2,107	7,035	3,563	4,017
2008B	35,818	19,965	4,063	2,351	7,741	2,057	4,324
Y/Y (%)B	136.2	161.7	103.3	111.5	110.0	57.7	107.6

a. Including reinsurance premium

### 4) Ordinary Profit and Basic Profit

The ordinary profit (after subtraction of ordinary expenses from ordinary revenue) of member companies significantly shrank to ▲Y1,000 billion due to substantial net capital losses by expanding devaluation losses on securities.

The basic profit of member companies, which represents the profitability of the life insurance business for the fiscal year, significantly decreased to Y1,731 billion (67.7% y/y) from the previous year due to the decline of premium income and investment income and the increase in investment expenses and payments of insurance claims.

**Table 7 Ordinary Profit and Basic Profit**

(Y billion)

Fiscal Year	Ordinary Profit	Basic Profit*
2004	1,593	2,462
2005	1,822	2,668
2006	1,754	2,893
2007A	1,332	2,555
2008A	▲1,000	1,731
Y/Y (%)A		67.7
2007B	1,344	2,822
2008B	▲786	2,163
Y/Y (%)B	-	76.6

\*Basic Profit = Ordinary Profit – Capital Gain/Loss – Nonrecurring income/loss

## d) Assets

The total assets had been on an uptrend since fiscal 2003, but this year, it declined to Y205, 142 billion (96.0% y/y) from the previous year due to falling stock prices and exchange rate fluctuations. (Including Japan Post Insurance, it is Y311, 720 billion.)

Among securities items, JGBs ranked top with Y54, 217 billion, followed by foreign securities Y39, 152 billion, corporate bonds Y19, 243 billion and domestic stocks Y15, 631 billion.

Table 8 Breakdown of Assets

(Y billion)

Fiscal Year	Total Assets <sup>a</sup>	Total <sup>a</sup>	Securities						
			Domestic Securities			Subtotal <sup>a</sup>	Foreign Securities		
			JGB <sup>b</sup>	Corporate Bonds	Stocks		GB <sup>b</sup>	Corporate Bonds	Stocks
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
2008A	205,142	146,882	54,217	19,243	15,631	39,152	9,226	20,378	4,459
Y/Y(%A)	96.0	94.7	109.1	99.1	65.5	94.3	101.3	92.1	101.7
2007B	326,423	240,869	118,687	29,849	23,921	44,095	11,322	22,461	4,385
2008B	311,720	230,208	123,890	27,456	15,631	40,036	9,955	20,531	4,459
Y/Y(%B)	95.4	95.5	104.3	91.9	65.5	90.7	87.9	91.4	101.7

(Continued)

Fiscal Year	Subtotal	Loans		Cash Reserves + Call Loans	Real Estate
		Policy Loans	Financial Loans		
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
2008A	32,776	3,699	29,076	5,068	6,602
Y/Y(%A)	96.0	98.0	95.7	106.4	100.4
2007B	54,101	3,787	50,313	7,628	6,594
2008B	51,118	3,700	47,417	10,038	6,718
Y/Y(%B)	94.4	97.7	94.2	131.5	101.8

a. Including others

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

**e) Liabilities and Net Assets**

Total liabilities this year stood at Y199, 570 billion (98.5% y/y). Meanwhile, total net assets significantly declined to Y5, 571 billion due to the substantial decrease of surplus/retained earnings and negative amount of total valuation/translation adjustment resulting from the falling market value of financial instruments holdings.

**Table-9 Liabilities and Net Assets** (Y billion)

Fiscal Year	Liabilities			Net Assets
	Total <sup>a</sup>	Insurance Reserves	Price Fluctuation Reserves	Total
2004	181,442	165,705	1,007	10,080 <sup>b</sup>
2005	194,387	175,388	1,211	15,491 <sup>b</sup>
2006	202,804	183,891	1,352	17,412
2007A	202,960	191,098	1,459	10,938
2008A	199,570	188,406	928	5,571
Y/Y(%)A	98.5	98.7	63.6	51.0
2007B	314,580	291,591	2,018	11,843
2008B	305,075	291,133	1,374	6,644
Y/Y(%)B	96.9	99.8	68.0	56.1

a. Including others

b. The figures represent the amount of capital.

## f) Member Companies and Sales Force

The number of LIAJ member companies, which are all life insurers operating in Japan, stood at 46 as of the end of December 2009 including 6 mutual insurers and 40 stock insurers.

The number of tied sales agents had been falling, but it slightly increased to 248 thousand from the previous year. Meanwhile, the number of agencies has been decreasing since fiscal 1998. The number of sales representatives at agencies continued to increase since the lifting of the ban on bancassurance in fiscal 2002, and this year, it rose to 949 thousand from the previous year.

Table-10 Number of Member Companies and Agents/Agencies

Fiscal Year	Member Companies*	Number of Sales Force (in thousands)		
		Tied Agents	Agencies	Sales Reps at Agencies
2004	39 (33)	263	124	721
2005	38 (32)	259	122	747
2006	38 (32)	248	115	776
2007B	41 (34)	245	108	912
2008B	46 (40)	248	107	949

\*Numbers in parentheses are those of stock companies

## Reference: Member Companies with Foreign Participation (as of 31 December 2009)

Domestic Companies with Foreign Capital			Branch Offices of Foreign Companies
AEGON Sony Life	Crédit Agricole Life	MassMutual Life	ALICO Japan
AIG Edison Life	Gibraltar Life	PCA Life	Aflac Japan
AIG Star Life	Hartford Life	Prudential Life	Cardif Assurance Vie
AXA Life	ING Life	Prudential Financial Japan Life	Zurich Life
Allianz Life	Manulife Life		

## 2. Requests and Proposals

### a) Tax Reform

#### 1) Life Insurance Premium Tax Deduction

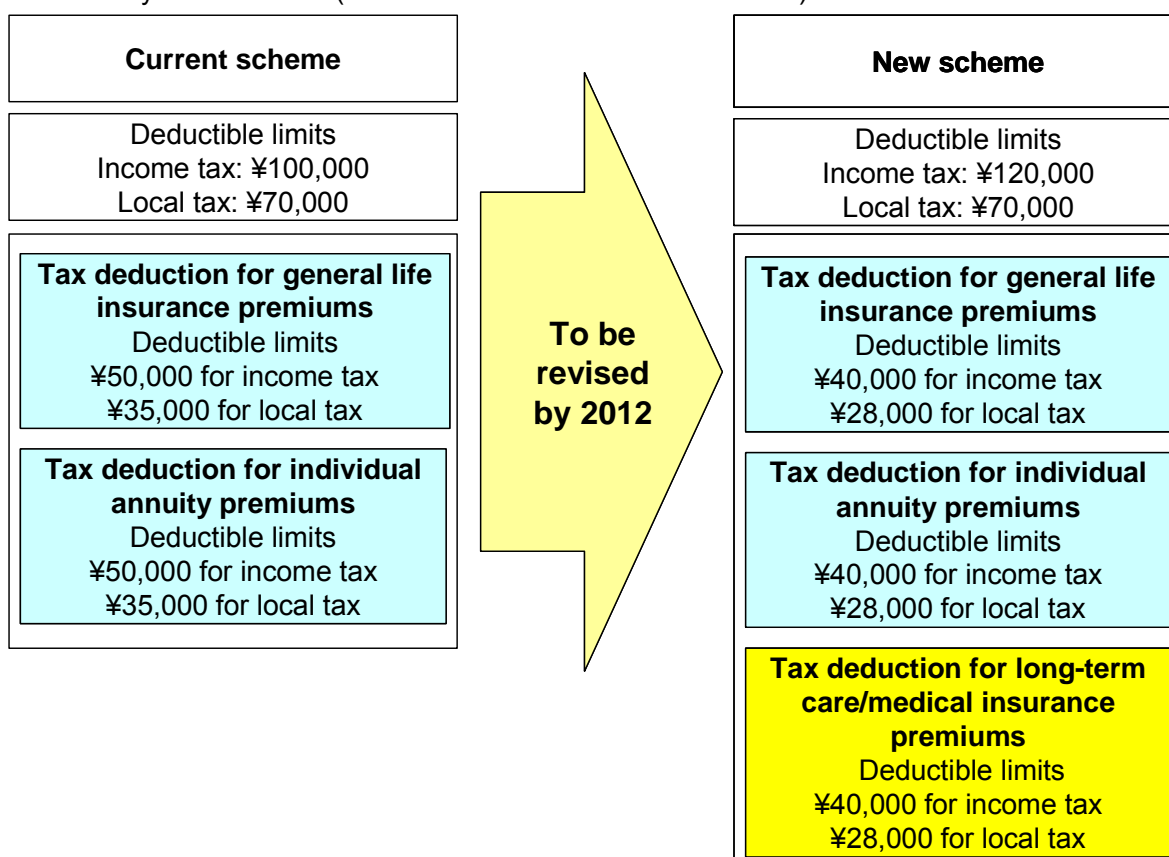
The LIAJ believes that private security measures for individuals will become more and more important in the context of an anticipated overhaul of the tax and social security system (burdens/benefits), and that we need a system which will respond to diversified personal needs.

The questionnaire survey conducted by the LIAJ on “life insurance premium tax deduction system” found that most respondents wanted their own efforts to be actively supported and that, if the system were enlarged, they would more favorably consider taking out an insurance policy or increasing insurance amounts.

The LIAJ has been requesting for years that the current “life insurance premium tax deduction system” and “individual annuity insurance premium tax deduction system” should be reorganized and expanded, to achieve the two main pillars (public and private) of life security.

As a result, the “Fiscal 2010 Tax Reform Outline” was approved by the Cabinet, which included a reorganization of the current “life insurance premium tax deduction system” and “individual annuity insurance tax deduction system” and the creation of a new category, namely the “long-term care and medical insurance premium tax deduction system” and thus, the Outline clearly stated the expansion of tax-deductible limits for insurance premiums. (The new system will be effective from 2012.)

#### ➤ Summary of Tax Reform (Life Insurance Premium Tax Deduction)



2) Tax-qualified Retirement Pension

- (a) Some measures should be taken to enable organizations which provide their employees with both a Tax-qualified Retirement Pension (TQRP) and Smaller Enterprise Retirement Allowance Mutual Aid (SERAMA) to transfer TQRP Plan assets to the SERAMA without being taxed.
- (b) Conditions for payment should be eased in the defined contribution type corporate pension plans for lump-sum retirement benefits.
- (c) Some measures should be taken to protect both annuitants and those who defer receiving benefit payments, where they acquire the right to receive TQRP benefits by the end of March 2012, from a potential tax disadvantage after April 2012.

3) Inheritance Tax

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

The sum of (Y 5 million in death benefits received by the spouse) plus (Y 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 (Y 5 million multiplied by the number of legal heirs).

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

4) Corporate Pension

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

5) Asset Management

Taxation related to real estate should be comprehensively reexamined. Also, concerning the preferred securities issued by banks and other cooperative financial institutions using the scheme combining several overseas special purpose companies (SPC), measures should be taken to eliminate double taxation charged on domestic corporations which hold the preferred securities for the purpose of "tax-haven-related tax scheme."

6) Others

- (a) Regarding the corporate tax on life insurance companies, the current taxation formula should be maintained.
- (b) To extend the carry-forward period of operating loss, expand the carry-back provisions for operating losses beyond small-and medium-sized entities to large corporations and extend the carry-back period that operating losses can be applied.
- (c) To make the tax exemption a permanent measure in connection with interest and discount on bonds payable from foreign bonds issued by private entities that non-residents or foreign corporations receive.

### b) Postal Reform

On 4 December 2009, the legislation to freeze the planned sale of shares in Japan Post Holdings, Japan Post Bank and Japan Post Insurance was approved at an extraordinary session of the Diet. On the same day, the Chairman of the LIAJ issued the following statement related to the approval.

The LIAJ firmly believes that with postal privatization, particularly regarding life insurance, it is very important that the postal life insurance business is treated equally with private life insurers competing on the fair open market, so that a stronger economy can be realized and the benefits for Japanese people can be increased. In order to realize this, we strongly reaffirm our view that **ensuring a level playing field** should be an essential precondition for postal privatization and therefore fair competition with private life insurers should not be inhibited.

We understand that the intention of the Government's postal review is to "ensure the security of people's lives and to revitalise local communities." However, we believe the fundamental principles of **contributing to the enhancement of people's lives and the sound development of the national economy** should also continue to be upheld as important pre-conditions in the review.

The LIAJ is concerned that any bill which is prepared in the months ahead could undermine the sound development of the life insurance market unless **a level playing field** between Japan Post Insurance and other private life insurers is secured. Therefore, we feel Japan Post Insurance should not be granted any extensions to the scope of their operations, such as increasing the maximum insurance policy amount, unless necessary conditions are fulfilled, particularly **appropriate preparations** in terms of underwriting, payment and compliance in addition to a level playing field.

To conclude, in line with the fundamental principles mentioned above, we herewith strongly reiterate that the government should keep **a level playing field** in mind throughout the review process. Furthermore, we also request that the Government review is carried out with real transparency and cooperative involvement from all parties concerned, including the LIAJ and the general public.

## c) IASB

1) Comments on the Agenda Paper – *Boundaries of a Contract*

Concerning the “boundaries of a contract” stated and discussed in Agenda Paper 9 for the Insurance Working Group meeting of the International Accounting Standards Board (IASB) in April 2008, the LIAJ has agreed to jointly submit a letter prepared by European Insurance CFO Forum, which is a body representing the views of 20 of Europe’s largest insurance company, together with American Council of Life Insurance, Comité Européen des Assurances. The outline of the joint letter, submitted to the IASB on 18 December 2008, is as follows:

- To determine when an existing contract ends and a new contract begins, and the cash flows falling within the contract’s term in order to estimate insurance contract liabilities.
- To propose the timing when an existing contract ends as up until the point which the insurer has the ability both to reassess the risk profile of the individual policyholder and change the price for an individual without contractual constraint.
- Accordingly, as for the renewal policy with the option to re-price a contract based on general market experience without a reassessment of the individual policyholder’s risk profile, the timing of renewal would not be considered at the end of the existing contract, and therefore cash flows falling within the renewal terms would be included in the measurement.

2) Comments on the Discussion Document – *Review of the Constitution: Identifying Issues for Part 2 of the Review*

The Trustee of the International Accounting Standards Committee (IASC) Foundation published a discussion document – *Review of the Constitution: Identifying Issues for Part 2 of the Review* on 8 December 2008. The LIAJ jointly developed with six insurance trade associations in the United States and Europe, the Joint Insurance Trade Letter, which was submitted on 31 March 2009. The outline of the trade associations’ comments is as follows:

- We recommend that the Monitoring Board be expanded to include the Chair of the Executive Committee of the International Association of Insurance Supervisors (IAIS) as a formal observer.
- 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.
- Standard-setters should generally not have a “fast-track” approach, for implementing new guidance or making changes to existing standards. In case where shorter comment periods are needed, special procedures should be clearly detailed allowing as much time for deliberation as possible.
- We 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.

### 3) Comments on the Discussion Paper – *Preliminary Views on Financial Statement Presentation*

The International Accounting Standards Board (IASB) published a discussion paper – *Preliminary Views on Financial Statement Presentation* on 16 October 2008. On 14 April 2009, the LIAJ submitted its comments including the following general opinions and responses to questions set out in the discussion paper on “objectives and principles of financial statement presentation”, “implication of the objectives and principles for each financial statement”, and “notes to financial statements.”

- In general, we agree to the proposals presented in the discussion paper. As described below, however, we are concerned about the possible cost increases that some of the proposals in the discussion paper will impose on preparers. We believe it is important to treat the presentation of profit or loss and other comprehensive income (OCI) consistently with other relevant IASB projects, and we would like to ask that due consideration be given to our comments.
- Concern about increasing costs for preparers and possible impact on practice  
Although it is likely that the financial statement format proposed in the discussion paper will provide investors with decision-useful information, we believe that it contains certain elements that need careful consideration in terms of costs and benefits, such as “presenting cash flow statement by a direct method” and “disaggregating information by function/nature.” With particular regard to the proposals on “presenting cash flow statement by a direct method” and “reconciling from the statement of direct method cash flows to comprehensive income,” we believe that the use of an indirect method cash flow statement should be allowed in terms of costs and benefits as a direct method would impose excessive costs on preparers.
- Presentation of profit or loss and OCI  
We agree with the proposal in the discussion paper for retaining the presentation of profit or loss and recycling. On the other hand, however, the discussion paper states that the boards decided not to consider whether to change existing requirements that describe which items must be presented in OCI outside of profit or loss in the financial statement presentation project. Instead, relative IASB projects, including post-employment benefits, will address these issues. In such cases as when the boards leave such considerations to individual projects, the presentation of profit or loss may be neglected on the grounds that such a conceptual principle does not exist (see Note); this may result in a lack of consistency among the projects. We therefore propose that the common nature of items to be presented as OCI should be considered across all projects.  
As the nature of insurance business is to underwrite risks over a long period by diversifying such risks into various insurance portfolios, the financial statements of insurers, properly reflecting the results of the insurance business (e.g. by recognising profit when an insurer is released from risks and by not recognising future profits at inception), should be prepared. Thus, presenting appropriate profit or loss as well as comprehensive income in the financial statement will provide useful accounting information for users. In order to present profit or loss appropriately, we believe it necessary to allow for OCI presentation not only on the asset side, but also on the liability side.  
Note: With regard to post-employment benefits costs, the IASB Board's preliminary decision at the 23 January meeting was that all amounts should be presented as profit or loss, not as OCI because ‘there is no conceptual basis for identifying which items should be presented outside of profit or loss.’ We believe that this decision is inconsistent with the conclusion under this project to remain profit or loss, given that users emphasise it.

4) Comments on the Discussion Paper – *Preliminary Views on Revenue Recognition in Contracts with Customers*

The IASB published a discussion paper – *Preliminary Views on Revenue Recognition in Contracts with Customers* on 19 December 2008. On 18 June 2009, the LIAJ submitted its comments including the following general opinions and responses to questions set out in the discussion paper on “contract-based revenue recognition principles”, “performance obligations”, “satisfaction of performance obligations”, and “measurement of performance obligations.”

- Regarding revenue recognition, we generally agree to the notion presented in this discussion paper that states that it is preferable to apply a common basic concept for all types of contracts. However, the measurement approach proposed in the discussion paper appears to have been discussed subject to ‘short-duration’ contracts that may be ‘completed with certainty.’ We believe that further consideration is necessary to determine whether the approach can provide decision-useful information to users for all types of contracts. In particular, it is not clear whether the current proposal leads to certain measurement results when the approach is applied to insurance contracts with ‘long-duration’ and/or ‘high uncertainty’ characteristics.
- In this context and at this time, we believe that it is premature to determine which of the following stand points regarding measurement approaches for insurance contracts will result in a measurement approach that can provide decision-useful information to users:
  - ✓ The inclusion of insurance contracts in the scope of the revenue recognition project, and the development of a second measurement approach that takes into account ongoing discussions in the insurance contract project; or
  - ✓ The exclusion of insurance contracts from the scope of the revenue recognition project, and the development of another measurement approach in the insurance contract project that remains consistent with ongoing discussions in the revenue recognition project.
- Our comments therefore do not state our position on whether the insurance contracts should be included in the scope of the revenue recognition project or not. Our responses to the following questions simply describe the issues that may arise on the assumption that the proposed measurement approach would apply to insurance contracts.
- Regardless of whether the insurance contracts should be included in the revenue recognition project or not, we believe that, in considering a measurement approach for insurance contracts, it is necessary to keep in mind consistency with the approach proposed in the discussion paper. That is, as the nature of insurance business is to underwrite risks over a long period by diversifying risks into group of insurance contracts, we think that insurers should properly reflect the results of the insurance business - i.e. by recognising profit when an insurer is released from risks and not by recognising future profits at one time. We believe that this notion is consistent with the basic concept of the discussion paper in general.

### 5) Comments on the Exposure Draft – *Derecognition*

The IASB published an exposure draft – *Derecognition* (proposed amendments to IAS 39 and IFRS 7) on 31 March 2009. On 31 July 2009, the LIAJ submitted its comments including the following general opinions and responses to questions set out in the exposure draft.

- The exposure draft infers that if the proposed approach to derecognition was adopted, the sale and repurchase agreements of bonds, or repo transactions, and stock lending transactions would be subject to derecognition, and these transactions would be treated as the sale of an asset. We believe this does not fully represent the economic impact of transactions such as repo transactions.
- In repo transactions and stock lending transactions, bonds or stocks are to be returned from the transferee to transferor on the settlement date of the transaction stated in the contract, even if the transferee is able to sell the bonds or stocks, or re-provide them as collateral for other transactions. That is, in these transactions, the proposed approach would lead entities to recognise gains or losses even when the economic situation has not changed, which might mislead users of financial statements.
- Thus, we do not agree with the Board's proposal to treat repo transactions and stock lending transactions as a sale of an asset.

### 6) Comments on the Discussion Paper – *Credit Risk in Liability Measurement*

The IASB published a discussion paper – *Credit Risk in Liability Measurement* on 18 June 2009. The LIAJ submitted its comments including the following general remarks on 1 September 2009.

A reporting entity must disclose its profitability and financial soundness to investors through financial statements in order to provide decision-useful information. To this end, we believe liability measurements should not incorporate credit risk except in certain limited situations. These situations, we feel, should only include: at the initial measurement of a liability incurred in exchange for cash, and at the subsequent measurement where the price of the liability in an active market is available for measurement, or in other words, when the changes in the liability value affected by changes in credit risk inherent in the liability are realisable.

### 7) Comments on *Request for Information on the Feasibility of an Expected Loss Model for the Impairment of Financial Assets*

The IASB published *Request for Information on the Feasibility of an Expected Loss Model for the Impairment of Financial Assets* on 25 June 2009. On 1 September 2009, the LIAJ submitted its comments including the following general remarks and responses to questions set out in the Request.

In implementing the “expected loss model”, objectivity will be required in the estimates of expected cash flows which are based on expected defaults, as any impairment is reflected in the statements of financial position. This estimated information may not necessarily be helpful for users of financial information if it varies significantly depending on the method used to estimate the cash flows. We believe that due consideration should be made before introducing the “expected loss model” as the model would significantly increase the burden on preparers. In addition to the proposed somewhat complicated method for estimating expected cash flows, the model will also require preparers to measure the expected loss of all financial assets subject to impairment in each period, as a result of eliminating a trigger for impairment, which may become a burden.

8) Comments on the Exposure Draft – *Financial Instruments: Classification and Measurement*

The “Declaration on Strengthening the Financial System” which was adopted in the G20 meeting in London in April 2009 requested the IASB to reduce the complexity of accounting standards for financial instruments by the end of 2009. Following the request, the IASB decided to develop comprehensive standard to improve the measurement and reporting of financial instruments, and chose to complete the project in three phases: “classification and measurement”, “impairments”, and “hedge accounting.” The IASB has accelerated especially the discussion of “classification and measurement” phase. Under these circumstances, the LIAJ submitted its comments including the following opinions on 17 July 2009, in time for discussion at the joint meeting of IASB and FASB (Financial Accounting Standards Board).

- To allow presentation of fair value changes in other comprehensive income (OCI) broadly not only for particular equity instruments but also for bonds and similar instruments
- To allow an entity to recycle the unrealised gains and losses presented in OCI to profit or loss when they are realised.
- To present the realised gains and losses on all investment returns including dividends, interest income and amortisation in profit or loss.

The IASB published an exposure draft – *Financial Instruments: Classification and Measurement* on 14 July 2009. The outline of the exposure draft is as follows. The LIAJ submitted its comments including general opinions (refer to Appendix 2, page 43) and responses to questions set out in the exposure draft on 14 September 2009.

## Outline of the exposure draft

- Financial instruments would be measured at fair value or amortised cost.
- Financial instruments are measured at amortised cost only if they have basic loan features and are managed on a contractual yield basis. Financial instruments that do not meet both conditions would be measured at fair value.
- To prohibit reclassification of financial assets and financial liabilities between the amortised cost and fair value categories.
- The application of the tainting rule on financial instruments measured at amortised cost should be eliminated. (The realised gains and losses should be separately presented in the statement of comprehensive income.)
- Fair value option should be retained. (Only if the designation eliminates or significantly reduces a measurement or recognition inconsistency.)
- To permit an entity on initial recognition of investments in equity instruments to make irrevocable election to present changes in the fair value of investments that are not held for trading in other comprehensive income (OCI). There would be no transfers from OCI to profit or loss (‘recycling’) and hence no impairment requirements. Dividends on such investment would also be presented in OCI and there would be no recycling.

### 9) Comments on the Exposure Draft – *Fair Value Measurement*

The IASB published an exposure draft – *Fair Value Measurement* on 28 May 2009. On 28 September 2009, the LIAJ submitted its comments on the draft including opinions such as;

- It is not appropriate to define fair value as an exit price in all circumstances.
- Consistency between the definition of fair value and the scope of its application needs to be properly established.
- We urge the Board to continue permitting the measurement at initial cost as an exemption, instead of requiring fair value measurement, when there is considerable concern for reliability of measurement itself like in fair value measurement of unlisted stocks.

### 10) Comments on the Discussion Document – *Part 2 of the Constitution Review: Proposals for Enhanced Public Accountability*

The Trustee of the IASC Foundation published a discussion document – *Part 2 of the Constitution Review: Proposals for Enhanced Public Accountability* on 9 September 2009. The LIAJ submitted its comments on 30 November 2009. The outline is as follows:

- The Monitoring Board should also include the Chair of the Executive Committee of the International Association of Insurance Supervisors (IAIS) as a formal observer.
- As the use of IFRSs for regulating insurance companies' accounting is being considered, the highest-level of consultations between the IASB and the IAIS are necessary.
- Accounting standards need to be developed according to the strict due process.

## d) IAIS

1) Comments on IAIS survey for comments: *How to Improve the Working Relationship of the IAIS and its Observers*

During the 15<sup>th</sup> Annual Conference held in Budapest in October 2008, the International Association of Insurance Supervisors (IAIS) agreed to undertake an Observer survey to identify areas to enhance the existing mechanisms for Observer participation. The LIAJ jointly developed with eight insurance trade associations in the United States and Europe, the Joint Trade Letter, which was submitted on 19 January 2009. The outline of the trade associations' comments is as follows:

- Observer should be allowed to dial into the open session with the Technical Committee.
- Minutes should be issued, as appropriate, following the Dialogue sessions so that Observers have a common record of next steps agreed upon.
- In order to allow Observers in non-English speaking areas to translate the proposed documents and still have adequate time for review, we would like to request that the IAIS consider establishing a standard comment period longer than 60 days.

2) Comments on IAIS/OECD Draft paper: *Issues Paper on Corporate Governance*

The International Association of Insurance Supervisors (IAIS) released an *Issues Paper on Corporate Governance* on 17 March 2009 and invited comments from its Members and Observers, OECD Member countries and other interested stakeholders. The LIAJ submitted its comments on the paper on 30 April 2009, stating that clarification should be made on the protection of policyholders as one of the objectives of corporate governance and the integrity of board members, and that independence should be promoted taking into account a balance with qualification of directors, on the ground that the issues paper aims to provide a basis for future work by the IAIS including the development of standards and guidance papers.

3) Comments on IAIS Draft paper: *Guidance Paper on the Structure of Capital Resources for Solvency Purposes*

The IAIS released a draft *Guidance Paper on the Structure of Capital Resources for Solvency Purposes* on 9 March 2009 and invited comments from its Members and Observers. The LIAJ submitted its comments on the paper on 28 May 2009, as the LIAJ recognized that the paper contained key issues in considering future solvency assessment and therefore might have a great impact on the revision of solvency regime in Japan. In its comment, the LIAJ expressed its support for the sentence concerning the definition of the suitability of capital resources for the purpose of insurer solvency assessment, and purported the need for due consideration of such definition. It also commented that there might be some items which could be treated as capital resources for solvency purpose in technical provisions for the purpose of financial reporting, and that the lock-in clause should be added as an example for the characteristics of permanency that is usually considered in assessing the ability of elements of capital to absorb losses.

4) Comments on IAIS Draft paper – *Issues Paper on the Roles of and Relationship between the Actuary and the External Auditor in the Preparation and Audit of Financial Reports*.

The IAIS released a Draft *Issues Paper on the Roles of and Relationship between the Actuary and the External Auditor in the Preparation and Audit of Financial Reports* on 13 March 2009 and invited comments from its Members and Observers. On 15 May 2009 the LIAJ submitted its comments on the paper suggesting that the IAIS explain its views more clearly in some parts of the draft.

### 3. Our Activities

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#### a) Further Promotion of Customer-Oriented Management

Life insurance companies and the LIAJ have been implementing customer-oriented management initiatives. To gain customers' trust, life insurance companies are making various efforts to develop a better system covering all steps related to customer services ranging from the offering and providing contracts to claims payment. Furthermore, we are undertaking various activities to improve services for policyholders and the efficiency of business management. Specific examples are as follows:

##### 1) Development of Voluntary Guidelines

To provide appropriate handling and best services by life insurers for policyholders from the offering and providing contracts to claims payment, the LIAJ has prepared voluntary guidelines which include practical transactions and points to consider. These guidelines are to be referred to by each member company and its executives/regular employees. The LIAJ is also encouraging life insurers to observe the guidelines. These guidelines are periodically reviewed by the LIAJ. (Refer to Appendix 1, page 42.)

##### 2) Collection and Sharing of Best Practices

The LIAJ follows up how the voluntary guideline is being reflected in the management of life insurance companies. To promote the guidelines further, the LIAJ is also collecting examples of best practices adopted by member companies to improve customer services. The information will be shared among all member companies.

##### 3) Operating the Secretariat of Customers' Opinions

In fiscal 2005, when the inappropriate handling of claims came to light, the LIAJ received various opinions from customers. Therefore, in fiscal 2006, the LIAJ established the secretariat of "Customers' Opinions" as a system to reflect customers' opinions in the management of member companies. The secretariat collects and analyzes information such as counseling or complaints as well as opinions or requests at the LIAJ, and then encourages the member companies' management to reflect the results through information exchanges of best practices that will be informative to other member companies. This is based on information-sharing among the member companies.

##### 4) Disclosing Complaint Information

In an attempt to gain customers' understanding about member companies' efforts to address their complaints, the LIAJ discloses information including the number and details of complaints as well as of payment/non-payment for insurance claims on the LIAJ's and member companies' home pages.

##### 5) Exchanging Opinions with Consumer Related Organizations

The LIAJ periodically visits consumer related organizations to provide information or to receive their opinions on the life insurance industry and the LIAJ's activities. Moreover, the LIAJ headquarters and its 54 local offices actively hold meetings with consumer bodies and the press in order to reflect consumers' opinions on the management of life insurance companies. In fiscal 2008, the LIAJ held 112 meetings in total.

##### 6) Quick Search for Life Insurance Products

The LIAJ has been operating "Quick Search for Life Insurance Products" since July 2008 on its homepage so that consumers can gather necessary information related to life insurance products. On this homepage, consumers can search for products using three ways: "Coverage needed (purpose of joining)", "Category of insurance (type of insurance)" and "Insurance Company". In addition, this is linked to product explanations of life insurance companies on their homepages so that consumers can find more detailed information on the products. We added a function to search for "medical coverage for the elderly" in February 2009.

### 7) Disclosure

The Insurance Business Law and other related laws stipulate detailed items to be disclosed by life insurance companies. The LIAJ also prepared a set of common-to-industry “Standards for Disclosure” with more items that it has judged should be voluntarily added. The LIAJ reviews this every year for possible improvement. In addition, it has prepared a guidebook for disclosure by life insurers to help consumers understand, because the financial statements of life insurance companies vary significantly from those of other general entities.

### 8) Promotion of Computer Printing of Medical Certificates

Regarding payment of insurance money or benefits, the LIAJ is promoting “Electric Printout of Medical Certificates” in order to prevent failures or errors in reading medical certificates by life insurance companies. As a part of this effort, the LIAJ subsidizes medical institutions for up to 1.2 million yen to cover part of the cost of installing such software approved by the LIAJ.

### 9) LINC (The Life Insurance Network Center)

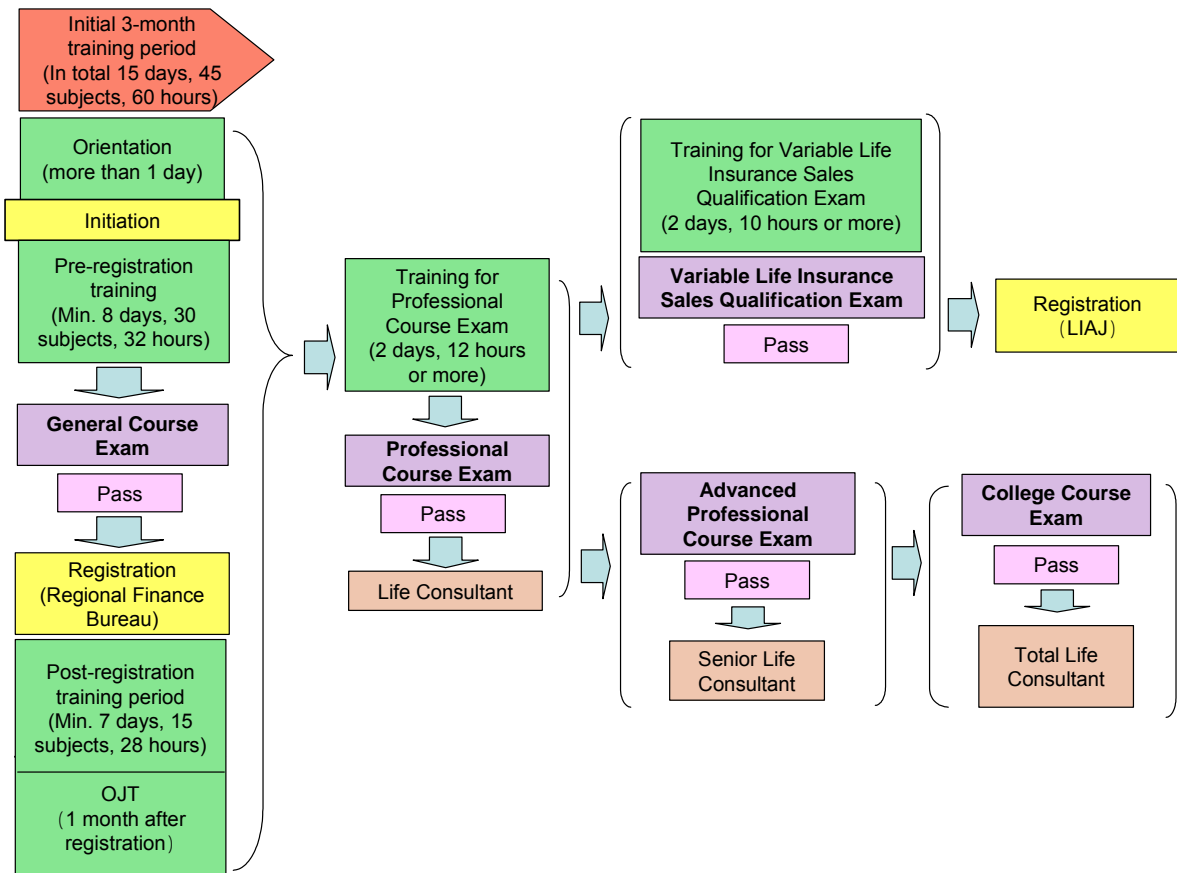
The life insurance industry established the common-to-industry network called LINC. This system reduces the burden of clerical work at a client company and enables insurers to provide more efficient services. The main functions of LINC are: (1) Accounting settlement of corporate pension and group term policies which are jointly insured by companies, (2) Checking of medical life insurance, (3) Registration and provision of information on contract contents to prevent moral hazard, (4) Registration of licensed life insurance solicitors, (5) Data exchange of individual policies whose monthly premiums are collected through payrolls, (6) Data exchange of asset-formation insurance, (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, and (12) Statistics on incidence rates including mortality.

b) Educational System

1) Examination for Life Insurance Solicitors

Under the laws and regulations, tied sales agents and sales representatives at agencies need to be registered with the FSA to sell life insurance products as life insurance solicitors. The LIAJ administers the General Course Exam to check the knowledge, quality and capacity of examinees required for their registration. The LIAJ also operates the examination system for the “Professional Course”, “Advanced Professional Course” and “College Course” in order to better meet policyholders’ needs. In addition, the LIAJ administers the Variable Life Insurance Sales Qualification Course Exam for insurance solicitors to sell variable life insurance/annuities.

➤ Chart of Common-to-industry Educational System



➤ Purpose and Description of Each Course

Course	Purpose	Description	Number of successful candidates (FY 2008)
General Course	To gain a basic knowledge on life insurance required by a tied sales agent/sales rep at an agency.	<ul style="list-style-type: none"> <li>• Compliance at the time of soliciting insurance</li> <li>• Importance of maintenance and services after sales</li> </ul>	206,862
Professional Course	To acquire more extensive expertise and related knowledge on insurance solicitation based on the core knowledge gained in the General Course.	<ul style="list-style-type: none"> <li>• Knowledge about other financial sectors</li> <li>• Social security and corporate benefit system</li> </ul>	120,610
Advanced Professional Course	To acquire applicable and practical knowledge essential for financial planning services	<ul style="list-style-type: none"> <li>• Categories of tax and its calculation</li> <li>• Public pension program</li> </ul>	33,064
College Course	To acquire further expertise on life insurance and related knowledge at a professional level. This course is the highest course in the common-to-industry educational system.	<ul style="list-style-type: none"> <li>• Financial planning</li> <li>• Study on corporate insurance products</li> </ul>	51,019
Variable Life Insurance Sales Qualification Course	To acquire knowledge on the characteristics and mechanism of variable products.	<ul style="list-style-type: none"> <li>• Types of variable life insurance and its mechanism</li> <li>• Prohibited matters and issues in variable products solicitation</li> </ul>	81,904

## 2) Continuing Educational System

The LIAJ established a new mechanism in April 2009 to educate all life insurance solicitors repeatedly and continuously once a year in principle, centering on “compliance”, “accountability” and “services after the sales such as claims payment.” This system was established as the roles of insurance solicitors have become more important in explanation of insurance products and their services after the sales including procedures on insurance claims, reflecting the mounting consciousness to protect consumers and the revised related laws and regulations in the recent years.

## 3) Others

### (a) Life Insurance Course

This course is for staff who are engaged in the life insurance business. The purpose is to acquire the basic knowledge required as a worker in the life insurance industry. The course consists of eight subjects: “Introduction to Life Insurance”, “Life Insurance Actuarial Science”, “Risk Selection”, “Contractual Provision and Law”, “Life Insurance Product and Sales”, “Life Insurance Accounting”, “Asset Management” and “Life Insurance and Tax Law”. The LIAJ publishes the text and operates the exam for each subject.

### (b) Examination for Life Insurance Interviewers

When an applicant applies for a contract, the conclusion of the contract is judged by the declaration form or a doctor’s assessment. As a way of judging contracts, the life insurance interviewer interviews the insured and checks their health. The LIAJ administers its approved examination.

### (c) Examination for Life Insurance Claims Assessors

The LIAJ has been conducting the “Exam for Life Insurance Claims Assessors” since fiscal 2007. This exam encourages applicants to acquire basic knowledge and good judgment, which is necessary for the person in charge of examining claims at life insurers. This exam helps to foster these persons as human resources and to maintain and improve their abilities. There were 3,860 successful applicants in fiscal 2008.

**c) Life Insurance Consultation Center**

1) Overview

The Life Insurance Consultation Center is located at the LIAJ and its 53 corresponding local offices have also been set up. The center and its offices provide consultation and receive inquiries or complaints from policyholders or consumers. Also, the LIAJ is credited as the certified body for investor protection defined in the Financial Instruments and Exchange Law. The Association strives to resolve complaints and mediate in disputes related to variable insurance, variable annuity, foreign-currency denominated insurance/annuity, life insurance with variable cash value and other specified insurance contracts.

2) Complaints received in fiscal 2008

The total number of general consultations and complaints received by the Life Insurance Consultation Center in fiscal 2008 was 17,716, down 2,421 (12.0% y/y) from the previous year.

In July 2008, the Financial Services Agency issued business improvement orders concerning the inappropriate handling of insurance claims to 10 life insurance companies. The LIAJ received many complaints related to insurance claims in the same month. In addition, following reports on the injection of public funds into insurance groups in the U.S. in September and on the bankruptcy of Yamato Life in October, the Center received many general inquiries about the management situation at life insurance companies and policyholder protection in September and October.

The number of general consultations slightly increased while the number of complaints decreased from the previous year.

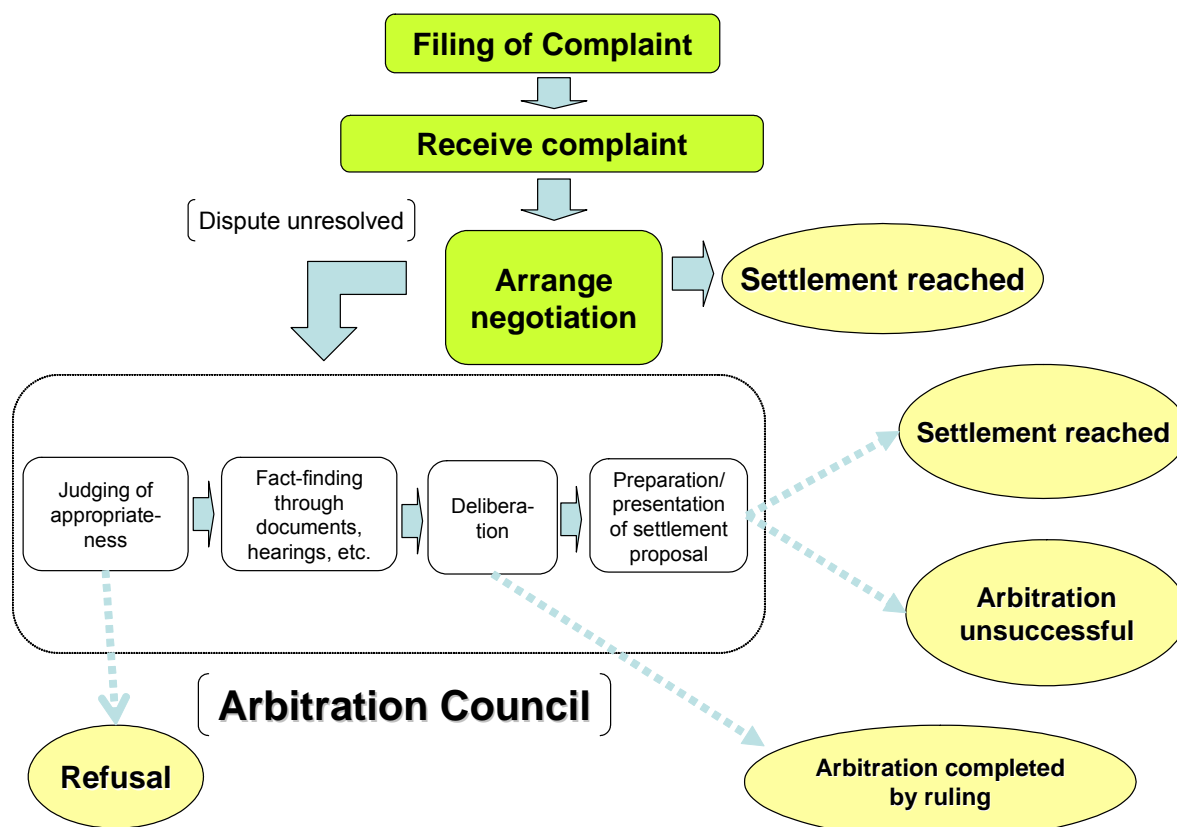
➤ The number of consultations and complaints by item in fiscal 2008

Item (Content)		Number	Share (%)	Y/Y (%)
General Consultation	New contract	1,318	13	87.4
	Premium	242	2.4	106.6
	Policy maintenance	1,279	12.7	86
	Claims and Benefits	1,040	10.3	78.3
	Others	6,221	61.6	114.4
	Subtotal	10,100	100	101.1
Complaint	New contract	1,929	25.3	95.1
	Premium	628	8.2	83.5
	Policy maintenance	2,049	26.9	74.2
	Claims and Benefits	2,513	33	63
	Others	497	6.5	80.7
	Subtotal	7,616	100	75
Total		17,716		88

## 3) Arbitration Council

In preparation for cases in which a problem persists for one month or longer after the Life Insurance Consultation Center received the complaint, the Arbitration Council, which is in charge of the Alternative Dispute Resolution, was formed under the Center in March 2001. The Council consists of nine members including four lawyers, four consumer life consultants and one staff from the Life Insurance Consultation Office. The Council judges the case from a fair and unbiased standpoint in order to reach an appropriate solution.

➤ Flow of procedures to apply for Arbitration Council



#### d) Social Service Activities

The LIAJ conducts the following projects to contribute to society with an aim to improve the daily lives of people and social welfare centering on the life insurance industry's ideal of "Spirit of Social Assistance".

##### 1) Scholarship Program for Education of Care Workers

Care workers play a crucial role in caring for the elderly in today's ageing society. In order to support them, the "scholarship program for education of care workers" has been run since fiscal 1989. So far, 3,286 scholarship recipients have been sent out into society and many of them are playing leading roles as care workers across the country.

##### 2) Financial Aid for Child-rearing Support Organization

As the birthrate falls and the number of nuclear families increases, the number of parents who are struggling to raise children is rising. In order to help improve the child-rearing environment, the LIAJ has been subsidizing funds for non-profit organizations or groups which support those who have preschool children in the community (including expectant mothers) since fiscal 2005. Subsidies totaling approximately Y54 million have been given to 266 groups over the past four years, and the total subsidy was about Y14 million for 66 groups in fiscal 2008.

##### 3) Scholarship Program for Privately-funded International Students in Japan

In the midst of ongoing internationalization, this scholarship has been provided to 298 international students from Southeast Asia and East Asia as an international contribution in assisting human exchanges. The LIAJ is also promoting their understanding of Japan through social events.

##### 4) Highlighting the Importance of "Family Bonds"

The LIAJ has engaged in "Activities to Enhance Family Bonds by Reading Picture Books to Children" since fiscal 2008 and held a "Picture Book Contest to Enhance Family Bonds." The contest received applications of 343 picture books from both home and abroad and gave awards to seven books. The book that won the grand prize was printed and donated as an "Original Picture Story Book" to libraries.

### e) Anti-Moral Hazard Measures

In order to promote sound management of a life insurance system, the industry is making efforts to prevent moral hazards such as fraud related to hospital benefits and fraudulent procurement of insurance money. Main countermeasures are as follows.

#### 1) Policy Data Registration System

A policy data registration system was established to help detect those trying to receive insurance claims illegally by enrolling in several insurance policies for short periods. When life insurance companies receive an insurance policy (including riders like death benefit and hospital benefit), the relevant data of policyholders may be stored at the registration center within the LIAJ. Life insurance companies refer to the registered details to judge whether to accept the contract or whether to pay claims for death or hospital benefits.

#### 2) Cross Reference System for Assessing Insurance Claims

Upon receiving insurance claims, participating insurance companies and three co-operatives (National Mutual Insurance Federation of Agricultural Cooperatives, National Federation of Workers and Consumers Insurance Cooperatives and Japanese Consumers' Co-operative Union) cross-reference other organizations' data on policyholders. They then use the information when deciding whether to accept a claim from a policyholder or to terminate or cancel an existing contract.

#### 3) Liaison Conference between Life Insurers and the Police

In order to prevent the crime of abusing life insurance, the LIAJ holds liaison meetings with the National Police Agency. The "Liaison Conference between Life Insurers and the Police" is held between the LIAJ's 54 local offices and municipal police headquarters to exchange information on organized crime groups and the prevention of moral hazard.

## 4. Topics in Life Insurance Industry

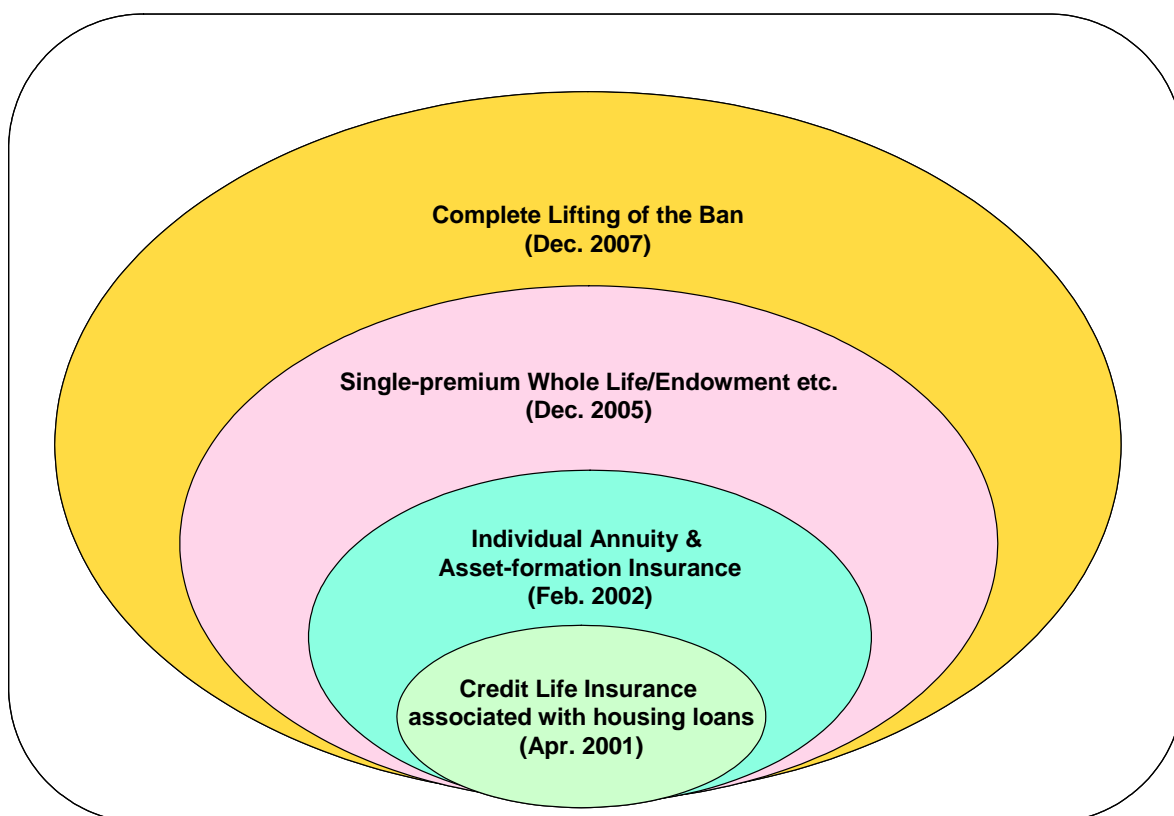
### a) Bancassurance

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, asset-formation insurance, individual annuity and accident insurance and asset-formation 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.



## b) Insurance Contract Law

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 on 1 April 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:

- ✓ Solicitors' activities encouraging misrepresentations from customers
- ✓ Lien of the victim in liability insurance
- ✓ Changes of beneficiary based on testaments
- ✓ Continuation of life insurance policies based on beneficiary's own will
- ✓ Policy rescissions due to a serious reason
- ✓ Time of benefits payout

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

**c) Solvency Margin Ratio**

1) Existing Solvency Margin Ratio

Reserve of insurers will be able to respond to normal expected risks. However, unexpected events resulted from catastrophic disaster or significant fall of stock prices might happen. In order to determine whether the insurer has “margins of solvency” to be able to respond to such unexpected risks, solvency margin ratio was introduced as an index of administrative supervision.

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

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

<sup>a</sup> 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%.

<sup>b</sup> The “Sum Total of Risks” (denominator) is calculated as follows:

$$= \sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4$$

R<sub>1</sub>: *Underwriting Risk* – Risk of massive insurance payouts following a disaster or catastrophe

R<sub>8</sub>: *Underwriting Risk of third-sector insurance* – Risk of massive third-sector insurance payouts such as health insurance and cancer insurance

R<sub>2</sub>: *Assumed Interest Rate Risk* – Risk that investment return falls below the assumed interest rate

R<sub>3</sub>: *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

R<sub>4</sub>: *Business Management Risk* – Business risk in excess of normal expectations

R<sub>7</sub>: *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.

➤ Summary of early warning measures for life insurers

Category	Solvency Margin Ratio	Measures
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.

## 3) Revision of Solvency Margin Ratio

The method for calculating the solvency margin 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, “early warning measures” have 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

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 asset

The FSA also conducted further reviews in the light of Yamato Life’s failure in October 2008, lessons learnt from the financial crisis and opinions on the proposed outline, and published the proposed revised outline in October 2009. Public comments are sought on the following items:

- ✓ Tightening of inclusion in margin (capital)
- ✓ Tightening of risk measurement
- ✓ Ensuring adequacy of solvency margin ratio

**d) Life Insurance Policyholder Protection Scheme**

The Life Insurance Policyholders Protection Corporation of Japan (PPCJ) is a corporate entity that was established on 1 December 1998 based on the Insurance Business Law. All life insurers operating in Japan automatically become members of the Corporation.

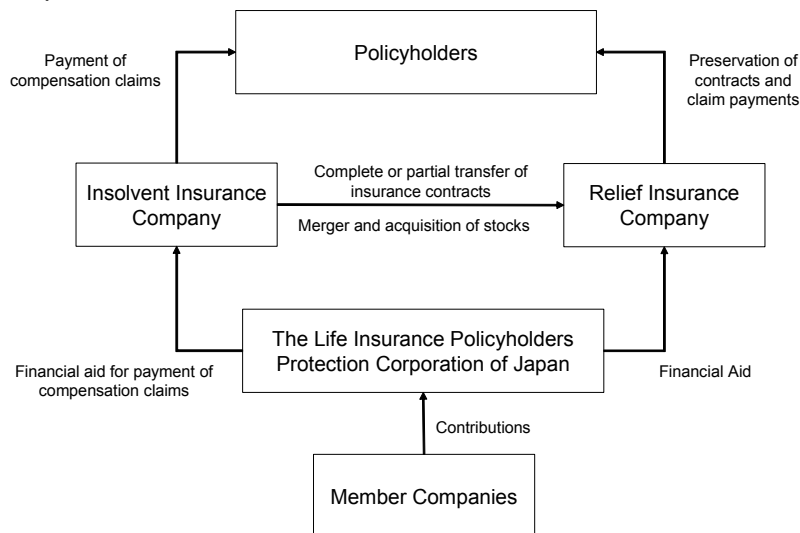
The PPCJ's mission is to provide financial aid when policies are transferred from an insolvent insurer or when payment of compensation claims is necessary, as a mutual assistance system for the benefit of policyholders of life insurers.

Also, the PPCJ acts on behalf of policyholders in following a life insurer's rehabilitation procedures, which includes all actions such as voting by proxy at stakeholders' meetings that discuss the proposed reorganization plan developed by the reorganization trustee.

\*The PPCJ's system of voting by proxy was established to ensure that rehabilitation procedures are smoothly followed, and does not prohibit voting by the policyholder.

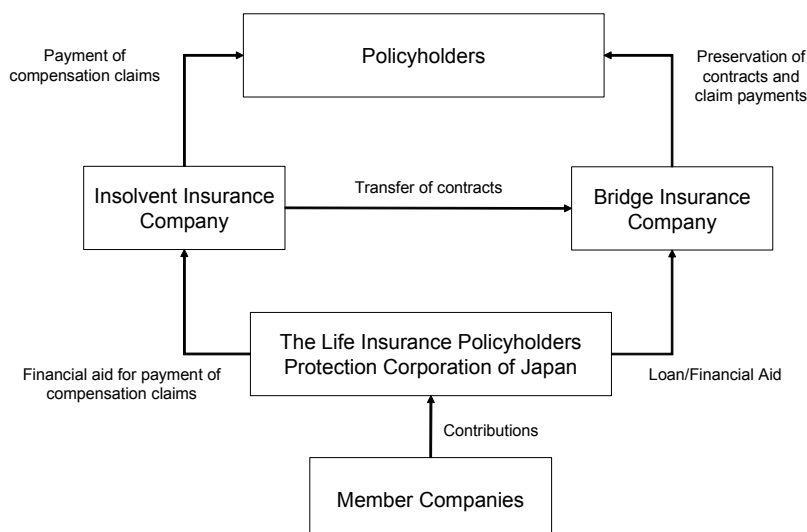
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- When a relief company, to which the insurance contracts of an insolvent insurance company are to be transferred, steps forward

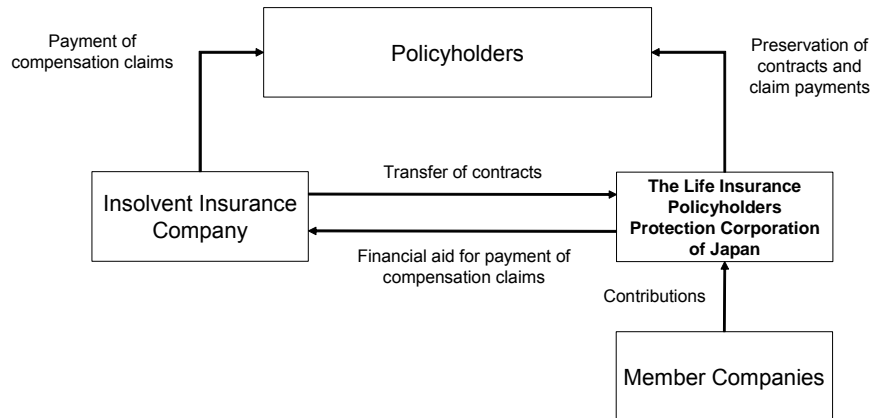


- When a relief company, to which the insurance contracts of an insolvent insurance company are to be transferred, does not step forward

1. Transfer of contracts to a "bridge insurance company"



2. Contracts undertaken by the PPCJ



**Compensation Coverage**

- Insurance contracts of life insurers operating in Japan (excluding the special accounts of investment-linked insurance policies)

**Compensation Range**

- 90% of policy reserves (excluding policies with high expected interest)
- The compensation ratio for policies with high expected interest is as follows:  
 $90\% - [\text{sum of (each expected interest in the past 5 years – the base rate)}] / 2]$

**Funding Scheme**

<b>Industry contributions</b> <b>¥460 billion</b>	+	<b>In case the amount of financial assistance exceeds the ceiling on industry contributions, government aid is available*</b>
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\* Government aid becomes available when all of the following conditions are met: 1) the financial aid exceeds the industry contributions, 2) it becomes difficult to maintain the credibility of the insurance industry as a result of deterioration of a member's financial condition, and 3) there is a risk of serious impact on people's lives and financial markets. This is available until the end of March 2012.

## 5. The Life Insurance Association of Japan (LIAJ)

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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.

### 1) Objective

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

### 2) Functions

- (a) Research and study of theories and practices relating to life insurance
- (b) Public relations relating to life insurance
- (c) Statement on life insurance
- (d) Other functions considered necessary to attain the purpose of the Association

### 3) Membership

Forty-six (46) companies (as of 4 Jan. 2010)

### 4) Main Activities

#### (a) 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.

#### (b) 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.

#### (c) 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 22 to 23)

#### (d) 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 21)

#### (e) 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 26)

**(f) 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 40)

**(g) Consultation Services**

The Association deals with inquiries and complaints concerning life insurance by telephone, mail and interviews. (Refer to page 24 to 25)

**(h) Anti-Moral Hazard Measures**

The Association takes a variety of measures to promote sound operation of life insurance business. (Refer to page 27)

**(i) 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:

(1) Information Service Office for Foreign Companies

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

In May 1982, the Government announced a policy to liberalize the secondary market as part of the efforts to eliminate trade frictions with other countries. On 1 June 1982, shortly after this announcement, the Association set up the "Information Service Office" in order to better serves 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.

(2) 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 PIC was held in Bangkok, Thailand from 1 through 4 November 2009 and around 300 attendants including about 10 from the Japanese life insurance industry participated in the Conference.

**(j) Others**

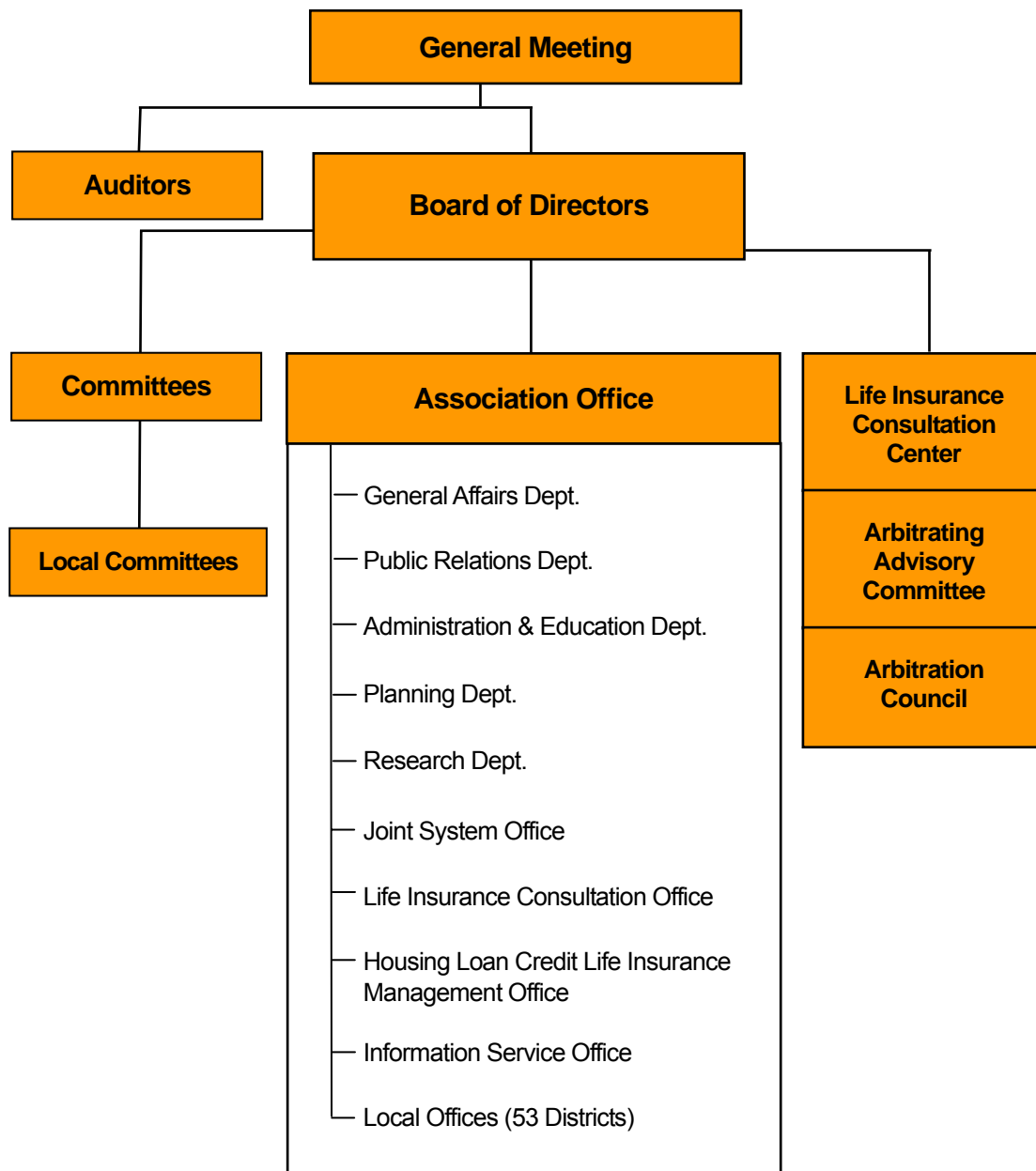
Library

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

## Organization Chart

(As of 17 July 2009)

### The Life Insurance Association of Japan (LIAJ)





## 5. The Life Insurance Association of Japan (LIAJ)

### Member Companies

(As of 4 January 2010, in alphabetical order)

<b>AEGON Sony Life Insurance Co., Ltd.</b> 2-9-11 Akasaka, Minato-ku, Tokyo 107-0052	<a href="http://www.aegonsonylife.co.jp/">http://www.aegonsonylife.co.jp/</a>
<b>AIG Edison Life Insurance Company</b> Olinas Tower, 4-1-3 Taihei, Sumida-ku, Tokyo 130-8625	<a href="http://www.aigedison.co.jp/">http://www.aigedison.co.jp/</a>
<b>AIG STAR LIFE INSURANCE CO., LTD.</b> Olinas Tower, 4-1-3 Taihei, Sumida-ku, Tokyo 130-8660	<a href="http://www.aigstar-life.co.jp/">http://www.aigstar-life.co.jp/</a>
<b>Aioi Life Insurance Co., Ltd.</b> 28-1, Ebisu 1-Chome, Shibuya-ku, Tokyo 150-0013	<a href="http://www.ioi-life.co.jp/">http://www.ioi-life.co.jp/</a>
<b>AIRIO Life Insurance Co., Ltd.</b> Tradepia Odaiba 20F, 2-3-1 Daiba, Minato-ku, Tokyo 135-0091	<a href="http://www.airio.co.jp/">http://www.airio.co.jp/</a>
<b>Allianz Life Insurance Japan Ltd.</b> Anzen Building, 6-6 Motoakasaka 1-Chome, Minato-ku, Tokyo 107-0051	<a href="http://life.allianz.co.jp/">http://life.allianz.co.jp/</a>
<b>American Family Life Assurance Company of Columbus</b> 1-1 Nishishinjuku 2-Chome, Shinjuku-ku, Tokyo 163-0456	<a href="http://www.aflac.co.jp/">http://www.aflac.co.jp/</a>
<b>American Life Insurance Company</b> AIG Bldg., 1-3, Marunouchi 1-Chome, Chiyoda-ku, Tokyo 100-0005	<a href="http://www.alico.co.jp/">http://www.alico.co.jp/</a>
<b>Asahi Mutual Life Insurance Co.</b> 6-1 Ote-machi 2-Chome, Chiyoda-ku, Tokyo 100-8103	<a href="http://www.asahi-life.co.jp/">http://www.asahi-life.co.jp/</a>
<b>AXA Life Insurance Co., Ltd.</b> NBF Platinum Tower, 1-17-3 Shirokane, Minato-ku, Tokyo 108-8020	<a href="http://www.axa.co.jp/">http://www.axa.co.jp/</a>
<b>CARDIF Assurance Vie</b> 9F Infoss Tower, 20-1 Sakuragaoka-cho, Shibuya-ku, Tokyo 150-0031	<a href="http://www.cardif.co.jp/vie/">http://www.cardif.co.jp/vie/</a>
<b>Crédit Agricole Life Insurance Company Japan Ltd.</b> Shiodome Sumitomo Building 16F, 1-9-2 Higashi-Shimbashi, Minato-ku, Tokyo 105-0021	<a href="http://www.ca-life.jp/">http://www.ca-life.jp/</a>
<b>Daido Life Insurance Co.</b> 2-1 Edobori 1-Chome, Nishi-ku, Osaka-shi 550-0002	<a href="http://www.daido-life.co.jp/">http://www.daido-life.co.jp/</a>
<b>Fukoku Mutual Life Insurance Co.</b> 2-2 Uchisaiwaicho 2-Chome, Chiyoda-ku, Tokyo 100-0011	<a href="http://www.fukoku-life.co.jp/">http://www.fukoku-life.co.jp/</a>
<b>Fukokushinrai Life Insurance Co., Ltd.</b> 2-10 Shirokanedai 3-Chome, Minato-ku, Tokyo 108-0071	<a href="http://www.fukokushinrai.co.jp/">http://www.fukokushinrai.co.jp/</a>
<b>Hartford Life Insurance K.K.</b> Shiodome Building 15 <sup>th</sup> Floor, 1-2-20 Kaigan, Minato-ku, Tokyo 105-0022	<a href="http://www.hartfordlife.co.jp/">http://www.hartfordlife.co.jp/</a>
<b>ING Life Insurance Company, Ltd.</b> 26 F New Ohtani Garden Court 4-1 Kioicho, Chiyoda-ku, Tokyo 102-0094	<a href="http://www.ing-life.co.jp/">http://www.ing-life.co.jp/</a>
<b>JAPAN POST INSURANCE Co., Ltd.</b> 3-2 Kasumigaseki 1-Chome, Chiyoda-ku, Tokyo 100-8798	<a href="http://www.jp-life.japanpost.jp/">http://www.jp-life.japanpost.jp/</a>
<b>LIFENET INSURANCE COMPANY</b> Kojimachi NK Building 5F, 14-2 Kojimachi 2-Chome, Chiyoda-ku, Tokyo 102-0083	<a href="http://www.lifenet-seimei.co.jp/">http://www.lifenet-seimei.co.jp/</a>
<b>Manulife Life Insurance Company</b> 34-1 Kokuryo-cho 4-Chome, Chofu-shi, Tokyo 182-8621	<a href="http://www.manulife.co.jp/">http://www.manulife.co.jp/</a>
<b>MassMutual Life Insurance Company</b> 3-5-7 Ariake, Koto-ku, Tokyo 135-0063	<a href="http://www.massmutual.co.jp/">http://www.massmutual.co.jp/</a>
<b>Meiji Yasuda Life Insurance Company</b> 1-1 Marunouchi 2-Chome, Chiyoda-ku, Tokyo 100-0005	<a href="http://www.meijiyasuda.co.jp/">http://www.meijiyasuda.co.jp/</a>
<b>Midori Life Insurance Company</b> 6-3-43 Ohji, Kita-ku, Tokyo 114-8595	<a href="http://www.midori-life.com/">http://www.midori-life.com/</a>

## 5. The Life Insurance Association of Japan (LIAJ)

<b>Mitsui Life Insurance Company Limited</b> 1-1 Otemachi 2-Chome, Chiyoda-ku, Tokyo 100-8123	<a href="http://www.mitsui-seimei.co.jp/">http://www.mitsui-seimei.co.jp/</a>
<b>Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.</b> 3-11-1 Kandanishikicho, Chiyoda-ku, Tokyo 101-0054	<a href="http://www.ms-kirameki.com/">http://www.ms-kirameki.com/</a>
<b>Mitsui Sumitomo MetLife Insurance Co., Ltd.</b> 16F Yaesu First Financial Bldg., 1-3-7 Yaesu, Chuo-ku, Tokyo 103-0028	<a href="http://www.msi-metlife.com/">http://www.msi-metlife.com/</a>
<b>Nippon Life Insurance Co.</b> 5-12 Imabashi 3-Chome, Chuo-ku, Osaka-shi 541-8501	<a href="http://www.nissay.co.jp/">http://www.nissay.co.jp/</a>
<b>NIPPONKOA Life Insurance Company, Limited</b> 4-2 Tsukiji 3-Chome, Chuo-ku, Tokyo 104-8407	<a href="http://www.nipponkoa.co.jp/life/">http://www.nipponkoa.co.jp/life/</a>
<b>ORIX Life Insurance Corporation</b> 23F Shinjuku Monolith, 2-3-1 Nishishinjuku, Shinjuku-ku, Tokyo 163-0923	<a href="http://www.orix.co.jp/ins/">http://www.orix.co.jp/ins/</a>
<b>PCA LIFE Insurance Co., Ltd.</b> 10F ATT New Tower, 2-11-7 Akasaka, Minato-ku, Tokyo 107-0052	<a href="http://www.pcalife.co.jp/">http://www.pcalife.co.jp/</a>
<b>SBI AXA Life Insurance Co., Ltd.</b> Izumi Garden Tower 18F, 1-6-1 Roppongi, Minato-ku, Tokyo 106-6018	<a href="http://www.sbi-axa.co.jp/">http://www.sbi-axa.co.jp/</a>
<b>Sompo Japan DIY Life Insurance Co., Ltd.</b> 6-10-1 Nishishinjuku, Shinjuku-ku, Tokyo 160-0023	<a href="http://diy.co.jp/">http://diy.co.jp/</a>
<b>Sompo Japan Himawari Life Insurance Co., Ltd.</b> 1-1 Nishishinjuku 2-Chome, Shinjuku-ku, Tokyo 165-0435	<a href="http://www.himawari-life.com/">http://www.himawari-life.com/</a>
<b>Sony Life Insurance Co., Ltd.</b> 1-1 Minamiaoyama 1-Chome, Minato-ku, Tokyo 107-8585	<a href="http://www.sonylife.co.jp/">http://www.sonylife.co.jp/</a>
<b>Sumitomo Life Insurance Co.</b> 4-35 Shiromi 1-Chome, Chuo-ku, Osaka-shi 540-8512	<a href="http://www.sumitomolife.co.jp/">http://www.sumitomolife.co.jp/</a>
<b>The Dai-ichi Mutual Life Insurance Co.</b> 13-1 Yurakucho 1-Chome, Chiyoda-ku, Tokyo 100-8411	<a href="http://www.dai-ichi-life.co.jp/">http://www.dai-ichi-life.co.jp/</a>
<b>The Dai-ichi Frontier Life Insurance Co. Ltd.</b> 8-10 Harumi 1-Chome, Chuo-ku, Tokyo 104-6015	<a href="http://www.d-frontier-life.co.jp/">http://www.d-frontier-life.co.jp/</a>
<b>The Fuji Life Insurance Company, Limited</b> 18-17 Minamisemba 1-Chome, Chuo-ku, Osaka-shi 542-0081	<a href="http://www.fujiseimei.co.jp/">http://www.fujiseimei.co.jp/</a>
<b>The Gibraltar Life Insurance Co., Ltd.</b> Prudential Tower, 2-13-10 Nagata-cho, Chiyoda-ku, Tokyo 100-8953	<a href="http://www.gib-life.co.jp/">http://www.gib-life.co.jp/</a>
<b>The Prudential Life Insurance Co., Ltd.</b> Prudential Tower, 2-13-10 Nagata-cho, Chiyoda-ku, Tokyo 100-0014	<a href="http://www.prudential.co.jp/">http://www.prudential.co.jp/</a>
<b>The Prudential Financial Japan Life Insurance Co., Ltd.</b> 2-13-10 Nagata-cho, Chiyoda-ku, Tokyo 100-0014	<a href="http://www.pfj-life.co.jp/">http://www.pfj-life.co.jp/</a>
<b>Taiyo Life Insurance Company</b> 1-2-3 Kaigan, Minato-ku, Tokyo 105-0022	<a href="http://www.taiyo-seimei.co.jp/">http://www.taiyo-seimei.co.jp/</a>
<b>Tokio Marine &amp; Nichido Financial Life Insurance Co., Ltd.</b> 8F ThinkPark Tower, 2-1-1 Osaki, Shinagawa-ku, Tokyo 141-6008	<a href="http://www.tmn-financial.co.jp/">http://www.tmn-financial.co.jp/</a>
<b>Tokio Marine &amp; Nichido Life Insurance Co., Ltd.</b> 5-3-16 Ginza, Chuo-ku, Tokyo 104-0061	<a href="http://www.tmn-anshin.co.jp/">http://www.tmn-anshin.co.jp/</a>
<b>T &amp; D FINANCIAL LIFE INSURANCE COMPANY</b> 1-2-3 Kaigan, Minato-ku, Tokyo 105-0022	<a href="http://www.tdf-life.co.jp/">http://www.tdf-life.co.jp/</a>
<b>Zurich Life Insurance Company Ltd.</b> Shinanomachi Rengakan, 35 Shinanomachi, Shinjuku-ku, Tokyo 160-0016	<a href="http://www.zurichlife.co.jp/">http://www.zurichlife.co.jp/</a>

## 6. Japan Institute of Life Insurance (JILI)

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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 strengthening public relation activities between the general public and the 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, monitoring attitudes of the public, and dissemination of information 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 of 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

# - Appendix -

## <Appendix> Voluntary Guideline List

### < Appendix 1 >

#### Voluntary Guideline List

In order to fulfill social responsibilities and business roles, the LIAJ has defined a code of conduct for life insurance companies and their management/employees to follow and provides voluntary guidelines for practical handling and points to consider, to be reflected in their operations.

<b>Code of Conduct</b>
Specifies basic requirements and policies to be followed in member companies' business management and in senior managers and employees' performance.
<b>Guidelines for Appropriate Representation of Life Insurance Products</b>
Aims to ensure appropriate representation of insurance products in sales materials.
<b>Guidelines for System related to Reviewing Materials for Soliciting Life Insurance Products</b>
Specifies information for improving the system related to reviewing materials for soliciting life insurance products.
<b>Guidelines for Policy Overview</b>
Specifies how to draft and compile the "Policy Overview" notice, which contains essential information on the contents of insurance products.
<b>Guidelines for Warning Information</b>
Specifies how to draft and compile the "Warning Information" notice, which contains warnings that insurers should give customers regarding the contents of insurance contracts.
<b>Guidelines for Pre-contract Documentation</b>
Specifies matters to be noted when preparing Policy Overview and Warning Information in concluding contracts for insurance products with strong investment characteristics such as variable insurance.
<b>Guidelines for the Sale of Life Insurance with Market Risks</b>
Specifies appropriate advertising, solicitation, confirmation of customer's intentions, needs or contents of contracts concluded.
<b>Guidelines for Obtaining Faithful Disclosure from Customers</b>
Specifies information policyholders must be made aware of to ensure faithful disclosure, and shows samples of sales materials and correctly completed non-medical report (customer's disclosure). Also specifies suitable sales explanations, contents of solicitors' training program.
<b>Guidelines for Appropriate Application or Underwriting of Life Insurance Policies Targeting Minors as the Insured</b>
Specifies reference information for member companies when they undertake life insurance policies targeting minors, especially under the age of 15.
<b>Guidelines for Appropriate Insurance Payout Procedures</b>
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, refusing claims, etc.
<b>Guidelines for Advising Customers on How to File a Claim</b>
Describes the principle of how to handle insurance claims at each company, and provides concrete examples of how to advise customers.
<b>Handbook on anti-money laundering and combating the financing of terrorism Q&amp;A on anti-money laundering and combating the financing of terrorism</b>
Describes money laundering and terrorist financing as well as their countermeasures.
<b>Procedural Guidelines for Personal Information Protection in the Life Insurance Business</b>
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.
<b>Practical Guidelines for Life Insurers' Security Control Measures to Secure Personal Data Protection</b>
Specifies necessary and appropriate rules and building a system for securely managing personal data.
<b>Action Guidelines for Environmental Issues</b>
Aims to help preserve the environment and to hand over a rich and stable world to future generations, acknowledging the importance of environmental issues as well as the role of the life insurance business in providing security for people with the spirit of cooperation.
<b>Action Programs for the Environment by Life Insurance Industries</b>
Aims to promote further actions on environmental issues.

< Appendix 2 >

The LIAJ's Comments on the IASB Exposure Draft  
Financial Instruments: *Classification and Measurement* (General opinions)

1 General opinions on the exposure draft

1. The Life Insurance Association of Japan (LIAJ) is a trade association comprised of all 46 life insurance companies currently operating in Japan, with combined assets exceeding \$2 trillion at the end of fiscal 2008. Its aim is to promote the sound development of the life insurance industry and maintain its reliability in Japan.
2. We sincerely appreciate the efforts of the International Accounting Standards Board (IASB) to meet the request from G20 leaders that 'accounting standard setters should take action by the end of 2009 to improve and simplify the requirements for financial instruments' by publishing the exposure draft, *Financial Instruments: Classification and Measurement*. We also thank the IASB for providing us with an opportunity to submit our comments on the exposure draft.
3. Although our understanding is that the exposure draft has been developed considering the input received from many interested parties, we believe, from the standpoint of life insurance companies, the requirements proposed in this draft should be discussed further and improved. We are concerned that if the proposed requirements for the classification and measurement of financial assets and financial liabilities are applied, the financial statements of life insurers would become less understandable to users including policyholders and investors.

1.1 Proposals for improvement to appropriately represent the nature of life insurance business

4. The nature of life insurance business is to underwrite risks over a long period and therefore life insurers are required to firmly fulfil obligations to policyholders, instead of gaining profits through changes in fair value of financial assets and liabilities. We think life insurers need to appropriately represent the nature of their business to users of the financial statements, and we are concerned that presenting in profit or loss "unrealised gains and losses", e.g. changes in fair value of equity instruments held for a long period, will cause misunderstanding among users. Therefore, even if the financial assets and liabilities are presented at fair value in the statement of financial position, we believe that changes in fair value should be appropriately presented in profit or loss when realised.
5. As stated in our comment letter to the IASB dated 17 July, we believe that our proposed improvements would enable the accounting for financial instruments to appropriately represent the nature of life insurance business, while retaining the concepts of the draft to improve and simplify accounting requirements, in other words, retaining the current simplified proposals to measure financial assets or financial liabilities at amortised cost or fair value:
  - To allow presentation of subsequent fair value changes in other comprehensive income (OCI) not only for equity instruments that are not held for trading but also for such financial instruments as debt instruments
  - To recognise in profit or loss the fair value changes that have been presented in OCI, on derecognition of the instruments
  - To present in profit or loss all the realised gains and losses on investments including dividends from stocks, interest income and gains or losses from settlements of debt instruments, such as loans and bonds (even when subsequent changes in fair value are presented in OCI)

6. Our detailed comments to the exposure draft, including the key proposals mentioned above, are stated below along with the questions in the draft. (The LIAJ's responses to the questions set out in the exposure draft are omitted. )

#### 1.2 The relationship between the proposed amendments and the measurement of insurance liabilities

7. It is important to consider the relationship between the proposed amendments to IAS 39 and the measurement of insurance liabilities which account for most of a life insurer's liabilities. In the IASB's project on insurance contracts, it has been tentatively decided that insurance liabilities should be remeasured at every reporting period. If this is actually applied to insurance liabilities without incorporating our proposed improvements to the IASB's exposure draft, it might lead to accounting mismatches between the insurance liabilities and the loans and bonds to which amortised cost measurement is applied in the statement of financial position. As a result, insurance companies will virtually be forced to use the fair value option and to recognise changes in fair value of bonds and loans in profit or loss (and OCI) in order to avoid accounting mismatches in the statement of financial position; on the other hand other financial institutions will be permitted to recognise gains and losses in profit or loss on the basis of amortised cost.

We think that requiring only the insurance industry to recognise almost all changes in fair value of its assets and liabilities in profit or loss might result in different types of "profit or loss" depending on industries, and thus, the comparability of said performance measure across industries, which is of greatest importance to users for assessing the performance of an entity, would be clearly undermined. For example, at the Insurance Working Group meeting in June 2009, the majority of users emphasised the need for comparability across industries. In addition, the US Financial Accounting Standards Board decided to retain the requirement to disclose the "EPS (earnings per share)" only in "net income."

8. The main point of our comments is, as we have stated repeatedly in relation to the insurance contract project, that allowing the presentation of changes in the insurance liabilities in OCI would be needed besides incorporating our proposed improvements in order to appropriately represent the nature of life insurance business, that is, "to underwrite risks over a long period and to firmly fulfil obligations to policyholders." We believe that distinguishing comprehensive income clearly from the "profit or loss", which represents the performance of an entity excluding unrealised gains and losses, and then disclosing the two different measures would provide users with useful information.

### 1.3 Asset management of the life insurance industry in Japan

9. Without incorporating our proposed improvements to the IASB's exposure draft, requirements on the classification and measurement of financial instruments would be significantly changed. We are concerned that this change might have a great impact on the asset management strategies of life insurance industry in Japan.
10. According to the exposure draft, for instance, all changes in the fair value of equity instruments shall be recognised in profit or loss, or in OCI together with dividends from investments in those instruments (if not held for trading). Many Japanese life insurers usually invest in equity instruments in order to gain returns earmarked for insurance liabilities arising from underwriting risks over a long period (Table 1). Table 2 shows that the dividends as fruits from the investments account for a large part of the interest and dividend revenue, and life insurers in Japan play an important role and have a great impact on the Japanese equity market (Table 3). Therefore, we are concerned that not to present dividends from one of the main investment choices of Japanese life insurers in profit or loss would significantly change the nature of profit or loss as a measure of life insurers' business performance. We strongly urge the IASB to accept the recognition of dividends in profit or loss.
11. In addition, under the current IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 39 *Financial Instruments: Recognition and Measurement*, changes in the value of a non-monetary available-for-sale financial asset (such as an equity instrument) are recognised in OCI including foreign exchange gains and losses. As for a monetary available-for-sale financial asset (such as a debt instrument), changes in fair value on a foreign-currency basis are recognised in OCI, and fair-value changes attributable to changes in foreign exchange rate are recognised in profit or loss. Under this exposure draft, even in the case the monetary financial assets are measured at amortised cost, changes attributable to changes in foreign exchange rate are to be recognised in profit or loss. We think it is preferable that all the subsequent changes in the fair value of those financial instruments, as well as equity instruments that are not held for trading, are presented in OCI, since a number of Japanese life insurers invest in foreign bonds as shown in Table 1.

Table 1: Asset Breakdown of Life Insurers in Japan (As of 31 March 2009)<sup>1</sup>

	Amount (¥ 100 million)	Ratio	Amount (\$ 1 million) <sup>2</sup>
Cash, Deposits and Savings, Call-Loans	50,680	2.5%	51,593
Monetary Claims Purchased	33,616	1.6%	34,222
Monetary Trusts	21,796	1.1%	22,189
Securities	1,468,820	71.6%	1,495,287
(Of which: Domestic Stocks)	(156,318)	(7.6%)	159,135
(Of which: Foreign Bonds <sup>*</sup> )	(298,003)	(14.5%)	303,372
(Of which: Foreign Stocks)	(93,523)	(4.6%)	95,208
Loans	327,762	16.0%	333,668
Tangible Fixed Assets	66,021	3.2%	67,210
Other Assets	82,722	4.0%	84,213
Total	2,051,420	100.0%	2,088,385

Foreign Bonds include currency-hedged bonds e.g. by forward exchange contracts. The hedging level will vary depending on investment conditions including the level of hedge cost.

Table 2: Interest and Dividend Revenue Breakdown of Life Insurers in Japan (Fiscal 2009)<sup>3</sup>

	Amount (¥ 100 million)	Ratio	Amount (\$ 1 million)
Interest on Deposits	183	0.4%	187
Interest and Dividends on Securities	33,457	73.1%	34,060
(Of which: Public Bond Interest)	(13,295)	(29.0%)	13,534
(Of which: Dividend)	(3,779)	(8.3%)	3,847
(Of which: Foreign Securities Interest Dividend)	(15,795)	(34.5%)	16,080
Interest on Loans	7,416	16.2%	7,550
Rental Income of Real Estate	3,773	8.2%	3,841
Other Interest and Dividends	941	2.1%	958
Total	45,774	100.0%	46,598

<sup>1</sup> Source: *Summary of Life Insurance Business*, The Life Insurance Association of Japan. Total figures of 44 Japanese life insurers, excluding Yamato Life Insurance Co. and Japan Post Insurance Co., Ltd.

<sup>2</sup> Converted by using the rate (\$/¥ 98.23) of 31 March 2009; the same applies to Table 2 and Table 3.

<sup>3</sup> Source: *Summary of Life Insurance Business*, The Life Insurance Association of Japan. Total figures of 44 Japanese life insurers, excluding Yamato Life Insurance Co. and Japan Post Insurance Co., Ltd.

Table 3: Stockholdings by Sectors in Japan\* (As of 31 March 2009)<sup>4</sup>

	Total of all Sectors			
		Of which: Financial Institutions		
			Of which: Domestically Licenced Banks	Of which: Life Insurance Companies
Balance of Stockholdings (¥ Trillion)	264.94	62.88	12.93	12.93
(Ratio to the Total of all Sectors)	100.0%	23.7%	4.9%	4.9%
(Ratio to the Total of Financial Institutions)	-	100.0%	20.6%	20.6%
Balance of Stockholdings (\$ Billion)	2,697	640	131	131

\* This table only shows the balance of listed stocks. The balance is not equal to that of the line item "Domestic Stocks" in Table 1, since the latter includes unlisted stocks.

12. We believe that various asset management strategies should be allowed in order to cover underwriting risks over a long period. We know that the strategies of life insurance companies vary depending on the country/jurisdiction in which they operate, and that a number of insurers in Europe and the United States share the views expressed in these comments. For example, the Group of North American Insurance Enterprises (GNAIE) submitted its comments on 15 June requesting that the available-for-sale category be retained, and the Fédération Française des Sociétés d'Assurances also submitted similar comments on 1 July. Furthermore, we have learned that in addition to French insurers, many insurance companies in Europe have similar opinions. We are concerned that if our proposed improvements are not accepted, the management strategies of life insurance companies not only in Japan but also in other countries/jurisdictions may be changed and lead to unforeseeable market turmoil.

<sup>4</sup> Source: *Flow of Funds Accounts*, Bank of Japan.





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