Comprehensive Guidelines for Supervision for Insurance Companies

(Main Document)

July 2021

Financial Services Agency

Comprehensive Guidelines for Supervision for Insurance Companies

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Comprehensive Guidelines for Supervision of Insurance Companies

I. Basic Ideas

I-1 Basic Concept for Inspection and Supervision of Insurance

(1) The purpose of inspection and supervision of insurance is, in view of the public nature of the insurance business, to protect policyholders, etc. by ensuring sound and appropriate business operation of those conducting insurance business and fairness in insurance solicitation, and thereby to contribute to the stability of the lives of the citizens and to the sound development of the national economy (see Article 1 of the Insurance Business Act (hereinafter referred to as the "Act")).

(2) The Financial Services Agency (hereinafter referred to as the "FSA") has, since its establishment, basically been working to establish transparent and fair administration based on clear rules.

For this reason, the FSA aims to improve the efficiency and effectiveness of administration in the respective areas, including supervision as well as inspection and monitoring, and work on further clarification of rules and development of administrative procedures, etc.

In addition, in order to improve the transparency of business operations of insurance companies (meaning "insurance companies" prescribed in Article 2(2) of the Act, "foreign insurance companies, etc." prescribed in (7) of the said Article, "underwriting members" prescribed in Article 219(1) of the Act, and "licensed specified corporations" prescribed in Article 223(1); the same applies hereinafter), promote self-regulation of business operations by imposing market discipline, and establish the principle of self-responsibility among policyholders, etc., it is also important to continually promote the enhancement of disclosures by insurance companies.

(3) The transparency and impartiality of administration will continue to be the basis of administrative operations. However, formulating excessively detailed check lists, etc. in aiming to clarify the rules and only automatically repeating/continuing uniform examinations afterward based on exhaustive examination points without conducting practical examination of the root cause of the problem and the possibility of causing other problems due to its expansion may cause harmful effects in insurance companies such as hindering progress in identifying really important issues taking into account the overall business operations and the root causes of problems, resolving the root causes to prevent

recurrence, responding at an early stage for the future, and exhibiting originality and ingenuity for better practical operations, etc.

The FSA will understand the actual situations and carry out unified on-site/off-site monitoring through dialogue, etc. on a continuous basis according to the probability of the occurrence of serious problems related to the scale/characteristics and financial soundness/compliance, etc. of each company, prevent serious problems from occurring by taking supervisory actions, etc. as required, and promote various efforts for better practical operations through dialogue, etc.

(Reference) “Concepts and Approaches to Financial Inspection/Supervision (Basic Policy on Inspection/Supervision)” (June 29, 2018)

(4) Employees engaging in inspection/supervision of an insurance company shall, when performing operations, strive to ensure confidence in administration using the following matters as code of conduct, taking into account basic concepts described in (1) through (3).

(i) Mandate from the public and maintenance of ethics pertaining to the duties

Their operations are based on professional responsibilities entrusted by the public, and when performing the operations, they shall be aware of the purpose of inspection and supervision of insurance described in I-1 (1) as the top priority issue and strive to maintain ethics pertaining to the duties, aiming at ensuring the public trust in financial administration.

(ii) Maintenance of discipline, dignity, and confidentiality

In performing financial administration, they shall ensure the maintenance of discipline, dignity, and confidentiality as well as a calm and composed attitude.

(iii) Broad and medium- to long-term perspective

From the standpoint of the public and companies using financial services, they shall not only settle for addressing/resolving local and short-term issues, but also identify the root causes and work on to resolve issues at an early stage from the broad and medium- to long-term perspective.

(iv) Impartiality and fairness

By observing appropriate procedures under laws and regulations, etc. and taking into account the situation of each company, they shall perform operations in a fair and impartial manner, and different treatment shall not be given between insurance companies without reasonable grounds under laws

and regulations, etc.

(v) Respecting voluntary efforts of insurance companies

They shall be aware that in order to achieve the purpose of inspection and supervision of insurance, voluntary efforts and originality/ingenuity of insurance companies are essential, and give consideration in respecting voluntary efforts regarding business operations of private insurance companies.

(vi) Self-improvement

In addition to various regulations on insurance and trends in insurance companies, including those in other countries, they shall acquire basic knowledge of broad social/economic events surrounding economic infrastructure known as finance. In addition, when performing their operations involving dialogue, etc., not only profound knowledge of the actual situation specific to each company, but only analysis based on a high degree of expertise according to the issues concerning business analysis, governance, risk management, and asset management, etc. is necessary, and therefore they shall make daily efforts in self-improvement to acquire these abilities.

(vii) Appropriate and close cooperation with internal/external relevant parties

In order to achieve highly effective inspection and supervision, having broad perspective not limited to their own jurisdiction is important, and therefore they shall cooperate with various entities both within and outside the Agency in an appropriate and close manner.

I-2 Background Surrounding the Guidelines for Supervision

(1) Review of Notifications and Establishment of the Guidelines for Administrative Processes

Before the establishment of the Financial Supervisory Agency in June 1998, after conducting a full review of notifications, etc. of insurance companies and as part of transformation into transparent and fair financial administration based on the rules, the former Ministry of Finance compiled and published the viewpoints, etc. for the interpretation of laws and regulations, internal procedures, and soundness of operations for promoting unified administrative operations as the “Guidelines for Administrative Processes”, which is a manual for employees within the executive branch.

(2) Formulation of the Comprehensive Guidelines for Supervision for Insurance Companies

The purpose of the Act is, in view of the public nature of the insurance business, to protect policyholders, etc. by ensuring sound and appropriate business operation of those conducting insurance business and fair insurance solicitation, and thereby to contribute to the stability of the lives of the citizens and to the sound development of the national economy. Furthermore, as we enter the era of the aging of society and declining birthrate, insurance now has the role of supplementing the public sector in social security, and with an increase in new risks such as e-risk and soil contamination risk, etc., its function as a mechanism to respond to various risks in corporate activities, etc. is expanding.

Under such circumstances, it is necessary to develop an environment to enable product development and price setting to flexibly meet diversified and advanced customer needs. In addition, developing an environment in which policyholders, etc. can purchase insurance products through various channels based on appropriate and sufficient information is also necessary. For this reason, constantly reviewing operational regulations and practices in light of the purpose of the Act is required. In addition, further ensuring the compliance of insurance companies is also needed.

Based on these points, the basic concept, supervisory evaluation points, and the points of attention in administrative treatment for supervisory administration of insurance companies and insurance groups(Note) (hereinafter referred to as “insurance companies, etc.” in I) were summarized in the Guidelines in a structured manner, taking into account the content of the conventional guidelines for administrative processes.

The Guidelines was created to enable response to various cases with due consideration to the actual situation of insurance companies, etc., and all the supervisory evaluation points described in the Guidelines are not uniformly required for each insurance company, etc.

Therefore, in applying the Guidelines, even if responses are not made by following each evaluation point, consideration needs to be given not to fall into automatic/uniform operations by noting that it will not be inadequate unless there is a problem from the point of view of ensuring the financial soundless and operational appropriateness, etc. of insurance companies, etc. On the other hand, it must be noted that even if the functions related to evaluation points are formally implemented, it may not necessarily be sufficient from the

point of view of ensuring the financial soundless or operational appropriateness, etc. of insurance companies, etc.

(Note) An “insurance group” refers to a group of insurance companies that manage business operations of their subsidiary companies conducting insurance business or insurance holding companies and their subsidiary companies, etc. In addition, each company comprising an insurance group is referred to as a “group company”, and a group company that conducts governance of the insurance group concerned is referred to as a “management company”.

(3) Revision of the Guidelines that takes into account reviews of inspection/supervision

In 2008, although there have been disruptions such as the bankruptcy of major investment banks in the US started from the subprime mortgage problem and the occurrence of global financial crisis originated from this, etc., the financial markets in Japan remained mostly stable. Subsequently, however, with a shrinkage of domestic markets due to the declining birthrate and aging population, globally continued low interest rate environment, and new competitions through technological innovations, etc., the business environment of insurance companies, etc. is increasingly becoming severer, and changes in nature and location of risks surrounding insurance companies are accelerating. Under such circumstances, the need for insurance companies, etc. to build a sustainable business model to ensure the soundness into the future through their own originality and ingenuity and establish appropriate far-sighted control environments for compliance/risk management, etc. is increasing more than ever.

In order to implement early response based on far-sighted analysis of the probability of the occurrence of serious problems related to the financial soundness and compliance, etc., the FSA is also conducting various reviews of how the inspection and supervision should be from the point of view of responding to environmental changes and the occurrence of new issues in a flexible and preventive manner.

In June 2018, the basic concept for financial administration, how to proceed with inspection and supervision, and development of the control environment of the Bureau were summarized to formulate the “JFSA’s supervisory approaches-Replacing checklists with engagement”, providing that formal verification using the checklists of insurance companies, etc. shall be corrected and that inspection manuals shall be abolished from the point of view of making the use of originality

and ingenuity easier.

In addition, in July of the same year, organizational restructuring was done to perform continuous monitoring of insurance companies effectively and efficiently, etc., and organizational structure in which on-site inspections were previously performed by the Inspection Bureau and a variety of hearings, etc. by the Supervisory Bureau was changed to promote the unification of on-site/off-site monitoring.

As part of these reviews, in December 2019, along with the abolishment of the insurance inspection manuals, necessary revisions, etc. were also made to the Guidelines based on the above reviews. More concretely, how the unified on-site/off-site monitoring to be conducted through the identification of actual situations and dialogue, etc. should be and positioning of the Guidelines, etc. have been once again made clear, and the provisions that may interfere with originality and ingenuity of insurance companies, etc. such as excessively detailed particular methods were modified. These points will continue to be discussed in the future.

I-3 Positioning of the Guidelines for Supervision for Insurance Companies

(1) As a manual for employees who will take the role of inspection and supervision of insurance companies, etc., the basic concept for inspection and supervision, and points of attention in administrative treatment, and supervisory evaluation points, etc. were summarized in the Guidelines.

(2) Apart from the Guidelines, the FSA has presented various documents such as the “Concept and Procedure” and a variety of principles for each area, policy for each year, and requests to industry organizations, etc. as policies for inspection and supervision. In performing inspection and supervision, each document shall be used by taking into account its aim and purpose and those aims shall be carefully explained to insurance companies, etc.

(3) The sections and offices of the FSA in charge shall perform operations of inspection and supervisory of insurance companies, etc. based on the Guidelines. In doing so, considering that the Guidelines aims to ensure sound and appropriate operation of those operations while respecting voluntary efforts of insurance companies, etc., the Guidelines shall be implemented with due

consideration to individual situations of each company not to fall into automatic/uniform treatment.

(4) In Japan, financial groups that include multiple business types have been formed through lifting of a ban on the mutual entry of subsidiary companies in different types of business by the financial system reform of 1993, lifting of a ban on financial holding companies in 1998, and establishment of provisions concerning subsidiary companies by the Financial System Reform Act, etc.

While the formation of financial groups that include multiple business types(Note) by insurance companies, etc. can contribute to the strengthening of business structure and improvement of services of insurance companies, etc., complicated organization may cause inefficient business operations, occurrence of conflict of interest, increased motive for tie-in sales, spread of risks within the group, and concentration of risks in the group, etc.

In light of such special characteristics, it is important to understand the actual conditions of such financial groups, not only the soundness, etc. of individual insurance companies, etc., but also the control environment for governance of the entire group and the financial soundness and operational appropriateness of the group.

In addition, even if insurance companies, etc. are financial institutions of other types of business, foreign financial groups, or subsidiary companies of the operating company, etc., it is important to examine whether there is a risk of occurrence of above-mentioned spread of risks or concentration of risks in insurance companies, etc. through regulatory authority to major shareholders of insurance companies and in-depth hearings, etc.

The forms of financial groups vary, and the characteristics of risks that the groups face and process of spreading of risks are different. As a result, their control environments for governance are also naturally different, and therefore it must be noted that, based on the actual conditions of each financial group, it is necessary to examine those control environments.

(Note) Small amount and short term insurerance companies are treated as the same business type as insurance companies.

II. Supervisory Evaluation Points for Insurance

II-1 Governance

II-1-1 Significance

While significant changes are seen in business environment surrounding insurance business, in order for insurance companies to appropriately understand and manage various risks themselves and ensure sound and appropriate business operation based on the principle of self-responsibility, it is important that the imposition of discipline on business effectively functions and governance is conducted appropriately.

II-1-2 Main Supervisory Viewpoints

In order to ensure the effective functioning of the governance, it is important that the representative director, individual directors and the board of directors, representative executive officers, executive officers, individual auditors (in the case of a company with a nominating committee, etc., audit committee members; and in the case of a company with an audit and supervisory committee, members of the audit and supervisory committee) and the board of auditors (in the case of a company with a nominating committee, etc., the audit committee; and in the case of a company with an audit and supervisory committee, the audit and supervisory committee), Responsible Actuaries, and employees of all ranks understand their roles and are sufficiently involved in the process. Of which, the responsibilities of the representative director, individual directors and the board of directors, individual auditors (in the case of a company with a nominating committee, etc., audit committee members; and in the case of a company with an audit and supervisory committee, members of the audit and supervisory committee) and the board of auditors (in the case of a company with a nominating committee, etc., the audit committee; and in the case of a company with an audit and supervisory committee, the audit and supervisory committee), managers, the internal audit section, external audit functions, Responsible Actuaries, and Member Representatives Meeting are important.

In addition, considering that the Insurance Business Act requires, in view of the highly public nature of the insurance business, insurance companies to protect policyholders, etc. by ensuring the sound and appropriate business operation of

those conducting insurance business and fairness in insurance solicitation, the qualifications required for directors engaging in the ordinary business of an insurance company (in the case of a company with a nominating committee, etc., directors and executive officers engaging in the ordinary business of an insurance company) and auditors (in the case of a company with a nominating committee, etc., audit committee members; and in the case of a company with an audit and supervisory committee, members of the audit and supervisory committee) are extremely high.

In addition, the amendment of the Companies Act in 2014 and the regulations of financial instruments exchanges stipulate that listed companies secure outside directors, while the regulations also prescribe that listed companies respect the Corporate Governance Code and make efforts to strengthen corporate governance. As such, listed companies are required to meet a higher level of governance than unlisted companies. In consideration of the above, in monitoring the control environment for governance of insurance companies and insurance holding companies, whether their functions are appropriately performed shall be examined based on the following viewpoints, for example.

Whether the listed insurance company and the listed insurance holding company (hereinafter referred to as the “listed insurance company, etc.”) are making efforts appropriately in accordance with the Corporate Governance Code, including the following points, in establishing a control environment for governance of a level required by each principle of the Corporate Governance Code.

(Note) It shall be noted that the Corporate Governance Code adopts the so-called “principles-based approach” and the “comply or explain” (either comply with a principle or, if not, explain the reasons why not) approach.

(1) Since independent outside directors should carry out their roles and responsibilities to contribute to the sustained growth and improvement of medium- to long-term corporate value of listed insurance companies, etc., whether the listed insurance company, etc. selects at least two independent outside directors well-equipped with such qualifications.

In addition, whether the listed insurance company, etc. that deems it necessary to select at least one-third of the directors to be independent outside directors based on their independent judgment in total consideration of business type, scale, characteristics of business, institutional design, and

environment surrounding the listed insurance company, etc. discloses the policy for addressing it.

(2) In the case where the listed insurance company, etc. holds listed shares as so-called cross-holding shares, whether it discloses the policy for cross-holdings. In addition, whether the listed insurance company, etc. examines returns and risks of major cross-holdings by taking into account long-term economic rationality and future prospects and specifically explains the aims and rationalities of cross-holdings reflecting them at the board of directors meeting every year. Whether the listed insurance company, etc. has formulated/disclosed the criteria for ensuring appropriate response for exercising voting rights pertaining to cross-holding shares.

II-1-2-1 In the Case of an Insurance Company That Is a Company With a Board of Company Auditors

(1) Representative Director

(i) Whether the representative director counts compliance with laws and regulations, etc. among the most important management issues and is leading efforts to establish a control environment for legal compliance.

(ii) Whether the representative director fully recognizes that disregarding the risk management section may have a serious impact on corporate earnings, and attaches importance to said section.

(iii) Whether the representative has established an internal control environment to disclose financial information and other corporate information in an appropriate and timely manner.

(iv) Whether the representative director, based on the recognition of the importance of internal audits, has set appropriate objectives of internal audits and established arrangements for enabling the internal audit section to fully perform its functions (including securing the independence of the internal audit section), and periodically checks the performance of the functions. With regard to the control environment for internal audit, whether the representative director actively makes efforts to establish an effective control environment in view of issues pointed out in auditor’s audits and inspections by the Bureau, etc.

In addition, whether the representative director implements appropriate

measures based on the results of internal audits.

(v) Whether the representative director, based on an adequate recognition of the importance and usefulness of auditor's audits, recognizes that it is important to establish an environment that ensures the effectiveness thereof.

In particular, whether the representative director understands the developments that address changes in the environment surrounding auditor's audits, for example the Auditing Standards for Auditors (Japan Audit & Supervisory Board Members Association), and guarantees smooth auditing activities of auditors.

(vi) Whether the representative director fully understands that banning any relationship with anti-social forces and firmly excluding such forces are vital for maintaining public confidence in the insurance company and securing the appropriateness and soundness of its business. In addition, based on this understanding, whether the representative director has made clear, both throughout the company and to the outside, a basic policy decided by the board of directors with due consideration of the "Guideline for How Companies Prevent Damage from Anti-Social Forces" (agreed upon at a meeting on June 19, 2007 of cabinet ministers responsible for anti-crime measures; hereinafter referred to as the "Government Guideline" in II-1-2).

(2) Directors and Board of Directors

(i) Whether directors check and prevent autocratic management by the representative director and other officers who are responsible for business execution, and are actively involved in the board of directors' decision-making and checking process concerning business execution.

(ii) In the case where outside directors are elected, whether the outside directors recognize their significance from the perspective of ensuring objectivity of decision-making concerning management, and are actively involved in the board of directors. In addition, when deciding proposals regarding the appointment of outside directors, whether the insurance company examines the personal, capital, business and other relationships with the insurance company, in view of the roles expected of outside directors, and carefully examines their independence and eligibility.

Furthermore, whether the insurance company has established some kind of framework so as to enable the outside directors to make appropriate

judgments at the board of directors' meetings, such as continuous provision of information.

(iii) Whether the board of directors has specified a management policy based on the overall vision of the desirable status of each insurance company. Whether it has established management plans in line with the management policy and communicated the plans throughout the company. Whether it regularly reviews and revises the progress status thereof.

(iv) Whether the directors and board of directors are sincerely leading efforts in legal compliance, and appropriately perform their functions so as to establish a company-wide internal control environment. In addition, whether the board of directors has decided a basic policy based on the Government Guideline, established a framework for implementing it and clearly positioned the prevention of damage that could be inflicted by anti-social forces in the internal control system as a matter of legal compliance and risk management by, for example, periodically examining the effectiveness thereof.

(v) Whether the directors fully recognize that timely and appropriate payment of insurance proceeds, etc. (including all relating to the payment of insurance proceeds, pension, benefits, maturity refund, expiration return, and cancellation return, etc.; the same applies hereinafter) may have a serious impact on ensuring sound and appropriate business operations.

(vi) Whether the board of directors fully recognizes that disregarding the risk management section may have a serious impact on corporate earnings, and attaches importance to said section. In particular, whether the director in charge has in-depth knowledge and understanding of the methods of measuring, monitoring and managing risks, in addition to an understanding of where risks reside and what kind of risks they are.

(vii) Whether the board of directors has established a policy for managing risks based on strategic objectives and communicated the policy throughout the company. Whether the risk management policy is reviewed and revised on a periodic or as-needed basis. In addition, whether the board of directors makes use of risk-related information in the execution of business and the development of risk management systems by making necessary decisions based on risk-related information reported periodically, etc.

(viii) Whether the board of directors, etc. (including the board of managing directors and the executive management committee, etc.; the same applies

hereinafter) appropriately allocates management resources to enable appropriate business operations for the payment of insurance proceeds, etc. In addition, whether the board of directors, etc. checks whether the payment of insurance proceeds, etc. is appropriately managed.

(ix) Whether the board of directors has been fostering a culture within the company that emphasizes and clearly indicates to employees of all ranks the importance of governance, as well as reviewing and establishing appropriate and effective governance.

(x) Whether the board of directors, based on the recognition of the importance of internal audits, has set appropriate objectives of internal audits and established arrangements for enabling the internal audit section to fully perform its functions (including securing the independence of the internal audit section), and periodically checks the performance of the functions. With regard to the control environment for internal audit, whether the board of directors actively makes efforts to establish an effective control environment in view of issues pointed out in auditor's audits and inspections by the Bureau, etc.

In addition, whether the board of directors approves basic matters concerning internal audit plans, including audit policy and priority items, in light of the risk management status, etc., of sections subject to audits.

Furthermore, whether the board of directors implements appropriate measures based on the results of internal audits.

(xi) In the decision process, etc. of proposals regarding the appointment of directors engaging in the ordinary business of an insurance company, whether elements such as the following are appropriately taken into consideration concerning their eligibility as "knowledge and experience to carry out business management of an insurance company in an appropriate, fair and efficient manner" and "sufficient social credibility" listed in Article 8-2 of the Act:

A. Knowledge and Experience to Conduct Governance in an Appropriate, Fair and Efficient Manner

Whether the directors understand the particulars of the viewpoints regarding governance indicated in the Insurance Business Act and other relevant regulations, as well as the Guidelines, and have the knowledge and experience necessary for exercising such viewpoints, sufficient knowledge and experience regarding compliance and risk management to conduct the operations of the insurance company, etc. in a sound and

appropriate manner, and knowledge and experience to conduct other businesses that the insurance company is authorized to perform.

B. Sufficient Social Credibility

(A) Whether the directors have been involved with anti-social forces.

(B) Whether the directors are members of organized crime groups prescribed in Article 2(vi) the Act on Prevention of Unjust Acts by Organized Crime Group Members (including those who were formerly members; hereinafter referred to as “members of organized crime groups”), or have close relationships therewith.

(C) Whether the directors have been imposed a fine (including similar punishments imposed under foreign laws and regulations thereto) for violation of the Financial Instruments and Exchange Act and other finance-related laws and regulations of Japan or other foreign laws and regulations equivalent thereto, or for committing a crime under the Penal Code or under the Act on Punishment of Physical Violence and Others.

(D) Whether the directors have been sentenced to imprisonment without work or more severe punishment (including similar punishments imposed under foreign laws or regulations equivalent thereto).

(E) Whether the corporation to which the directors belonged or currently belong has received administrative disposition concerning legal compliance in the past such as a business improvement order, business suspension order, or rescission of license, registration or permit from the financial supervisory authorities, and whether the directors were responsible for the cause of said disposition as the party to the act or from a position of giving directions and orders to the party concerned by intention or gross negligence (especially considerable inattention despite being in a situation where it was possible to be aware of and avoid certain consequences).

(F) Whether the directors have received an order of dismissal from the position of officer, etc. from the financial supervisory authorities.

(G) Whether the directors have been the cause of the bankruptcy, etc., of a financial institution as an officer.

(xii) In appointing Responsible Actuaries, whether the board of directors ensures their independence from financialfinancial auditors.

(xiii) With regard to Responsible Actuaries to be appointed by the board of directors, whether the board of directors periodically checks whether the

Responsible Actuaries (including the candidates) are appropriate as Responsible Actuaries such as those striving to maintain and improve the qualifications to be regular members of The Institute of Responsible Actuaries of Japan by taking a certain training courses, etc. in continuing education it provides, in addition to meeting the requirements prescribed in Article 78 of the Regulation for Enforcement of the Insurance Business Act (hereinafter referred to as the “Regulation”).

(xiv) Whether the board of directors has established a control environment to enable Responsible Actuaries to fully perform their duties by providing Responsible Actuaries with necessary information, etc. through cooperation with each relevant section, etc. and periodically checks the performance of its functions.

(3) Auditors and Board of Auditors

(i) Whether the independence of the board of auditors is ensured in accordance with the purpose of the board of auditors system.

(ii) Whether the board of auditors properly exercises the broad authority granted thereto and conducts audits of business operations in addition to audits of accounting affairs.

(iii) Whether the board of auditors has established a systematic audit method for the practical operations of payment of insurance proceeds, etc.

(iv) Whether individual auditors recognize the importance of their own independence within the board of auditors and actively take the initiative to conduct audits.

(v) In the decision process, etc. of proposals regarding the appointment of auditors of an insurance company, whether elements such as the following are appropriately taken into consideration concerning their eligibility as “knowledge and experience to supervise the execution of duties of directors of an insurance company in an appropriate, fair and efficient manner” and “sufficient social credibility” listed in Article 8-2 of the Act:

A. Knowledge and Experience to Audit the Execution of Duties of Directors of an Insurance Company in an Appropriate, Fair and Efficient Manner

Whether the auditors of the insurance company have sufficient knowledge and experience to actively conduct audits based on their own independence and responsibility, as well as knowledge and experience to ensure sound and proper operation of business of the insurance company by auditing the execution of duties of directors from an

independent position.

B. Sufficient Social Credibility

(A) Whether the auditors have been involved with anti-social forces.

(B) Whether the auditors are members of organized crime groups, or have close relationships therewith.

(C) Whether the auditors have been imposed a fine (including similar punishments imposed under foreign laws and regulations thereto) for violation of the Financial Instruments and Exchange Act and other finance-related laws and regulations of Japan or other foreign laws and regulations equivalent thereto, or for committing a crime under the Penal Code or under the Act on Punishment of Physical Violence and Others.

(D) Whether the auditors have been sentenced to imprisonment without work or more severe punishment (including similar punishments imposed under foreign laws or regulations equivalent thereto).

(E) Whether the corporation to which the auditors belonged or currently belong has received administrative disposition concerning legal compliance in the past such as a business improvement order, business suspension order, or rescission of license, registration or permit from financial supervisory authorities, and whether the auditors were responsible for the cause of said disposition as the party to the act or from a position of giving directions and orders to the party concerned by intention or gross negligence (especially considerable inattention despite being in a situation where it was possible to be aware of and avoid certain consequences).

(F) Whether the auditors have received an order of dismissal from the position of officer, etc. from the financial supervisory authorities.

(G) Whether the auditors have been the cause of the bankruptcy, etc., of a financial institution as an officer.

(Reference) Auditing Standards for Auditors (Japan Audit & Supervisory Board Members Association)

(4) Managers (Senior Managers Who Assumes the Same or Higher Level of Responsibilities as Those of Sales Managers)

(i) Whether the managers, having fully understood the location and types of risks and risk management method, conduct appropriate risk management, such as measuring, monitoring, and managing risks according to their

types, in accordance with the risk management policy.

(ii) Whether the managers, based on the policy established at the board of directors, etc., implement measures to perform the mutual checking function.

(5) Internal Audit Section

(i) Whether the internal audit section has been established as an independent organization so as to fully check the actions of sections subject to audit, and is sufficiently staffed and equipped to conduct effective internal audits.

(ii) Whether the internal audit section has formulated efficient and effective internal audit plans in consideration of frequency and depth in accordance with the type and degree of risks and based on its understanding of the status of risk management, etc. by sections subject to audit and implements efficient and effective internal audits based on the internal audit plan.

(iii) Whether the internal audit section implements audits of all operations of all sections, including the payment management section, based on the internal audit implementation guidelines, etc.

(iv) Whether the internal audit section reports important issues pointed out in internal audits without any delay to the representative director and board of directors.

(v) Whether the internal audit section appropriately manages the status of efforts of sections subject to audit to make improvements with regard to problems pointed out in the internal audit reports.

(6) External Audit Functions

(i) Whether the representative director and the board of directors fully recognize that effective external audits by financial auditors, etc. are essential to ensure sound and appropriate business operation of the insurance company.

(ii) Whether the insurance company receives external audits regarding the effectiveness, etc. of the internal control environment (including a control environment for risk management) by financial auditors at least once a year.

Whether the results of external audits are reported directly and precisely to the board of directors or the board of directors, and contribute to ensuring the effectiveness of auditor’s audits, etc.

(Note) It must be noted that external audits here are not limited to audits of financial statements by financial auditors, but at present external audits other than audits of financial statements required by the system and examinations of the effectiveness of the internal control environment to be conducted as part of the procedure of the said audits are not required.

(iii) Whether the board of directors periodically checks whether external audits are effectively functioning.

(iv) Whether the representative director and the board of directors also receive reports of the results of external audits conducted at subsidiary companies (meaning subsidiary companies (including companies that are deemed to be the subsidiary companies) prescribed in Article 2(12) of the Act; the same applies hereinafter) of the insurance company, subsidiary corporations, etc. (meaning subsidiary corporations, etc. (excluding subsidiary companies) prescribed in Article 13-5-2(3) of the Order for Enforcement of the Insurance Business Act (hereinafter referred to as the "Order"); the same applies hereinafter), and affiliated corporations, etc. (meaning affiliated corporations, etc. prescribed in (4) of the said Article) appropriately as required and understand the effective functioning of external audits at subsidiary companies, etc. by understanding the problems, etc.

(v) Whether the board of directors give consideration to the cooperative relationship between the internal audit section and external auditors such as financial auditors as required.

(vi) Whether sections subject to audits make improvements with regard to problems pointed out by external auditors such as financial auditors within a certain time period. In addition, whether the internal audit section appropriately understands the improvement status.

(7) Coordination of Audit Functions

Whether the coordination between external audit functions and the internal audit section or auditors and board of auditors is functioning effectively.

(8) Responsible Actuaries

In order to ensure and maintain the financial soundness of insurance companies, it is necessary that Responsible Actuaries appointed by the board of directors understand their roles and are sufficiently involved in matters concerning actuarial science of the insurance companies concerned.

The points of attention in doing so shall be as follows.

(i) Whether the Responsible Actuaries are granted with authorities necessary for executing their duties by the board of directors. In addition, in view of the purpose of the system, whether the mutual checking function is secured by ensuring the independence of Responsible Actuaries from profitable sections, profit management sections, and product development sections, etc.

(ii) Whether the Responsible Actuaries are appropriately involved in matters concerning actuarial science such as insurance premium calculation method in accordance with laws and regulations, etc. In addition, whether they receive reports on information required for this from each relevant section in a timely and appropriate through attending to relevant internal meetings and fully perform their duties as Responsible Actuaries by stating opinions as required, etc.

(iii) Whether the Responsible Actuaries appropriately check, in accordance with laws and regulations, etc., whether policy reserves are accumulated based on sound actuarial science.

(iv) Whether the Responsible Actuaries appropriately check, in accordance with laws and regulations, etc., whether policyholder dividends or distribution of surplus to employees are made in a fair and equitable manner.

(v) Whether the Responsible Actuaries are involved in matters concerning actuarial science set forth in laws and regulations from the point of view of equitable treatment of policyholders and financial soundness, etc.

(vi) Whether the Responsible Actuaries conduct future cashflow analysis in accordance with laws and regulations, etc. In particular, whether the preconditions necessary for future projections such as the new policy growth rate, operating cost, and asset management status, etc. are based on the past performance and appropriate future projections.

(vii) Whether the Responsible Actuaries of a non-life insurance company (meaning a “non-life insurance company” prescribed in Article 2(4) of the Act, a “foreign non-life insurance company, etc.” prescribed in (9) of the same Article, a specified corporation which has obtained a specified non-life insurance business license prescribed in Article 219(2) of the Act, and its underwriting member; the same applies hereinafter) appropriately checks, in accordance with laws and regulations, etc., whether the amounts listed in Article 73(1)(ii) of the Regulation are accumulated based

on sound actuarial science as specified by the Commissioner of the FSA.

(viii) Whether the Responsible Actuaries submits written opinions to the board of directors. In addition, whether the matters specified by the laws and regulations, etc. are described in the written opinions.

(ix) When the matters listed in Article 121(1)(i) of the Act (including the cases where it is applied mutatis mutandis pursuant to Article 199 of the Act) are to be checked, whether contingency reserves are appropriately accumulated as prescribed in Articles 69 and 70 of the Regulation shall also be checked. In particular, care shall be taken in checking the rationality and appropriateness of calculating the reserve amount using stress tests prescribed in the Public Notice of the Ministry of Finance No. 231 of June 8, 1998 in the third-sector primary insurance (meaning the third-sector primary insurance prescribed in Article 6(1)(xii) of the Regulation; the same applies hereinafter).

(9) Member Representatives Meeting

For mutual companies, improvement of business transparency as well as enhancement of management checking functions are required from the point of view of public nature of insurance companies and protection of policyholder, etc.

The Member Representatives Meeting is positioned as the highest decision-making body, in place of general meeting of members, of mutual companies, and it is important to gain confidence of members that the intentions of members are reflected in the appoint of representative members).

In electing the representative members, the attendance rate and knowledge of the representative members themselves, etc. which had previously been emphasized are still important elements, but it must be noted that the purpose of electing the representatives of the members must not be hindered. In addition, the electing process is required to ensure independence from companies.

At the same time, it is considered appropriate to enhance provision of information on governance by enhancing the disclosure of the agenda, etc. of the Member Representatives Meeting by using the Internet, etc.

Furthermore, in order to reflect the intentions of the members to the Member Representatives Meeting, promoting the activation of policyholder

gatherings established by each company on its own initiative and cooperation with the Member Representatives Meeting is appropriate.

Based on these, the points of attention for the Member Representatives Meeting shall be as follows.

(i) Election of Representative members

A. Whether the number of representative members and the adequacy of the number are clearly and simply presented in explanatory documents.

(Note) Attention shall be paid to whether the portions describing the Member Representatives Meeting in the explanatory documents clearly state where to submit the opinions concerning the description.

B. Whether the selection method of representative members (including the selection procedure and selection criteria) is clearly and simply presented in explanatory documents.

(Note 1) Attention shall be paid to whether the outline of the selection method, including the existence of any measures to allow members who wish to become representative members to be elected as candidate representative members, and the concept/reason for adopting the election method concerned are described side by side.

(Note 2) Attention shall be paid to whether the portions describing the Member Representatives Meeting in the explanatory documents clearly state where to submit the opinions concerning the description.

C. Whether the matters described in A. and B. above are explained each time at the regular Member Representatives Meeting.

D. Whether the structure of representative members by major insurance type, occupation, age, period of obtaining member qualification, and region and the entire member structure are clearly and simply described in explanatory documents.

(Note 1) Attention shall be paid to whether there is any bias with respect to specific industries in the structure of representative members.

(Note 2) In the case of a life insurance company (meaning a “life insurance company” prescribed in Article 2(3) of the Act, a “foreign life insurance company, etc.” prescribed in (8) of the same Article, a specified corporation which has obtained a specified life insurance business license prescribed in Article 219(2) of the Act, and its underwriting member; the same applies hereinafter), the structure by insurance type may be described based on the number of contracts by type of insurance belonging to personal insurance/personal pension

insurance. In addition, for the number of contracts by insurance type for the entire members, it shall suffice to describe it separately in explanatory documents.

(Note 3) For the structure by occupation and the period of obtaining member qualification, it shall be sufficient to describe the structure of representative members by occupation and the period of obtaining member qualification only if the data on members by occupation and the period of obtaining member qualification are not updated/stored.

E. What measures are taken to enhance the functions of the representative member candidate selection committee?

(Note 1) Attention shall be paid to whether sufficient deliberations on the selection of members of the selection committee are made, from the point of view of contributing to fair selection of representative member candidates, at the Member Representatives Meeting.

(Note 2) Attention shall be paid to whether the selection committee clearly and simply explains specific representative member candidate selection policy to the members.

(Note 3) Attention shall be paid to whether the independence of the secretariat from the company is ensured and the secretariat is executing its duties under the direction/judgment of the selection committee such that, for example, the secretariat does not perform selection operations without the direction of the selection committee.

F. What measures are taken to ensure fairness and improve transparency of the representative member candidate selection process? In addition, what measures are taken from the viewpoint of making the process open to the members with willingness of participation in business operations?

(Note 1) Attention shall be paid to whether, in view of the purpose of electing the representative members to represent the members, the representative member candidates are elected from those who are already members in the selection stage.

(Note 2) Attention shall be paid to whether the diversification of the selection method is promoted by electing a certain percentage representative member candidates from the attendants of the policyholder gatherings, etc. In addition, attention shall also be paid to whether an appropriate level of the number of representative members is selected in promoting the diversification.

G. Whether, in conducting a confidence vote, information for making a

decision on each representative member candidate is sufficiently provided such as representative member candidates expressing their opinions or the selection committee explaining the purpose for selecting each candidate, etc.

H. Whether the term of office of representative members is set to eight years as a standard.

(ii) Member Representatives Meeting

Whether the following measures are taken at the insurance company to improve the management checking functions of the Member Representatives Meeting.

A. The Member Representatives Meeting shall report on the solvency margin ratio along with the matters described in business reports. In the case of a life insurance company, the status of core profits and negative spread shall be reported.

(Note) In the case of an insurance company in the form of a stock company, attention shall be paid to whether similar reports are made at the general meeting of shareholders.

B. When making a resolution of appropriation of surplus at the Member Representatives Meeting, the lower limit of the member dividend ratio prescribed in the articles of incorporation under Article 55-2(2) of the Act and the actual member dividend ratio, and the relationship with the measures to enhance the capital base of each company shall be explained.

C. Even at times when the Member Representatives Meeting is not held, sufficient information to understand the business status shall be appropriately provided to the representative members. In addition, measures to collect opinions, etc. from the representative members shall be formulated and measures to make the said collection measures known to the representative members shall be taken.

D. The members who wish to observe the Member Representatives Meeting shall be provided with opportunities to do so, and opportunities to make comments and ask questions, etc. to the company shall be provided immediately before and after the Member Representatives Meeting. In addition, in order to make the said observation system known to the members, appropriate measures shall be taken, such as posting over the counter, using notifications to policyholders, and utilizing websites on the Internet, etc.

E. In the minutes of the Member Representatives Meeting, the number of affirmative votes and dissenting votes, etc. for each matter decided as well as the content of explanations given by the insurance company for the proposals, etc. submitted to the Member Representatives Meeting and the content of statements made by each representative member, etc. shall be described in detail.

F. In the minutes of the Member Representatives Meeting shall be disclosed to the members by utilizing websites on the Internet, etc.

(iii) Policyholder Gatherings, etc.

A. Whether policyholder gatherings are held before the Member Representatives Meeting. In addition, whether the materials describing major opinions/questions, etc. expressed by policyholders at the policyholder gatherings are attached to the notice of convocation of the Member Representatives Meeting and reported at the Member Representatives Meeting.

B. In order to make the holding of the policyholder gatherings known to the policyholders, whether appropriate measures such as posting over the counter, using notifications to policyholders, and utilizing websites on the Internet have been taken. In addition, whether the policyholders wishing to attend the gatherings are provided with the opportunities to do so, and efforts are made to expand the opportunities for attendance, including diversification of the date and time of holding them.

C. Whether the business status is appropriately explained to the policyholders at the policyholder gatherings. Whether balance sheets, summaries of profit and loss statements, and other reference materials, etc. are sufficiently disclosed.

D. Whether diversification in the personnel selection is promoted at the board of councilors, etc. In addition, whether specific measures have been taken to enhance the functions of the board of councilors, etc. Whether balance sheets, summaries of profit and loss statements, and other reference materials, etc. are sufficiently disclosed.

E. Whether measures to make the method and procedure of offering opinions on company management, etc. known to the members have been taken.

II-1-2-2 In the Case of a Company With a Nominating Committee, Etc.

(Note) In the case of an insurance company with a nominating committee, etc., it is necessary to examine whether the board of directors, each committee, executive officers, etc., exercise their functions appropriately, taking into account the responsibilities and authorities granted to them. More concretely, examination should be conducted with due consideration of the actual status of each organization and delegation of authority based on the purpose of the Guidelines.

(1) Directors and Board of Directors

(i) Whether the board of directors clarifies the authority to decide the execution of duties, such as the basic management policy, duties of executive officers, and matters concerning command and order relationships and other relationships between executive officers.

Whether the board of directors has established a system to ensure that the execution of duties by executive officers complies with laws and regulations, as well as a system necessary to ensure the appropriateness of operations, and periodically examines the effectiveness thereof. In addition, with regard to the control environment for internal audit, whether the board of directors actively makes efforts to establish an effective control environment in view of issues pointed out in inspections by the audit committee or the supervisor, etc.

(ii) Whether the board of directors actively makes efforts to develop a system necessary to execute the duties of the audit committee, such as an audit assistant system, information reporting & control system, and internal control system.

(iii) Whether the board of directors has been fostering a culture within the company that emphasizes and clearly indicates to employees of all ranks the importance of governance, as well as reviewing and establishing appropriate and effective governance.

(iv) Whether the board of directors makes use of committees and appropriately exercises its supervisory authority over business execution in coordination with the committees.

(v) Whether the board of directors has established an internal control environment to appropriately disclose financial information and other corporate information in a timely manner.

(vi) Whether the directors are actively involved in the board of directors'

decisions on business execution and the checking process concerning business execution by directors and executive officers. Whether the directors understand that establishing internal control environments such as for legal compliance, risk management, and financial reporting (the so-called internal control system) constitutes the duty of due care and duty of loyalty of directors, and endeavor to appropriately fulfill their obligations.

(vii) Whether the board of directors has decided a basic policy based on the Government Guideline, established a framework for implementing it and clearly positioned the prevention of damage that could be inflicted by anti-social forces in the internal control system as a matter of legal compliance and risk management by, for example, periodically examining the effectiveness thereof.

(viii) In the decision process, etc. of proposals regarding the appointment of directors engaging in the ordinary business of an insurance company, whether elements such as the following are appropriately taken into consideration concerning their eligibility as “knowledge and experience to carry out business management of an insurance company in an appropriate, fair and efficient manner” and “sufficient social credibility” listed in Article 8-2 of the Act:

A. Knowledge and Experience to Conduct Governance in an Appropriate, Fair and Efficient Manner

Whether the directors have sufficient knowledge and experience to actively decide, at the board of directors’ meetings, matters concerning basic management policies and internal control systems as well as business execution, and to check the execution of duties of directors and executive officers, as well as the knowledge and experience to ensure sound and proper business operation of the insurance company by conducting the governance indicated in the Insurance Business Act and other relevant regulations as well as supervisory guidelines.

B. Sufficient Social Credibility

(A) Whether the directors have been involved with anti-social behaviors.

(B) Whether the directors are members of organized crime groups, or have close relationships therewith.

(C) Whether the directors have been imposed a fine (including similar punishments imposed under foreign laws and regulations thereto) for violation of the Financial Instruments and Exchange Act and other finance-related laws and regulations of Japan or other foreign laws and

regulations equivalent thereto, or for committing a crime under the Penal Code or under the Act on Punishment of Physical Violence and Others.

(D) Whether the directors have been sentenced to imprisonment with work or more severe punishment (including similar punishments imposed under foreign laws or regulations equivalent thereto).

(E) Whether the corporation to which the directors belonged or currently belong has received administrative disposition concerning legal compliance in the past such as a business improvement order, business suspension order, or rescission of license, registration or permit from the financial supervisory authorities, and whether the directors were responsible for the cause of said disposition as the party to the act or from a position of giving directions and orders to the party concerned by intention or gross negligence (especially considerable inattention despite being in a situation where it was possible to be aware of and avoid certain consequences).

(F) Whether the directors have received an order of dismissal from the position of officer, etc. from the financial supervisory authorities.

(G) Whether the directors have been the cause of the bankruptcy, etc., of a financial institution as an officer.

(ix) Whether the directors fully recognize that timely and appropriate payment of insurance proceeds, etc. may have a serious impact on ensuring sound and appropriate business operations.

(x) Whether the board of directors, etc. appropriately allocates management resources to enable appropriate business operations for the payment of insurance proceeds, etc. In addition, whether the board of directors, etc. checks whether the payment of insurance proceeds, etc. is appropriately managed.

(xi) In appointing Responsible Actuaries, whether the board of directors ensures their independence from financial auditors.

(xii) With regard to Responsible Actuaries to be appointed by the board of directors, whether the board of directors periodically checks whether the Responsible Actuaries (including the candidates) are appropriate as Responsible Actuaries such as those striving to maintain and improve the qualifications to be regular members of the Institute of Actuaries of Japan by taking a certain training courses, etc. in continuing education it provides, in addition to meeting the requirements prescribed in Article 78 of the

Regulation.

(xiii) Whether the board of directors has established a control environment to enable Responsible Actuaries to fully perform their duties by providing Responsible Actuaries with necessary information, etc. through cooperation with each relevant section, etc. and periodically checks the performance of its functions.

(2) The Audit Committees, etc.

(i) Whether the independence of each committee is ensured in accordance with the purpose of its system.

(ii) Whether the audit committee properly exercises the broad authority granted thereto, as well as appropriately conducting audits of business operations in addition to audits of accounting affairs and taking necessary measures in a timely manner.

(iii) Whether the audit committee has established a systematic audit method for the practical operations of payment of insurance proceeds, etc.

(iv) Whether the audit committee makes effective use of employees who should assist the duties of the audit committee, the internal audit section, financial auditor, etc. in order to conduct audits of the compliance and adequacy of the execution of duties by the directors and executive officers.

In view of the institutional basis of the audit committee that consists mainly of outside directors, which is to conduct so-called organizational audits through the internal control system, whether a system is in place for the internal audit section, in particular, to support the audit committee, in comparison to auditors of a company with auditors who are able to conduct so-called physical audits.

(v) In the decision process, etc. of proposals regarding the appointment of audit committee members, whether elements such as the following are appropriately taken into consideration concerning their eligibility as “knowledge and experience to supervise the execution of duties of executive officers and directors of an insurance company in an appropriate, fair and efficient manner” and “sufficient social credibility” and “sufficient social credibility” listed in Article 8-2 of the Act:

A. Knowledge and Experience to Audit the Execution of Duties of Executive Officers and Directors of an Insurance Company in an Appropriate, Fair and Efficient Manner

Whether the audit committee members of the insurance company have

sufficient knowledge and experience to actively fulfilling their role in the deliberations of the board of directors concerning the establishment and administration of the internal control system, and the knowledge and experience to ensure sound and proper operation of business of the insurance company by auditing the duties of executive officers and directors from an independent position.

B. Sufficient Social Credibility

(A) Whether the audit committee members have been involved with anti-social behaviors.

(B) Whether the audit committee members are members of organized crime groups, or have close relationships therewith.

(C) Whether the audit committee members have been imposed a fine (including similar punishments imposed under foreign laws and regulations thereto) for violation of the Financial Instruments and Exchange Act and other finance-related laws and regulations of Japan or other foreign laws and regulations equivalent thereto, or for committing a crime under the Penal Code or under the Act on Punishment of Physical Violence and Others.

(D) Whether the audit committee members have been sentenced to imprisonment with work or more severe punishment (including similar punishments imposed under foreign laws or regulations equivalent thereto).

(E) Whether the corporation to which the audit committee members belonged or currently belong has received administrative disposition concerning legal compliance in the past such as a business improvement order, business suspension order, or rescission of license, registration or permit from the financial supervisory authorities, and whether the audit committee members were responsible for the cause of said disposition as the party to the act or from a position of giving directions and orders to the company by intention or gross negligence (especially considerable inattention despite being in a situation where it was possible to be aware of and avoid certain consequences).

(F) Whether the audit committee members have received an order of dismissal from the position of officer, etc. from the financial supervisory authorities.

(G) Whether the audit committee members have been the cause of the bankruptcy, etc., of a financial institution as an officer.

(Reference) Auditing Standards for Audit Committee (Japan Audit & Supervisory Board Members Association)

(3) Executive Officers (Including Representative Executive Officers)

(i) Whether the executive officers make decisions on business execution in accordance with the basic management policy decided by the board of directors, based on sufficient acknowledgement of authorities and responsibilities delegated by resolution of the board of directors.

(ii) Whether the executive officers have established management plans in line with the basic management policy and communicated the plans throughout the company. Whether they regularly review and revise the progress status thereof.

(iii) Whether the executive officers are sincerely leading efforts in legal compliance, and appropriately perform their function to establish and execute a company-wide internal control environment.

(iv) Whether the executive officers fully recognize that disregarding the risk management section may have a serious impact on corporate earnings, and attach importance to said section. In particular, whether the executive officer in charge has in-depth knowledge and understanding concerning the methods of measuring, monitoring and managing risks, in addition to an understanding of where risks reside and what kind of risks they are.

(v) Whether the executive officers have set up a policy for managing risks based on the basic management policy and communicated the policy throughout the company. Whether the risk management policy is reviewed and revised on a periodic or as-needed basis. In addition, whether the board of directors makes use of risk-related information in the execution of business and the development of risk management systems by, for example, making necessary decisions based on risk-related information reported periodically.

(vi) Whether the executive officers have taken measures to enable internal audit functions to fully perform based on the recognition of the importance of internal audits, and implements appropriate measures based on the results of internal audits.

(vii) Whether the executive officers fully understand that banning any relationship with anti-social forces and firmly excluding such forces are vital for maintaining public confidence in the insurance company and securing the appropriateness and soundness of its business. In addition, based on

this understanding, whether the executive officers have made clear, both throughout the company and to the outside, a basic policy decided by the board of directors with due consideration of the Government Guideline.

(xiii) In the appointment process of executive officers, etc., whether elements such as the following are appropriately taken into consideration concerning their eligibility as “knowledge and experience to carry out business management of an insurance company in an appropriate, fair and efficient manner” and “sufficient social credibility” listed in Article 8-2 of the Act:

A. Knowledge and Experience to Conduct Governance in an Appropriate, Fair and Efficient Manner

Whether the executive officers understand the particulars of the viewpoints regarding governance indicated in the Insurance Business Act and other relevant regulations, as well as the Guidelines, and have the knowledge and experience necessary for exercising such viewpoints, sufficient knowledge and experience regarding compliance and risk management to conduct the operations of the insurance company, etc. in a sound and appropriate manner, and knowledge and experience to conduct other insurance businesses.

B. Sufficient Social Credibility

(A) Whether the executive officers have been involved with anti-social behaviors.

(B) Whether the executive officers are members of organized crime groups, or have close relationships therewith.

(C) Whether the executive officers have been imposed a fine (including similar punishments imposed under foreign laws and regulations thereto) for violation of the Financial Instruments and Exchange Act and other finance-related laws and regulations of Japan or other foreign laws and regulations equivalent thereto, or for committing a crime under the Penal Code or under the Act on Punishment of Physical Violence and Others.

(D) Whether the executive officers have been sentenced to imprisonment with work or more severe punishment (including similar punishments imposed under foreign laws or regulations equivalent thereto).

(E) Whether the corporation to which the executive officers belonged or currently belong has received administrative disposition concerning legal compliance in the past such as a business improvement order, business suspension order, or rescission of license, registration or

permit from the financial supervisory authorities, and whether the executive officers were responsible for the cause of said disposition as the party to the act or from a position of giving directions and orders to the party concerned by intention or gross negligence (especially considerable inattention despite being in a situation where it was possible to be aware of and avoid certain consequences).

(F) Whether the executive officers have received an order of dismissal from the position of officer, etc. from the financial supervisory authorities.

(G) Whether the executive officers have been the cause of the bankruptcy, etc., of a financial institution as an officer.

(4) Managers (Senior Managers Who Assumes the Same or Higher Level of Responsibilities as Those of Managers of Sales Office)

The managers of a company with a nominating committee, etc. shall be examined in an equivalent manner as described in II-1-2-1(4).

(5) Internal Audit Section

(i) Whether the internal audit section has been established as an independent organization so as to fully check the actions of sections subject to audit, and is sufficiently staffed and equipped to conduct effective internal audits.

(ii) Whether the internal audit section has formulated efficient and effective internal audit plans in consideration of frequency and depth in accordance with the type and degree of risks and based on its understanding of the status of risk management, etc. by sections subject to audit and implements efficient and effective internal audits based on the internal audit plan.

(iii) Whether the internal audit section implements audits of all operations of all sections, including the payment management section, based on the internal audit implementation guidelines, etc.

(iv) Whether the internal audit section reports important issues pointed out in internal audits without any delay to the representative executive officers and the audit committees, etc.

(v) Whether the internal audit section appropriately manages the status of efforts of sections subject to audit to make improvements with regard to problems pointed out in the internal audit reports.

(6) External Audit Functions

The external audit functions of a company with a nominating committee, etc. shall be examined in an equivalent manner as described in II-1-2-1(6).

(7) Coordination of Audit Functions

The coordination of audit functions of a company with a nominating committee, etc. shall be examined in an equivalent manner as described in II-1-2-1(7).

(8) Responsible Actuaries

The Responsible Actuaries of a company with a nominating committee, etc. shall be examined in an equivalent manner as described in II-1-2-1(8).

(9) Member Representatives Meeting

The Member Representatives Meeting of a company with a nominating committee, etc. shall be examined in an equivalent manner as described in II-1-2-1(9).

II-1-2-3 In the Case of an Insurance Company That Is a Company With an Audit and Supervisory Committee

(1) Representative Director

(i) Whether the representative director counts compliance with laws and regulations, etc. among the most important management issues and is leading efforts to establish a control environment for legal compliance.

(ii) Whether the representative director fully recognizes that disregarding the risk management section may have a serious impact on corporate earnings, and attaches importance to said section.

(iii) Whether the representative has established an internal control environment to disclose financial information and other corporate information timely in an appropriate manner.

(iv) Whether the representative director, based on the recognition of the importance of internal audits, has set appropriate objectives of internal audits and established arrangements for enabling the internal audit section to fully perform its functions (including securing the independence of the internal audit section), and periodically checks the performance of the

functions. With regard to the control environment for internal audit, whether the representative director actively makes efforts to establish an effective environment in view of issues pointed out in audits by the audit and supervisory committee and inspections by the Bureau, etc.

In addition, whether the representative director implements appropriate measures based on the results of internal audits.

(v) Whether the representative director, based on an adequate recognition of the importance and usefulness of audits by the audit and supervisory committee, recognizes that it is important to establish an environment that ensures the effectiveness thereof.

(vi) Whether the representative director fully understands that banning any relationship with anti-social forces and firmly excluding such forces are vital for maintaining public confidence in the insurance company and securing the appropriateness and soundness of its business. In addition, based on this understanding, whether the representative director has made clear, both throughout the company and to the outside, a basic policy decided by the board of directors with due consideration of the Government Guideline.

(2) Directors and Board of Directors

(i) Whether directors check and prevent autocratic management by the representative director etc. who are responsible for business execution, and are actively involved in the board of directors' decision-making and checking process concerning business execution.

(ii) Whether outside directors recognize their significance from the perspective of ensuring objectivity of decision-making concerning management, and are actively involved in the board of directors. In addition, when deciding proposals regarding the appointment of outside directors, whether the insurance company examines the personal, capital, business and other relationships with the insurance company, in view of the roles expected of outside directors, and carefully examines their independence and eligibility.

Furthermore, whether the insurance company has established some kind of framework so as to enable the outside directors to make appropriate judgments at the board of directors' meetings, such as continuous provision of information.

(iii) Whether the board of directors has specified a management policy based on the overall vision of the desirable status of each insurance company.

Whether it has established management plans in line with the management policy and communicated the plans throughout the company. Whether it regularly reviews and revises the progress status thereof.

(iv) Whether the directors and board of directors are sincerely leading efforts in legal compliance, and appropriately perform their functions so as to establish a company-wide internal control environment. In addition, whether the board of directors has decided a basic policy based on the Government Guideline, established a framework for implementing it and clearly positioned the prevention of damage that could be inflicted by anti-social forces in the internal control system as a matter of legal compliance and risk management by, for example, periodically examining the effectiveness thereof.

(v) Whether the directors fully recognize that timely and appropriate payment of insurance proceeds, etc. may have a serious impact on ensuring sound and appropriate business operations.

(vi) Whether the board of directors fully recognizes that disregarding the risk management section may have a serious impact on corporate earnings, and attaches importance to said section. In particular, whether the director in charge has in-depth knowledge and understanding of the methods of measuring, monitoring and managing risks, in addition to an understanding of where risks reside and what kind of risks they are.

(vii) Whether the board of directors has established a policy for managing risks based on strategic objectives and communicated the policy throughout the company. Whether the risk management policy is reviewed and revised on a periodic or as-needed basis. In addition, whether the board of directors makes use of risk-related information in the execution of business and the development of risk management systems by, for example, making necessary decisions based on risk-related information reported periodically.

(viii) Whether the board of directors, etc. appropriately allocates management resources to enable appropriate business operations for the payment of insurance proceeds, etc. In addition, whether the board of directors, etc. checks whether the payment of insurance proceeds, etc. is appropriately managed.

(ix) Whether the board of directors has been fostering a culture within the company that emphasizes and clearly indicates to employees of all ranks the importance of governance, as well as reviewing and establishing

appropriate and effective governance.

(x) Whether the board of directors, based on the recognition of the importance of internal audits, has set appropriate objectives of internal audits and established arrangements for enabling the internal audit section to fully perform its functions (including securing the independence of the internal audit section), and periodically checks the performance of the functions. With regard to the control environment for internal audit, whether the board of directors actively makes efforts to establish an effective environment in view of issues pointed out in audits by the audit and supervisory committee and inspections by the supervisor, etc.

In addition, whether the board of directors approves basic matters concerning internal audit plans, including audit policy and priority items, in light of the risk management status, etc., of sections subject to audits.

Furthermore, whether the board of directors implements appropriate measures based on the results of internal audits.

(xi) Whether the directors, based on an adequate recognition of the importance and usefulness of audits by the audit and supervisory committee, recognize that it is important to establish an environment that ensures the effectiveness thereof. When deciding proposals regarding the appointment of directors who are members of the audit and supervisory committee, whether the directors carefully examine their independence and eligibility. In particular, whether the directors recognize that the appointment of outside directors who are members of the audit and supervisory committee is compulsory from the perspective of further improving the neutrality and independence of the audit system.

Furthermore, whether the directors have established some kind of framework so as to enable the outside directors who are members of the audit and supervisory committee to make appropriate judgments, such as continuous provision of information.

(xii) In the decision process, etc. of proposals regarding the appointment of directors engaging in the ordinary business of an insurance company, whether elements such as the following are appropriately taken into consideration concerning their eligibility as “knowledge and experience to carry out business management of an insurance company in an appropriate, fair and efficient manner” and “sufficient social credibility” listed in Article 8-2 of the Act:

A. Knowledge and Experience to Conduct Governance in an Appropriate,

Fair and Efficient Manner

Whether the directors understand the particulars of the viewpoints regarding governance indicated in the Insurance Business Act and other relevant regulations, as well as the Guidelines, and have the knowledge and experience necessary for exercising such viewpoints, sufficient knowledge and experience regarding compliance and risk management to conduct the operations of the insurance company, etc. in a sound and appropriate manner, and knowledge and experience to conduct other insurance businesses.

B. Sufficient Social Credibility

(A) Whether the directors have been involved with anti-social behaviors.

(B) Whether the directors are members of organized crime groups, or have close relationships therewith.

(C) Whether the directors have been imposed a fine (including similar punishments imposed under foreign laws and regulations thereto) for violation of the Financial Instruments and Exchange Act and other finance-related laws and regulations of Japan or other foreign laws and regulations equivalent thereto, or for committing a crime under the Penal Code or under the Act on Punishment of Physical Violence and Others.

(D) Whether the directors have been sentenced to imprisonment with work or more severe punishment (including similar punishments imposed under foreign laws or regulations equivalent thereto).

(E) Whether the corporation to which the directors belonged or currently belong has received administrative disposition concerning legal compliance in the past such as a business improvement order, business suspension order, or rescission of license, registration or permit from the financial supervisory authorities, and whether the directors were responsible for the cause of said disposition as the party to the act or from a position of giving directions and orders to the party concerned by intention or gross negligence (especially considerable inattention despite being in a situation where it was possible to be aware of and avoid certain consequences).

(F) Whether the directors have received an order of dismissal from the position of officer, etc. from the financial supervisory authorities.

(G) Whether the directors have been the cause of the bankruptcy, etc., of a financial institution as an officer.

(xiii) In appointing Responsible Actuaries, whether the board of directors ensures their independence from financial auditors.

(xiv) With regard to Responsible Actuaries to be appointed by the board of directors, whether the board of directors periodically checks whether the Responsible Actuaries (including the candidates) are appropriate as Responsible Actuaries such as those striving to maintain and improve the qualifications to be regular members of The Institute of Responsible Actuaries of Japan by taking a certain training courses, etc. in continuing education it provides, in addition to meeting the requirements prescribed in Article 78 of the Regulation.

(xv) Whether the board of directors has established a control environment to enable Responsible Actuaries to fully perform their duties by providing Responsible Actuaries with necessary information, etc. through cooperation with each relevant section, etc. and periodically checks the performance of its functions.

(3) Audit and Supervisory Committee

(i) Whether the independence of the audit and supervisory committee is ensured in accordance with the purpose of its system.

(ii) Whether the audit and supervisory committee properly exercises the broad authority granted thereto, as well as appropriately conducting audits of business operations in addition to audits of accounting affairs and taking necessary measures in a timely manner.

(iii) Whether the audit and supervisory committee has established a systematic audit method for the practical operations of payment of insurance proceeds, etc.

(iv) Whether the audit and supervisory committee makes effective use of employees who should assist the duties of the audit and supervisory committee, the internal audit section, financial auditor, etc. in order to conduct audits of the compliance and adequacy of the execution of duties by the directors.

In view of the institutional basis of the audit and supervisory committee that consists mainly of outside directors, which is to conduct so-called organizational audits through the internal control system, whether a system is in place for the internal audit section, in particular, to support the audit and supervisory committee, in comparison to auditors of a company with auditors who are able to conduct so-called physical audits.

(v) With regard to proposals regarding the appointment of directors who are members of the audit and supervisory committee that the directors submit to the general meeting of shareholders, whether the audit and supervisory committee carefully examines their independence and eligibility upon deliberation of consent.

In particular, whether the audit and supervisory committee examines the personal, capital, business and other relationships with the insurance company, with regard to outside auditors who are members of the audit and supervisory committee.

(vi) In the decision process, etc. of proposals regarding the appointment of directors who are members of the audit and supervisory committee of an insurance company, whether elements such as the following are appropriately taken into consideration concerning their eligibility as “knowledge and experience to supervise the execution of duties of directors of an insurance company in an appropriate, fair and efficient manner” and “sufficient social credibility” listed in Article 8-2 of the Act:

A. Knowledge and Experience to Audit the Execution of Duties of Directors of an Insurance Company in an Appropriate, Fair and Efficient Manner

Whether the members of the audit and supervisory committee have sufficient knowledge and experience to monitor and examine the status of the establishment and administration of the internal control system, as well as actively fulfilling their role in the deliberations of the board of directors concerning the establishment and administration of the internal control system, and the knowledge and experience to ensure sound and proper operation of business of the insurance company by auditing the duties of directors from an independent position.

B. Sufficient Social Credibility

(A) Whether the members of the audit and supervisory committee have been involved with anti-social behaviors.

(B) Whether the members of the audit and supervisory committee are members of organized crime groups, or have close relationships therewith.

(C) Whether the members of the audit and supervisory committee have been imposed a fine (including similar punishments imposed under foreign laws and regulations thereto) for violation of the Financial Instruments and Exchange Act and other finance-related laws and regulations of Japan or other foreign laws and regulations equivalent

thereto, or for committing a crime under the Penal Code or under the Act on Punishment of Physical Violence and Others.

(D) Whether the members of the audit and supervisory committee have been sentenced to imprisonment with work or more severe punishment (including similar punishments imposed under foreign laws or regulations equivalent thereto).

(E) Whether the corporation to which the members of the audit and supervisory belonged or currently belong has received administrative disposition concerning legal compliance in the past such as a business improvement order, business suspension order, or rescission of license, registration or permit from the financial supervisory authorities, and whether the members of the audit and supervisory were responsible for the cause of said disposition as the party to the act or from a position of giving directions and orders to the party concerned by intention or gross negligence (especially considerable inattention despite being in a situation where it was possible to be aware of and avoid certain consequences).

(F) Whether the members of the audit and supervisory committee have received an order of dismissal from the position of officer, etc. from the financial supervisory authorities.

(G) Whether the members of the audit and supervisory committee have been the cause of the bankruptcy, etc., of a financial institution as an officer.

(Reference) Auditing and Supervising Standards for Audit and Supervisory Committee (Japan Audit & Supervisory Board Members Association)

(4) Managers (Senior Managers Who Assumes the Same or Higher Level of Responsibilities as Those of Managers of Sales Offices)

The managers of a company with an audit and supervisory committee shall be examined in an equivalent manner as described in II-1-2-1(4).

(5) Internal Audit Section

(i) Whether the internal audit section has been established as an independent organization so as to fully check the actions of sections subject to audit, and is sufficiently staffed and equipped to conduct effective internal audits.

(ii) Whether the internal audit section has formulated efficient and effective internal audit plans in consideration of frequency and depth in accordance

with the type and degree of risks and based on its understanding of the status of risk management, etc. by sections subject to audit and implements efficient and effective internal audits based on the internal audit plan.

(iii) Whether the internal audit section implements audits of all operations of all sections, including the payment management section, based on the internal audit implementation guidelines, etc.

(iv) Whether the internal audit section reports important issues pointed out in internal audits without any delay to the representative director and audit and supervisory committee.

(v) Whether the internal audit section appropriately manages the status of efforts of sections subject to audit to make improvements with regard to problems pointed out in the internal audit reports.

(6) External Audit Functions

The external audit functions of a company with an audit and supervisory committee shall be examined in an equivalent manner as described in II-1-2-1(6).

(7) Coordination of Audit Functions

The coordination of audit functions of a company with an audit and supervisory committee shall be examined in an equivalent manner as described in II-1-2-1(7).

(8) Responsible Actuaries

The Responsible Actuaries of a company with an audit and supervisory committee shall be examined in an equivalent manner as described in II-1-2-1(8).

(9) Member Representatives Meeting

The Member Representatives Meeting of a company with an audit and supervisory committee shall be examined in an equivalent manner as described in II-1-2-1(9).

(Reference) The “Guideline for How Companies Prevent Damage from Anti-Social Forces” (agreed upon at a meeting on June 19, 2007 of cabinet ministers responsible for anti-crime measures) may be used as reference regarding the

viewpoints in supervising the control environment of governance.

(Note) Hereinafter in the Guidelines, descriptions presume cases of insurance companies that are companies with auditors, in principle; however, in the case of insurance companies that are companies with a nominating committee, etc., or companies with an audit and supervisory committee, examinations shall be made by replacing them in accordance with the actual situation as needed, based on the purpose of the Guidelines.

II-1-3 Supervisory Method and Actions

The control environment for governance shall be examined through the following hearings and daily supervisory administrative processes.

(1) Off-site Monitoring

Supervisors shall require the insurance company to continuously report on financial accounting information and risk information, etc. to understand the status of the soundness of management of the insurance company at all times. In addition, various information submitted from insurance companies shall be promptly and effectively accumulated and analyzed.

(2) Hearings Regarding Status of Governance, etc.

Hearings shall be held regarding management challenges, management strategies and various risks thereof, and the status of exercise of functions of the board of directors/auditors, etc.

(3) Hearings Regarding Internal Audits, etc.

Hearings with the internal audit section of the insurance company shall be held as necessary, with regard to its internal audit system, the status of the implementation of internal audits, and the correction of problems, from the point of view of identifying the status of the exercise of internal audit functions.

In addition, hearings with insurance companies' auditors, financial auditors, and outside directors shall be held when a particular need to do so is recognized.

(4) Examination of Control Environment for Governance through Ordinary Supervisory Administrative Processes

For the control environment for governance, the effectiveness of governance shall be examined not only through the hearings described in (1) through (3) above, but also through ordinary supervisory administrative processes such as, for example, licensing examination, reception of the notification of the appointment/resignation of directors, executive officers, auditors, audit committee members, members of the audit and supervisory committee, and financial auditors, follow-up of the notice of the inspection results, notification of misconducts, early warning system, and prompt corrective action, etc.

(5) Recording of Monitoring Results

As a result of monitoring, if a matter of particular note has arisen during the business year, the records shall be updated in each case.

(6) Supervisory Actions

(i) In cases where doubt has arisen about the effectiveness of an insurance company's governance, steady improvement shall be promoted by holding an in-depth hearing regarding the cause of problems and improvement measures and, when necessary, requiring the submission of a report under Article 128 of the Act (in the case of a foreign insurance companies, etc. (meaning a "foreign insurance companies, etc." prescribed in Article 2(7) of the Act; the same applies hereinafter), Article 200 of the Act; and in the case of a licensed specified corporation or an underwriting member, Article 226 of the Act; the same applies hereinafter). In addition, if a serious problem is deemed to exist, an administrative disposition shall be taken under Article 132 of the Act (in the case of a foreign insurance companies, etc., Article 204 of the Act; and in the case of a licensed specified corporation or an underwriting member, Article 230 of the Act; the same applies hereinafter).

(ii) When a director, executive officer, auditor, audit committee member, or member of the audit and supervisory committee engaging in the ordinary business of the insurance company is deemed to be ineligible in light of the factors to be considered listed in II-1-2-1(2)(xi), II-1-2-2(1)(viii), II-1-2-3(2)(xii), II-1-2-2(3)(viii), II-1-2-1(3)(v), II-1-2-2(2)(v), or II-1-2-3(3)(vi) or when the factors are deemed not sufficiently considered in the decision process of proposal regarding its appointment or in the appointment process, if it is deemed necessary to ensure sound and proper business operation of the insurance company, an in-depth hearing shall be held regarding the eligibility of the director, executive officer, auditor, audit committee member, or

member of the audit and supervisory committee, status of execution of governance, the insurance company's recognition thereof, and the decision process of proposal regarding the appointment of directors, auditors, or members of the audit and supervisory committee or the election process of executive officers or audit committee members, etc. and, when necessary, supervisors shall require the submission of a report under Article 128 of the Act. In addition, when a serious problem is deemed to exist in in the control environment for governance as a result of the report submitted, if it is deemed that sound and proper business operation of the insurance company may be obstructed if the problem is left to the voluntary improvement efforts of the insurance company, a business improvement order shall be issued under Article 132 of the Act.

(iii) When the insurance company has violated any laws or regulations, the articles of incorporation, or a disposition by the Prime Minister under laws and regulations or committed any act that harms public interest, if the main cause is deemed to be attributable to the lack of eligibility of a director, executive officer, auditor, audit committee member, or member of the audit and supervisory committee engaging in the ordinary business of the insurance company or its representative in Japan or a significant cause is attributable to the fact that an financial auditor has violated the obligations of its duties or neglected its duties, etc., issuing an order to dismiss the director (including the case where it is the audit committee member or the member of the audit and supervisory committee), executive officer, auditor, representative in Japan, or financial auditor under Article 133 of the Act (in the case of a foreign insurance companies, etc., Article 205 of the Act; and in the case of a licensed specified corporation or an underwriting member, Article 231 or 232 of the Act; the same applies hereinafter) shall be considered.

(Note) The viewpoints in knowledge and experience and social credibility of directors, executive officers, auditors, audit committee members, and members of the audit and supervisory committee listed in II-1-2-1(2)(xi), II-1-2-2(1)(viii), II-1-2-3(2)(xii), II-1-2-2(3)(viii), II-1-2-1(3)(v), II-1-2-2(2)(v), and II-1-2-3(3)(vi) are based on the voluntary efforts of each insurance company in the election process, etc. of directors, executive officers, auditors, audit committee members, and members of the audit and supervisory committee, and are presented as examples of matters to be checked by the Bureau whether the eligibility prescribed in Article 8-2 of

the Act is appropriately determined in that process and meeting certain matters shall not be immediately determined to be eligible. It must be noted that in the decision process of proposals regarding the appointment of directors, auditors, audit committee members, and members of the audit and supervisory committee or the election process of executive officers and audit committee members, the insurance company itself should, at its own responsibility, determined appropriately by considering the qualifications of individual directors, executive officers, auditors, audit committee members, and members of the audit and supervisory committee, taking into account the above-mentioned viewpoints, and in the application for a license and notification of the resignation of directors, auditors, audit committee members, and members of the audit and supervisory committee or the election process of executive officers and audit committee members, etc., the insurance company should be held accountable to the supervisory authorities (refer to Forms 1, 31, and 31-2 in Forms and Reference Materials).

II-2 Soundness of Financial Condition

II-2-1 Appropriateness of Accumulation of Policy Reserves, etc.

II-2-1-1 Significance

Insurance companies are required to strive to accumulate policy reserves, etc. under the Insurance Business Act for insurance proceeds, etc. to be paid to the policyholders in the future. The supervisors need to encourage insurance companies to make voluntary efforts to maintain the soundness of their financial conditions through off-site monitoring and guidance for appropriate accounting, etc., which should complement the efforts they make on their own responsibility to ensure the accumulation of policy reserves.

II-2-1-2 Accumulation Method

(1) In the insurance prescribed in Article 3(4)(i) of the Act (hereinafter referred to as the “first-sector”) and the insurance prescribed in (ii) of the same

paragraph of the same Article or (5)(ii) of the same Article of the Act (hereinafter referred to as the “third-sector”), whether regular policy reserves are accumulated for contracts covered by regular policy reserve and net level premium policy reserves are accumulated for contracts exempt from regular policy reserve (excluding savings-type injury insurance with the insurance period of 10 years or less, etc. prescribed in the Notice of the FSA No. 24-2 of March 30, 2001).

(2) In the first-sector and third-sector, if so-called Zillmerized reserves are accumulated as a rational and adequate way based on actuarial science when there are special circumstances in light of the businesses of insurance companies or the property conditions and characteristics of insurance contracts, whether the Zillmer quota is appropriate in the context of the new contract cost level.

(3) In the case of (2) above, whether increases are made in a planner manner for the accumulation of regular policy reserves/net level premium policy reserves.

(4) Of the insurance contracts that fall under predetermined conditions due to specific diseases, predetermined physical disability conditions, predetermined conditions requiring long-term care, or any other reasons for the exemption of the payment insurance premiums and are exempted from the payment of subsequent insurance premiums, whether the amount of policy reserves pertaining to those insurance contracts that are automatically renewable to be accumulated is calculated based on the assumption that all automatic renewals are to made until the final expiration date of the insurance period.

(5) Whether the accumulation standards and the accumulation limit pertaining to “other risks” in contingency reserves I and IV are set according to the risks of surgical benefits, long-term care benefits, and other insurance benefits.

(6) Contingency reserves shall be calculated using stress tests of the third-sector insurance in accordance with the provisions of the Notice of the Ministry of Finance No. 231 of June 8, 1998. Whether the control environment to secure the mutual checking function with the internal audit

section other than the section calculating contingency reserves and other appropriate sections has been clearly defined in the internal rules, etc.

(7) The following points shall be considered when conducting stress tests and liability adequacy tests:

(i) Whether the uncertainty of worsening of the incidence rate of insured events is appropriately considered.

(ii) The tests shall be conducted for each contract category with the same base rate in principle, but when the following conditions A. and B. are met, they may be conducted together.

A. In such insurance contracts, the contents of benefits prescribed as the grounds for payment are considered equivalent from the point of view of the grounds for benefit claim and risk characteristics, and the equivalence is confirmed from the past data or statistical materials.

B. The statistical materials used for the calculation of the projected incidence rate are the same.

In a single insurance contract (in the case in which there are both a basic policy and special provision which can each be selected and contracted, each of them is considered as a single contract), in cases where payments are made based on combined multiple grounds for benefit claim, the conditions A. and B. must be met for each ground for benefit claim. However, this does not apply for insurance benefits for which the incidence rate is sufficiently small and the risk of obstructing the performance of obligations is extremely low.

(iii) In cases where the number of insured persons is small and statistical treatment is difficult, the following treatment shall be allowed.

A. In cases where a sufficient period has not passed since the start of sale and statistical treatment is difficult in stress tests or liability adequacy tests, an appropriate actuarial science method to compensate for the lack of data, etc. by utilizing the past results or statistical materials used to calculate the projected incidence rate may be used. However, even in these cases, it is necessary to check for the existence of a significant difference between the actual data and the data used for the calculation of the projected incidence rate and take appropriate actions, taking into account the actual data.

B. When the law of large numbers is not functioning because the solicitation of new contracts is stopped and the number of the insured is

reduced and, as a result, application of the principle of equivalence of income and expenditure becomes difficult, the benefit amount of the insurance group concerned (the amount calculated by assuming that the applicable insurance proceeds must be paid) may be used as the amount expended in liability adequacy tests. In this case, stress tests (calculation of contingency reserve IV) shall be not applied.

(iv) For the contract category with the same base rate for stress tests and liability adequacy tests, the same ones shall be used.

II-2-1-3 Risk of Minimum Guarantee for Variable Pension Insurance, etc.

For variable pension insurance, etc. that guarantees the minimum amount of insurance proceeds, etc., it is necessary to conduct appropriate management and evaluation of risk of the minimum guarantee to ensure not to obstruct the performance of obligations into the future, and rationally and appropriately accumulate insurance premium reserve and contingency reserve III and ensure solvency based on actuarial science, etc. In doing so, the following points shall be considered.

II-2-1-3-1 Accumulation of Insurance Premium Reserves

(1) Standard Method

The points to be considered when the standard method is used as the accumulation method of insurance premium reserves pertaining to the minimum guarantee (hereinafter referred to as “insurance premium reserves” in II-2-1-3) under the provisions of (5)(i) of the Establishment of Accumulation Method and Base Rate for Calculation of Regular Policy Reserves (Notification of the Ministry of Finance No. 48 of February 29, 1996; hereinafter referred to as the “Policy Reserve Notification” in II-2-1-3) shall be as follows.

(i) Whether the standard formula (formula that deducts the “present value of income for net premiums pertaining to the minimum guarantee in general account” from the “present value of expense for insurance premiums, etc. pertaining to the minimum guarantee in general account”) is used to calculate the amount corresponding to the level that can cover

roughly 50% of the events as a measure to address normally expected risks.

(ii) Whether the standard death rate (meaning the standard death rate prepared by a designated corporation prescribed in (1)(ii) of the Policy Reserve Notice and examined by the Commissioner of theFSA; the same applies in (2)(ii)) for death insurance is used for insurance contracts with guaranteed minimum death benefit and the standard death rate for after the start of pension payment is used for insurance contracts with guaranteed minimum accumulation benefit. In addition, whether the standard death rate for death insurance or the standard death rate for after the start of pension payment, whichever is more conservative with respect to the accumulation of insurance premium reserves, is used for insurance contracts with both guaranteed minimum death benefit and guaranteed minimum accumulation benefit.

(iii) Whether the standard interest rate (meaning the rate prescribed in (4) of the Policy Reserve Notice; the same applies in (2)(iii)) is used as the discount rate.

(iv) Whether the rate prescribed in (5)(i)(d) of the Policy Reserve Notice as the expected rate of return and the volatility. In addition, in the case of an asset type other than those listed in the same (d), whether the volatility concerned has been rationally defined from the past results, etc.

(v) In cases where the expected cancellation rate is used, whether the expected cancellation rate concerned has been rationally defined from the past results and nature of the product, etc. For example, whether the following cases, etc. are considered.

A. Whether the cancellation rate when the balance of the amount charged to special account is below the guaranteed minimum amount is lower than the cancellation rate when the amount charged to special account exceeds the guaranteed minimum amount.

B. Whether the cancellation rate during the surrender period is lower compared to the cancellation rate after the surrender period is over.

C. When the balance of the amount charged to special account before the start of pension payment is below the guaranteed minimum amount for insurance contracts with guaranteed minimum accumulation benefit, whether the cancellation rate is conservatively set.

D. Whether the expected cancellation rate set is verified by comparing it with the past cancellation results, etc.

(vi) In cases where other base rate for calculation is used, whether the base rate for calculation concerned has been rationally defined from the past results and nature of the product, etc.

(vii) When the standard formula of (i) cannot inevitably be used due to the structure of the product, an approximative formula may be used only if the difference with the formula concerned is small.

(2) Alternative Method

The points to be considered when using an alternative method as the accumulation method of insurance premium reserves shall be as follows.

(i) Whether the alternative method, which is deemed to be of the equivalent level that secures the performance of obligations for insurance premium reserves calculated using the standard method, is used to calculate the amount corresponding to the level that can cover roughly 50% of the events as a measure to address normally expected risks.

(ii) Whether the standard death rate for death insurance is used for insurance contracts with guaranteed minimum death benefit and the standard death rate for after the start of pension payment is used for insurance contracts with guaranteed minimum accumulation benefit. In addition, whether the standard death rate for death insurance or the standard death rate for after the start of pension payment, whichever is more conservative with respect to the accumulation of insurance premium reserves, is used for insurance contracts with both guaranteed minimum death benefit and guaranteed minimum accumulation benefit.

(iii) Whether the standard interest rate is used as the discount rate.

(iv) Whether the expected rate of return and the volatility (limited to that listed in (5)(i)(d) of the Policy Reserve Notice; the same applies hereinafter in II-2-1-3-1(iv)) meet the following conditions A. through C. to be deemed to be of the equivalent level that secures the performance of obligations for insurance premium reserves calculated using the standard method, except when that prescribed in the same (d) is used. In the case of an asset type other than those listed in the same (d), whether the volatility concerned has been rationally defined from the past results, etc.

A. the expected rate of return and the volatility shall be established based on rational and objective grounds from the points of view of the past results, future prospects in asset management environment, and risk-neutral, etc.

B. The observation period, which forms the basis in determining the expected rate of return and the volatility, shall be appropriately established. For instance, the period from 1955 to 1973 when the stock prices and interest rates remained at a high level for a long time shall not be included.

C. The amount of insurance premium reserves calculated using an alternative method shall not differ more than 10% from the amount of insurance premium reserves calculated using the standard method based on the base rate for calculation (excluding the expected rate of return and the volatility; the same applies hereinafter in II-2-1-3-1(iv)C.) to be used in the alternative method. However, if the calculation result using an alternative method and that using the standard method cannot simply be compared for such reasons as that the base rate for calculation to be used in the alternative method cannot be reflected in the formula for the standard method, etc., it is permissible to compare them by narrowing down the base rate for calculation to the level that allows comparison, for example, by excluding the base rate for calculation that cannot be reflected in the standard method.

(v) In cases where the unexpeded cancellation rate is used, whether the unexpected cancellation rate concerned has been rationally defined from the past results and nature of the product, etc. For example, whether the following cases, etc. are considered.

A. Whether the cancellation rate when the balance of the amount charged to special account is below the guaranteed minimum amount is lower than the cancellation rate when the amount charged to special account exceeds the guaranteed minimum amount.

B. Whether the cancellation rate during the surrender period is lower compared to the cancellation rate after the surrender period is over.

C. When the balance of the amount charged to special account before the start of pension payment is below the guaranteed minimum amount for insurance contracts with guaranteed minimum accumulation benefit, whether the cancellation rate is conservatively set.

D. Whether the unexpected cancellation rate set is verified by comparing it with the past cancellation results, etc.

(vi) In cases where other base rate for calculation is used, whether the base rate for calculation concerned has been rationally defined from the past results and nature of the product, etc.

(3) Treatment of Insurance Contracts Concluded Before March 31, 2005

Although (1) and (2) above do not apply to variable pension insurance contracts, etc. concluded before March 31, 2005 that are not covered by regular policy reserve, for those insurance contracts that guarantee the minimum amount of insurance proceeds, etc., future cashflow analysis shall be conducted every accounting period from FY2005 onward and when a shortage in insurance premium reserves is expected to occur, efforts shall be made to protect the policyholders by accumulating required reserves.

(4) Treatment of Hedge and Reinsurance

(i) Whether insurance premium reserves calculated using the standard method or an alternative method are accumulated regardless of the presence or absence of hedge operations.

(ii) Whether insurance premium reserves calculated using the standard method or an alternative method are accumulated in cases where the minimum amount of insurance proceeds,etc. guaranteed is covered by reinsurance for which the amount to be retained/ceded is determined based on the amount at risk pertaining to the insurance proceeds, etc. concerned.

II-2-1-3-2 Contingency Reserve III

The points to be considered when accumulating contingency reserve III shall be as follows.

(1) Of variable pension insurance contracts, etc. concluded before March 31, 2005, whether contingency reserve III is also accumulated for insurance contracts that guarantee the minimum amount of insurance proceeds, etc.

(2) Whether contingency reserve III is accumulated, regardless of the presence or absence of hedge operations, as prescribed in Article 3-2 of the Standards on Accumulation and Reduction specified by the Commissioner of the FSA under the provisions of Article 69(7) of the Regulation, etc. (Notice of the Ministry of Finance No. 231 of June 8, 1998).

(3) Whether, in cases where reinsurance is effected, a deduction is made to the extent not exceeding the part transferred by cession when accumulating contingency reserve III.

II-2-1-4 Accounting

The points to be considered when insurance companies implement appropriate accounting for the accumulation of policy reserves, etc. shall be as follows.

(1) Future Cashflow Analysis

(i) When the Responsible Actuaries conduct future cashflow analysis to check the matters listed in Article 121(1)(i)/(iii) of the Act (including the cases where it is applied mutatis mutandis pursuant to Article 199 of the Act) based on the accreditation standards prescribed in Article 2 of the Notice of the FSA/Ministry of Finance No. 22 of June 23, 2000, if a scenario that is different from the basic scenario prescribed in the said accreditation standards is used, what scenario is used and the grounds indicating the rationality, etc. shall be appropriately disclosed.

(ii) When disclosing the matters listed in Article 59-2(1)(iv)(c) of the Regulation, at least the following matters shall be disclosed in an easy-to-understand manner.

A. The concept of ensuring the appropriateness of accumulation of policy reserves in the third-sector

B. Rationality and adequacy of the level set for the frequency of risk in liability adequacy tests/stress tests

C. Test results (amount of additional policy reserves (insurance premium reserves/unexpired insurance premiums) and contingency reserves)

(2) Written Opinions of Responsible Actuaries

Future cashflow analysis is used to check whether policy reserves are appropriately accumulated based on sound actuarial science not to cause a shortage in the future. The points to be considered when requesting Responsible Actuaries to provide explanation for written opinions on future cashflow analysis of insurance companies and when requesting the

management to provide explanation for their views on the said written opinions and responses are considered to be as follows.

(i) Whether Responsible Actuaries appropriately perform checking in accordance with the standards authorized by the Commissioner of the FSAfor checking operation under the provisions of Article 121 of the Act (hereinafter referred to as the “standards of practice”).

(ii) When a scenario that is different from the basic scenario prescribed in the standards of practice is used, whether it is a rational one that takes into account the actual management conditions of the insurance company.

(iii) In cases where it is not judged, based on future cashflow analysis, that the current policy reserves are at a level that is not deemed to obstruct the performance of obligations in the future, if it is described in the written opinions that part or all of an amount equivalent to the said shortage of policy reserves will not be required to be accumulated because of changing the management policy, whether the grounds (plans, etc.) indicating whether the changes to the said management policy are to be made immediately are presented. In this case, whether it is presented in the written opinions of the next or following years that the changes to the said management policy are actually made.

(iv) In cases where it is not judged, based on future cashflow analysis, that the current policy reserves are at the level that is not deemed to obstruct the performance of obligations in the future, if the said amount of shortage of policy reserves cannot be resolved by changing the management policy and it is necessary to accumulate additional policy reserves under the provisions of Article 69(5) or Article 70(3) of the Regulation, whether a rational policy reserve accumulation plan that takes into account the actual management conditions of the insurance company has been formulated and appropriate measures such as accumulating them by changing the documents listed in Article 4(2)(iv) of the Act have been taken.

(3) Treatment of Reinsurance in Which the Amount of Reinsurance Premiums or Reinsurance Proceeds Is Adjusted Afterword

In cases where the insurance company has effected reinsurance in which the amount of reinsurance premiums or reinsurance proceeds is adjusted afterward to cover insurance contracts, if the additional payment of reinsurance premiums or return of reinsurance proceeds (hereinafter referred to as “additional payment of reinsurance proceeds, etc.”) is finalized, whether

the full amount of liabilities corresponding to the additional payment of the reinsurance premiums, etc. (including the required allowance being made if the additional payment of reinsurance premiums is likely to occur in the future and the full amount can be rationally estimated) is recorded for the accounting period concerned (excluding the cases where adjustment to be made afterward is not an important factor in the reinsurance contract concerned).

(4) Insurance Premium Reserves

When calculating policy reserves pertaining to insurance contracts that fall under the following (i) or (ii) or the part thereof, they shall not be categorized into “insurance premium reserves” prescribed in Article 69(1)(i), Article 70(1)(i)(a), Article 150(1)(i), and Article 151(1)(i)(a) of the Regulation for the time being, but categorized into unexpired insurance premiums prescribed in Article 69(1)(ii), Article 70(1)(i)(b), Article 150(1)(ii), and Article 151(1)(i)(b) of the Regulation.

(i) Insurance contrasts in which the amount calculated by multiplying the insurance premiums equally received by the factors that depend on the remaining period is set as policy reserves to be accumulated, and the full amount calculated by the same method is returned when the contract ceases.

(ii) Insurance contracts pertaining to the insurance listed in Article 3(5)(i) of the Act (excluding insurance contracts that are combined with the insurance listed in Article 3(5)(ii) and (iii) of the Act and whose insurance premiums cannot be categorized)

(5) Recording of Revenue, etc.

Revenue, etc. of non-life insurance companies shall be recorded as follows.

(i) Recording of Direct Writing Premiums

For contracts for which reports on money received, written applications, and other documents necessary for recording the insurance premiums have arrived before the account closing date, direct writing premiums shall all be recorded as revenue for the fiscal year concerned.

However, this shall not apply to those for which the above-mentioned documents have arrived before the account closing date, but the insurance premium rate could not be examined/determined or the existence of insurance liabilities could not be confirmed due to deficiencies in their

content.

When processing account settlement, particular attention shall be paid to delay in arrival of the above-mentioned documents or deficiencies in their content, and efforts shall be made to prevent delay of insurance premiums recorded until the next fiscal year or omission of recording to the extent possible.

(ii) Recording of Installment Premiums

For the recording of installment premiums pertaining to hull insuranceetc., the first installment premiums shall be treated in an equivalent manner as described in (i), and the subsequent installment premiums for which the month corresponding to the insurance premium payment due date prescribed in the policy conditions of the contract concerned has come before the account closing date shall be recorded as revenue for the fiscal year concerned.

(iii) Recording of Assumed Reinsurance Premiums

If recording of assumed reinsurance premiums is handled in a uniform and continuous manner based on the recording standards established by each company before the old Guideline for Administrative Processes was issued, it is permissible to record reinsurance premiums received as specified in the said standards.

In the case of a company established after the old Guideline for Administrative Processes was issued, whether the said recording standards of the company is rational in light of past examples shall be considered.

(iv) Reimbursement Right and Accounting of Salvage

For the reimbursement right obtained from the policyholders by the payment of insurance proceeds or salvage, the amount expected to be recovered by executing the said reimbursement right (excluding one for which a judicial decision or agreement between the parties has not been obtained) or selling out the salvage shall be deducted from the payment reserves for the fiscal year concerned in accounting.

(6) Reversal of Price Fluctuation Reserves

(i) If the amount of reversal of price fluctuation reserves in insurance companies exceeds the amount (if it is a negative number, zero shall be used) calculated by deducting the amount of profits due to buying and selling, etc. of shares, etc. prescribed in Article 115(2) of the Act

(hereinafter referred to as the “amount of profits due to buying and selling of shares, etc.”) from the amount of the losses due to buying and selling, etc. of shares, etc. prescribed in the same paragraph (hereinafter referred to as the “amount of losses due to buying and selling of shares, etc.”), the reversal shall be carried out after obtaining approval from the Commissioner of the FSA under the proviso to Article 115(2) of the Act.

With regard to the amount of reversal of price fluctuation reserves in non-life insurance companies, the total amount of the following amounts shall be reversed.

In addition, the amount of reversal of price fluctuation reserves in insurance companies shall not exceed the amount remaining at the end of the previous term.

A. Total of the amount calculated by deducting the amount of profits due to buying and selling of shares, etc. from the amount of losses due to buying and selling of shares etc. and the amount to be transferred to reserves for dividend to policyholders (employees), etc. prescribed below (in the case of a non-life insurance company, the amount prescribed in (A), and in the case of a mutual non-life insurance company, the amount prescribed in (B)). However, if it is a negative number, zero shall be used.

(A) In cases where an accumulation account prescribed in Article 30-3(1) of the Regulation as applied mutatis mutandis pursuant to Article 63 of the Regulation has been established, for assets covered by price fluctuation reserves in the said account, the amount calculated by deducting the amount of the losses due to buying and selling of shares prescribed in Article 115(2) of the Act from the amount of profits due to buying and selling, etc. of shares, etc. prescribed in the same paragraph that is identified in the said account.

(B) The amount limited to the amount transferred from reserves for dividend to employees.

B. In cases where the amount calculated by deducting the amount referred to in A. above from the amount of price fluctuation reserves remaining at the end of the previous term exceeds the maximum amount prescribed in the second sentence of Article 66 of the Regulation, that amount of excess.

C. The amount other than above for which there are adequate compelling reasons.

(ii) The following amount shall be included in the calculation of the amount of

losses due to buying and selling of shares, etc. and the amount of profits due to buying and selling of shares, etc. for price fluctuation reserves.

A. The amounts of profits (losses) from sales, profits (losses) from valuation of assets, and foreign exchange profits (losses) generated through margin transaction prescribed in Article 156-24(1) of the Financial Instruments and Exchange Act, transactions listed in Article 47(ix) (or Article 139 of the Regulation) through (xii) of the Regulation, and any other transactions equivalent thereto (excluding interest rate-related financial derivatives transactions) pertaining to assets covered by price fluctuation reserves.

B. The amount of profits (losses) on the contribution of assets to retirement benefit trust to be recorded at the time of creation of the trust.

(iii) When receiving an application for approval under the proviso to Article 115(1) of the Act, whether the amount falls under any of the following items shall be considered.

A. In cases where the total amount of A. thorough C. of (i) above exceeds the amount of price fluctuation reserves remaining at the end of the previous term, that amount of excess.

B. In the case of a non-life insurance company, when assets corresponding to policy reserves, etc. for earthquake insurance are categorized into other assets in accounting, the amount equivalent to the amount accumulated pertaining to assets corresponding to the said policy reserves, etc. (in this case, the amount of losses due to buying and selling of shares, etc. and the amount of profits due to buying and selling of shares, etc. pertaining to assets corresponding to the said policy reserves, etc. shall be excluded from the calculation of the amount of reversal in (i) above, and assets corresponding to the said policy reserves, etc. shall be excluded from the calculation of the maximum amount prescribed in the second sentence of Article 66 of the Regulation).

C. The amount other than above for which there are adequate compelling reasons.

(7) Treatment of Contingency Reserves for Earthquake Insurance

Reversal of contingency reserves for advertisement/promotion costs in non-life insurance companies shall be appropriately carried out.

(8) Non-Accumulation of Policy Reserves When Reinsurance Is Effected to Cover Insurance Contracts

(i) If reinsurance is effected to cover insurance contracts, it is permissible not to accumulate policy reserves corresponding to the part for which the said reinsurance is effected. Whether this treatment is permissible shall be determined with attention paid to whether the said reinsurance contract is of the nature to ensure transfer of risks into the future and whether the possibility of recovering reinsurance proceeds, etc. pertaining to the said reinsurance contract is high or not.

When evaluating the possibility of recovery, at least the financial conditions of the insurance company or foreign insurer (meaning a “foreign insurer” prescribed in Article 2(6) of the Act; the same applies hereinafter) that assumed the reinsurance contract shall be understood in as much detail as possible.

(ii) A “foreign insurer which is not likely to prejudice the soundness of business management of the Insurance Company which is the reinsurer” prescribed in Article 71(1)(iv) of the Regulation shall mean, for instance, any of the following foreign insurers.

A. The foreign insurer for which the percentage of the maximum amount of reinsurance proceeds to be paid by the said foreign insurer due to a single insured event pertaining to a single reinsurance contract assumed by the said foreign insurer from the said ceding company in total assets of the insurance company that has effected reinsurance to cover insurance contracts (hereinafter referred to as the “ceding company”) is less than 1% (excluding the cases where the said foreign insurer may possibly terminate the payment of reinsurance proceeds or has clearly terminated the payment of reinsurance proceeds).

B. In cases where the ceding company has not accumulated liability reserves corresponding to the part for which reinsurance is effected, the foreign insurer that assumed the said reinsurance (excluding the cases where the said foreign insurer may possibly terminate the payment of reinsurance proceeds or has clearly terminated the payment of reinsurance proceeds).

(9) Payment Reserves for Assumed Treaty Reinsurance From a Foreign Country

With regard to payment reserves for assumed treaty reinsurance from a

foreign country, even when event reports cannot be obtained from the ceding insurer, etc. due to a difference with the accounting system of the said ceding country, etc. and other circumstances, if the amount of the said reserves can be calculated using a rational method by taking into account the recent actual values, that amount shall be accumulated as ordinary payment reserves.

(10) Treatment of Taxable Policy Reserves Associated With the Introduction of Tax Effect Accounting

For non-life insurance companies which apply tax effect accounting, the points to be considered for the treatment of policy reserves in the first fiscal year of the application shall be as follows.

In addition, the following (i) and (ii) shall also be considered for non-life insurance companies to which do not apply tax effect accounting.

(i) The amounts of the respective taxable reserves for automobile damage liability insurance at the start of the fiscal year shall be the amounts calculated by adding the amount equivalent to corporate tax calculated based on the said reserves at the end of the previous fiscal year to the amounts of the said reserves at the end of the previous fiscal year as an adjustment item.

(ii) The amount of contingency reserves for earthquake insurance at the start of the fiscal year shall be the amount calculated by adding the amount equivalent to corporate tax calculated based on taxable contingency reserves at the end of the previous fiscal year to the amount of contingency reserves at the end of the previous fiscal year as an adjustment item.

However, if an insurance company has concluded a reinsurance contract prescribed in Article 3(1) of the Act on Earthquake Insurance (Reinsurance by the Government) with the government, this shall not apply to the said company.

(iii) The amounts of extraordinary contingency reserves and reserves for dividend to policyholders at the start of the fiscal year shall be the amount calculated by adding the amount equivalent to corporate tax calculated based on the taxable said reserves at the end of the previous fiscal year to the amount of the said reserves at the end of the previous fiscal year as an adjustment item.

However, the upper limit of the total amount to be added as an adjustment item shall be the amount calculated by deducting the amount of

B. and C. below from the amount of A. below (if it is a negative number, zero shall be used).

A. The amount of deferred tax assets based on the temporary differences in prior years to be recorded for the first fiscal year in which tax effect accounting is applied.

B. The amount equivalent to corporate tax, etc. added as an adjustment item in (i) above for automobile damage liability insurance.

C. The amount equivalent to corporate tax, etc. added as an adjustment item in (ii) above for earthquake insurance.

(11) Treatment of Statement of Calculation Procedures for Policy Reserves, etc. Associated With the Introduction of Tax Effect Accounting

Non-life insurance companies which apply tax effect accounting shall implement the following measures for the statement of calculation procedures for policy reserves, etc. by the end of the first fiscal of the application

In addition, non-life insurance companies to which do not apply tax effect accounting shall also implement the following measures (i) and (ii).

(i) In the statement of calculation procedures for Policy reserves for automobile damage liability insurance, the provisions concerning the deduction of an amount equivalent to corporate tax, etc. pertaining to the accumulation and reversal of the respective reserves shall be deleted. In addition, the provisions concerning the accumulation and reversal at the time of the tax rate change shall be newly established.

Insurance companies that has implemented the above measures are deemed to have applied tax effect accounting in Article 2 (ii) of the Order on the accumulation, etc. of reserves prescribed in Article 28-3(1) of the Act on Securing Compensation for Automobile Accidents.

(ii) In the statement of calculation procedures for policy reserves for earthquake insurance, the provisions concerning the accumulation and reversal at the time of the tax rate change shall be newly established.

However, if an insurance company has concluded a reinsurance contract prescribed in Article 3(1) of the Act on Earthquake Insurance (Reinsurance by the Government) with the government, this shall not apply to the said insurance company.

(iii) In the statement of calculation procedures for policy reserves for lines for which reserves for dividend to policyholders are accumulated and Appendix on detailed rules concerning the operation of accumulation

account of the statement of business procedures, the provisions concerning the deduction of the amount equivalent to corporate tax, etc. pertaining to the accumulation and reversal shall be deleted.

(iv) In the statement of calculation procedures for policy reserves for each line, the provision rate of extraordinary contingency reserves and the maximum rate shall be revised. The said provision rate and maximum rate after the revision shall be the rate obtained by the following formulas in principle.

A. Provision rate after the revision

= Provision rate before the revision (excluding the taxable part) + Provision rate before the revision (taxable part)

/ (100% - effective tax rate)

(Note) The rate (percentage) shall be rounded up to the nearest tenth.

B. Maximum rate after the revision

＝ Maximum rate before the revision / (100% - effective tax rate)

(Note) The rate (percentage) shall be rounded up to the nearest ten.

(12) Disclosure of Ceded Policy Reserves

When noting the amount of ceded policy reserves prescribed in Appended Form No. 7, 7-2, 12, and 12-2 of the Regulation, the amount corresponding to the part provided for reinsurance effected (hereinafter referred to as “ceded part”), which is deducted in the calculation of insurance premium reserves, unexpired insurance premiums and refund reserves, shall be noted.

In this case, if the amount of unexpired insurance premiums is calculated based on the figures from which the ceded part is deducted and the amount of unexpired insurance premiums corresponding to the ceded part (hereinafter referred to as “unexpired ceded reinsurance premiums”) is difficult to identify, the amount calculated using the following formula shall be able to be noted as the amount of unexpired ceded reinsurance premiums.

Unexpired ceded reinsurance premiums = Net ceded reinsurance premiums × Unexpired insurance premiums / Net premium income

However, if a more rational and adequate calculation method is available in light of the accounting standards that are generally accepted as fair and adequate, notwithstanding the above formula, the amount calculated using the said calculation method shall be able to be noted as the amount of

unexpired ceded reinsurance premiums.

(13) Disclosure of Ceded Payment Reserves

When noting the amount of ceded payment reserves prescribed in Appended Form No. 7, 7-2, 12, and 12-2 of the Regulation, if the amount of insurance proceeds for which the occurrence of the grounds for payment have not been reported but the grounds for payment prescribed in the insurance contract are deemed to have already been occurred (hereinafter referred to as “payment reserves for incurred but not reported losses”) is calculated based on the figures from which the ceded part is deducted as provided in Article 2(3) of the Notice of the Ministry of Finance No. 234 of June 8, 1998 (hereinafter referred to as the “Notice” in (13)) and the amount of payment reserves for incurred but not reported losses corresponding to the ceded part is difficult to identify, the amount calculated using the following formula shall be able to be noted as the amount of payment claims reserves for incurred but not reported losses.

However, if a more rational and adequate calculation method is available in light of the accounting standards that are generally accepted as fair and adequate, notwithstanding the following formula, the amount calculated using the said calculation method shall be able to be noted as the amount of ceded payment reserves for incurred but not reported losses.

Ceded payment reserves for incurred but not reported losses
= Net payment reserves for incurred but not reported losses × Ordinary ceded payment reserves/ Net ordinary payment reserves

(14) Calculation of Large-Scale Natural Disaster Fund

The points to be considered when calculating the large-scale natural disaster fund prescribed in Article 1-2 of the Notice of the Ministry of Finance No. 232 of June 8, 1998 shall be as follows.

(i) The calculation shall be made using a rational risk model, such as the model used by the General Insurance Rating Organization of Japan to calculate the risk curve corresponding to the large-scale natural disaster risk pertaining to the direct insurance contract (hereinafter referred to as the “large-scale natural disaster model”).

(ii) When deducting the part for which reinsurance is effected, the calculation shall be made using a rational method, for example, one that falls under

any of the following, according to the actual conditions of the risk. In doing so, if there is a part that does not involve transfer of insurance underwriting risk in the part for which reinsurance is effected, the amount deducted shall correspond to a substantial reinsurance recovery effect.

A. Calculate the large-scale natural disaster fund by calculating the risk curve corresponding to the estimated net insurance proceeds paid by reflecting the reinsurance effect in the risk curve of the large-scale natural disaster model and using it.

B. Calculate the percentage of the part for which reinsurance is effected on the basis of ceded premiums and deduct it.

(15) Calculation of Unexpired Insurance Premiums, etc. Corresponding to Large-Scale Natural Disaster Risks

The points be considered when calculating the unexpired insurance premiums prescribed in Article 1-2 of the Notice of the Ministry of Finance No. 232 of June 8, 1998 (hereinafter referred to as the “Notice” in (15)) and the extraordinary contingency reserves prescribed in Article 2 shall be as follows.

(i) Fire insurance prescribed in Article 1-2 and Article 2(2) of the Notice shall include fire mutual insurance, building endowment insurance, and permanent insurance with maturity repayment.

(ii) The unit of account required for calculation shall be segmented and consolidated in a rational manner.

(iii) If the premium income prescribed in Article 1-2 of the Notice is discounted based on the assumed interest rate, the insurance premiums corresponding to the fiscal year shall be calculated by adding the amount equivalent to the expected interest calculated using the following formula.

Amount equivalent to the expected interest = Unexpired insurance premiums before adding the amount equivalent to the expected interest× Assumed interest rate / (1 + Assumed interest rate)

(iv) The amount of earned premiums other than for the large-scale natural disaster fund prescribed in Article 1-2 of the Notice shall be the amount rationally calculated on the basis of the past results of incurred claims (excluding incurred claims pertaining to the large-scale natural disaster risk prescribed in Article 1-2 of the Notice) and the past results of operating costs (excluding the cases where the amount of operating costs or incurred

claims is temporarily deemed to be high for the reason of the calculation period being short, etc., and the other rational method is used for calculation). In addition, the said amount shall be no larger than the amount of insurance premiums corresponding to the fiscal year concerned calculated on the basis of premium income.

(16) Disclosure of Indicators, etc. of Insurance Contracts

(i) Policy reserves before deduction by ceded reinsurance and payment reserve before deduction by ceded reinsurance, which are required for calculating the “percentage of the total amount of incurred losses and loss investment costs to the earned premiums” prescribed in the Appended Form of the Regulation (related to Article 59-2(1)(iii) (non-life insurance company)), shall be calculated as specified in (12) and (13).

(ii) If a reinsurance contract of a foreign non-life insurance company, etc. (meaning “foreign non-life insurance company, etc.” prescribed in Article 2(9) of the Act, a specified corporation which has obtained a specified non-life insurance business license prescribed in Article 219(2) of the Act, and its underwriting member; the same applies hereinafter) is arranged for a group including the foreign non-life insurance company, etc. concerned and categorizing the reinsurance pertaining to the foreign non-life insurance company, etc. concerned is difficult, the disclosure of the framework for risk management prescribed in Article 59-2(1)(iv)(a) of the Regulation (limited to disclosure pertaining to reinsurance) and the disclosure of indicators, etc. of insurance contracts prescribed in the Appended Form of the Regulation (related to Article 59-2(1)(iii) (non-life insurance company)) may be made by disclosing them as indicators for the group concerned.

(17) Category of Insurance Lines for Disclosure

(i) The “category of insurance lines” prescribed in the Appended Form of the Regulation (related to Article 59-2(1)(iii)(c) (non-life insurance company)) shall be fire insurance, marine insurance, injury insurance, automobile insurance, automobile damage liability insurance, liability insurance, credit/guarantee insurance, and other insurance. However, liability insurance and credit/guarantee insurance may be treated as breakdown of other insurance, and insurance lines for which the percentage of net premium income is less than 5% of the percentage of net premium income of total insurance lines may be categorized into other insurance.

* With regard to the disclosure category of third-sector insurance with the loss ratio prescribed in item (iii) of the paragraph concerning indicators, etc. of insurance contracts in the Appended Form of the Regulation, injury insurance shall at least be categorized into medical, cancer, long-term care, and other products.

However, if significant information cannot be obtained due to extremely small sales volume, it may be included in an appropriate category with a note to that effect.

(ii) The “type of insurance contract with long average payment term” prescribed in Article 59-2(1)(iii)(e) of the Regulation shall be injury insurance, automobile insurance, and liability insurance.

(iii) The “categorization of grounds for benefit claim or insurance type” prescribed in item (x) of the paragraph concerning indicators, etc. of insurance contracts of the Appended Form of the Regulation (related to Article 59-2(1)(iii)(c) (life insurance company)) shall at least be categorized into medical (sickness), cancer, long-term care, and others.

However, if significant information cannot be obtained due to extremely small sales volume, it may be included in an appropriate category with a note to that effect.

(18) Matters Related to Ship Owners’ Mutual Protection and Indemnity Association

(i) Policy Reserves for Reinsurance Contracts

(ii) A “person who is not likely to prejudice the soundness of management of the association” prescribed in Article 51(iv) of the Regulation for Enforcement of the Ship Owners’ Mutual Insurance Association Act shall mean, for instance, any of the following foreign insurers.

A. An association of the same type located in a foreign country as the ship owners’ mutual protection and indemnity association (hereinafter referred to as an “association of the same type”) that is a party to the agreement concluded among associations of the same type to share a certain percentage of insurance proceeds to be paid to a single insured event that exceeds a certain amount (hereinafter referred to as the “Pooling Agreement of the International P&I Group”).

B. The foreign insurer for which the percentage of the maximum amount of reinsurance proceeds it is to pay due to a single insured event pertaining to a single reinsurance contract assumed by the foreign insurer from the

ceding association to cover insurance contracts (hereinafter referred to as the “ceding association”) of the total assets of the said ceding association is less than 3% (excluding the cases where the said foreign insurer may possibly terminate the payment of reinsurance proceeds, etc. or has clearly terminated the payment of reinsurance proceeds).

C. In cases where the ceding association has not accumulated policy reserves corresponding to the part for which reinsurance is effected, the foreign insurer that assumed the said reinsurance (excluding the cases where the said foreign insurer may possible terminate the payment of reinsurance proceeds, etc. or has clearly terminated the payment of reinsurance proceeds).

(ii) Accumulation of Payment Reserves

A. Payment Reserves for Foreign Assumed Treaty Reinsurance

With regard to insurance reserves for foreign assumed treaty reinsurance, even when event reports cannot be obtained from the ceding insurer, etc. due to a difference with the accounting system of the said ceding country, etc. and other circumstances, whether the amount calculated using a rational method by taking into account the recent actual values is accumulated as ordinary payment reserves.

B. Payment Reserves for Incurred but Not Reported Losses

With regard to payment reserves for incurred but not reported losses, when event reports cannot be promptly obtained from an association of the same type that is a party to the Pooling Agreement of the International P&I Group, whether the amount pertaining to insurance proceeds, etc. of pooled reinsurance that is calculated using a rational method is accumulated.

(19) Matters to Be Considered When Calculating Payment Reserves for Incurred but Not Reported Losses of Non-Life Insurance Companies, etc.

(i) When establishing the unit of account pertaining to payment reserves for incurred but not reported losses prescribed in Article 2(1) of the Notice of the Ministry of Finance No. 234 of June 8, 1998 (hereinafter referred to as the “Notice” in II-2-1-4(19)) and for the classification of each item of the same paragraph of the same Article, the following points shall be considered.

A. The unit of account prescribed in Article 2(1) of the Public Notice shall be established for each underwriting category of domestic direct insurance

contracts, foreign direct insurance contracts, domestic assumed reinsurance contracts, and foreign assumed reinsurance contracts for each insurance type. If reasonable grounds due to characteristics of the payment of insurance proceeds, etc. exist, the unit of account shall be able to be further segmented.

B. The “unit of account deemed to require a long-term payment of insurance proceeds, etc. due and payable under the insurance contract” prescribed in Article 2(1)(i) of the Public Notice shall mean the unit of account in cases where, for the most recent three fiscal years until the previous fiscal year of the target fiscal year, the average value of the percentages of the insurance proceeds paid for insured events occurred in the fiscal year concerned and the previous fiscal year of the fiscal year concerned to the insurance proceeds paid in the fiscal year is less than 90%, etc. In this case, the results of domestic direct insurance contracts shall be able to apply mutatis mutandis to domestic assumed reinsurance contracts, and in cases where the results of domestic direct insurance contracts cannot be applied to domestic assumed reinsurance contracts and for foreign contracts, the underwriting year shall be able to be used in calculation in place of the year in which the insured event has occurred. In the calculation of insurance proceeds paid, the amount of reinsurance recovery shall not be deducted.

C. The “unit of account deemed not to be important” prescribed in Article 2(1)(ii) of the Notice shall mean the cases where the average value of the percentages calculated using the following formula for the most recent three fiscal years until the previous fiscal year of the target fiscal year is less than 1%, etc. However, for those other than domestic direct insurance contracts, the underwriting year shall be able to be used in calculation in place of the year in which the insured event has occurred. In the calculation of insurance proceeds paid, the amount of reinsurance recovery shall not be deducted.

(Of the insurance proceeds paid in the fiscal year concerned in the unit of account, the amount excluding the insurance proceeds paid for insured events occurred in the fiscal year and the previous fiscal year of the fiscal year concerned) / (Of the total amount of the insurance proceeds paid in the fiscal year concerned (excluding the insurance proceeds paid for automobile damage liability insurance and earthquake insurance), the

amount excluding the insurance proceeds paid for insured events occurred in the fiscal year concerned and the previous fiscal year of the fiscal year concerned)

(ii) When calculating payment reserves for incurred but not reported losses, the following points shall be considered.

A. If reasonable grounds due to characteristics of the payment of insurance proceeds exist, the unit of account shall be able to be aggregated.

B. For those other than domestic direct insurance contracts, if it is difficult to identify the insurance proceeds, etc. paid by each year in which the insured event has occurred, the insured proceeds, etc. paid by each underwriting year shall be able to be used in calculation in place of the insured proceeds, etc. paid by each year in which the insured event has occurred.

II-2-2 Appropriateness of Solvency Margin Ratio (Early Corrective Action)

II-2-2-1 Significance

In order to secure the confidence of the policyholders, etc., it is extremely important that insurance companies work to improve their capital adequacy and secure internal reserves and retain a sufficient financial basis that is suited to the risks. Insurance companies whose financial conditions needs to be improved are required to make efforts to make improvements on their own initiative based on the principle of self-responsibility. The supervisors need to encourage the early correction of the their management by issuing necessary correction orders in a prompt and appropriate manner based on the objective standard of the “ratio indicating soundness of solvency margin for Insurance Proceeds, etc. ” as a role of complementing the efforts of the insurance companies to ensure the soundness of management of insurance companies.

II-2-2-2 Supervisory Method and Actions

With regard to early corrective action, which is a supervisory method to ensure the soundness of management of insurance companies, the content of

concrete actions is prescribed in the “Order Providing for Categories Prescribed in Article 132, Paragraph (2) of the Insurance Business Act” (Prime Minister's Office Order/Ministry of Finance Order No. 45 of June 29, 2000; hereinafter referred to as the “Order Providing for Categories” in II-2-2), and its operational standards shall be as follows.

(1) Solvency Margin Ratio Forming Basis for the Issuance of an Order

The “ratio indicating soundness of solvency margin for Insurance Proceeds, etc. ” (hereinafter referred to as the “solvency margin ratio”) pertaining to the category set forth in the table in Article 2(1) of the “Order Providing for Categories” shall be based on the following solvency margin ratio.

(i) The solvency margin ratio reported in the financial results status report (interim financial statements if mid-term) (however, after submitting the business report (interim business report if mid-term), the solvency margin ratio that was reported in that business report)

(ii) At times other than when (i) above has been reported, the solvency margin ratio reported by an insurance company following discussion between the insurance company and an audit corporation, etc. based on the results of inspections by the supervisors, etc.

(2) Orders Based on the Category in the Table in Article 2(1) of the “Order Providing for Categories”

(i) Difference between a Category 1 Order and a Category 2 Order

The purpose of Category 1 order, “a request to submit an improvement plan deemed reasonable to ensure sound management, and an order for its implementation”, is ensuring to steadily achieve a level of the solvency margin ratio of at least 200% as a standard for ensuring the soundness of management. Therefore, it shall be emphasized that, in general, the plan ensures the soundness of management, and the autonomy of the insurance company when implementing that plan shall basically be respected.

The purpose of Category 2 order, “an order pertaining to any of the following measures which contribute to the level of solvency in terms of the ability to pay insurance proceeds, etc.”, is to promptly improve a solvency margin ratio which falls considerably below the level ensuring soundness of management. Therefore, although the individual measures shall be based on the opinions of the insurance company because of the need to take into

account the actual management conditions of the insurance company, the details of the measures shall be prescribed at the discretion of the supervisors. In addition, when implementing the measures, the insurance company will basically need to fulfill the orders for each measure.

(ii) Content of Improvement Plan for Category 1 Order

An “improvement plan deemed reasonable to ensure sound management” shall mean a plan whose content is to achieve the level of the solvency margin ratio of at least 200% within a year in principle by executing the said improvement plan.

(iii) Content of Improvement Plan for Category 2 Order

“Measures which contribute to the level of solvency in terms of the ability to pay insurance proceeds, etc.” shall mean measures to achieve the level of the solvency margin ratio of at least 100% within a year in principle.

(iv) Period Leading to Improvement

Although the time needed to improve the solvency margin ratio shall basically be what is specified in (ii) and (iii) above, but it goes without saying that the plans, etc. formulated by an insurance company for improving management, etc. must be sufficient to maintain and restore the confidence of policyholders, investors, and markets in the said insurance company. Therefore, depending on the degree of relationship between the insurance company and markets, etc., the confidence of markets needs to be promptly restored, and therefore the time specified above may need to be significantly reduced.

In cases where an insurance company has, under Article 3(1) of the “Order Providing for Categories”, submitted a plan deemed reasonable for ensuring improvement of the solvency margin ratio beyond the scope of the solvency margin ratio pertaining to the category in the table in Article 2(1) of the “Order Providing for Categories” applicable to the said insurance company, if the said insurance company is issued with an order listed in the category of the same table pertaining to the solvency margin ratio which exceeds the scope of the solvency margin ratio pertaining to the category in the table which is applicable to the said insurance company, period necessary to improve the solvency margin ratios of (ii) and (iii) above shall not include the period for ensuring improvement of the solvency margin ratio set forth in II-2-2-3 below beyond the scope of the solvency margin ratio pertaining to the category in the table which is applicable to the said insurance company.

II-2-2-3 Standards for Judging the Reasonableness Prescribed in Article 3(1) of the “Order Providing for Categories”

The standards for judging the reasonableness of a “plan deemed reasonable to improve the ratio indicating the level of its solvency in terms of its ability to pay insurance proceeds, etc. with certainty to exceed the range of the ratio indicating the level of solvency in terms of the ability to pay insurance proceeds, etc.” set forth in Article 3(1) of the “Order Providing for Categories” shall be as follows:

A plan by which, in principle, the solvency margin ratio steadily improves beyond the scope of the solvency margin ratio pertaining to the category in the table in Article 2(1) of the “Order Providing for Categories” which is applicable to an insurance company, within a period of three months, including specific capital enhancement plans aimed at sound and appropriate business operations of the said insurance company and by which the confidence of policyholders, etc. in the said insurance company can be secured.

(Note) In the case of capital increases, etc., the intent of the financiers, etc. needs to be clear.

II-2-2-4 Solvency Margin Ratio Providing Basis for Order Category

In applying Article 3(1) of the “Order Providing for Categories”, the “order set forth for the category (except for exception from the category) in that table corresponding to the ratio indicating the level of solvency in terms of the ability to pay insurance proceeds, etc. which is not less than the ratio indicating the level of solvency in terms of the insurance company's ability to pay insurance proceeds, etc. and not more than the ratio indicating the level of its solvency in terms of its ability to pay insurance proceeds, etc. to be expected after the implementation of the plan” shall, in principle, be regarded as the order listed in the category (except for exception from the category) pertaining to the level of the solvency margin ratio expected with certainty after three months.

II-2-2-5 Reports on the Progress of Plans, etc.

Supervisors shall require the submission of reports on the progress of a plan every period (including interim periods), and not issue new orders, in principle, during the term of the plan unless subsequent progress diverges considerably from plan; however, in the case of an insurance company issued with Category 2 order, if its solvency margin ratio as a basis of the order subsequently falls within the range of 100% or more but less than 200%, Category 1 order may be issued at that point in time.

In addition, in cases where an insurance company has, under Article 3(1) of the “Order Providing for Categories”, submitted a plan deemed reasonable for ensuring improvement of the solvency margin ratio beyond the scope of the solvency margin ratio pertaining to the category in the table in Article 2(1) of the “Order Providing for Categories” applicable to the said insurance company, and where the said insurance company is issued with an order listed in the category of the same table pertaining to the solvency margin ratio which exceeds the scope of the solvency margin ratio pertaining to the category in the table which is applicable to the said insurance company, in principle, if, immediately after the time needed for procedures for a capital increase, etc. has elapsed, the solvency margin ratio of the said insurance company has not reached a level at least as high as the solvency margin ratio pertaining to the category in the table in which the order received by the said insurance company is listed, the order listed in the category of the table pertaining to the solvency margin ratio shall be issued at that point in time.

II-2-2-6 Operation of Article 3(3) of the “Order Providing for Categories”

In cases where Article 3(3) of the Order Providing for Categories” applies, an order issued to an insurance company shall include a Category 3 order; provided, however, that if the amount calculated by subtracting the difference between the assessed market value and the book value of held-to-maturity bonds and policy-reserve-matching bonds from the real difference between assets and liabilities is a positive number and liquidity assets(Note) are secured, an order of the same category shall not be issued in principle.

However, if it is deemed necessary in comprehensive consideration of the status of cancellation and the status of securing liquidity assets, it shall be noted that a business improvement order may be issued for enhancing the

management of contracts, complementing liquidity, and enhancing capital, etc.

(Note) Liquidity assets: Cash and deposits, call loans, securities held for trading, and other securities (excluding those that are non-marketable or difficult to sell immediately due to the holding purpose, etc.)

II-2-2-7 Others

(1) When issuing an order pertaining to the provisions of Articles 2 through 5 of the “Order Providing for Categories”, the Administrative Procedure Act and other relevant laws and regulations shall be observed, and it shall be noted that it is necessary to take appropriate procedures, such as granting opportunities for making explanations under Article 13(1)(ii) of the same Act.

(2) An insurance company with the solvency margin ratio of less than 100% shall be required, in principle, to calculate the value of its assets listed in each item of Article 3(2) of the “Order Providing for Categories” by the method specified in the relevant item and submit a revised balance sheet reflecting this (forms may be at its discretion).

(3) Early corrective action is exercised on the premise that the solvency margin ratio properly represents the financial conditions of the insurance company. Therefore, insurance companies shall be required to pay sufficient attention to prevent such acts as the deliberate manipulation of a solvency margin ratio for the purpose of avoiding any early corrective action being exercised.

II-2-3 Early Warning System

II-2-3-1 Significance

As a means of ensuring the soundness of management of insurance companies, “early corrective action” based on the solvency margin ratio has been established pursuant to Article 132(2) of the Act. Even in the case of an insurance company that is not subject to this measure, continuous efforts to improve management are needed so as to maintain and further enhance its soundness.

To this end, early improvement of management of insurance companies shall be promoted by taking the following administrative preventive/comprehensive measures.

II-2-3-2 Supervisory Method and Actions

(1) Profitability Improvement Measures

With respect to an insurance company found to be in need of improvements in profitability on the basis of a fundamental profit index and the prospects thereof, steady improvement shall be encouraged by holding an in-depth hearing regarding the cause and improvement measures, etc. and, when necessary, requiring the submission of a report under Article 128 of the Act.

(2) Credit Risk Improvement Measures

With respect to an insurance company found to be in need of improvements in the control environment for credit risks on the basis of the status of concentration of large borrowers, steady improvement shall be encouraged by holding an in-depth hearing regarding the cause and improvement measures, etc. and, when necessary, requiring the submission of a report under Article 128 of the Act.

(3) Stability Improvement Measures

With respect to an insurance company found to be in need of improvements in the control environment for market risks, etc. on the basis of impacts of security price fluctuation, etc., steady improvement shall be encouraged by holding an in-depth hearing regarding the cause and improvement measures, etc. and, when necessary, requiring the submission of a report under Article 128 of the Act.

(4) Cash Flow Improvement Measures

With respect to an insurance company found to be in need of improvements in the control environment for liquidity risks on the basis of the trends in contracts and the status of holding of assets, steady improvement shall be encouraged by requiring frequent reporting on the trends in contracts and the status of holding of assets, holding an in-depth hearing regarding the

cause and improvement measures, etc., and, when necessary, requiring the submission of a report under Article 128 of the Act.

(5) Business Improvement Order

With regard to above measures, in cases where action is deemed to be necessary in order to ensure the implementation of the improvement plan, a business improvement order shall be issued under Article 132 of the Act.

II-2-4 Clarification of Separate Accounting of Life Insurance Companies

II-2-4-1 Significance

In life insurance companies, it is important, from the point of view of ensuring the fairness and transparency of redistribution of profits, banning internal subsidization between insurance types, making business operations more efficient, exhibiting originality and ingenuity in product design and pricing, etc., to carry out separate accounting according to the characteristics of insurance products for general account. It is necessary, from the point of view of ensuring the transparency of insurance accounting and the fairness between policyholders, that each life insurance company carries out appropriate separate accounting based on the principle of self-responsibility. In addition, in introducing separate accounting, it is important that for the asset allocation method and unrealized profit and loss allocation method, etc., appropriate allocation methods are established based on asset share, etc.

II-2-4-2 Main Supervisory Focus

Whether each life insurance company has formulated the management policy for separate accounting, for example, based on the following concepts to carry out appropriate separate accounting. In addition, whether the status of separate accounting is reported to the board of directors or other equivalent body.

(1) Product Category

In the product category, profits/losses and liabilities shall be managed. The

product category needs to be an appropriate unit for understanding profits and losses in light of the characteristics and holding status of products in each life insurance company, and should be made a theoretical and rational category based on the differences in the characteristics of insurance. Therefore, in cases where a significant impact on the income and expenditure of the entire company, such as an increase in insurance in force by selling new products and increase in contracts for some type of insurance in the product category, etc., is expected, it is desirable to carry out management by establishing new product categories. In addition, changes shall not be made to the product categories established unless reasonable grounds exist, including cases where insurance in force has decreased and the existence of the product category becomes no longer important, etc.

(2) Corporate Category

The corporate category shall be established, for example, to have the following functions:

(i) Risk buffer function for death protection risk, etc.

(ii) Function to provide funding for business operations for developing new products

(iii) Function to manage assets shared by and costs common to the entire company, etc.

(iv) Function to manage cash and deposits, etc.

(3) Asset Category

Appropriate asset category corresponding to the product category shall be established. In addition, in cases where asset in an asset category have decreased and the existence of the asset category becomes no longer important, the asset category concerned shall be abolished and integrated into other asset category. In this case, residual properties that do not belong to any contracts shall be integrated into the corporate category.

(4) Liability/Net Asset Allocation Method

(i) Allocation to Product Category

Insurance contract reserves (excluding contingency reserves) and reinsurance balances payable, etc. shall be directly allocated to each product category. Those that cannot be directly allocated shall be allocated based on the management policy for separate accounting.

(ii) Allocation to Corporate Category

Liabilities that are not allocated to the net assets (excluding earned surplus carried forward/unappropriated surplus, valuation and translation adjustments, etc.), price fluctuation reserves, contingency reserves, and other product categories are allocated to the corporate category.

(5) Asset Allocation Method and Management Standards

(i) Allocation Method for Assets for Investment

The asset category to which assets for management are to be allocated shall be determined at the time of purchasing the assets in principle.

(ii) Management of Assets for Investment

Assets for investment shall be managed by selecting an appropriate method from the following methods for each asset category:

A. Segregated asset management method: A method of directly vesting individual assets in the asset category by issue

B. Asset unit-based interest management method: A method of managing assets based on interest in the asset category for each transaction unit (for example, by property in real estate)

C. Asset interest management method: A method of setting a mother fund for each asset subject to investment and managing interests in the mother fund for each asset

(Note) In cases where the asset interest management method is used, the entire general account assets (excluding assets corresponding to non-participating insurance) shall not be treated as a single mother fund.

(iii) Allocation Method for Assets Other Than Assets For Investment

Assets that can be directly allocated to each asset category such as reinsurance credits shall be so allocated, and those that cannot be directly allocated shall be allocated based on the management policy for separate accounting.

(iv) Assets in Corporate Category

All or part of the assets that are suitable to be allocated to commercial properties, stocks of subsidiary/affiliated companies, cash and deposits (if the function to manage cash and deposits, etc. exists), or other corporate categories shall be allocated to the corporate category.

(6) Allocation of profits and losses

(i) Profits and Losses Related to Insurance

Revenues such as insurance premiums, payments such as insurance proceeds, and provision for policy reserves, etc. shall be directly allocated to each product category.

(ii) Profits and Losses Related to Assets For Investment

Assets for investment shall be allocated to the asset category to which the asset belongs, and shall be further allocated to the corresponding product/corporate category directly or according to interest. In cases where multiple product categories are managed by a single asset category, they shall be allocated based on the management policy for separate accounting.

(7) Transactions Between Each Category, etc.

(i) Transactions Between Asset Category

Required transactions such as funds transfer (inflow/outflow) management, securing of liquidity, improvement of portfolios, etc. to be appropriately managed at appropriate prices such as market prices.

(ii) Transactions Between the Product Category and the Corporate Category

A. Loan of Cash Deposits, etc.

(A) These transactions shall be managed by categorizing into the product category or the corporate category

(B) Limits shall be established to prevent continued overdraft.

B. Loan of Items Other Than Cash Deposits

(A) Loans from the corporate category to the product category shall be limited to cases where there is a compelling reason such as unusual payment of insurance proceeds, fund for business operations associated with sales of new products, and others.

(B) Loans from the product category to the corporate category shall be limited to the case where the functions of the corporate category cannot be fulfilled sufficiently due to its small scale.

(C) For the above loans, the amount, interest rate (to be set based on the market interest rate according to the loan period), due date, and other repayment conditions shall be determined in advance.

(D) Relaxation of loan conditions and debt relief shall not be available except in cases where there is a compelling reason such as the occurrence of unrecoverable losses. If profits are accrued after the loan conditions are relaxed, etc., the profits concerned shall be

allocated to repayment.

C. Contributions

(A) Contributions from the corporate category to the product category shall be limited to cases where there is a compelling reason such as unusual payment of insurance proceeds, fund for business operations associated with sales of new products, and others.

(B) Contributions from the product category to the corporate category shall be limited to the case where the functions of the corporate category cannot be fulfilled sufficiently due to its small scale.

(C) If surpluses are generated in the product category or the corporate category to which contributions are made, the amounts corresponding to the contributions shall be allocated to the product category or the corporate category to which the contributions are made.

(D) Contributions may be repaid.

D. Other Transactions

(A) When capitals or contingency reserves, etc. are increased in the corporate category, transactions to receive the increased amount from each product category.

(B) Transactions to reduce capitals or contingency reserves, etc. and pay the corresponding amounts to the product category in which the reason for the reduction occurred.

(C) In cases where conversions, etc. are made, transactions to pay the policy reserves, etc. after the conversion, etc. to the product category.

(D) In cases where new contract costs are paid from the corporate category, transactions to pay the amount equivalent to the new contract costs from the product category to the corporate category.

(E) Transactions in which the use fees, etc. are paid from each product category as the considerations for shared assets, etc. in the corporate category.

(F) When losses are realized due to the occurrence of specific risks in the product category, transactions to pay the amount of the losses realized from the corporate category to the product category concerned (limited to those in which the considerations predetermined based on actuarial science have been paid).

(G) In cases where significant losses that are expected to be unrecoverable have occurred in the product category, transactions to receive compensations for those losses from the corporate category

(including the cases where the corporate category receives compensations to compensate for those losses from other product categories). However, when a compensation is received through this transaction, necessary measures such as stopping sales of the new products and ensuring proper insurance premiums, etc. for the products pertaining to the product category that received the compensation.

(H) In cases where significant losses that are expected to be unrecoverable have occurred in the corporate category, transactions to receive compensations for those losses from the product category.

II-2-4-3 Supervisory Method and Actions

If a problem is deemed to exist in the status of separate accounting, supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 of the Act.

II-2-5 Internal Control Environment for Product Development

II-2-5-1 Significance

The contents of insurance products are described in the “general policy conditions” and the “statement of business procedures” and the rates are described in the “statement of calculation procedures for insurance premiums and policy reserves” (hereinafter referred to as the “statement of calculation procedures”), and developments of new products or changes to the content of insurance products are made through changes made to them.

If a request for approval for a product is made by an insurance company, the supervisory authorities examine whether it complies with the standards prescribed in the Insurance Business Act by checking whether the content of the contract entails the risk of lacking protection for policyholders, etc., whether it contains any unfair or discriminatory treatment, and whether the content of the contract is harmful to public policy and good morals, etc., and approve it if it is deemed appropriate.

In recent years, with structural changes in society and diversification of economic activities, etc. in Japan, more diverse insurance products are demanded to meet the policyholders' needs, including increased life protection needs of the public and emergence of new risks, etc.

In order to respond to these needs in developing products, insurance companies are required to develop an internal control environment to consider from every viewpoint risks, finance, offering, and legal affairs based on the principle of self-responsibility, taking into account the Insurance Business Act and other laws and regulations, etc.

In addition, with regard to the regulation of insurance products, while the framework of the approval system is maintained, product lines that are considered less problematic in terms of protecting policyholders, etc. are being transferred to the registration system. Furthermore, for corporate insurance of insurance listed in Article 3(5)(i) and (iii) of the Act (hereinafter referred to as "Second Sector"), improvement of the internal control environment for product development is becoming more important than before with the introduction of Flexible Provision System, which enables establishing a new special provision or modifying without notification, etc.

II-2-5-2 Main Supervisory Focus

(1) Recognition of Directors and Roles of Board of Directors, etc. Pertaining to Product Development

(i) Whether the product development policy in line with the management plans and management policy of the insurance company has been clearly defined by the board of directors.

(ii) Whether the directors fully recognize that the internal control pertaining to product development may have a serious impact on maintaining the soundness and ensuring appropriate business operations.

(iii) Whether the board of directors has developed a system that enables integrated management for the internal control pertaining to product development. In addition, in the above system, whether, for instance, the function of mutual checking between each section related to product development is fully performed. Whether the organizational structure is reviewed as needed and improvements are made according to changes to the product development policy and internal control method.

(iv) In order to carry out internal control for appropriate product development, whether a company-wide policy on personnel affairs and human resource development for securing human resources with a good knowledge of operations in required sections, etc. has been clearly defined by the board of directors or the directors, etc. (including officers such as executive officers, etc.) who are authorized by the board of directors.

(v) In deciding the outline of the content of products that are considered important from the point of view of business management, whether it is ensured that the issues concerning the prediction of income and expenditure, insurance underwriting risks, compliance, sales plans, system development, and moral hazard that is specific to insurance products, etc. and the content of study, etc. are discussed by the board of directors, etc.

(vi) Whether Responsible Actuaries, in close cooperation with relevant sections, accurately report the problems, etc. related to the method of calculating insurance premiums and policy reserves and other matters concerning actuarial science to the board of directors, etc. when necessary.

(2) Recognition and Roles of Managers Involved in Product Development

(i) Whether the head of sections related to product development and the directors, etc. responsible for product development (hereinafter referred to as “product development-related managers”) make efforts to ensure thorough understanding/recognition of internal control by themselves and persons in charge in each section so as not to hinder appropriate internal control for product development.

(ii) In cases where a coordination section has been established for product development, whether management and guidance necessary to create appropriate control environment for product development are provided to relevant sections. In addition, in cases where a coordination section has not been established, whether the directors, etc. manage the status of internal control for overall product development in an integrated manner.

(iii) In order to carry out product development that ensures the maintenance of soundness and appropriate business operations, whether the rules for product development have been established after being discussed by the board of directors, etc. In addition, whether appropriate measures have been taken to enhance/improve the rules for product development.

(iv) In order to ensure that organizations carrying out product development can effectively perform their functions, whether product development-

related managers appropriately assign personnel by considering their expertise.

(3) System to Refer Matters to Board of Directors

(i) When developing new insurance products or modifying/abolishing existing insurance products that have a serious impact on business management, for those requiring application to the supervisors, whether referring to the board of directors, etc. is required before the application. In addition, whether the standards for referring to the board of directors, etc. have been clearly defined.

(ii) In cases where the insurance company expands its business through branch offices, etc., whether the responsibilities of the head office and the local organizations have been clearly defined when making application to the supervisors. In cases where an approval of the head office, etc. is required before making application to the supervisors, whether the status of compliance to laws and regulations, etc. is confirmed by the local organizations. In addition, whether the said confirmation is performed based on their own responsibilities with the independence of the local organizations being secured.

(4) Measures to Improve Product Development Capabilities

(i) Whether the method/system to improve human resource development and produce development capacities have been established to develop human resources with expertise.

(ii) Whether market research on general consumers, for example, is conducted in a timely manner and utilized so as to ensure that the content of insurance contracts matches the demand and convenience of policyholders, etc.

(5) Cooperation with Relevant Sections

(i) Whether the identification of product development projects is carried out through appropriate processes. Whether it is considered from the points of view of, for example, development requests based on customer needs and sales measures, requests in terms of insurance underwriting risk and profit improvement, etc., and compliance requirements, etc.

(ii) Whether the selection of development projects is appropriately carried out, taking into consideration the compliance with the product development

policy established by the board of directors and the level of development load, etc.

(iii) In deciding the outline of the content of products, whether the issues concerning the prediction of income and expenditure, insurance underwriting risks, compliance, sales plans, system development, and moral hazard that is specific to insurance products, etc. and the content of study, etc. are discussed by each relevant section.

Whether it is confirmed that for each product, the prediction of income and expenditure has no problems based on the incidence rate of insured events, operating costs, and other scenarios, which take into account the actual management conditions of the insurance company and are likely to be achieved.

(iv) Whether it is ensured that the method of calculating loading premiums prescribed in the internal rules, etc. is rational and adequate, and the loading premiums calculated are not unreasonably discriminatory. In particular, when establishing an increase/discount of loading premiums, it shall be considered that it is based on the contract method and insurance premium payment method, etc. and is not the provision of special advantage virtually (Article 300(1)(v) of the Act).

(v) Whether relevant sections consider issues concerning products such as risks associated with the products and points of attention in selling them, etc. without being unreasonably affected by, for example, sales promotion sections and profitable sections, which place emphasis on expanding sales volume and pursuing profits. In addition, whether the content of consideration, etc. is directly reported to the board of directors, etc. or the coordination section, etc. (including the directors, etc. managing the overall product development) timely as needed.

(vi) Whether relevant sections report the information that has a serious impact on business management for product development to the board of directors, etc. or the coordination section, etc. accurately without omission in an easy-to-understand manner.

(vii) Whether the matters concerning product development for which authorities are delegated to the directors, etc. that manage overall product development, or the head of the product development section are managed by means such as periodic inspections/audits on whether the authorities are exercised properly.

(viii) Whether the check points to ensure the maintenance of soundness and

appropriate business operation have been clearly defined, for example, whether the content of products is consistent with various existing rules, etc., it is appropriately expressed, and the data used is not wrong, etc.

(ix) In developing internal control environment, whether considerations are made so as to ensure appropriate response to policyholders, insured persons, and victims, etc. not only at the time of offering, but until the payment of insurance proceeds.

(x) Whether efforts have been made in creating insurance clauses to make them easy to understand from the point of view of policyholders. Whether it is noted that the use of technical terms and legal terms without careful consideration may make the insurance clause difficult for policyholders to understand.

(xi) Whether a control environment has been developed to identify revision histories and planned revisions of laws and regulations, etc. that can affect the content of insurance contracts without omission.

In addition, considering that in the Insurance Act, systems related to insurance contracts are revised or newly established such as the right to intervene, request for cancellation by the insured, increase/decrease in risk, rational appropriate return of the amount corresponding to the unexpired period of insurance premiums, etc., whether a control environment that can appropriately responds to these systems has been developed.

(xii) For checking at the time of developing systems for insurance product development, etc. and checking/management after the system development, also refer to “II-3-14-2 Control Environment for Information Technology Risks”.

(6) System to Consider Application Procedures

(i) Whether sufficient consideration is given in advance when preparing application related documents (including materials deemed to be necessary for examinations by the supervisors). In addition, in order to develop a sufficient offering system, whether efforts have been made to allow sufficient time for application by preparing in a planned matter as early as possible.

(ii) Whether overall check is performed after checking by each relevant section. In addition, whether a person responsible for supervising the checking operation has been clearly defined.

(7) Response to Matters Pointed Out in Examinations by the supervisors

(i) Whether the status and results of consideration of major matters pointed out are recorded so as to enable verification afterward.

(ii) Whether the pointed out matters of particular importance that have impacts on the prediction of income and expenditure, insurance underwriting risks, compliance, sales plans, and system development, etc., which formed the basis for discussion by the board of directors, etc., are discussed by the board of directors, etc.

(8) System to Ensure Correctness of Overall Documents

When preparing documents, whether measures to ensure correctness of the content have been taken, including the establishment of a control environment for multi-layer checking such as strictly enforcing read through by employees (members) other than those in charge of preparing application documents, etc.

(9) Control Environment Before Starting to Sell Products

(i) Whether the preparation period is available to enable the development of a control environment for developing operational rules for selling products, preparing/checking sales materials, managing contract data, and implementing required system support, etc.

(ii) Whether the preparation period is available to make the content of operational rules and the matters to be considered when offering products such as the method of explaining to customers, etc. well known not only to the head office, but also to business offices (including insurance agencies (“life insurance agencies” (meaning “life insurance agents” prescribed in Article 2(19) of the Act who received entrustment from a life insurance company or received re-entrustment from them (limited to those who obtained an authorization under Article 275(3) of the Act), and act as an agent or intermediary for the conclusion of an insurance contract on behalf of the life insurance company; the same applies hereinafter) and “non-life insurance agencies” (meaning those prescribed in Article 2(21) of the Act; the same applies hereinafter))).

(10) Follow-up After Starting to Sell Products

(i) Whether a follow-up mechanism is included in the product development process to carry out appropriate risk management.

(ii) With regard to follow-up after sales, whether the viewpoint, the section in charge, period, approach, and the method of using the results have been clearly defined.

(iii) Whether follow-up is carried out at the appropriate time after starting sales.

(iv) Whether the follow-up results are directly reported to the board of directors, etc. in a timely manner as needed. In addition, whether the content of reports is easy to understand and correct.

(v) Whether it is checked to see if underwriting of insurance contracts is carried out in accordance with the operational rules.

In particular, whether it is checked to see if sections other than the head office having discretionary power over underwriting of insurance contracts implement underwriting operations by understanding the content of that discretionary power.

(vi) Whether cashflow analysis and examination of the adequacy of the base rate for the calculation of insurance premiums and policy reserves are carried out for each appropriate unit such as insurance type.

In particular, for insurance types in which a group mainly targeting contracts for which the Flexible Provision System is available and the other group are mixed, whether the examination is carried out for each group.

(vii) Whether the base rate for the calculation is revised as needed based on the examination results in (vi) above, etc.

(viii) In order to prevent unexpected deterioration of cashflow and increased risks, whether a control environment for analyzing/examining the variation factor of the occurrence rate for each category of insurance contracts with at least the same base, implementing periodic monitoring to enable the identification of the cause when the deterioration occurs, and considering the responses such as changing the sales policy, revising the content of products and prices, and stopping sales, etc. in a timely manner has been developed.

(ix) Whether a system to reflect the results of follow-up by collecting opinions on products from customers and insurance agencies to the future product development has been developed.

II-2-5-3 Supervisory Method and Actions

If a problem is deemed to exist in the internal control environment for product development, supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 of the Act.

II-3 Control Environment for Enterprise Risk Management

II-3-1 Significance

In the management of risks in insurance companies, to maintain the financial soundness and improve profitability into the future, appropriate risk management needs to be performed in an organized and integrated manner not only for insurance underwriting risks and asset management risks (market risks, credit risks, etc.), but also for operational risks, etc. according to individual management strategies and risk characteristics, etc.

In particular, for insurance companies facing large-scale complex risks, it is important to not only appropriately manage various risks involved by each risk category, but also develop a control environment for enterprise risk management to manage all risks in an integrated manner and control them by the entire project as an important tool for achieving strategic goals of the insurance companies.

In addition, on an international level, it is stipulated in the “Insurance Core Principles: ICP” adopted by the IAIS (International Association of Insurance Supervisors) in October 2011 that the supervisors should supervise insurance companies and groups to implement Enterprise Risk Management (ERM) and Own Risk and Solvency Assessment (ORSA).

Although a standard framework for such enterprise risk management has not yet been established, insurance companies need to make consistent efforts for further advancement of risk management.

II-3-2 Identification of Risks and Risk Profile

II-3-2-1 Significance

It is important for insurance companies to actively identify the risk profile,

determine risks to be taken as the management and acceptable losses, and perform risk monitoring and control them. The management teams are required to identify all predictable important risks that the insurance companies are facing or will face in the future and respond to them.

II-3-2-2 Main Supervisory Focus

(1) In identifying risks, whether all risks that the insurance company recognizes to be important, not only insurance underwriting risks and asset management risks (market risks, credit risks, etc.), etc., but also liquidity risks, which is difficult to quantitatively identify, etc., are considered.

(2) Whether the management teams identify changes in risk profile corresponding to changes in the business strategies, etc. (for example, new acquisition and investment position change, etc.) in an appropriate and timely manner. In addition, in order to identify changes in risk profile corresponding to significant changes in business environment (for example, revisions of laws and regulations, etc., external rating, political change, large-scale disasters, or market turmoil, etc.) in an appropriate and timely manner, whether a control environment that enables obtaining new information promptly has been developed.

(3) In order to control risks, whether the insurance company considers the causes and impacts of various risks and analyzes mutual relationships between the risks. For instance, claims for payment of large amounts of insurance proceeds due to catastrophe and cancellation of contracts involving large amounts of money due to downgrading by credit rating agencies for the reason of deterioration of financial conditions may lead to a serious liquidity problem; thus, whether the insurance company fully recognizes that certain significant events can be an opportunity leading to other risks.

(4) In cases where exposures pertaining to the guarantee of interest rate, etc. and options such as cancellation, etc. included in insurance products are assumed to have a significant impact on financial markets and the macro economy under certain scenarios, whether the impacts of those exposures

are considered when identifying risks.

II-3-3 Measurement of Risks

II-3-3-1 Significance

In order to evaluate the significance and the possibility of occurrence of impacts that risks have on insurance companies, it is necessary to periodically measure risks using appropriate forward-looking quantitative methods such as risk measurement model, stress test, and scenario analysis, etc.

II-3-3-2 Measurement of Risks

(1) In order to understand various risks in an integrated manner, whether insurance companies measure important risks (including important risks pertaining to group companies) among all risks including insurance underwriting risks, asset management risks (market risks, credit risks, etc.), and operational risks.

(2) When quantifying risks, whether it is basically carried out under common standards, for example, by using economic value evaluation (meaning evaluation that is consistent with market values or evaluation based on the current value of the future cash flow derived using principles, methods, and parameters that are consistent with markets; at present, evaluation of risks ascribed to options/guarantees included in insurance contracts, etc., for example, needs to consider the distribution of future cash flow, but is not a completely established evaluation method, and therefore best methods that each company can use are included; the same applies hereinafter) of total balance sheets, etc. In addition, whether objectivity and appropriateness of quantification standards are ensured. For instance, in cases where VaR is used, whether the concept of establishing the confidence interval and holding period has been clearly defined.

(3) In addition to measuring risks based on the most recent situations, whether changes in total amount of insurance in force and changes in product mix,

etc. are reflected in risk measurement, taking into account management plans and business environment, or whether their impacts are analyzed.

(4) For the quantification of risks, whether studies and efforts are conducted to improve the accuracy and expand target risks. For instance, whether studies and research are conducted to ensure the appropriateness of mutual relationships (diversification benefit) between different types of risks.

In addition, catastrophe risks and market risks between which a strong mutual relationship is not observed in times of normal economic environment may show a strong mutual relationship under stressful environment; thus, whether studies and research are conducted on mutual relationships of these tail risks.

Furthermore, with regard to operational risks, businesses should be conducted to reduce operational risks themselves, and then whether studies and research on the evaluation methods and data collection for quantification are continuously conducted.

(5) When measuring risks, whether appropriate methods are used according to the characteristics, scale, and complexity of risks and the possibility of obtaining reliable data. For instance, whether it is based on the best methods that each company can use, taking into consideration that while complex models are appropriate for measuring some catastrophe risks of non-life insurance, relatively simple calculation may be appropriate for other cases.

(6) A certain limit exists for the risk measurement model even if advanced models are introduced and, therefore, it is not possible to completely identify all risks; whether the management teams understands such limits on models.

(7) Whether the insurance company fully recognizes that internal models can be strategically important tools for supporting or examining business decision making. In addition, with regard to internal models used, whether continued efforts are made to ensure the reliability of the models by periodically examining them and considering receiving third-party examinations (including examinations by external experts) as needed.

(8) when measuring risks, risks covered, measurement methods used, and main prerequisites for using them are appropriately documented.

II-3-3-3 Stress Test

II-3-3-3-1 Main Supervisory Focus

Insurance companies need to check the impacts that future disadvantages have on the financial soundness and take managerial and financial measures as needed. As tools for this, stress test (analysis of the impacts when assumed future disadvantages occur) including sensitivity test, etc. and reverse stress test (stress test for identifying scenarios that are likely to cause managerial crisis and preparing necessary measures to control such risks) are important. In particular, under circumstances where markets fluctuate significantly, risk management using VaR is limited, and the use of stress test is extremely important. Insurance companies are required to conduct stress tests on their initiative according to their financial conditions and the status of risks that they have while also considering market trends, etc. However, notwithstanding the following policy, if there are provisions of other laws and regulations, etc. such as calculation of the solvency margin ratio and future cashflow analysis, etc., it shall be governed by the provisions of those laws and regulations, etc.

(1) With regard to stress test, whether the analysis is conducted using not only historical scenarios (applying cases of past major crisis and case example of maximum loss), but also theoretical stress scenarios. With regard to theoretical stress scenarios, whether stress scenarios are created for multiple elements on domestic and overseas economic trends such as stock prices, interest rates, exchange rates, and credit spreads, etc. according to the risks that the insurance company has. Furthermore, for scenarios in which these multiple elements fluctuate at the same time, whether the situations where the mutual relationships between the assets held, which form the basis, are broken are also considered. When establishing these stress scenarios, whether the situations where market liquidity of the assets held decreases are considered.

In addition, for savings-based insurance, which can be canceled any time and a large part of insurance premiums paid are guaranteed, options such as variable pension insurance, and elements with high guarantee, whether

appropriate stress scenarios have been established with consideration of their characteristics. Other than these, whether stress scenarios have been established with consideration given to counter party risks pertaining to reinsurance transactions and derivative transactions.

In addition, with regard to reinsurance transactions and similar risk transfer transactions, whether stress scenarios have been established with consideration of reduced reinsurance capacity and increased transfer costs, etc. after the occurrence of catastrophe.

Furthermore, whether the reliability of models used in stress tests is periodically examined.

(2) When establishing stress tests, whether the basic concept of the risk management policy of the insurance company has been clearly defined by the board of directors. In doing so, whether the basic concept is consistent with the enterprise risk management and consideration is given from the point of view that the risks cannot be identified by the quantification method of enterprise risk management. In addition, whether the content of the establishment is reviewed, periodically and when needed, by the board of directors, etc., taking into account the content of operations of the insurance company.

(3) When conducting stress tests, whether those with expert knowledge and skills required are involved.

(4) Whether the results of stress tests are periodically and adequately examined/analyzed by the representative director or directors in charge and a control environment to be used for making specific decisions on risk management has been developed.

(5) Whether, independent of the sections conducting stress tests, a system to check whether stress tests are adequately designed and conducted by the entire company has been developed (excluding the cases where stress tests are conducted in an integrated manner by the risk management section that is independent of operational sections).

(6) In order to identify scenarios that are likely to cause managerial crisis and prepare necessary measures to control such risks, whether reverse stress

tests are periodically conducted.

(7) Whether an insurance company with licenses for its branch offices conducts stress tests to cover those branch offices. In addition, whether those branch offices make efforts to identify risks of the entire company by collecting the results of stress tests conducted at the head office to the extent possible.

II-3-3-3-2 Disclosure of Outline of Stress Tests

When disclosing the framework for risk management prescribed in Article 59-2(1)(iv)(a) of the Regulation, the outline of stress test conducted on its own initiative and the method of utilizing the results shall also be disclosed in an easy-to-understand manner.

II-3-3-3-3 Disclosure of Indicators of Loss Ratio Sensitivity

When disclosing the “fluctuations in the amount of ordinary profits and losses corresponding to an increase in the loss rate” listed in the Appended Table of the Regulation (related to Article 59-2(1)(iii)(c) (non-life insurance company)), the following points shall be considered:

(1) Whether the outline (analysis method, scenarios, etc.) of the sensitivity analysis is also disclosed in an easy-to-understand manner.

(2) With regard to scenarios used in the sensitivity analysis, whether standard scenarios where, for example, the loss rate of each insurance type uniformly has increased by 1%, etc. are used.

(3) Whether the amount of reduction of extraordinary contingency reserves is noted.

II-3-4 Risk Management Policy

II-3-4-1 Significance

Insurance companies are required to establish the risk management policy, including the monitoring system and management method for all risk categories that are considered important based on the strategic goals in line with the risk profile and management policy, and formulate the policy on quantitative/qualitative risk tolerances for the entire company to be incorporated into their daily operations. Furthermore, in association with changes in the risk profile, etc., the risk management policy needs to be reviewed on time.

II-3-4-2 Main Supervisory Focus

(1) Whether the board of directors has clearly presented the purpose of implementing enterprise risk management and established the risk management policy, taking into account the strategic goals in line with the management policy of the entire insurance company.

(2) Whether the risk management policy, etc. is designed to ensure consistency among product design, premium rate setting, and relevant asset management strategies. In particular, asset management and benchmarking of insurance products have been appropriately established in accordance with the financial objectives of ALM, etc. In addition, whether the risk management policy, etc. are clearly reflected in the asset management policy, etc.

(3) Whether the board of directors clearly has established the basic concept for establishing the risk tolerance in line with the risk management policy. For instance, whether the board has formulated the risk preference policy, etc. to clearly establish operation management of the level of risks that it intends to take and the tolerance of risks that it can bear. In addition, whether the risk tolerances are appropriately incorporated into business processes by, for instance, conducting stress tests to verify the appropriateness of the risk tolerances.

II-3-5 Own Risk and Solvency Assessment

II-3-5-1 Significance

In order to assess the appropriateness of own risk management and the sufficiency of the current and future solvency according to the management strategies and characteristics of risks, insurance companies are required to periodically conduct own risk and solvency assessment under the responsibility of the board of directors. In the own assessment, in consideration of the future economic conditions and changes in other external factors, reasonably predictable significant relevant risks need to be included

II-3-5-2 Own Risk and Solvency Assessment

(1) Whether the insurance company conducts assessment on the quality and adequacy of capital with consideration given to reasonably predictable significant relevant risks, including the future economic conditions and changes in other external factors.

In addition, whether risk factors and the degree of importance of risks are periodically assessed. Furthermore, when there is a significant change in the risk profile, whether risks and solvency are reassessed promptly.

When conducting own risk and solvency assessment, whether the insurance company sufficiently considers the medium- to long-term business strategies (for example, three to five years), in particular new business plans.

(2) Whether the insurance company has developed the risk and capital management process by periodically conducting own risk and solvency assessment to monitor whether the required economic capital and the capital requirements based on the solvency margin regulations are met. In addition, whether the management teams appropriately recognize the difference between the required economic capital and the capital requirements based on solvency margin regulations.

(3) Whether the insurance company appropriately documents the results of own risk and solvency assessment along with the action plans that take into account the results risk identification, risk profile, risk measurement, risk management policy, and own risk and solvency assessment, etc.

(4) Whether the insurance company conducts overall internal (for example, by officers in charge of risk management) or external assessment on the effectiveness of own risk and solvency assessment.

(5) Whether the internal audit section examines the effectiveness of enterprise risk management and own risk and solvency assessment from an independent position and makes recommendations to the management teama as required.

II-3-5-3 Management Plan and Solvency Assessment

(1) Whether the insurance company analyzes own risks and solvency required to continue its business for the period (for example, three to five years) longer than that normally used to calculate the capital requirement based on the solvency margin regulations.

(2) Whether the insurance company makes prediction of the future financial position and analyzes the sufficiency of the required future economic capital and the capital requirements based on the solvency margin regulations, taking into consideration the medium- to long-term business strategies based on changes in external factors such as events that may occur in the future, including changes in the economic conditions, etc. In doing so, whether prediction of the future financial position and analysis of the sufficiency of the capital requirements based on the solvency margin regulations are conducted in consideration of new business plans, product design that includes minimum guarantee and options, premium rate setting, and product sales prospects.

II-3-6 Control Environment for Reporting

II-3-6-1 Significance

In order to implement appropriate risk management into the future and ensure adequate solvency, insurance companies are required to periodically

conduct own risk and solvency assessment and report to the board of directors.

II-3-6-2 Main Supervisory Focus

(1) Whether the board of directors periodically makes use of identified information in the execution of business and the development of risk management systems by making necessary decisions based on the reports on the sufficiency status of required economic capital and sufficiency status of capital based on the solvency margin regulations, etc.

(2) Whether, after clearly defining a section that implements enterprise risk management according to the operations of the insurance company and the characteristics, scale, and complexity of risks and assigning the head of the said section and the officer in charge, a control environment for appropriately reporting the status of enterprise risk management of the entire insurance company to the said officer, representative director, and board of directors has been developed and reports are made in a timely and appropriate manner in accordance with the control environment. In addition, whether the section that implements enterprise risk management ensures a function for mutual checking with relevant sections.

Furthermore, whether the framework of enterprise risk management is appropriately reviewed according to changes in conditions, etc.

II-3-7 Business Continuity Management (BCM)

II-3-7-1 Significance

Given the increased diversity and complexity of risks faced by insurance companies and changes in the business environment for them in recent years, such as the increasing use of information systems, the possibility that a crisis that cannot be dealt with by ordinary methods of risk management will occur cannot be denied, which means that crisis management has become more important than ever. For insurance companies, which play the role of meeting the needs for safety/security and the management of various risks, initial response at the occurrence of crisis and response such as providing

information, etc. are extremely important. Therefore, insurance companies need to make appropriate preparations in normal times, such as establishing business continuity management (BCM) systems and formulating business continuity plan (BCP).

As management of reputational risks, etc. in particular may have significant impacts on insurance companies' financial conditions and the society, the points of attention in supervision are separately provided.

(Note) "Crisis" means events such as (1) an event such as bankruptcy of large borrowers, etc. that can lead to deterioration of the insurance company's financial conditions to the extent unrecoverable if it is not addressed; (2) an event such as a sharp increase in the cancellation of insurance contracts due to negative reputations, etc. that can cause a problem in liquidity that is difficult to deal with; (3) an event such as system failures and deplorable events that can significantly damage the insurance company's credibility; and (4) an event such as large-scale natural disasters and large scale terrorism that cause significant damage, making it difficult to continue business operations.

II-3-7-2 Preparations to Be Made in Normal Times

(1) Response

Based on the understanding that measures to prevent crisis from occurring in normal times is important in crisis management, when conducting off-site monitoring of the early warning system, etc. and hearings on notifications of deplorable event, etc. or when complaints/information on insurance companies are received, etc., whether there is any problem in the insurance company's control environment for risk management shall be examined. In addition, the appropriateness of the business continuity plan shall also be examined through hearings. In doing so, the following points shall be considered in particular.

(2) Main Supervisory Focus

(i) Whether the insurance company recognizes what constitutes a crisis and is striving as much as possible to prevent or guard against any crisis (prepare countermeasures against a crisis that may be unpreventable) by, for example, conducting inspections and anti-crisis practices periodically in

normal times.

(ii) Whether the insurance company has formulated a crisis management manual. In addition, whether the crisis management manual is constantly reviewed according to the actual state of its business operations and its risk management conditions. It should be noted that it is desirable that the insurance company use objective benchmarks as a basis for the formulation of the crisis management manual.

(Reference) Examples of Conceivable Crisis

A. Natural disasters (earthquakes, typhoons, abnormal weather, epidemics of infectious diseases)

B. Acts of terrorism and wars (including those that occur outside Japan)

C. Accidents (large-scale power failures, computer system breakdowns, etc.)

D. Negative reputations (word-of-mouth rumors, Internet messages, e-mail messages, news articles based on speculation, etc.)

E. Crimes committed against insurance companies (blackmail, intervention by anti-social forces, data theft and abduction of officers or employees)

F. Problems involved in business processes (inappropriate response to complaints and inquiries, errors in data entry, etc.)

G. Problems related to personnel management affairs (accidents and crimes involving officers and employees, internal disputes, sexual harassment cases, etc.)

H. Problems related to labor affairs (cases of whistle-blowing, deaths from excessive workloads, occupational diseases, drain of human resources, etc.)

(iii) Whether the crisis management manual notes the importance of initial responses, such as accurate identification and objective judgment of the situation and dissemination of information in the period immediately after the occurrence of the crisis.

(iv) Whether the crisis management manual clarifies the allocation of responsibilities in the event of a crisis and specifies arrangements and procedures for reporting the occurrence of the crisis throughout the organization and to other parties concerned (including the relevant authorities). In addition, whether the crisis management manual specifies arrangements and procedures for reporting the occurrence of a crisis to relevant overseas organizations, including overseas supervisory

authorities, depending on the extent of its possible impact abroad as well as its level and type. It is desirable that anti-crisis arrangements and procedures be established under the supervision of the crisis management headquarters that oversees institution-wide response in light of the levels and types of crisis assumed for each section and local office, etc.

(v) Whether the business continuity plan (BCP) ensures quick recovery from damage caused by acts of terrorism, large-scale disasters, etc., as well as continuance of the minimum necessary business operations and services for the protection of policyholders, etc. Whether arrangements and procedures are in place for ensuring response coordinated with the industrial organization to which the insurance company belongs (The Life Insurance Association of Japan, The General Insurance Association of Japan, and Foreign Non-Life Insurance Association of Japan) and other insurance companies. In addition, whether the BCP enables the insurance company to deal with international disruptions of business operations in a manner suited to the actual state of its own business operations.

For example, attention shall be paid to:

A. Whether measures to secure the safety of computer systems and customer data in the event of disasters, etc., have been taken (storing information printed on paper in electronic media, creating backups of electronic data files and programs, etc.).

B. Whether the above backup measures have been taken in ways to avoid geographic concentration.

C. Whether the insurance company is prepared to handle operations that are important from the point of view of protecting policyholders, etc. such as appropriate payment of insurance proceeds, etc. based on insurance contracts through provisional measures (manual operations based on backup data, etc.).

D. Whether the insurance company obtains the approval of the board of directors when it formulates the BCM and makes important revisions. In addition, whether the BCM is subjected to examination by independent entities, such as internal and external audits.

(Reference) “Business Continuity Planning at Financial Institutions”” (Bank of Japan, July 2003)

““High-level principles for business continuity”” (Joint Forum, August 2006)

(vi) Whether a control environment for ensuring continuation/restoration of

payment operations at the occurrence of disasters, etc. has been established in normal times, which is clearly positioned as a function to continue/restore the operations for the payment of insurance proceeds at the occurrence of crisis such as large-scale natural disasters, etc. In addition, whether a control environment to ensure convenience measures (refer to III-1-7 Measures Regarding Financial Services Support in the Event of Disasters) for the payment of insurance proceeds, etc. has been developed.

(vii) Whether the insurance company is striving to disseminate and gather information in normal times in a conscientious manner. In addition, at the occurrence of crisis, whether information provision/collection systems are sufficient depending on the level/type of crisis.

II-3-7-3 Actions to Crisis

(1) When supervisors have recognized the occurrence of a crisis or the possibility of a crisis occurring, they shall hold hearings periodically and check the situation first-hand so that they can identify and keep track of how the relevant insurance company is responding to the crisis, including whether the response (status of the development of a control environment for crisis management, communications with relevant parties and dissemination of information) is sufficient in light of the level and type of the crisis, until the situation is stabilized. In addition, they shall require the submission of a report under Article 128 of the Act when necessary.

(2) In the case of above (1), supervisors shall make sure to maintain close cooperation with relevant departments and bureaus, by, for example, immediately reporting to the responsible divisions and offices of the FSA.

II-3-7-4 Post-Crisis Actions

In cases where supervisors have concluded, after the crisis has been brought under control, that it is necessary to examine the insurance company's response to the crisis, they shall require the insurance company, under Article 128 of the Act, to submit a report regarding the outline of the crisis, its

response, the analysis of the cause, and measures to prevent a recurrence.

II-3-7-5 Control Environment for Crisis Management Regarding Reputational Risk

(1) Whether the insurance company has developed a control environment for managing reputational risk. In addition, whether it has specified how the headquarters, sections, and local offices, etc. should respond to the circulation of negative reputations. It is desirable that the insurance company considers how to respond when negative reputations regarding other insurance companies or their business clients, etc. are circulated.

(2) Whether the insurance company regularly checks whether there are negative reputations circulating in each media category (e.g., Internet messages, news articles based on speculation, etc.).

(3) With regard to how to respond when negative reputations led to cancellation of insurance contracts, whether the rules have been established on the identification of business sites such as local offices, etc., customer response, provision of explanation to external parties, etc., and initial response.

(4) Whether a system to immediately contact the responsible divisions and offices of the FSA, business partners, and security companies, etc. in cases where the situation described in (3) above occurs has been established.

II-3-8 Comprehensive Management of Assets and Liabilities

II-3-8-1 Significance

In order to ensure that assets and liabilities, the asset management policy, and the liability management policy comply with the characteristics of the risks and solvency status, it is necessary to develop an effective control environment to understand and manage the status of the total assets and liabilities and manage the total assets and liabilities appropriately.

II-3-8-2 Main Supervisory Focus

(1) Whether, after establishing a section that comprehensively understands the total assets and liabilities and assigning the head of the said section and the officer in charge, a control environment for reporting the status of comprehensive management of assets and liabilities to the said officer, representative director, board of directors, etc. has been developed and reports are made in a timely and appropriate manner in accordance with the control environment.

In addition, whether the section that comprehensively understands the total assets and liabilities ensures a function for mutual checking with relevant sections by, for example, being functionally independent of profitable sections.

(2) Whether the board of directors has set the strategic objectives for the comprehensive management of the total assets and liabilities and clarified the risk tolerance policy in the strategic objectives.

(3) Whether a control environment in which asset management and liability management (including the management of not only existing liabilities, but also liabilities to be incurred in the future by the development of new products, etc.) are carried out based on the said objectives has been developed.

(4) Whether the management of assets and liabilities is carried out based on the economic value, which is evaluated consistently with market value or the present value of the future cash flow derived by the method that uses principles, methods, and parameters that are consistent with markets. Whether, for example, the evaluation of risks ascribed to options included in insurance contracts, etc., which requires consideration of the future cash flow distribution is based on the best method that each company can take although there is no fully established evaluation method available at present.

(5) When comprehensively managing assets and liabilities, whether at least the risks that are considered important in terms of the potential impacts on

economic values are evaluated in the asset and liability management framework.

Whereas such risks include the following:

(i) Market risk

The market risk refers not only to the asset management risk, but also to the risk associated with market fluctuations for the total assets and liabilities, including interest rate risk of liabilities. Therefore, for example, (a) interest rate risk (including the interest rate risk of liabilities in addition to the interest rate risk of assets), (b) price fluctuation risk of stocks, real estates, and other assets, (c) exchange risk, and (d) market-related credit risk are included.

(ii) Insurance underwriting risk

(iii) Liquidity risk

(6) Whether relevant employees, including the section head and officers in charge, have sufficient understanding of the strategic objectives for the comprehensive management of the total assets and liabilities and the evaluation methods used for the management according to their roles.

(7) Whether the examination to ensure the appropriateness of the said objectives and management is appropriately performed according to changes in the business policy, external environment, and solvency status.

(8) Whether the interaction between all the assets and liabilities of the insurance company is identified, and the risk interaction between different asset types and the interaction between different products and insurance lines are considered in the asset and liability management policy.

(9) There may be a gap in duration (or sensitivity) because of a small number of long-term assets that match liabilities of long duration available. Whether the risk caused by such mismatch between assets and liabilities is considered. In addition, whether such mismatch is effectively managed by holding sufficient capital or appropriately reducing risks, etc.

II-3-9 Control Environment for Insurance Underwriting Risks

II-3-9-1 Significance

Insurance underwriting risk refers to a risk that an insurance company suffers a loss due to a fluctuation in the economic conditions or the occurrence rate of insured events, etc. contrary to predictions at the time of setting the insurance premium. It is important that each insurance company develops a control environment to appropriately manage such insurance underwriting risks.

II-3-9-2 Main Supervisory Focus

(1) Development of Control Environment for Managing Risks

(i) Whether the insurance underwriting risk management section effectively utilizes the following as data for examination:

A. the content of transactions and analysis results, etc. of relevant sections implementing the development, revision, and discontinuation of products, prediction of the occurrence of insured events, prediction of interest/exchange rates, identification of risks, conclusion of ceded reinsurance, accumulation of policy reserves and payment reserves, etc., sale of insurance products, and underwriting examination of insurance contracts, etc., and

B. written opinions of Responsible Actuaries, etc.

(ii) Whether a control environment in which important information for each relevant section on product development, revision, and discontinuation, etc. (whether the definition of important information is prescribed in the rules) are reported to the insurance underwriting risk management section is in place.

(iii) In order to comprehensively manage assets and liabilities, whether close cooperation with the asset management risk management section is implemented and the information necessary on the assets side is identified.

(2) Risk Management

(i) Whether risks are identified for each product periodically (at least once every half-year) by methods such as identification/analysis of the current income and expenditure and prediction of the future income and expenditure, etc. In addition, whether the prediction of the future income and expenditure is based on reasonable scenarios from the viewpoints of

the current interest rate trends, economic conditions, and occurrence of insured events, etc.

(ii) When selling new insurance products or revising/discontinuing existing insurance products, whether the appropriateness of the insurance premiums of the said products is examined from the points of view of, for example, the asset management environment such as the interest rate level, occurrence rate of insured events related to the content of the said insurance, method of expending operating costs, policy reserve status, solvency margin ratio status, etc.

(iii) Whether a measure to verify that the underwriting standards are the same as or its risk is lower than the offering conditions assumed at the time of the development of products has been taken.

(iv) Whether a measure to verify that for free rate, standard rate, range rate, and margin rate products in non-life insurance company, the individual price settings conform to the risk management policy, etc. has been taken.

(v) It is desirable that a system equipped with a versatile analytical method for the total insurance underwriting risk has been developed.

(vi) Whether the identified risks are analyzed and appropriate risk control is implemented in accordance with the risk management policy.

(vii) Whether business sites and insurance agents are instructed/managed so that they comply with the underwriting standards, etc. in insurance solicitation. In addition, whether a measure to verify actual compliance has been taken. It is desirable that a system to disallow insurance contracts violating the underwriting standards to be concluded has been established.

(viii) For the management of risks related to the third-sector primary insurance, since the risks that occur during the period from the product development to the payment are interrelated, and the intrinsic risks vary depending on the type of insurance and therefore the uncertainties such as external factors and unexpected acts by insured persons may be realized at the occurrence of insured events, whether a control environment has been developed, taking into account how the internal control, including senior managers, should be such as managing as a series of operations, from solicitation/underwriting to payment by insurance type and carefully observing/analyzing these uncertainties, etc.

II-3-10 Risk Management for Reinsurance

II-3-10-1 Risk Management for Retention/Cession

For retention and cession of risks to be assumed in direct insurance contracts and assumed reinsurance contracts carried out by insurance companies (excluding cessions to the reinsurance pool for automobile liability insurance and earthquake insurance), the following points shall be considered (excluding the cases where the percentage of cession to retained risks is very small):

(1) In order to properly manage the scale/concentration of risks retained through cessions, whether an appropriate retention/cession policy has been formulated.

(2) Whether the retention/cession policy includes standards on the management of the retention limits for a single risk and accumulated risks, the soundness of ceding destination, and concentration to a single reinsurer according to the characteristics of risks underwritten.

(3) Whether the risks underwritten exceeding the retention limits of the retention/cession policy are appropriately covered by the reinsurance arranged.

(Note) It is necessary to check that the reinsurance arranged reduces the risks underwritten as intended.

(4) Whether a system to autonomously check the status of compliance with the retention/cession policy has been established at each ceding section, and a system to check the status of compliance with the retention/cession policy for the entire company independent of each section has been established.

(5) Whether the recovery status and future recoverability of reinsurance proceeds as well as the performance of ceded reinsurance is checked.

(Note) It is desirable that the recovery status of reinsurance proceeds is collectively managed with those for which debts/credits to each ceding destination relate to assumed reinsurance contracts. In addition, it is desirable to check the performance of reinsurance using an effective method for managing risks by type, type contract, and counterparty, etc.

(6) In cases where reinsurance is ceded to subsidiary insurance companies, etc., whether the risk management described in (1) through (5) above is properly implemented for each group.

II-3-10-2 Risk Management for Assumed Reinsurance

For assumption of insurance carried out by insurance companies (excluding assumptions from the reinsurance to automobile liability insurance and earthquake insurance), the following points shall be considered (excluding the cases where the percentage of assumption to retained risks is very small):

(1) In order to properly manage risks increased through assumption of reinsurance, whether an appropriate assumption policy has been formulated.

(2) Whether the assumption policy includes standards on types and regions, etc. for which underwriting is performed.

(3) When concluding assumed reinsurance contracts, whether the profitability and risks of the said assumes reinsurance contracts are sufficiently considered by obtaining sufficient information from ceding insurers. In addition, whether, after understanding the estimated maximum amount of losses for major accumulated risks, appropriate management is performed so as not to exceed the retention limits.
(Note) The estimated maximum amount of losses and the retention limits need to be managed together with direct insurance contracts.

(4) Whether a system to autonomously check the status of compliance with the assumption policy has been established at each assuming section, and a system to check the status of compliance with the assumption policy for the entire company independent of each section has been established.

(5) Whether the performance of assumed reinsurance are checked.
(Note) It is desirable to check the performance of reinsurance using an effective method for managing risks by type, type contract, and counterparty, region/type, and underwiring fiscal year, etc.

(6) In cases where reinsurance is assumed from subsidiary insurance companies, etc., whether the risk management described in (1) through (5) above is properly implemented for each group.

II-3-10-3 Disclosure of Policy for Reinsurance

(1) Life Insurance Companies

(i) When disclosing those listed in items (vi) through (ix) of the paragraph concerning indicators of insurance contracts, etc. of the Appended Table of the Regulation (related to Article 59-2(1)(iii)(c) (life insurance company)), disclosure shall be made separately for third-sector primary insurance (limited to insurance contracts that elect not to accumulate insurance premium reserves under Article 71 of the Regulation).

(ii) When disclosing the risk management system listed in Article 59-2(1)(iv)(a) of the Regulation, the following matters shall be disclosed in an easy-to-understand manner.

A. Policy for effecting and assuming reinsurance

B. Method of obtaining reinsurance coverage

(2) Non-Life Insurance Companies

(i) When disclosing those listed in items (v) through (viii) of the paragraph concerning indicators of insurance contracts, etc. of the Appended Table of the Regulation (related to Article 59-2(1)(iii)(c) (non-life insurance company)), disclosure shall be made separately for third-sector primary insurance (limited to insurance contracts that elect not to accumulate insurance premium reserves under Article 71 of the Regulation).

(ii) When disclosing the risk management system listed in Article 59-2(1)(iv)(a) of the Regulation, the following matters shall be disclosed in an easy-to-understand manner.

A. Policy for effecting and assuming reinsurance

B. Method of obtaining reinsurance coverage

C. Specific content of reinsurance for earthquake disaster risks and typhoon disaster risks that are major accumulated risks, including types of reinsurance applicable when the said risks occur and the approach to setting the maximum amount in the reinsurance scheme, etc.

II-3-11 Control Environment for Assets Management Risks

II-3-11-1 Significance

Insurance companies manage money received as insurance premiums and other assets through acquisition of securities, acquisition of real properties, money loans, and other methods. Based on the understanding of risks related to such asset management, it is important to develop an appropriate control environment for managing asset management risks.

II-3-11-2 Main Supervisory Focus

(1) Development of Control Environment for Managing Risks

From the point of view of maintaining the soundness of the insurance company, whether a control environment for managing asset management risks on a daily basis that takes into account market risks, credit risks, and liquidity risks, etc. has been adequately developed. In particular:

(i) Whether a basic policy for managing risks that take into account market risks, credit risks, and liquidity risks, etc. has been specified.

(ii) Whether the representative director or directors in charge are actively involved in the formulation of the said basic policy.

(iii) Whether the internal rules (including the rules of the internal approval system) have been properly established.

(iv) Whether the allocation of responsibilities in asset management has been clearly defined. In particular, whether the roles and authorities of managers of each of sections conducting transactions (front offices), back-end administrative sections (back offices), and risks management sections in market risk management (middle offices) have been clearly defined. Moreover, whether the function for mutual checking between the sections conducting transactions and back-end administrative sections or risks management sections is effectively performed.

(v) Whether a control environment for appropriately and periodically conducting valuation of assets has been established.

(vi) Whether a control environment for broadly collecting/analyzing

information that affect the prices of assets held, etc., including domestic and overseas economic trends, has been established.

(vii) Whether a system to understand the amount of risks for the overall management has been established.

(viii) In order to enable the representative director or directors in charge to appropriately and promptly determine the policy for business operations and risk management, etc., whether a control environment for reporting important information to the representative director or directors in charge on time has been developed.

(ix) In cases where operational sections carry out investment management for each type of assets held without cooperation, based on the recognition that effective risk management may be hindered by causing a concentration of risks as a whole or being unable to close positions in an appropriate timing with each section adhering to its own positions, whether a control environment to enable making appropriate and prompt investment decisions from the point of view of the entire portfolio has been developed.

(x) In cases where investments are made in products whose money-market liquidity is low or is likely to be reduced in times of market disturbance (for example, the following products), whether appropriate investment policies (policy for managing the maximum amount of investment, control environment for managing risks, etc.) have been developed and executed.

- Hybrid investment products
- Structured bonds
- Private equities
- Hedge funds

(xi) Whether a control environment for managing risk of concentration of exposures (including those for off-balance items) for, for example, the following points by setting risk preference and maximum amount, etc. has been developed. In particular, whether it is considered that exposures for financial institutions may amplify risks in times of financial market disturbance.

- Types of assets
- Credit ratings
- Issuers, counterparties, or related entities thereof (liabilities that can be offset are considered as needed)
- Sectors

- Geographical areas

(2) Content and Method of Market Risk Management

(i) Whether breakdowns by assets held and by period, etc. are appropriately understood for positions and risks In particular, whether the risks of assets with special characteristics of risks held are appropriately identified.

(ii) When the VaR values are used for risk management, whether efforts have been made to appropriately select the observation period, holding period, confidence interval, measurement method, and input data, etc. as well as to verify the measurement results to secure the adequacy, taking into account characteristics of the products.

(iii) In cases where there is no sufficient past performance data available or data is not reliable, etc., whether various risk measurement methods (for example, understanding the gross position of notional principal, etc., understanding changes in the volatility, etc.) are utilized and efforts are made to enhance risk management methods, including stress tests, taking into account that statistical risk measurement methods have limitations such as the VaR values are too small. In the implementation of risk management, whether the prerequisites are reviewed flexibly based on economic trends, etc.

(iv) When establishing each of the risk limits (allowable range of the anticipated loss of VaR, etc.) and loss limits, whether the basic concept of the risk management policy of the insurance company has been clearly defined by the board of directors. In addition, whether the content of operations of each section is reconsidered and the content of the establishment is reviewed periodically (at least once a half year) by the board of directors, etc.

(v) Whether the system for reporting to managers and the specific authorities (policy and procedures, etc.) when the risk limits or loss limits are exceeded or are likely to be exceeded have been clearly defined.

(3) Risk Management of Credit Investment of Securitization Products, etc.

Whether risk management is conducted for investments in marketable credit products such as securitization products with consideration given to the following points. In addition, the same consideration needs to be given to marketable loans (regardless of whether they are originated by the own company or acquired in secondary markets) and CDS transactions. In cases

where credit risks are guaranteed in the form of insurance, basically the same consideration needs to be considered according to the characteristics thereof.

(i) Appropriate valuation of products

For marketable credit products (including marketable loans and CDS transactions), whether the valuation is conducted and reflected in the accounting treatment in consideration of the following points (whether the same consideration is given and additional insurance contract reserves are accumulated as needed also in cases where credit risks are guaranteed in the form of insurance).

A. In conducting valuation, whether if the prices frequently used in transactions exist, the said prices are used for evaluation and even if such prices do not exist, rational valuation is conducted by taking into account the frequency of trading and the price difference between sellers and buyers. In addition, in cases where the valuation model is used, whether, based on the understanding that the model is created on certain assumptions, the assumptions and logic of the model are periodically reviewed and its appropriateness is verified, including whether the content of the product, actual situation of the market, and status of credit risks are appropriately reflected (In the case of insurance for guaranteeing credit risks, for example, based on the evaluation at the time of underwriting, identifying subsequent changes in credit risks, etc. and then reevaluating the value of liabilities may be considered).

B. In cases where the product prices calculated by the sections conducting transactions are used as assessed market values in risk management, whether the said values are verified from the independent position in the risk management section, etc.

C. In cases where valuation is obtained from brokers or external vendors, whether efforts have been made to verify the adequacy of the said valuation by requesting them to provide information on the valuation methods to the extent possible. In addition, in cases where the valuation models provided by external vendors, etc. are used, whether efforts have been made to understand the prerequisites, characteristics, and limits of the models by requesting the said vendors, etc. to provide the information as detailed as possible.

(ii) Appropriate understanding of the product content in making investments in securitization products, etc.

A. Whether a control environment for not excessively relying on external ratings when making investment in and conducting interim control of securitization products, etc. has been developed, including using external ratings based on the prior correctly understanding of the rating methods and the meaning of ratings of credit rating agencies, etc.

B. In making investments in securitization products, etc., whether voluntary efforts are made to understand the content of the securitization products, etc., including understanding the content of underlying assets, the status of analysis of structures such as the senior-sub structure (degree of leverage), status of credit enhancement and liquidity facility, and content of credit events, etc., and the status of price fluctuation, etc.

C. Since the operation and management of the underlying asset portfolio rely on relevant parties such as originators and managers, etc. in investments in securitization products, whether efforts have been made to understand and monitor the abilities/systems, etc. of the parties concerned.

D. With regard to securitization products, in the composition of underlying assets by the originators, if it is intended to transfer all such underlying assets to the securitization vehicle from the beginning of the composition, underlying asset may not be composed appropriately with attention not being paid to asset analysis, etc., resulting in an increased risk in share of those securitization products. For this reason, it is desirable that the originators continue to retain part of the risk in the securitization products. Based on these, whether it is checked whether the originators continue to retain part of risks pertaining to securitization products. In addition, if the originators do not continue to retain the risks, whether detailed analysis is conducted on the status of involvement of the originators in the underlying assets and the quality of the underlying assets.

(iii) Management of market liquidity risks

A. Whether the market liquidity is appropriately examined in the investment in and interim control of securitization products, etc. As methods to examine the market liquidity, the followings may be considered:

(A) Compare the market scale with the amount of own investment to check whether the share is excessively large

(B) Understand the price difference between sellers and buyers in the market and the actual sellable price level through hearings, etc.

(C) Monitor changes in market environment through analysis on various

indictors (indices of securitization products, etc.)

(D) Create stress scenarios on the exhaustion of market liquidity using the past stress events as a reference to check profit and loss, etc. of thesecuritization portfolio, etc.

B. Whether a control environment for considering responses on time if a concern is found in the market liquidity of securitization products, etc. has been developed.

(iv) Improvement of safety of CDS transactions

When conducting CDS transactions, whether appropriate transaction practices are adopted from the point of view of improving safety of transactions, with an eye on efforts of relevant parties such as standardization of transactions and use of central clearing organizations, etc.

(4) Other Individual Asset Management

When conducting individual asset management, whether the following points are considered:

(i) Trading Account Securities

Whether the rules for carrying out appropriate accounting have been established.

(ii) Derivative Transactions

A. Whether appropriate management is carried out with the purpose of conducting derivative transactions, limits, and content of contracts, etc. being clearly defined.

B. Whether measures to implement risk management have been taken.

C. Whether a system to understand the quantity of risks on time has been established.

D. Whether the risk management is appropriate on the financial basis.

(iii) Short Selling and Lending/Borrowing of Bonds

A. Whether measures to implement risk management have been taken.

B. Whether a system to understand the quantity of risks on time has been established.

C. Whether the risk management is appropriate on the financial basis.

D. Whether management is carried out with the execution limits being clearly defined.

(iv) Stock Transactions on Credit

A. Whether appropriate management is carried out with the purpose of

conducting transactions on credit, limits, and content of contracts, etc. being clearly defined.

B. Whether measures to implement risk management have been taken.

C. Whether a system to understand the quantity of risks in a timely manner has been established.

D. Whether the risk management is appropriate on the financial basis.

(v) Credit Risks of Counterparties

Whether the credit risks of major counterparties in derivative transactions, etc. are appropriately managed, including the following points.

A. Management of exposures by counterparty and, when needed, by type of counterparty

B. Understanding of risks of increased exposures by changes in market values of reference assets in derivative transactions

C. Verification of the effectiveness of security and other credit enhancement measures

(vi) Non-Cleared Over-the-Counter Derivative Transactions

Whether the insurance company (including those whose average total notional amount of outstanding over-the-counter derivative transactions falling under Article 123(10)(iv)(b) of the Cabinet Office Order on Financial Instruments Business, etc. is less than 300 billion yen) makes efforts in developing a control environment for managing counterparty risks, including payment and receipt of variation margins, etc., in non-cleared over-the-counter derivative transactions with counterparties being financial institutions, etc.

In addition, whether the insurance company that is subject to the provisions (on initial margin) of Article 123(1)(xxi)-6 of the Cabinet Office Order on Financial Instruments Business, etc. makes efforts in developing a control environment for managing counterparty risks, including receipt of initial margins, etc., in non-cleared over-the-counter derivative transactions that is subject to the said provisions.

For specific supervisory focus, reference shall be made to “IV-2-4(4) Non-Cleared Over-The-Counter Derivative Transactions” of the “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.”, etc.

(vii) Other Transactions

For transactions carried out by the insurance company, whether internal rules that take into account the impacts on the purpose, execution limits,

and impacts on income and expenditure have been developed. In addition, whether the rules take into consideration maintenance of social credibility, etc. For instance, whether internal rules have been developed for security loan transactions with cash collateral. In addition, whether appropriate interest is paid for cash collateral.

(viii) Acquisition of Commercial Properties

A. Whether management that clearly distinguishes commercial real properties from investment properties is implemented.

B. Whether the acquisition of commercial properties is carried out in consideration of the point of view of effective business operations being considered.

(ix) Loan of Funds

A. Whether measures to enhance and strengthen review/management have been taken. In addition, whether the mutual checking function between sections in charge is effectively performed.

B. Whether measures to appropriately perform debtor management have been taken. In addition, when giving credits, whether the aspects such as business plans, repayment plans, sources of repayment, uses of funds, investment effects, and conservation, etc. of the debtors are included in the review items.

C. Whether measures to eliminate inappropriate treatment such as indirect loans, name splitting manipulations, and fictitious names, etc. have been taken.

D. Whether the calculation of losses and treatment pertaining to loans, etc. are properly carried out.

(x) Liquidation of Loan Claims

A. Whether the company with loan claims sufficiently consider protection of original debtors.

B. Whether loan claims are transferred to parties who apply pressure or would harm the steady life and operations of the debtors, etc.

(xi) Operations by Discretionary Investment Contracts

A. Whether the insurance company makes overall asset management plans (formulation of the basic policy, profit plans, and risk management plans, etc.) on its own accord.

B. Whether the basic policy of discretionary investment contracts such as its positioning in overall asset management, etc. has been formulated.

C. Whether the content of discretionary investment contracts is appropriate

as an asset management method of the insurance company.

D. Whether measures to implement risk management, including the discretionary investment account, have been taken.

E. Whether a system to ensure compliance with asset management regulations and examine it, including the discretionary investment account, has been developed.

(xii) Performance Guarantee

In cases where the insurance company provides performance guarantee of construction work, etc. such as so-called performance bonds as debt guarantee, whether the content of contracts requires the insurance company to conduct businesses that it cannot conduct in light of Article 100 of the Act such as requiring it to complete the construction by itself in the case of performance guarantee, etc.

(xiii) Management of Special Account in Market

Whether internal rules for management of special account in market has been appropriately established. In addition, whether a system to ensure appropriate management based on the internal rules has been established.

(Note) When establishing the internal rules, whether the following points are considered:

A. Whether it is stipulated that management shall be carried out in good faith for the benefit of the policyholders.

B. Whether it is stipulated that the management policy and content of management (including matters concerning lending stocks), etc. shall be explained to the policyholders.

C. Whether the principles to be observed in markets (for example, prohibition of price fixing/spread of rumors, matters concerning closing price guarantee transaction, etc.) have been established.

D. Whether standards on the selection of entities to which orders are placed, entities to which management is entrusted, and advisors that comprehensively take into account the transaction execution capacity, compliance with laws and regulations, etc., credit risks, and performance of management, etc.

(xiv) Surety Bond Business of Non-Life Insurance Company and Guarantee of Obligation

With regard to surety bond business of the non-life insurance company and guarantee of obligation, whether guaranteed securities activities, which are carried out using the methods specific to insurance such as setting the

amount of consideration, establishing a reserve, and distributing the risks by reinsurance, etc. based on actuarial science, and guarantee of obligation prescribed in Article 98(1)(ii) of the Act are clearly distinguished in management.

A. Guarantees implemented as surety bond business include, for example, guarantee for derivative transactions

B. Guarantees implemented as guarantee of obligation include, for example, guarantee for securitization of loans, corporate bonds, etc., and assets

(xv) Acquisition/Holding of Stocks Utilizing Subsidiary Companies Specialized in Investment

When acquiring/holding the shares of “companies specified by Cabinet Office Order as those exploring new business fields or conducting new business activities found to contribute considerably to the improvement of management” prescribed in Article 106(1)(xiii) or Article 271-22(1)(xiii) of the Act, the insurance company itself is considered to have certain risk shields. Even in such cases, whether a control environment for understanding, analyzing, and managing the status of risk management of its subsidiary companies has been developed.

(5) Procurement of Funds

Purchasing of external funds produces leverage effects, and sufficient consideration needs to be given to the management of limits on holding of assets, etc. such as the following:

(i) Funds

When soliciting funds, whether the effects of burden of interest on funds, enhancement of retained earnings, and protection of policyholders, etc. are considered.

(ii) Corporate Bonds

A. Whether the purpose of issue, limits on issues, and impacts on income and expenditure are considered.

B. Whether measures to implement appropriate management of issue and redemption, etc. have been taken.

(iii) Purchase of Subordinated Debts

A. Whether the purpose of purchase, limits, and impacts on income and expenditure are considered.

B. Whether measures to implement appropriate management of repayment

plans, etc. have been taken.

(iv) Overdrafts

A. Whether the overdrafts correspond to temporary cash flow conditions associated with asset management.

B. Whether the purpose of purchase and limits are considered.

(v) Purchase of Debts in Foreign Currency

Whether the purpose of purchase, limits, and impacts on income and expenditure are considered.

(vi) CP

A. Whether the purpose of issue, limits on issues, and impacts on income and expenditure are considered.

B. Whether measures to implement appropriate management of issue and redemption, etc. have been taken.

(6) Ideal Methods of Self-Assessment of Assets

(i) Whether measures to correctly understand the soundness of the content of assets have been taken.

(ii) Whether the insurance company has formulated self-assessment standards, examines/analyzes own assets, and categorizes them according to the degree of risk of default and impairment of the asset value (hereinafter referred to as “self-assessment”).

(iii) When formulating self-assessment standards, whether the standards comply with relevant laws and regulations such as the Companies Act (Act No. 86 of 2005), etc. and have been established in writing through formal internal procedures with active involvement of senior managers. Whether specific standards for asset assessment and the sections implementing self-assessment have been clearly defined. Whether the rationality and clarity of the standards can be explained.

(iv) Whether the section responsible for self-assessment has been clearly defined. For the said section, whether the mutual checking function is ensured by, for example, being independent of the section approving loans.

(v) Whether a system in which internal audit sections such as the examination section, etc. conduct audits of the self-assessment results has been established. Whether experts are secured at the self-assessment sections.

(vi) Whether self-assessments are conducted in accordance with the standards.

(vii) Whether a business flow to report the self-assessment results to senior managers has been established. Whether senior managers correctly understand the reports and the content of the company's assets.

(viii) Whether the policy of reserve for bad debts that takes into account the self-assessment results has been clearly defined. Whether cooperation with external auditors is sufficient.

(ix) Whether depreciation/reserve is conducted in accordance with the Practical Guidelines of the Japanese Institute of Certified Public Accountants.

(x) Whether rational standards have been developed on the assessment of bad debt losses expected to occur in particular in relation to specific countries or regions (hereinafter referred to as "country risks") due to overseas political or economic situations, etc.

(xi) Whether the policy of reserve for specific foreign loans that take into account the results of assessment of country risks has been clearly defined. Whether reserve is conducted in accordance with the reserve policy. Whether cooperation with external auditors is sufficient.

(xii) Whether the standards for assessment of country risks can properly assess credits granted to the governments of the countries or regions where the following facts, etc. are occurring, natural persons having domicile or residence in those countries, or corporations having their principal offices in those countries.

A. The payment of the principal or interest of loans of private insurance companies to the government, central bank, government-affiliated organs, or national enterprises (hereinafter referred to as the "government, etc.") (here in after referred to as "private loans to the government, etc.") of the country concerned is delayed for one month or more.

B. For private loans to the government, etc., a contract on postponement of debt repayment, refinancing by a method that is uniform across major creditor banks, or other equivalent measures (hereinafter referred to as "postponement of debt repayment, etc.") is concluded within five years from the closing of accounts.

C. For private loans to the government, etc., after receiving a request for postponement of debt repayment, etc., one month or more has passed without being able to conclude the contract.

D. For private loans to the government, etc., the facts listed in the preceding items are expected to occur in the near future.

E. For loans of private insurance companies to natural persons having domicile or residence in those countries or corporations having their principal offices in the countries concerned, the facts similar to those listed in A. through C. above are occurring or expected to occur in the near future.

F. Other events that are expected to have impacts on the assessment of country risks.

II-3-12 Control Environment for Managing Liquidity Risks

II-3-12-1 Significance

If cash flow is hindered by the status of premium revenue, etc, it may have significant impacts on business management. Therefore, it is important to appropriately manage risks by regularly paying close attention to the status of cash flow.

II-3-12-2 Main Supervisory Focus

(1) Development of Control Environment

(i) Whether a cash flow management section that carries out management/operation of daily cash flow has been established.

(ii) Whether a control environment for reporting, policy planning, and directions/instructions on cash flow management has been appropriately developed among the representative director, directors in charge, board of directors, cash flow management section, and each operational section. In addition, whether a control environment in which the checking function is adequately performed has been developed by, for example, separating the cash flow management section and the risk management section, etc.

(Note) The “cash flow management section” refers to a section that carries out management/operation of daily cash flow, and the “risk management section” refers to a section that monitors the status of compliance with internal standards on cash flow, etc.

(iii) Whether the liquidity risk management policy has been formulated. Whether cash flow management based on the liquidity risk management

policy includes the following management where needed:

- Establishment of risk preference, risk tolerance, and risk limits, etc for liquidity risks and checking the compliance status therewith
- Conducting stress tests on the liquidity (including checking that it is within the range of risk preference, etc.)
- Establishing and reviewing measures to respond to the liquidity crises

(iv) Whether the cash flow status is categorized according to the urgency of the cash flow and the rules such as the management methods, reporting methods, and settlement methods, etc. have been developed for each category upon approval by the board of directors, etc.

(2) Risk Management

(i) Whether the board of directors considers cash flow risks when setting strategic goals. Whether the board checks whether reports on cash flow management comply with the liquidity risk management policy. In addition, whether the board approves measures to respond to the liquidity crisis and important revisions thereof.

(ii) Whether the representative director has established and reviews limits such as the maximum amount of investments in assets with no market or very low liquidity, when needed, according to the content of asset investment and status of procurement, etc.

(iii) Whether the risk management section provides information to the board of directors and cash flow management section and checks the cash flow management section. In addition, whether the risk management section, in cooperation with the cash flow management section, has been developing and reviewing measures to respond to the liquidity crisis.

(iv) Whether the cash flow management section appropriately manages cash flow by evaluating the liquidity from the aspects of both assets and liabilities, understanding the status of ensuring the liquidity, and preparing the statement of cash flow and cash flow outlook for Japanese and foreign currencies, etc. in accordance with the liquidity risk management policy and the risk management rules. Whether it has developed factor analysis and response measures for cash flow risks. When liquidity risks are identified by currency and by site, whether the cash flow management section manages them in an integrated manner. In addition, whether it secures the procurement mechanisms.

(v) Whether each operational section conduct business operations in

consideration of liquidity risks.

(vi) When managing cash flow risks, whether the cash flow status of consolidated subsidiary companies is understood/considered. In addition, whether ceded reinsurance is managed.

(vii) For derivative transactions that include insurance for guaranteeing credit risks and CDS transactions, etc., if the conditions require collaterals based on the level of credit of guaranteed debts or reference debts or the rating of the insurance company, whether liquidity management is carried out based on the assumption of provision of collaterals.

II-3-13 Control Environment for Operational Risks

A control environment for managing operational risks is composed of a control environment for managing administrative risks, that for information technology risks, and that for other operational risks.

II-3-13-1 Control Environment for Managing Administrative Risks

II-3-13-1-1 Significance

"Administrative risks" refers to risks that insurance companies will incur losses because of officers/employees of the insurance companies failing to carry out accurate administration, causing accidents, or committing frauds, etc. Insurance companies are required to make efforts to ensure credibility through sound and appropriate business operations by appropriately developing an internal control environment, including personnel management of officers/employees involved in such risks.

II-3-13-1-2 Main Supervisory Focus

(1) Control Environment for Managing Administrative Risks

(i) Whether an appropriate control environment for managing administrative risks has been developed based on the understanding that administrative risks exist in all operations.

(ii) Whether the importance of reducing administrative risks is recognized

and concrete measures to reduce administrative risks have been taken, for instance, whether measures such as developing an internal control environment and providing guidance to employees and insurance agencies not to cause leakage of personal information or infringe privacy of policyholders, etc. have been taken, and whether measures to prevent insurance contracts violating laws, regulations, or the internal rules such as contracts lacking the purpose of insurance (so-called fictitious contracts), etc.

(iii) Whether the administrative section has developed a system to enable the checking function to be adequately performed. In addition, whether various administrative rules have been clearly defined.

(2) Control Environment for Internal Audits

Whether the internal audit section appropriately conducts internal audits to audit the control environment for managing administrative risks.

(3) Control Environment for Managing Risks at Local/Branch Offices, etc.

Whether the administrative section has taken measures to check the control environment for administrative management at business offices such as local offices and branch offices, etc.

II-3-13-2 Control Environment for Managing Information Technology Risks

II-3-13-2-1 Significance

"Information technology risks" refers to risks that customers and insurance companies will incur losses because of a computer system breakdown, malfunction, or other inadequacies, or because of inappropriate or illegal use of computer systems. Information systems used by insurance companies are becoming increasingly advanced and complex, in line with the integration of systems due to mergers, management integration through conversion into holding companies, and other management restructuring moves and an expansion of the range of products and services, etc. This, combined with an expansion of computer networks, has increased the risk of important information being illegally accessed or leaked, etc. As the secure and stable operation of computer systems is the overriding prerequisite for ensuring

public confidence in insurance companies, it is extremely important to enhance the control environment for managing information technology risks.

In addition, considering recent environmental changes surrounding financial business, IT strategies of financial institutions are becoming important issues that now affect business models of financial institutions. Therefore, financial institutions are increasingly required to consider both the business strategies and the IT strategies in an integrated manner. From these standpoints, it is extremely important that the managers demonstrate their leadership to link IT and business strategies to ensure “IT governance”, a mechanism to achieve the creation of corporate values, functions appropriately.

(Reference) “Discussion Paper on Dialogues and Practices Regarding Financial Institutions' IT Governance” (June 2019)

II-3-13-2-2 Main Supervisory Focus

(1) Recognition of Information Technology Risks, etc.

(i) Whether the representative director as well as officers/employees adequately recognize the importance of information technology risks and conduct periodical reviews, and whether a basic policy for company-wide management of information technology risks has been formulated.

(ii) Whether the representative director recognizes that prevention and efforts for speedy recovery from system troubles and cybersecurity incidents (hereinafter referred to as "system trouble, etc.") is an important issue for business management and has developed an appropriate control environment.

(Note) “Cybersecurity incidents” refers to instances of cybersecurity being threatened by so-called cyberattacks, including unauthorized intrusion, theft, modification and destruction of data, failure or malfunction of information systems, execution of illegal computer programs, and DDoS attacks, committed via the Internet through malicious use of information communication networks and information systems, etc.

(iii) Whether the board of directors adequately recognizes the importance of information technology risks and appoints an officer responsible for overall information technology management (chief information technology officer). It is desirable that the chief information technology

officer has sufficient knowledge/experience of information technology to appropriately perform its duties.

(iv) Whether the responsibilities of and actions to be taken by the representative director and directors (in the case of a company with a nominating committee, etc., executive officers) in times of crisis due to the occurrence of system trouble, etc. have been specifically defined.

In addition, whether training in which they take command themselves is conducted to secure its effectiveness.

(2) Control Environment for Managing Information Technology Risks

(i) Whether the board of directors has developed a control environment for managing risks with due consideration to the fact that when a risk is found due to expansion of computer networks, etc., it may have significant impact on business management; for instance, the impacts may cause a chain reaction, which tends to spread out and become more serious.

(ii) Whether a basic policy for managing information technology risks has been specified. Whether the basic policy for managing information technology risks includes a security policy (a basic policy for appropriately protecting information assets of the organization) and a policy on external contractors.

(iii) Whether the insurance company has developed a control environment for managing information technology risks based on guides that allow it to judge the objective levels of the details of the control environment.

In addition, whether the control environment for managing information technology risks is constantly reviewed according to the identification/analysis of system troubles, etc. and the results of exercise of risk management as well as technological advancement, etc.

(3) Assessment of Information Technology Risks

(i) Whether the information technology risk management section recognizes and assesses risks periodically and in a timely manner by recognizing the fact that risks are becoming diverse due to changes in the external environment, such as seen in the examples of system troubles that bring about a more complex and broad-based impact induced by large-scale transactions as a result of increased customer channels and efforts to expand information networks.

In addition, whether it is taking sufficient measures to address the risks that have been identified.

(ii) Whether the information technology risk management section understands/controls, for example, the limit of computer systems, such as the number of contracts that can be processed per day and considers response measures to be taken when the control values are exceeded from systematic and administrative aspects.

(iii) Whether the product design section cooperates with the information technology risk management section when introducing new products and changing the content of products, and the information technology risk management section conducts assessment of relevant systems regardless of the existence of system development.

(4) Information Security Management

(i) Whether the insurance company has developed a policy to appropriately manage information assets, prepared organizational readiness, introduced in-house rules, and developed an internal control environment. In addition, whether it is making continuous efforts to improve its information security control environment through the PDCA cycle, taking notice of illegal incidents or cases of problematic conduct at other companies.

(ii) Whether the company is managing information security by designating individuals responsible for it and clarifying their roles/responsibilities in efforts to maintain the confidentiality, integrity, and availability of information. In addition, whether the individuals responsible for information security are tasked to handle the security of system, data, and network management.

(iii) Whether the insurance company is taking measures to prevent unauthorized use of computer systems, unauthorized access, and intrusion by malicious computer programs such as computer viruses.

(iv) Whether the insurance company identifies important customer information it is responsible for protecting in a comprehensive manner, keeps its records, and manages them.

Whether the insurance company, in identifying important customer information, has set business operations, systems, and external contractors as the scope of protection and includes data, such as those listed below, in the scope.

- Data stored in the areas within the system that are not used in ordinary operations
- Data output from the system for analyzing system troubles
- Transaction logs stored in ATMs (including those outside of branches), etc.

(v) Whether the insurance company is assessing importance and risks regarding important customer information that has been identified.

In addition, whether it has developed rules to manage information, such as those listed below, in accordance with the importance and risks of each item.

- Rules to encrypt or mask information
- Rules for utilizing information
- Rules on handling data storage media, etc.

(vi) Whether the insurance company has introduced measures to discourage or prevent unauthorized access, unauthorized retrieval, data leakage, etc. such as those listed below, for important customer information.

- Provision of access authorizations that limits access to the scope necessary for the employee's responsibility
- Storage and monitoring of access logs
- Introduction of mutual checking functions such as by separating the individuals in charge of development and those responsible for operations, administrators and those responsible for operations, etc.

(vii) Whether the insurance company has introduced rules for controlling confidential information, such as encryption and masking. In addition, whether it has introduced rules regarding the management of encryption programs, encryption keys, and design specifications for encryption programs.

Note that “confidential information” refers to information, such as PIN, passwords, credit card information, etc., whose misuse could lead to losses by customers.

(viii) Whether the insurance company gives due consideration to the necessity of holding/disposing of, restricting access to, and taking outside, of confidential information, and treats such information in a stricter manner.

(ix) Whether the insurance company periodically monitors its information assets to see whether they are managed properly according to

management rules, etc. and reviews the control environment on an ongoing basis.

(x) Whether the insurance company conducts security education (including by external contractors) to all officers and employees in order to raise awareness of information security.

(5) Cybersecurity Management

(i) Whether the board of directors, etc. recognizes the importance of cybersecurity amid increasingly sophisticated and cunning cyberattacks and has introduced the necessary control environment.

(ii) Whether the insurance company has developed a control environment for managing cybersecurity, such as those listed below, in addition to developing the organizational structure and formulating internal rules.

- Monitoring systems against cyberattacks
- Systems to report cyberattacks and public-relation systems when attacks occur
- Emergency measures by Computer Security Incident Response Teams (CSIRT) and systems for early detection
- Systems of information collection and sharing through information-sharing organizations, etc.

(iii) Whether the insurance company has introduced a multi-layered defense system against cyberattacks that combines cybersecurity measures respectively for inbound perimeter control, internal network security control, and outbound perimeter control.

- Security measures for inbound perimeter control (e.g., introduction of a firewall, anti-virus software, intrusion detection system, intrusion protection system, etc.)
- Security measures for internal network security control (e.g., proper management of privileged IDs/passwords, deletion of unnecessary IDs, monitoring of execution of certain commands, etc.)
- Security measures for outbound perimeter control (e.g., retrieval and analysis of communication/event logs, detecting/blocking inappropriate communication, etc.)

(iv) Whether measures such as those listed below are implemented to prevent damage from expanding when cyberattacks occur.

- Identification of IP addresses from which the cyberattacks originate and blocking off of attacks

- Functions to automatically spread out accesses when under DDoS attacks
- Suspension of the entire system or its part, etc.

(v) Whether necessary measures for vulnerabilities in the system, such as updating of the operating system and application of security patches, are introduced in a timely manner.

(vi) Whether the insurance company is assessing its security levels periodically by utilizing tests on network intrusion and vulnerability diagnosis, etc. and making efforts to improve security measures.

(vii) Whether the insurance company, when executing transactions without any face-to-face contact using communication methods such as the Internet, has introduced appropriate authentication methods in line with the risks associated with such transactions, such as those listed below.

- Authentication methods that do not rely on fixed IDs/passwords, such as variable passwords and digital certificates
- Transaction authentication through multiple channels by using, for example, devices other than the PC web browser used in transactions, such as a mobile phone
- Transaction authentication using transaction signatures by means of a hardware token, etc.

(Note) If measures to prevent illegal withdrawals from customer accounts through unauthorized access (e.g., when, in services to designate or change the accounts to which insurance proceeds can be transferred, designations of or changes to accounts of holders different from the customer are not allowed, and measures are introduced to prevent transfers to accounts of a holder who is not the customer, for example by sending an application form for designating/changing accounts to the customer's address by transfer-prohibited mail) are implemented, the insurance company is deemed to have introduced measures in line with the risks associated with such transactions.

(viii) Whether the insurance company, when executing transactions without any face-to-face contact using communication methods, such as the Internet, has introduced preventative measures in line with operations, such as those listed below.

- Provision of security software that allows the user to detect and remove viruses, etc. when executing transactions
- Introduction of software that allows the insurance company to detect

virus infection of the user's PC and issue a warning

- Adoption of methods to store digital certificates in mediums or devices separate from PCs used in transactions, such as IC cards
- Introduction of a system that allows the insurance company to detect unauthorized log-ins, abnormal transactions, etc. and immediately notify such anomalies to users

(ix) Whether the insurance company has developed contingency plans against potential cyberattacks, conducts exercises, and reviews such plans. In addition, whether it participates in industry-wide exercises, as necessary.

(x) Whether the insurance company has formulated plans to train and expand the personnel responsible for cybersecurity and implements them.

(6) System Planning/Development/Management

(i) Whether the insurance company has clearly defined a policy for system strategy as part of its business strategy and developed medium- to long-term development plans. In addition, whether such medium- to long-term development plans are approved by the board of directors.

(ii) Whether the insurance company is making continuous efforts to identify the risks inherent in the current system and making scheduled investments to maintain and improve it.

In addition, whether it has allocated sufficient budget and human resources in system development/administration.

(iii) Whether rules to authorize plans, development, and transitions of development projects have been clearly established.

(iv) Whether individuals responsible for development projects are designated and progress of the development plans are managed accordingly.

In addition, whether they report the status of progress of system development to the board of directors, etc., taking into account the importance and characteristics of the system. Furthermore, whether the board of directors, etc. gives necessary instructions when a problem is found in the status of progress.

(v) In order to prevent disadvantages caused by system defects in the insurance company to policyholders, etc., whether the insurance company has considered the following points and taken measures to

prevent program errors from occurring when developing systems for developing/revising insurance products.

A. Cooperation at the Time of System Development

When introducing new products or mechanisms for insurance contracts (including the cases when they are revised), whether sufficient cooperation is made among the product design section, administrative design section, and computer system section.

In making cooperation, the following points shall be considered:

(A) Whether the rules and scope of responsibilities for cooperation among relevant sections have been clearly defined.

(B) Whether the product design section and administrative design section are involved in checking the system functions for the calculation results of important matters such as insurance premiums and dividends, etc. on their initiative.

(C) Whether necessary information is shared among relevant sections.

(D) Whether responsible persons and persons in charge in relevant sections have been clearly defined.

(E) Whether the records on system development and changes are retained as documents with predetermined retention periods.

B. Checking at the Time of System Development

(A) Whether system design, program design, and tests are conducted in cooperation among the product design section, administrative design section, and computer system section by appropriately and sufficiently assuming all possible cases where differences in treatment occur in the context of the content of products and mechanisms.

(B) Whether a particular focus is placed on checking the calculation results of important matters such as insurance premiums and dividends, etc. In addition, whether the status of checking is verified before the system operation.

(C) Whether checking is done by those with sufficient examination capacity for each specific content in each section.

(D) Whether the checking methods are appropriately chosen.

C. Checking/Management After System Development

(A) Whether the product design section and administrative design section conduct sample checking, etc., as needed, even after the introduction of new products and mechanisms.

(B) In cases where the implementation period of part of the system development for introducing new products and mechanisms is delayed, whether the product design section, administrative design section, and computer system section cooperate in appropriately managing the schedule after clarifying the main management entity for the subsequent system development.

(vi) Whether the insurance company has formulated specific plans for the current system structure and development technology to be inherited and to train specialized personnel, and implements them.

(7) Computer System Audits

(i) Whether an internal audit section that is independent of the computer system section conducts periodic audits of the computer system.

(ii) Whether the insurance company conducts internal audits by personnel with a good knowledge of computer systems and is utilizing external audits by information system auditors, etc.

(iii) Whether the audited sections account for all business operations involving information technology risk.

(iv) Whether the results of computer system audits are appropriately reported to the board of directors.

(8) Management of Outsourcing of Business Operations

(i) Whether the insurance company is assessing outsourced contractors (including system-related subsidiaries) against selection standards, giving careful consideration and selecting them.

(ii) Whether the insurance company sets out division of roles and responsibilities with outsourced contractors, supervising authority of auditors, re-entrustment procedures, level of services provided, etc. in outsourcing contracts. In addition, whether the insurance company has presented to outsourced contractors the rules their officers and employees are required to adhere to and security requirements, as well as defined them in contract forms, etc.

(iii) Whether risk management is carried out properly in outsourced system-related work (including work further subcontracted).

In cases where multiple outsourced contractors are involved and therefore management operations are more complex, in particular, whether a system has been developed based on the recognition that

more advanced risk management is required.

Whether risk management is carried out properly in system-related office functions outsourced in an equivalent manner as system-related work outsourced.

(iv) Whether the insurance company, as an entruster, periodically checks to confirm that outsourced work (including work further subcontracted) is carried out appropriately.

In addition, whether it takes necessary measures such as, for example, assigning personnel, as an entruster, not to leave the operations to outsourced contractors. Furthermore, whether there is a system that allows the entruster to monitor and track the status of customer data being processed at outsourced contractors.

(v) Whether the insurance company conducts audits on external contractors by the internal audit section or information system auditors, etc.

(9) Contingency Plan

(i) Whether the insurance company has formulated a contingency plan and has established arrangements and procedures for dealing with emergencies.

(ii) Whether the insurance company is basing the details of its contingency plan on manuals that allows it to judge objective levels of its details (such as “Manual for the Development of Contingency Plans in Financial Institutions” compiled by the Center for Financial Industry Information Systems).

(iii) Whether the insurance company, in developing a contingency plan, assumes not only contingencies due to disasters but also system troubles, etc. due to internal or external factors.

In addition, whether it assumes risk scenarios of sufficient extent for cases such as a major delay in batch processing.

(iv) Whether the insurance company reviews assumed scenarios in its contingency plan by, for example, taking into consideration case studies of system troubles at other financial institutions and results of deliberations at the Central Disaster Management Council, etc.

(v) Whether exercises in accordance with the contingency plan involve the entire company and are periodically conducted jointly with outsourced contractors, etc.

(vi) Whether off-site backup systems, etc. are introduced in advance for important systems whose failure could seriously affect business operations, and that a control environment is in place to address disasters, system troubles, etc. so that normal business operations can be speedily brought back.

(10) Actions to System Troubles, etc.

(i) Whether the insurance company is prepared to implement appropriate measures to avoid causing unnecessary confusion among customers when system troubles, etc. occur.

In addition, whether it has developed a worst-case scenario in preparation for system troubles, etc. and is prepared to take necessary measures accordingly.

(ii) Whether the insurance company has prepared procedures that also subjects outsourced contractors to reporting system troubles, etc., and has a clearly defined system of command and supervision.

(iii) Whether the insurance company is prepared to immediately notify the representative director and other directors when a system trouble, etc. that seriously affects business management occurs, and report the largest potential risk it poses under the worst-case scenario (for example, if there is a possibility that the failure could seriously affect customers, the reporting persons should not underestimate the risk but immediately report the biggest risk scenario).

In addition, whether it is prepared to launch a task force, have the representative director issue appropriate instructions and orders, and seek resolution of the issue in a swift manner, as necessary.

(iv) Whether the insurance company, in preparation for system troubles, etc., has clearly defined a support system such as registering human resources with know-how and experience within and outside the computer system sections and outsourced contractors, etc. in advance to enable promptly convening them.

(v) When a system trouble, etc. occurs, whether the insurance company has promptly made public the details of the trouble, its cause, and prospects for recovery and other matters, and also, as necessary, immediately established a call center, etc. to adequately respond to inquiries from customers.

In addition, in preparation for system troubles, etc., whether it has

clearly defined the method of providing information to relevant operational sections and the details of the information to be provided.

(vi) Whether the insurance company, after system troubles, etc. have occurred, analyses the cause, adequately investigates impacts until recovery, takes improvement measures, and implements measures to prevent recurrence.

In addition, whether it periodically analyzes tendencies of factors that have led to system troubles, etc. and introduces measures to address them.

(vii) Whether the insurance company has developed a systematic mechanism to, for example, bypass the location of trouble, etc. to minimize the impacts of system troubles, etc.

II-3-13-3 System Integration Risks/Project Management

II-3-13-3-1 Significance

II-3-13-3-1-1 System Integration Risks

With diversification in insurance products, the scale of the systems of insurance companies is becoming larger and their configuration is becoming more and more complex. Combined with increased reliance on IT (information technologies) in insurance operations and expansion of computer networks, ensuring safety and stability of the system has now become an important business issue.

In particular, in the integration of systems due to mergers, management integration through conversion into holding companies, and other management restructuring moves, large-scale system troubles may occur. Therefore, establishment of a control environment for managing system integration risks is one of the most important issues when making mergers, management integration through conversion into holding companies, and other management restructuring moves.

(Reference) Attachment “Approaches and Viewpoints Concerning the Control Environment for Managing System Integration Risk (Detailed)” of the “Discussion Paper on Dialogues and Practices Regarding

Financial Institutions' IT Governance” (June 2019)

(i) “System integration” refers to integration, division, or new establishment of systems (including joint system development/operation) due to mergers, transfer of businesses, management integration through conversion into holding companies, subsidiary acquisitions, business tie-ups, and other management restructuring moves (“management integration”).

(ii) “System integration risks” refers to risks that will cause losses to customers, etc. or risks that insurance companies, etc. subject to integration will incur losses due to insufficient preparation for integrating administration/systems, etc. in system integration such as officers/employees without sufficient experiences failing to carry out accurate administration or computer systems crashing or malfunctioning, etc., resulting in causing confusion in confusion in customer services or, in some cases, undermining the foundation for sustaining the insurance company, etc.

II-3-13-3-1-2 “Risk Characteristics” of System Integration and Risks Reduction Measures

(1) Basic Concept of Risk Characteristics

“System integration risks” are not just limited to risks related to system development, but also include broad areas of “administrative risks” such as administrative processing-related response by the user section and customer response by insurance agents, agencies, and contact offices, etc. It is important to note that composite risk management that attaches utmost importance to “customer convenience” at the responsibility of senior managers of the target insurance companies is required.

(2) Basic Concept of Risk mitigation measure

The quantity of system integration risks should be recognized as the product of the probability of the occurrence of events and the impacts when they occur, and it must be noted that, considering the nature of business of insurance companies, strict risk mitigation measure that take into account II-3-13-3-1-3 and II-3-13-3-2 below are required.

In addition, a control environment that can avoid significant impacts on

customers even when various risk events are multiply actualized (multiple troubles occur at the same time) shall be developed by establishing a contingency plan that matches risk mitigation measure.

II-3-13-3-1-3 Importance of Project Management

In the integration of systems due to mergers, management integration through conversion into holding companies, and other management restructuring moves, due to merger-specific circumstances(Note) such as the following, establishment of an effective control environment for project management is considered essential not only for the companies developing the system, but also for insurance companies.

(Note) Note that in the case of system integration for the reason other than merger, similar circumstances as those for merger also exist.

(1) Constrained Schedule

Senior managers of multiple insurance companies that carry out system integration (hereinafter referred to as the “target insurance companies”) shall be required to promptly (i) establish the business strategies/models for after the merger, (ii) formulate personnel system/restructuring plans, and (iii) make important business decisions such as determining the merger ratio, etc. under a constrained schedule and competitive environments

(2) Long-Term Complex Project

The basic pattern of processes to achieve system integration shall include (i) basic study, (ii) basic design, (iii) detailed design, (iv) manufacturing, (v) integration test, (vi) comprehensive test, (vii) comprehensive operational test, (viii) migration, thus constituting a project requiring a long period for the achievement.

II-3-13-3-2 Main Supervisory Focus

The main supervisory focus in examination is as described in Attachment

“Approaches and Viewpoints Concerning the Control Environment for Managing System Integration Risk (Detailed)” of the “Discussion Paper on Dialogues and Practices Regarding Financial Institutions' IT Governance” (June 2019). The followings are examples to show more specific supervisory focus that takes into account reflections gained and lessons learned from the past cases, etc.

(1) Clarification of Responsibility Sharing and Business Attitudes of Directors

Whether the representative directors of the target insurance companies correctly recognize the characteristics of system integration risks such as those described in II-3-13-3-1-1 and the importance of project management.

Whether the representative directors of the target insurance companies have clearly defined responsibility sharing among officers/employees involved in system integration and their own business attitudes.

(2) Rationality of Business Decisions Concerning System Integration Methods

Whether the boards of directors of the target insurance companies eliminate conflicts between the target insurance companies, have sufficient discussions, and rationally make decisions on system integration methods after securing sufficient budgets and human resources for the sufficient preparation period until the implementation of system integration based on the schedule leading up to the merger, etc. and business strategies after the merger, etc.

(3) Development of Basic System for Project Management

(i) Whether the boards of directors of the target insurance companies, based on sufficient recognition that system integration is not just a system problem, but also inseparable with administrative risks of administrative processing-related response and customer response and that risks occurring in one area may spread to other areas to cause significant troubles for the entire management restructuring, cooperate in establishing officers and sections responsible for supervision and management of planning and operations of system integration (hereinafter referred to as the “supervising officers and

sections”), etc.

(ii) Whether a system to promote sufficient communication between the target insurance companies, between directors/supervising officers and sections, between development/user sections, within the same sections, and within business offices (including insurance agencies) has been established.

(iii) Whether the boards of directors and supervising officers and sections cooperate in developing a system to enable correct understanding of the status of progress of integration projects. Whether a reporting system within insurance companies and between insurance companies to ensure that the information on system integration does not remain within some officers/employees of the target insurance companies has been developed.

(4) System Integration Plan and Adequacy Thereof

(i) Strict Risk Identification and Reduction Measures Encompassing Both Administrative and Systemic Aspects

Whether the boards of directors of the target insurance companies have formulated system integration plans after conducting strict risk identification and reduction measures encompassing both the administrative and systemic aspects, taking into account the actual conditions of the respective systems before the merger and past system trouble cases, etc., from the point of view of not causing troubles to customers in system integration.

Whether sufficient and conservative transfer judgment items/standards encompassing both the administrative and systemic aspects have been formulated.

(ii) Adequacy of System Integration Plan

Whether the plan, etc. does not put the utmost importance on the predetermined time limit of integration and neglect risk management, and whether the adequacy of the plan is objectively and rationally verified by also utilizing third-party assessments, etc.

In addition, whether the transfer judgment items/standards, etc. clearly define what all officers/employers should do and by when.

(5) Establishment of Sufficient Test/Rehearsal Systems in Insurance Companies

(i) Whether sufficient test/rehearsal systems have been established so as to ensure not to cause troubles that affect customers or serious miscalculations in documents for risk management used to make business decisions due to insufficient reviews or testing. More concretely, whether a system has been established in which the implementation status of reviews in each process is examined and review implementation plans for managing the quality status and test plans that comply with the content of development associated with system integration are formulated and implemented.

In particular, whether the test plans take into account the fact that the final quality of file transfer, etc. cannot be determined without functional confirmation using the entire data. Furthermore, whether schedule management is carried out by reflecting additional administrative burdens such as data cleansing for unexpected inconsistent data identified during the test period.

(ii) Whether tests, etc. are planned as much as possible to check for impacts even on parts that are expected not to be affected in consideration of the fact that totally unexpected risk events may occur in parts not related to the content of system development, for instance, potential defects of vendors' packaged software used for external connection becoming apparent during the integration, resulting in development into significant troubles, etc.

(iii) In order to examine business operations after the integration, whether training and rehearsals that assume the production environment are conducted by replicating an environment that is as close as possible to the production environment by placing a peak load to the extent possible on business offices (including insurance agencies), etc. simultaneously, etc.

(iv) Whether education to learn about administrative procedures and training for recovery from trouble, including responses to increased administrative burdens due to not adopting so-called catch-up/difference development, are sufficiently conducted at business offices (including insurance agencies) where administrative processing methods are dramatically changed due to the integration. Furthermore, whether a system to understand/evaluate the progress status has been developed.

(6) Establishment of a System to Provide Explanations to Customers and Conduct Connection Tests

(i) Whether specific individual examination is conducted on the establishment of a sufficient control environment for disseminating and providing explanations to customers and the feasibility of training and manuals, including plans to conduct customer negotiations and specific plans to conduct officer/employee training necessary for conducting negotiations, etc.

(ii) If the system integration results in some changes to services provided (for example, the method and date of charging insurance premiums, etc.), whether dissemination to customers is appropriately conducted after due consideration of customer convenience.

(iii) With regard to transactions that relate to customers such as bank account transfer of insurance premiums and payment of insurance proceeds to bank accounts, etc., whether the schedule for conducting connection tests that take into account the circumstances of connection destinations such as financial institutions, etc. has been formulated and sufficient explanation has been provided to the connection destinations.

In particular, whether connection tests on transactions that relate to customers are planned on the basis of conducting all of them to the extent possible.

Even in cases where connection tests are not conducted or are not considered necessary, whether it is checked to ensure no problem will occur using the actual data, etc. to the extent possible.

(iv) Whether a system to understand/evaluate the status of progress of providing explanations to customers and conducting connection tests, etc. has been developed.

(7) Project Management from the Design/Development Phase

Since a difference in recognition between the user section and the computer system section or an omission in the identification of administrative requirements and the coordination of specifications occurring from the design/development phase for the development/integration of products, etc. can be a factor for causing troubles at the time of integration, quality management in each phase of design and development is important.

In consideration of these, whether appropriate management is carried

out by clearly defining the rules for examination and approval of each process, etc. In particular, whether the utmost importance is not put on the predetermined time limit of integration, thus resulting in proceeding to the next process with quality sacrificed and without meeting the completion criteria of each process.

(8) Control Environment for Managing Outsourced Contractors

In cases where operations such as system development for the integration are outsourced, whether a system to ensure sufficient communication between the outsourced contractors concerned and the supervising section has been developed.

Whether the content of outsourced operations and the status of their progress are correctly understood, taking into account that a delay may occur due to the need to conduct additional tests if problems in the operations of outsourced contractors are not identified and corrected in an early stage.

In particular, whether a system has been established in which the target insurance companies cooperate in involving themselves after sufficiently understanding that the risks of control environment becoming more complex when the target insurance companies and multiple outsourced contractors are involved.

(9) Project Management for Examination of Progress Management, Delay, and Adequacy of Plans

(i) With regard to the progress management of the system integration plans, whether a system has been established in which the boards of directors and supervising officers and section of the target insurance companies cooperate in sufficiently understanding remaining issues and undecided matters, etc. and determining the plans to eliminate them.

(ii) In the progress management of the projects, whether the plans are proceeded with while their adequacy is retroactively examined.

(iii) Whether a system that allows the target insurance companies to cooperate in appropriately responding to unexpected events such as a delay in the system integration, etc. has been developed. More concretely, whether a system has been developed in which standards to review the schedule when the system integration is delayed

compared to the plan are formulated and are approved by the boards of directors, and appropriate responses are taken based on the standards.

In addition, whether a system in which the target insurance companies cooperate in identifying and responding to the root cause of the delay has been developed.

(10) Project Management for Allocating Resources and Changing Plans, etc.

(i) Whether the target insurance companies cooperate in examining the progress of each phase of the integration, including whether management resources are appropriately allocated in each phase of the integration, and if any problem is found, whether appropriate measures are to be taken immediately. Whether operational management is appropriately carried out not to cause concentration of work in certain sections/personnel.

(ii) Whether the plans are revised after sufficiently examining and considering the adequacy of the revised plans and what impacts the revision would have on the entire project.

(11) Implementation of Strict Judgment on Migration

Whether the supervising officers and sections of the target insurance companies make judgments on the feasibility of migration to control the environment for business operation including operation of systemsafter the integration, obtain approval of the boards of directors, and execute the migration in accordance with the judgment criteria on migration of operations (including judgment criteria on migration of systems) that are formulated based on II-3-13-3-1 to ensure safety and stability and are approved by the boards of directors.

Whether schedules and plans have been established to ensure that necessary tests, rehearsals, education, and training, etc. (including training for the contingency plan and review of the plan based on the results) are completed and all essential information for senior managers to make decisions on migration are ready in time.

Whether the time to make judgment on migration is set sufficiently early from the scheduled date of integration so as to allow smooth fallback, including external connection and response to customers.

(12) Control Environment for Fallback

Whether control environment has been developed to ensure smooth operation of system, internal administration and customer responses if it is judged at the time of making the judgment that the integration is not possible (turn back, postpone, etc.).

Whether the plan to respond to unexpected events before and after the system integration (including cancellation of system integration) has been formulated in cooperation between the target insurance companies and the approval is obtained from the boards of directors.

(13) Establishment of Contingency Plans

Whether the existing contingency plans are revised based on the system configuration and organizational structure after the system integration and approved by the boards of directors.

In addition, whether a contingency plan for the system integration has been similarly formulated. In particular, based on past cases:

(i) Whether the target insurance companies have cooperated in considering/developing alternative mechanisms to be used until complete system recovery if unexpected events such as system troubles, etc. occur.

(ii) Whether the target insurance companies have cooperated in developing a system to provide sufficient training for business offices (including insurance agencies) on manual-based responses to prevent a secondary disaster, such as double withdrawals of insurance premiums due to double counting of contracts and phantom withdrawals and miscalculation of insurance proceeds/cancellation returns, etc. when system troubles occur on the transaction peak dates.

In addition, whether the target insurance companies have cooperated in developing a system to prevent customer service degradation due to confusion, etc. at business offices (including insurance agencies) that are not fully familiar with the administrative operations after the integration.

Whether the target insurance companies have cooperated in developing, in preparation for cases where they must rely on manual operations until the system is fully recovered, a system to enable appropriate understanding of the volume of administrative operations

and prompt securing of necessary personnel, taking into account that even minor troubles can occur simultaneously within a short period of time.

(iii) When an unexpected event such as a system trouble, etc. occurs, whether the target insurance companies have made public the details of the trouble, its cause, and prospects for recovery and immediately established a call center, etc. to adequately respond to inquiries from customers.

(iv) Whether the target insurance companies not just make theoretical plans, but actually conduct a sufficient number of training and review the plans based on the results of the training as necessary to ensure their effectiveness.

(14) Effective Internal Audits and Third-Party Assessments

(i) Whether the internal audit sections of the target insurance companies (hereinafter referred to as the “internal audit sections”) not only conduct monitoring and examination of the progress status, but also conduct audits on operations and systems in cooperation from the points of view of the impacts that each problem has on the integration plan and the effectiveness of the control environment for managing system integration risks. In addition, whether personnel with a good knowledge of audits on processes such as system development process, etc. are secured.

(ii) When making judgments on important matters concerning system integration, whether third-party assessments such as audits by information system auditors, etc. are used effectively after determining their limits.

(15) Supervising Function by Insurance Holding Company

In cases where system integration of subsidiary insurance companies is carried out under the control of the insurance holding company, whether the system integration risk management function (including the project management function) is appropriately performed as part of governance functions of the insurance holding company.

II-3-13-4 Control Environment for Other Operational Risks

II-3-13-4-1 Significance

“Other operational risks” refers to risks that insurance companies have defined as operational risks, but excluding administrative risks and information technology risks.

For example, “legal risks” due to negligence to customers, etc., “human risks” such as losses/damages caused by unjust/unfair/discriminatory treatment in personnel administration, and “reputational risks” such as losses/damages caused by lowered credit due to worsened reputation and spread of negative reputations, etc. are included.

It is important that each insurance company develops a control environment to appropriately manage these other operational risks.

II-3-13-4-2 Main Supervisory Focus

(1) Whether senior managers fully recognize that disregarding other operational risks seriously affects the achievement of the strategic goals, and understand the locations and characteristics of these risks.

(2) Whether the insurance company has formulated the management policy for other operational risks and defined those risks, and whether it has developed and operated an appropriate control environment for managing risks by carrying out appropriate management and reporting to the board of directors, etc. as necessary, etc.

II-3-14 Supervisory Method and Actions

If a problem is deemed to exist in the control environment for enterprise risk management, supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 of the Act (in cases where it is deemed that there is a serious problem in the control environment for managing insurance underwriting risks, risk management for reinsurance, and the control environment for managing asset management risks, Article 132 or 133

of the Act).

For the control environment for managing information technology risks, it shall be responded with consideration also given to the following points.

(1) At Time of System Troubles

(i) Immediately after recognizing an occurrence of computer system trouble or cyber security event, the insurance company shall be required to report the fact to the authorities and submit a report using the “Report on Occurrence of Troubles” (Form II-3-15(1) in II. Other Forms for Reporting, etc. of Forms and Reference Materials) to the authorities.

In addition, at the time of recovery and at the time of identification of the cause, the insurance company shall also be required to report the fact.

However, even if the recovery or the identification of the cause is not completed, the insurance company shall also be required to report the current status within a month.

(Note) Computer System Troubles, etc. to be Reported

Regardless of the cause, troubles occurring in systems or devices (both hardware and software) currently used by the insurance company that:

A. have caused or may cause a delay or termination of the payment of insurance proceeds, etc.;

B. have or may have impacts on the understanding of cash flow and financial conditions; or

C. are otherwise deemed to be similar to the above in the course of business.

However, cases where even if those troubles occur in some computer systems/devices, the occurrence of substantive impacts can be avoided by immediately replacing these computer systems/devices are excluded.

It shall be noted that even if no computer system troubles have occurred, a report must be made in cases where problems involving customers or business operations occur or the probability of the kind of problem described above is deemed to be high, including cases where a warning of a cyberattack is received or where such a cyberattack is detected, etc.

(ii) Supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 of the Act.

(2) At Time of System Renewal

When the insurance company renews important computer systems, supervisors shall require the submission of a report under Article 128 of the Act as necessary to understand the plan and status of its progress and check the appropriateness/effectiveness of project management, etc., and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 of the Act.

(3) At Time of System integration

(i) When the insurance companies integrate their computer systems, etc., after the basic agreement is publicly announced, supervisors shall require the submission of periodical reports on the system integration plan (including the schedule) and progress status as well as the control environment for system integration risk management and project management to understand the actual conditions and check for any serious problems.

(ii) When the results of inspection of the control environment for managing system integration risks is notified, supervisors shall also require, under Article 128 of the Act, the submission of a report, which compiles the fact checking, analysis of the cause, and improvement measures, etc. on the matters pointed out, and a report on measures to properly control the risk (measure to adequately implement the plan and the internal control environment including internal audits, etc.) to check for any problems in the control environment for managing system integration risks (including the control environment for project management; the same applies hereinafter).

Furthermore, supervisors shall require the submission of periodical follow-up reports to check the status of progress of improvement/response measures for the inspection results and the effectiveness of the control environment for project management, etc.

(iii) When a judgment on the migration pertaining to the system integration is made, supervisors shall require the submission of a report on the grounds for the judgement, etc. under Article 128 of the Act.

(iv) As a result of the examination described in (i) through (iii) above, if it is deemed that there is a problem, supervisors shall require the submission of a report under Article 128 of the Act, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 of the Act.

(v) Case where the business integration to which the system integration pertains requires approval of the authorities

Supervisors shall require, within the scope of the examination criteria under laws and regulations, the submission of materials in consideration of the descriptions of II-3-13-3-2 such as measures to adequately implement the system integration plan and the internal control environment including internal audits to examine whether there is any problem in the control environment for managing system integration risks, and after making necessary adjustment as required or attaching conditions under Article 310 of the Act, they shall approve the business integration.

In addition, supervisors shall require the submission of periodical reports under Article 128 of the Act for the period from the approval of the merger, etc. to the completion of the system integration.

(vi) Case where a system trouble occurs

II-3-13-2-2(10) and II-3-14(1), etc. of the Comprehensive Guidelines for Supervision shall also be considered.

II-4 Appropriateness of Business

II-4-1 Control Environment for Legal Compliance

II-4-1-1 Significance

In order to establish the confidence of customers, it is important to sufficiently recognize the public nature of the business of insurance companies, strictly comply with laws and regulations as well as business rules, and maintain sound and appropriate business operations.

II-4-1-2 Main Supervisory Focus

(1) Whether the representative director, directors, and board of directors count compliance with laws and regulations, etc. among the most important management issues and are making efforts to ensure legal compliance. (Refer to the items in “II-1 Governance”)

(2) Whether the basic policy for legal compliance and compliance standards have been formulated by the board of directors.

(3) Whether a specific manual for achieving compliance (compliance manual) has been formulated. In addition, whether it is appropriately informed to officers/employees and insurance agents.

(4) Whether a specific implementation plan for achieving compliance (compliance programs) has been formulated in a timely manner as a rational plan.

(5) Whether a supervising section for compliance has been established as a structure to unify management of legal issues such as compliance, etc. In addition, whether its functions are fully performed.

(6) Whether personnel in charge of compliance has been appropriately assigned to each operational section and office, etc.

(7) Whether an internal control environment for compliance has been adequately developed.

II-4-1-3 Supervisory Method and Actions

If a serious problem is deemed to exist in the control environment for compliance, supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 or 133 of the Act.

II-4-2 Control Environment for Managing Insurance Solicitation

In order not to harm the interests of policyholders, etc., insurance companies and insurance agents need to establish a control environment for insurance solicitation.

For this reason, they are required to appropriately implement the following measures, etc. and verify their appropriateness, etc. afterward through audits by the internal audit section or audits of insurance agencies, etc. to improve them as required.

II-4-2-1 Establishment of Control Environment for Managing Proper Insurance Solicitation

(1) Significance of Insurance Solicitation

(i) Insurance solicitation prescribed in Article 2(26) of the Act means the following acts A. thorough D.

A. Encouraging to conclude insurance contracts

B. Explaining the content of insurance products with the aim of encouraging to conclude insurance contracts

C. Receiving the applications for insurance contracts

D. Otherwise acting as an agent or intermediary for the conclusion of insurance contracts

(ii) Whether an act falls under D. above shall be comprehensively determined in light of the following requirements A. and B., taking into account the positioning of the act concerned in a series of acts.

A. Some circumstances suggest unity or continuity with the acts of solicitation conducted by the insurance company or insurance agents such as when receiving remunerations from the insurance company or insurance agents, etc. or when having a capital relationship with the insurance company or insurance agents, etc.

B. Acts of recommending or explaining specific insurance products are involved.

(2) “Solicitation-Related Acts”

Of the processes of insurance solicitation in a broad sense, from finding potential customers to concluding contracts, the solicitation regulations will not immediately apply to the acts that do not fall under insurance solicitation in light of (1) above (hereinafter referred to as “solicitation-related acts”).

However, in cases where solicitation-related acts are entrusted to a third party or have a third party conduct these act based on the equivalent relationship, it shall be checked whether the insurance company or insurance agents consider, for example, the following points (i) through (iii) to ensure that the third party who has received the entrustment of the said solicitation-related acts (hereinafter referred to as the “party engaging in solicitation-related acts”) does not commit inappropriate acts.

In addition, in cases where insurance agents have entrusted solicitation-related acts to a third party or have had a third party conduct these act based on the equivalent relationship, whether the insurance company gives guidance to the insurance agents to implement appropriate management of external contractors, etc. according to their scale and business characteristics.

(Note 1) “Solicitation-related acts” are considered to include, for example, the acts of only providing the information of potential customers to the insurance company or insurance agents without recommending/explaining insurance products to them, or merely reproducing information from the insurance company or insurance agents in services mainly aimed at providing product information, such as comparison websites, etc.

(Note 2) It should be noted, however, that the following acts, for example, may fall under insurance solicitation.

A. Acts of actively introducing products (product groups) of a certain insurance company to potential customers on a regular basis in consideration of remunerations from the insurance company or insurance agents

B. Acts of actively recommending/explaining specific insurance products in consideration of remunerations from the insurance company or insurance agents by those who provide services mainly aimed at providing product information, such ascomparison websites, etc.

(Note 3) In cases where, for example, only the following acts are conducted, they are basically considered not to fall under either of insurance solicitation or solicitation-related acts.

A. Distributing leaflets introducing products under the instructions of the insurance company or insurance agents

B. Accepting administrative communications or explaining administrative procedures, etc. by call center operators

C. Explaining the mechanisms and utilization methods of general insurance products at financial instruments seminars

D. Acts of posting advertisements of the insurance company or insurance agents

(Note 4) It should be noted that insurance agents entrusting insurance solicitation operations falls under re-entrustment prescribed in Article 275(3) of the Act and is not allowed in principle.

(i) Whether acts of insurance solicitation or acts that may lead to

circumvention of the regulations, such as offering of special advantage, etc. are conducted by the party engaging in solicitation-related acts.

(ii) Whether acts that may hinder customers' correct understanding of products are conducted when insurance agents conduct the act of insurance solicitation such as providing incorrect explanations or making inappropriate evaluations of products in services mainly aimed at providing product information, such as comparison websites, etc. operated by the party engaging in solicitation-related acts.

(iii) Whether the procedures to obtain customers' consent for the provision of personal information to a third party is appropriately implemented by the party engaging in solicitation-related acts appropriately in accordance with the Act on the Protection of Personal Information, etc.

In addition, whether the setting of the fees to be paid to the party engaging in solicitation-related acts is carefully considered.

(Note) For instance, in cases where insurance agents pay high referral fees or incentive remunerations to receive referral of potential customers, such remuneration structure is generally considered to increase the probability of providing specific recommendations/explanations of insurance products that the party engaging in solicitation-related acts cannot supposedly provide.

(3) Acceptance/Entrustment/Registration/Notification of Insurance Agents

(i) When accepting insurance agents or entrusting operations to insurance agencies, whether their qualifications are examined.

In addition, whether the examination criteria to be used in such examination have been developed.

When entrusting operations to insurance agencies, whether knowledge on laws and regulations concerning insurance solicitation, etc. and insurance contracts, ability to perform insurance solicitation operations, and the following points with respect to objectives and content of their primary business, etc. are checked in the examination.

A. An internal control environment and a control environment for managing insurance solicitation to ensure protection of policyholders, etc. and fairness in insurance solicitation shall have been developed.

B. The insurance agency shall not be a person who cannot engage in insurance solicitation under laws and regulations, etc.

C. The insurance agency shall be a person who is qualified to engage in insurance solicitation in light of the objectives and content of its primary business.

D. It should be noted that for officers or employees of the insurance agency to engage in insurance solicitation, the following requirements must be met.

(A) Officers or employees to engage in insurance solicitation shall be persons who engage in insurance solicitation after receiving appropriate education, management, instructions on insurance solicitation from the insurance agency.

(B) For employees, in addition to (A) above, they shall work at the insurance agency's offices and engage in insurance agencies under the control, supervision, and direction of the insurance agency.

(C) Officers or employees engaging in insurance solicitation prescribed in Article 302 of the Act must not be officers or employees engaging in insurance solicitation of other insurance agencies or non-life insurance companies.

(Note) It should be noted that, except for the cases prescribed in Article 275(3) of the Act, re-entrustment of insurance solicitation is prohibited.

(ii) For those engaging in insurance solicitation, whether specified insurance agents prescribed in Article 276 of the Act (meaning "specified insurance agents" prescribed in Article 276 of the Act, but excluding "small amount and short term insurance agents"; the same applies hereinafter) are registered, and in the case of officers or employees of a non-life insurance agency, whether the notification prescribed in Article 302 of the Act is made.

(iii) Whether the life insurance company has taken measures to eliminate the acts of circumventing laws and regulations, etc. such as entrusting corporations, etc. to act as insurance agencies without making registrations.

For instance, whether the life insurance company entrusts corporations, etc. to act as referral agencies, etc. and makes payment without receiving any return or provides other convenience as referral fees, etc.

(4) Education/Management/Guidance of Specified Insurance Agents, etc. (meaning specified insurance agents and employees of non-life insurance companies exclusively engaging in insurance solicitation; the same applies in

II-4-2-1(4))

Whether the insurance company provides appropriate education, management, and guidance by establishing internal rules, etc. on compliance with laws and regulations, etc. concerning insurance solicitation, knowledge of insurance contracts, and development of a control environment for managing internal administration (including appropriate management of customer information) and taking measures to train specified insurance agents and improve their qualifications.

Whether appropriate education, management, and guidance on insurance solicitation are also provided to employees exclusively engaging in insurance solicitation of the non-life insurance company.

(i) Education of Specified Insurance Agents, etc.

Whether sufficient knowledge of diverse insurance products, knowledge of insurance contracts, and sufficient education for appropriate insurance solicitation activities are provided to enable customers to sufficiently understand insurance products according to their characteristics.

(ii) Management/Guidance of Specified Insurance Agents, etc.

A. Whether the insurance company understands the status of the points that can be the beginning of inappropriate insurance solicitation and takes appropriate measures for management/guidance to ensure sound and appropriate business operations of specified insurance agents, etc.

More concretely, for example, the following (A) through (C) may be considered.

(A) Provide management to enable understanding of the status of sales of specified insurance agents, etc. and the status of continuation of insurance contracts, etc.

In doing so, it should be noted in particular that acts of officers/employees of the insurance company conducting substantive insurance solicitation and treating the resulting insurance contracts as those gained by insurance agencies and acts of exchanging performance between specified insurance agents, etc. may lead to inappropriate insurance solicitation such as insufficient explanation of important matters, etc. at the time of solicitation, etc., and therefore shall not be conducted.

(B) In order to ensure the appropriateness of the reception of insurance premiums from policyholders and the pay-off of insurance premiums to the insurance company by insurance agencies, establish a system in

which the insurance company provides management/guidance to issue receipts when insurance premiums are received, clearly distinguish insurance premiums received by insurance agencies from their own assets and paid off to the insurance company without delay, and ensure that the status of such management can be checked afterward.

(C) In order to prevent the occurrence of unlawful insurance contracts such as fictious contracts and insurance contracts intended to fraudulently obtain insurance proceeds, etc., take appropriate measures not to conduct the acts of issuing insurance policy certificates and acts of making payment of maturity refunds to policyholders, etc. through insurance agencies without justifiable reasons.

B. Whether the matters to be observed by insurance agencies have been specified in the agency entrustment contracts to be concluded with the insurance agencies.

(iii) Audits on Insurance Agencies, etc.

With regard to the content of insurance solicitation operations by business sites such as business offices and insurance agencies, whether audits, etc. are appropriately implemented, including the following points, to understand the actual conditions of insurance solicitation operations by business sites such as business offices and insurance agencies and the status of internal administrative management, etc.

In addition, whether appropriate measures have been taken for business sites such as business offices and insurance agencies in which inappropriate internal administrative management is found in audits, etc. and a control environment for providing guidance for and checking improvements has been developed.

A. Whether the cycle of conducting audits on business sites such as business offices and insurance agencies is effective for ensuring quality of operations of business sites such as business offices and insurance agencies.

B. Whether the selection of business sites such as business offices and insurance agencies to be audited, etc. and the items for audits, etc. are appropriately reviewed in a timely manner with attention paid to the information identified during daily management and abnormal management indictor values, etc.

C. Whether a control environment to enable audits, etc. by visiting without prior notice has been developed as a method used for audits, etc.

II-4-2-2 Points of Attention in Solicitation of Insurance Contracts

(1) Matters Related to Article 282(3) of the Act (application of exceptions to the restrictions on life insurance agents (being captive to one company))

(i) For life insurance agents with two or more entrusting insurance companies, whether measures have been taken to prevent them from unfairly inducing policyholders etc. to apply a new insurance contract of an entrusting insurance company in the termination of an already effected insurance contract with other entrusting insurance company, and whether measures have been taken to appropriately manage customer information, etc.

(ii) When the life insurance company intends to entrust insurance solicitation to life insurance agents of other insurance companies under the provisions of Article 282 of the Act, whether the said life insurance agents meet the requirements prescribed in Article 40 of the Order and the Public Notice.

(iii) Whether an entrustment is made by a method that may lead to a lack of protection of policyholders, etc. such as circumvention of the said requirements, etc.

(iv) In cases where the situation in which the said requirements are not met has continued for six months or more, whether measures to improve the situation have been taken.

(v) In applying the above requirements, the following matters shall also be considered.

A. Even in cases where the entrusting insurance company of a life insurance company that received entrustment to act as an agent (including intermediation) to conclude insurance contracts of a single other insurance company, in light of the purpose of the provisions of Article 40(i) of the Order, if the said life insurance company that received entrustment meets the requirements of the same provisions, those who act as its officers or employees to engage in insurance solicitation shall also meet the requirements of the same provisions.

B. When applying Article 40(ii) of the Order, the case of multiple life insurance agents to which (i) of the same Article cannot be applied shall be assumed.

C. With regard to the date of determining Article 40(ii) of the Order, it shall suffice that the requirements are met at the time when individual life

insurance agencies is registered as a shared agent.

D. The “annual gross sales” used to determine the exclusive engagement shall mean that for a year immediately before the registration as a shared agent or of the business year preceding the year in which the registration as a shared agent is made.

E. In cases where Article 40(ii) of the Order applies and an insurance agency that has met the requirements of (i) of the same Article no longer meets those requirements, the situation shall basically be corrected by having the insurance agency meeting the requirements of (i) of the same Article within a certain period of time. If the situation could not be corrected, however, only the registration as a shared agent for life insurance companies subject to (ii) of the same Article and the first entrusting company shall be allowed.

(2) Matters Related to Articles 294 and 300-2 (obligation to provide information)

(i) Whether the insurance company or insurance agents properly provide the content of insurance contracts and other information that can be used as a reference for policyholders, etc. regarding the conclusion of insurance contracts or insurance solicitation, taking into account types and nature of insurance contracts, etc.

(ii) When providing information by delivery of documents or other alternative electronic or magnetic means, whether the information that is necessary for customers to understand the content of insurance products (hereinafter referred to as “contract outlines”) and the information that customers should be alerted with (hereinafter referred to as “alerting information”) are described.

The main items of the “contract outlines” and “alerting information” shall be as follows.

(Note 1) When the “contract outlines” and “alerting information” are described in an integrated manner using the same media, it shall suffice to indicate that the information concerned as being “contract information” with A.(A) and B.(A) below being omitted.

(Note 2) It shall be noted that for specified insurance contracts prescribed in Article 300-2 of the Act (hereinafter referred to as “specified insurance contracts”), the provisions of Article 294(1) of the Act shall not apply and the information must be provided by delivery of documents (hereinafter referred to as “documents to be delivered before concluding contracts”)

prescribed in Article 37-3(1) of the Financial Instruments and Exchange Act applied mutatis mutandis pursuant to Article 300-2 of the Act (hereinafter referred to as the “Financial Instruments and Exchange Act as Applied Mutatis Mutandis”) or other alternative electronic or magnetic means.

A. Items of “contract outlines”

(A) The indication that the information concerned is “contract outlines”.

(B) Mechanism of products

(C) Content of coverage (compensation)

(Note) The major ones of the grounds for payment of insurance proceeds, etc., cases where the grounds for payment does not apply, and cases where insurance proceeds, etc. are not paid for the grounds for exemption, etc. shall be described.

In cases where insurance proceeds, etc. are not paid are not common, they shall be described in particular.

(D) Main special provision s that can be added and their outlines

(E) Insurance period

(F) Underwriting conditions (amount of insurance proceeds, etc.)

(G) Matters concerning insurance premiums

(H) Matters concerning the payment of insurance premiums (payment method of insurance premiums, payment period of insurance premiums)

(I) Matters concerning dividends (availability of dividends, dividend method, method of determining the amount of dividends)

(J) Availability of cancellation refunds, etc. and relevant matters

B. Items of “alerting information”

(A) The indication that the information concerned is “alerting information”.

(B) Cooling-off (revocation of application for insurance contracts, etc. prescribed in Article 309(1) of the Act)

(C) Content of obligation of notification

(Note) If there are provisions in the terms and conditions providing that there are cases where the insurance contract cannot be continued even with increased insurance premiums due to increased risk (terminate in the middle of the insurance period), the applicable cases shall be described.

(D) Effective date of contract

(E) Major ones of the cases where the grounds for payment does not apply and cases where insurance proceeds, etc. are not paid for the grounds for exemption, etc.

(Note) If those cases are not common, they shall be described in particular.

(F) Grace period for the payment, expiration of contracts, restoration, etc.

(Note) For insurance products with the automatic premium loan system, the explanation of the said system shall be included.

(G) Cancellation and availability of cancellation refunds

(H) Safety net

(I) Trade name or name of the designated ADR organization (meaning “designated dispute resolution organization” prescribed in Article 2(28) of the Act; the same applies hereinafter) that is the other party of the Basic Agreements to Implement Procedures (if the designated ADR organization does not exist, the content of complaint processing measures and dispute resolution measures)

(J) Following matters concerning duplicate compensation

(Note) “Duplicate compensation” refers to the situation where multiple compensations of the same type exist for the same insurable interest due to the conclusion of multiple non-life insurance contracts.

a. Fact that if another insurance contract with the same compensation content exists, duplicate compensation may be caused

b. Alert concerning the payment of insurance proceeds in the case of duplicate compensation

c. Major cases of duplicate compensation

(K) Matters that are required to be alerted by laws and regulations, etc. in particular

(iii) Matters Related to Article 37-3 of the Financial Instruments and Exchange Act as Applied Mutatis Mutandis

A. When delivering the documents to be delivered before concluding contracts or providing them by other alternative electronic or magnetic means, whether the insurance company or insurance agents appropriately deliver/provide them according to the type and nature, etc. of the specified insurance contract.

B. Concerning the documents to be delivered before concluding contracts, whether the “contract outlines” and “alerting information” have been prepared and delivered.

The main items of the documents to be delivered before concluding contracts shall be as follows.

(Note) When the “contract outlines” and “alerting information” are to be prepared in an integrated manner using the same media, (A)a. and (B)a. below may be omitted by stating “Please carefully read the content of the documents to be delivered before concluding contracts” at the beginning of the documents to be delivered before concluding contracts.

In this case, either one of (A)b. and (B)d. below may also be omitted.

(A) Items of “contract outlines” (related to Article 37-3(1)(iii), etc. of the Financial Instruments and Exchange Act as Applied Mutatis Mutandis, etc.)

a. The indication that the information concerned is “contract outlines” and the content should be read carefully.

b. Trade name or name and address of the insurance company

(Note) The contact method shall also be clearly stated.

c. Mechanism of products

d. Content of coverage (compensation)

(Note) The major ones of the grounds for payment of insurance proceeds, etc., cases where the grounds for payment does not apply, and cases where insurance proceeds, etc. are not paid for the grounds for exemption, etc. shall be described.

In cases where insurance proceeds, etc. are not paid are not common, they shall be described in particular.

e. Main special provision s that can be added and their outlines

f. Insurance period

g. Underwriting conditions (amount of insurance proceeds, etc.)

h. Matters concerning insurance premiums

i. Matters concerning the payment of insurance premiums (payment method of insurance premiums, payment period of insurance premiums)

j. Matters concerning dividends (availability of dividends, dividend method, method of determining the amount of dividends)

k. Level of cancellation refunds, etc. and relevant matters

For the products listed below, the following items shall also be described for each product.

(Variable insurance, variable pension insurance)

l. Type and assessment method of assets belonging to a special account

m. Management policy of assets belonging to special account

n. Matters concerning various costs (insurance contract-related costs, asset management-related costs, etc.)

o. The fact that the amount of insurance proceeds, etc. may vary in the future according to the performance of management of assets belonging to special account, and is therefore unreliable and that a loss may result.

p. A note suggesting referring to documents prescribed in Article 234-21-2(1)(viii) of the Regulation, in addition to l. through o. above.

(Insurance in foreign currency)

l. The fact that the amount of insurance proceeds, etc. converted in yen based on the foreign exchange rate at the time of payment of the insurance proceeds, etc. may be lower than the amount converted into yen based on the foreign exchange rate at the time of concluding the insurance contract and that a loss may result.

m. Explanation of special fees, etc. arising from concluding contracts in foreign currencies.

(Products using MVA (Market Value Adjustment)(Note))

l. Explanation that in this insurance, fluctuation in the values of the managed assets according to the market interest rate is reflected to the amount of cancellation refunds

m. The fact that if an insurance contract is canceled within a certain period from the conclusion of the insurance contract, the amount of cancellation return is calculated based on the market interest rate, and therefore a loss may result

n. Matters concerning various costs (costs during the management period, etc.)

(Note) MVA (Market Value Adjustment) refers to a method in which cancellation returns are calculated by adding the amount adjusted based on the fluctuation of fair values of assets subject to management arising due to difference in interest rates between that at the time of the contract and that at the time of cancellation to the insurance premium reserves (meaning insurance premium reserves prescribed in Articles 63 and 92 of the Insurance Act).

(B) Items of “alerting information” (related to Article 37-3(1)(vii), etc. of the

Financial Instruments and Exchange Act as Applied Mutatis Mutandis (Article 234-24 of the Regulation), etc.)

a. The indication that the information concerned is “alerting information” and the content should be read carefully.

b. Outlines of the matters concerning various costs

c. The fact that a loss may result

(Note 1) The indicators that can be the direct cause of the said loss and the reason that a loss may result due to fluctuations in the said indicators shall also be clearly stated.

(Note 2) The items b. and c. above shall be described at the beginning of the “alerting information” section.

d. Trade name or name and address of the insurance company

(Note) The contact method shall also be clearly stated.

e. Cooling-off (revocation of application for insurance contracts, etc. prescribed in Article 309(1) of the Act)

f. Content of obligation of notification

(Note) If there are provisions in the terms and conditions providing that there are cases where the insurance contract cannot be continued even with increased insurance premiums due to increased risk (terminate in the middle of the insurance period), the applicable cases shall be described.

g. Effective date of contract

h. Major ones of the cases where the grounds for payment does not apply and cases where insurance proceeds, etc. are not paid for the grounds for exemption, etc.

(Note) If those cases are not common, they shall be described in particular.

i. Grace period for the payment, expiration of contracts, restoration, etc.

(Note) For insurance products with the automatic premium loan system, the explanation of the said system shall be included.

j. Cancellation and level of cancellation refunds

k. Safety net

l. Outlines of the matters concerning taxation

m. Existence of a certified investor protection organization by which the insurance company is covered (including the name of the organization, if it is covered)

n. Trade name or name of the designated ADR organization that is the

other party of the Basic Agreements to Implement Procedures (if the designated ADR organization does not exist, the content of complaint processing measures and dispute resolution measures)

o. Matters that are required to be alerted by laws and regulations, etc. in particular

C. Whether the documents to be delivered before concluding contracts have been prepared in accordance with the statutory requirements (font size of 8 points or larger, and 12 points or larger for certain matters, etc.) and delivered.

D. With regard to the delivery of the documents to be delivered before concluding contracts or their provision by other alternative electronic or magnetic means, whether explanations are provided by the method and to the extent necessary for the customer to understand the content of the documents in advance according to the status of knowledge, experience, and properties of the customer concerned and the purpose of the specified insurance contract to be concluded.

E. For the matters to be described in the documents to be delivered before concluding contracts for performance-linked insurance contracts prescribed in Article 100-5(1) of the Act in life insurance, whether the following points are considered.

(A) The following items (including those that fall under them) shall fall under the “financial status or business (limited to those pertaining to performance-linked insurance contracts)” prescribed in Article 234-24(1)(ix)-2(b) of the Regulation.

a. Audit certification under the provisions of Article 193-2(1) of the Financial Instruments and Exchange Act (hereinafter referred to as “financial statement audit”) and audit certification under the provisions of (2) of the same Article (hereinafter referred to as “internal control audit”)

b. Audit by a financial auditor under the Companies Act

c. Assurance engagements on internal controls of outsources (hereinafter referred to as “assurance engagements on internal controls”) in accordance with the standards, including the Audit and Assurance Practice Committee Practical Guidelines No. 86, the “assurance report on internal control of entrusted business” (JICPA), the Statement on Standards for Attestation Engagements (SSAE) No.16 “Reporting on Controls at a Service Organization” (AICPA),

and the International Standard on Assurance Engagements (ISAE) No.3402 “Assurance Reports on Controls at a Service Organization” (IAASB)

d. Examination of whether the performance disclosure information of asset management companies conforms to the Global Investment Performance Standards (GIPS)

(B) When describing the matters listed in items of Article 54-4(2) of the Regulation in the documents to be delivered before concluding contracts under the provisions of Article 234-24(1)(xv) of the Regulation, with regard to the “capital relationship between the insurance company and the person concerned with the fund” referred to in (iii) of the same paragraph, if the person concerned with the fund falls under a person in which an insurance company holds the majority of all shareholders' voting rights, any other person that is listed in items of Article 13-8(1) of the Order as being closely related to the relevant insurance company, or a subsidiary company, etc., that fact shall be stated.

In addition, with regard to the “personal relationship” between the relevant insurance company and the person concerned with the fund referred to in Article 54-4(2)(iii), the conditions of concurrent holding of positions by officers or employees at a specific time which is deemed to be reasonable shall be stated.

(iv) The “amounts reserved for the insured” prescribed in Article 227-2(3)(ix) and Article 234-21-2(1)(vii) of the Regulation shall include the amount which is the basis of the calculation of the policyholder value prescribed in Article 10(3) of the Regulation and those prescribed in Article 30-5(1)(i) of the Regulation (members' dividend reserve), Article 70(1)(i)(b) of the Regulation (outstanding insurance premiums), (iii) of the same paragraph (refund reserve), and (iv) of the same paragraph (policy dividend reserve, etc.), etc.

(v) Whether the “method by which the existing contract and the new contract can be compared” prescribed in Article 227-2(3)(ix) and Article 234-21-2(1)(vii) of the Regulation is as follows.

A. The matters prescribed in Article 227-2(3)(ix)(a) and Article 234-21-2(1)(vii)(a) of the Regulation shall be described in comparison between the existing contract and the new contract for each description item in documents or electronic or magnetic records.

B. Notwithstanding A. above, in the following cases, the documents or electronic or magnetic records in which the matters prescribed in Article 227-2(3)(ix)(a) and Article 234-21-2(1)(vii)(a) of the Regulation are described respectively for the existing contract and the new contract may be delivered for comparison.

(A) The types of insurance are different, and the contents of coverage or warranty of the existing contract and the new contract (both including special provision s) are completely different.

(B) There are reasonable grounds that the description items are not described in comparison (as per A. above) due to issues concerning the contents of the existing contract and the new contract or the system such as cases where multiple existing contracts are consolidated into a single new contract, etc.

(vi) Whether the comparison between the existing contract and the new contract prescribed in Article 227-2(3)(ix) and Article 234-21-2(1)(vii) of the Regulation is appropriately conducted.

Note that “other material matters concerning insurance contracts” prescribed in Article 227-2(3)(ix)(a) of the Regulation and “other material matters concerning specified insurance contract” prescribed in Article 234-21-2(1)(vii)(a) of the Regulation shall mean the following matters.

- The applicable matters out of the insurance premium payment method, availability of policyholder dividends or distribution of surplus to members, the fact that insurance premiums may increase with fluctuations in the assumed interest rate and other matters that are deemed to be important from the point of view of the characteristics of the insurance contract.

(vii) Whether the way to review the insurance details prescribed in Article 227-2(3)(ix)(b) and Article 234-21-2(1)(vii)(b) of the Regulation are appropriately described in documents or electronic or magnetic records to be delivered.

Note that the “way to review the insurance details, while maintaining the existing contract” prescribed in Article 227-2(3)(ix)(b) and Article 234-21-2(1)(vii)(b) of the Regulation shall mean the following ways.

A. Way of adding special provision s to the existing contact cancellation before maturity

B. Way of concluding other insurance contracts in addition to the existing contract

(viii) When describing the rationality of the projected incidence rate in

documents listed in article 227-2(3)(xi) and Article 234-21-2(1)(ix) of the Regulation, from the point of view of indicating to the policyholders, etc. that the establishment of the right to change base rate would not result in changing the insurance premiums, etc. by changing the projected incidence rate without careful consideration, whether it is described that the projected incidence rate is set based on the rational basic data.

(ix) Exemptions on the Obligation to Provide Information (Article 227-2 of the Regulation)

A. Even in cases prescribed in Article 227-2(3)(iii)(a) of the Regulation, the insurance company or insurance agents need to provide appropriate explanations according to the level of the customer's knowledge on insurance, regardless of whether the customer is a sole proprietor or a corporation.

B. The amount prescribed in Article 227-2(3)(iii)(b) of the Regulation shall be determined based on the amount (in the case of a group insurance, the amount per insured person) of a single contract (basic policy + special provision s).

C. The insurance contracts prescribed in Article 227-2(7)(i)(a) of the Regulation are considered to include, for example, the case where a householder purchases insurance to cover family members and pays the insurance premiums and the case where a corporation concludes an insurance contract with its employees as insured persons and pays the insurance premiums, etc.

(Note) It should be noted that although it does not expressly require the insured persons to pay the insurance premiums, there are cases where it is deemed that, based on the comparison of the ordinary sales price and market value of goods, etc. and the percentage of the amount of insurance premiums required for benefit payments to the price of goods, etc., there are substantial insurance premiums that the insured persons pay.

It shall also be noted that if the insured persons' consent is required under the Insurance Act, it is necessary to provide the insured persons with information sufficient for determining whether to give the said content or not.

D. For insurance products aimed at promoting the sales of main products, etc., the insured persons' consent is not required and if the insurance premiums of the insurance products are deemed to be at the level of a

giveaway (free gift) when compared to the sales of the said main products, etc. as they are related to the sales of the said main products, etc., the insurance products shall fall under the insurance contract listed in Article 227-2(7)(i)(b) of the Regulation.

(x) Matters Related to the Development of a System Pertaining to the Obligation to Provide Information

Whether the insurance company and insurance agents, in relation to the measures prescribed in Article 53(1)(iv), Article 53-7, Article 227-7 of the Regulation, has developed a system such as the following to deliver documents describing the “contract outlines” and “alerting information” or provide them by other alternative electronic or magnetic means.

A. Whether the measures to clearly indicating to customers the contact points at the insurance company to receive complaints/consultation requests in the said documents (including the electronic or magnetic records on which the matters to be described in the said documents are recorded; the same applies hereinafter in II-4-2-2(2)(x)).

B. Whether measures to clearly indicating the trade name or name of the designated ADR organization that is the other party of the Basic Agreements to Implement Procedures (if the designated ADR organization does not exist, the content of complaint processing measures and dispute resolution measures) in the documents describing the “alerting information” have been taken.

C. With regard to the matters to be described in the said documents, whether measures to ensure that the descriptions are made with consideration given to the following points. (Refer to “II-4-10 Ensuring of Appropriate Presentation”)

(A) Whether the font sizes and layouts of the matters to be described, etc. that are easier for customers to understand are used for description.

(Note) For example, using the font size of 8 points or larger, font colors, laying out the matters to be described in the order of importance from the highest to the lowest, and utilizing charts and figures, etc. (it shall be noted, in particular, the documents to be delivered before concluding contracts for specified insurance contracts must be prepared in accordance with the statutory requirements (font size of 8 points or larger, and 12 points or larger for certain matters, etc.).

(B) Whether the simplicity and clarity are ensured for the description texts.

(Note) For instance, whether the labels and explanations that are easier for customers to understand are used for technical terms. Whether clear labels and explanations that are unlikely to lead customers to misunderstand the content of products are used.

(C) With regard to the matters for which specific figures, etc. are required to be presented to customers (insurance period, amount of insurance proceeds, insurance premiums, etc.), whether those specific figures are described.

(Note) In cases where describing the specific figures, etc. is difficult, the representative cases, customer selectable ranges, and reference to the locations in other documents where the said figures, etc. are described, for example, shall be described with due consideration not to mislead customers,

(D) With regard to the volume of information to be described in the said documents, whether consideration is given not to discourage customers' willingness to understand the contents and the volume is determined according to the characteristics and complexity of the insurance product.

(E) The said documents shall be prepared as separate/independent documents from the others, or if they are to be prepared as the same documents with the others, whether the information to be described in the said documents are clearly distinguished from other information and clearly described as being important information.

D. In addition to delivering the said documents or providing them by other appropriate methods (including electronic or magnetic means) to customers, whether a system to orally provide at least the following information and explanation has been developed.

(A) It is important to read the said documents.

(B) It is important to read the part where the information that is particularly disadvantageous to the customer such as major exceptions, etc. is described.

(C) In the case of rollover (meaning inducing the policyholder or the insured to apply for a new insurance contract in the termination of the existing contract, or terminating an already effected insurance contract by inducing the policyholder or the insured to apply for a new contract, prescribed in Article 300(1)(iv) of the Act), or conversion (meaning arranging an insurance contract to be effected by terminating the

existing contract and allocating the policy reserve, refunds, or any other amounts reserved for the insured for the existing contract to the policy reserve or insurance premiums for a new insurance contract, prescribed in Article 227-2(3)(ix) and Article 234-21-2(1)(vii) of the Regulation), in particular, these may be disadvantageous to the customer.

E. In delivering the said documents or providing them by other appropriate methods (including electronic or magnetic means), whether a system to ensure sufficient time for customers to understand the contents of the said documents before concluding contracts has been developed.

(Note 1) For the documents describing the “alerting information”, it shall suffice to explain/deliver them at the time of application for the contract to more effectively alert customers.

It shall be noted, however, that for specified insurance contracts, which are products with investment characteristics, sufficient time for customers to understand the contents should be ensured by delivering documents describing “alerting information” at the same opportunity as document describing the “contract outlines”.

(Note 2) In ensuring sufficient time for customers to understand the contents, the characteristics and sales method of insurance products as well as whether the level of understanding and convenience of customers may not be hindered shall be considered.

F. In cases where information and explanation are provided by non-face-to-face/non-contact methods (including teleconference system (meaning a system in which parties involved can recognize each other's state by sending/receiving video images and voices); the same applies hereinafter) such as telephone, postal mail, and the Internet, etc., whether a system in which information and explanation of the level equivalent to the details prescribed in A. through E. above are provided has been developed.

For instance, it is necessary to appropriately provide information and explanation to customers at least by the following methods.

(A) Telephone

Method to determine the matters to be orally explained to customers, appropriately explain the contents of the said documents and orally explain that it is important to read the said documents, and then deliver

the said documents by the methods such as postal mail, etc. or alternatively provide them by electronic or magnetic means without delay.

(B) Postal Mail

Method to state that it is important to read the said documents in a manner easier for the customer to understand, and then send the said documents to the customer or provide them by electronic or magnetic means.

(C) Internet, etc.

Method to display the said documents according to the content and method used to prepare the said documents, and then explain to the customer that it is important to read the said documents by electronic or magnetic means.

(Note 1) The level equivalent to the details prescribed in D. above may be considered, for example, to replace oral provision of information and explanation with description in documents in the case of postal mail and displaying by electronic or magnetic means in the case of the Internet, etc.

(Note 2) In the case of postal mail, it shall suffice to send the said documents along with a letter that allows the customer to adequately recognize that it is important to read the said documents.

(Note 3) In the case of the Internet, etc., a method such as printing or storing by electronic or magnetic means in place of sending the said documents by postal mail, etc. may be considered.

G. With regard to group insurance prescribed in Article 227-2(2) of the Regulation, when an organization, which is a policyholder, encourages the persons to be insured to subscribe to insurance, whether measures to ensure the appropriate provision of information and explanation on the details prescribed in A. through F. above of the level equivalent to that provided by the insurance company or insurance agents to customers have been taken.

H. With regard to the delivery of documents prescribed in Article 227-2(3)(vi), (vii), and (ix) and Article 234-21-2(1)(iv) through (vii) of the Regulation (excluding the cases where they are alternatively delivered by electronic or magnetic means), whether a system to provide education/management/guidance to the insurance company's employees and insurance agents to ensure to obtain confirmation from the

policyholders that they have received the documents has been developed.

In addition, whether a system to investigate/understand the actual conditions of the obtaining of the confirmation for reception by the company's employees and insurance agents has been developed.

In cases where the said documents are alternatively delivered by electronic or magnetic means, whether a system in which they are provided by an appropriate means after obtaining consent of the policyholders has been developed.

I. In cases where the documents or electronic or magnetic records in which the matters prescribed in Article 227-2(3)(ix)(a) and Article 234-21-2(1)(vii)(a) of the Regulation are described respectively for the existing contract and the new contract are delivered or provided by other alternative electronic or magnetic means for comparison, whether measures to ensure protection of policyholders by thoroughly explaining to compare the existing contract and the new contract, etc. when delivering the documents or providing them by other alternative electronic or magnetic means have been taken.

J. Whether a control environment for adequately confirming customers' understanding on the matters described in the documents to be delivered before concluding contracts and the documents prescribed in Article 227-2(3)(ix) and Article 234-21-2(1)(vii) of the Regulation describing the "contract outlines" and "alerting information" and enabling the verification of the confirmation status afterward has been established. Even in cases where these documents are provided by electronic or magnetic means using non-face-to-face/non-contact methods such as the Internet, etc., in particular, whether it is appropriately confirmed that the customers understand the matters described in the documents to the level equivalent to the cases where the documents are delivered and explained by face-to-face methods.

(Note) As for the methods used to confirm that the customers understand the matters described in the documents when they are provided by electronic or magnetic means using non-face-to-face/non-contact methods such as the Internet, etc., it may be considered, for example, to use the video conference system and provide explanation by displaying the matters described in the documents as needed and to

confirm their understanding through communication with them.

If the methods do not allow confirming the customers' understanding using video images, it may be considered to confirm the customers' understanding by combining measures such as making supplementary explanations by telephone, etc. as needed, using a mechanism that does not allow moving to the application page without viewing the entire documents, or establishing a check box asking if the customers have read the said documents and understood the content, etc. according to the characteristics of the customers.

(xi) Matters Related to Control Environment Concerning Names That Insurance Agents Clearly Communicate to Customers

With regard to the names that insurance agents clearly communicate to customers as prescribed Article 294(3) of the Act and Article 227-2(8)(i) of the Regulation, in cases where maiden names (meaning "maiden names" prescribed in Article 214(1)(iv) of the Regulation; the same applies hereinafter) are to be used, the maiden names may be used provided that the insurance company has established a control environment for appropriately managing the names that are registered/notified as those of insurance agents and the names that are clearly communicated to customers.

(3) Matters Related to Article 294-2 of the Act (obligation to ascertain/confirm intention)

When ascertaining the customer's intention, proposing the conclusion of an insurance contract, etc. in line with such intention, explaining the contents of the relevant insurance contract and concluding the insurance contract, whether the insurance company or insurance agents provide the customer with the opportunity to confirm that the customer's intention is in accord with the contents of the relevant insurance contract under the provisions of Article 294-2 of the Act.

(i) Methods of Ascertaining/Confirming Intention

With regard to the methods of ascertaining/confirming the customer's intention, whether the insurance company or insurance agents use inventive methods that take into account the products handled and forms of solicitation to ensure the conclusion of an insurance contract, etc. after determining whether the customer's own risk and intention is in accord with the contents of the relevant insurance contract.

More concretely, for example, the methods such as the following A. through D. may be considered.

A. Ascertain the customer's intention when explaining/proposing an individual plan for the customer concerned, including the amount of insurance proceeds and insurance premiums. And then propose an individual plan based on the said intention, and provide explanations, including how the said intention corresponds to the said plan.

At the stage when the customer's final intention is determined, compare that intention and the customer’s main intention identified initially, and if they are different, confirm the difference.

Furthermore, at the stage before concluding the contract, confirm whether the content of the insurance contract that the customer intends to apply for matches with the said intention (= confirmation of intention).

(Note 1) When ascertaining the customer’s intention in advance, for example, ascertaining it through questionnaire surveys may be considered.

(Note 2) Ascertaining the customer’s intention include, for example, the method of estimating the intention based on the customer attributes such as sex and age and the living environment, etc. In this case, each time an individual plan is created or proposal is made, it may be considered to explain what the estimated (ascertained) intention was on which the said plan is designed based and how the said intention corresponds to the said plan by describing relationship between the estimated (ascertained) customer’s intention and the individual plan in an easy-to-understand manner in a conspicuous part of the document to be delivered such as the design document, etc.

(Note 3) In the case of ascertaining the intention and providing explanation/proposal for the customer who wishes to have compensation associated with the purchase of automobiles/real properties, etc., the content of compensation that the customer itself requires can easily be assumed and thus the intention can be clearly determined. Therefore, it may be considered to create/propose an individual plan after ascertaining the main intention/information, describe the comparison between the main intention and the individual plan, and have the insurance company or insurance agents explain the relationship between the ascertained customer's intention and the

individual plan in an easy-to-understand manner.

B. With regard to an “insurance contract under which damage arising from the business activities of the business operator is to be compensated” prescribed in Article 227-2(3)(iii)(a) of the Regulation, the customer’s intention shall be appropriately ascertained and confirmed according to the level of the customer’s understanding on insurance and the characteristics of the product.

C. In cases where the amount of an insurance contract under which insurance premiums to be paid each year (in the case of an insurance contract which is for the insurance period of less than one year and is renewable, the amount converted to the annual amount) is no more than 5,000 yen as prescribed in Article 227-2(3)(iii)(b) of the Regulation, the customer’s intention shall be appropriately ascertained according to the level of the customer’s understanding on insurance and the characteristics of the product.

D. With regard to encouraging to subscribe to a group insurance prescribed in Article 227-2(2) of the Regulation, measures prescribed in (Note) of II-4-2-2(3)(iv)B. shall be taken.

(ii) Scope of Ascertaining/Confirming Intention

Whether, for example, the following information concerning the customer’s intention is ascertained/confirmed.

A. First- and Third-Sector Insurance Products

(Note) Including variable insurance, variable pension insurance, and products with investment characteristics such as insurance in foreign currency, etc., but excluding overseas travel accident insurance products and accident insurance products with the insurance period of not more than one year (limited to those that do not include facts and matters relating to the past and present health conditions and other mental and physical conditions of the insured as material facts and matters to be notified by the policyholder or the insured when concluding a contract).

(A) Which areas of coverage the customer wishes to purchase

(Survivor benefits in the case of death, health coverage, health coverage to prepare for specified diseases such as cancer, coverage to prepare for injury, long-term care coverage, preparation for living expenses for old age, asset management, etc.)

(B) Whether savings element is required

(C) If a preference or priority exists with regard to the range of the insurance period, amount of insurance premiums, and amount of insurance proceeds, that fact

(Note) For variable insurance, variable pension insurance, and products with investment characteristics such as insurance in foreign currency, etc., information on the intention of investment such as, for example, whether funds for make for the purpose of gaining profits are available, whether an intention exists to purchase medium- to long-term investment products that are different from deposits, whether the fact that the values of assets fluctuate according to the investment performance is acceptable, whether the market risks are accepted, and whether minimum guarantee is required, etc. shall be included.

It should be noted that a market risk refers to a risk that losses may result due to fluctuations in the interest rates, prices of currencies, market prices of financial instruments, and other indicators.

B. Second-Sector Insurance Products

(Note) The insurance products that fall under B. above shall include, in addition to second-sector insurance products, overseas travel accident insurance products and accident insurance products with the insurance period of not more than one year (limited to those that do not include facts and matters relating to the past and present health conditions and other mental and physical conditions of the insured as material facts and matters to be notified by the policyholder or the insured when concluding a contract).

(A) Which areas of compensation the customer wishes to purchase

(Types of insurance such as automobile insurance and fire insurance)

(B) Content of major compensation the customer wishes to purchase

(Note) When ascertaining the intention, for example, the following information may be considered.

- For automobile insurance, with or without free from young driver special conditions, limited drivers special conditions, and automobile physical damage insurance, etc.
- For fire insurance, the purpose of insurance and with or without earthquake insurance, etc.
- For overseas travel accident insurance, the content/scope of compensation, traveler, traveling destination, and traveling period,

etc.

- For accident insurance with the insurance period of not more than one year, the content/scope of areas of compensation, etc.

(C) If a preference or priority exists with regard to the range of the compensation period, amount of insurance premiums, and amount of insurance proceeds, that fact

(iii) Exemptions on the Obligation to Ascertain/Confirm Intention (Matters Related to Article 227-6 of the Regulation)

In the case of renewing or partially changing the existing contract, if it falls under a substantial change, the intention for the changed part concerned shall be appropriately ascertained/confirmed.

(iv) Matters Related to the Development of a System Pertaining to the Obligation to Ascertain/Confirm Intention

With regard to the measures prescribed in Article 294-2 of the Act, in order to ensure the opportunity to confirm that the customer's intention is in accord with the contents of the insurance products that the customer intends to apply for a contract so as to enable the customer to appropriately select/purchase insurance products, etc., whether the insurance company and insurance agents have established the relevant processes in the internal rules, etc., and provide appropriate education/management/guidance to the member insurance agents, and have established a system such as the following.

A. Development of a System for Ascertaining Intention

Whether the insurance company and/or insurance agents have taken measures to enable confirmation of appropriate execution of operations for ascertaining the customer’s intention. For instance, whether measures such as storing the forms used to ascertain the customers’ intention (for example, questionnaire and design document, etc.) relating to the customer’s intention that was compared with the customer's final intention prescribed in II-4-2-2(3)(i)A. and those relating to the customer’s final intention by an appropriate method according to the process of insurance solicitation.

(Note) It should be noted that when collecting and providing information on the customer’s intention, etc., the Act on the Protection of Personal Information (clear indication of the purpose of use and consent for a third-party provision) and relevant laws and regulations concerning measures to prevent adverse effects in over-the-counter sales at banks,

etc. must be observed.

B. Development of a System for Confirming Intention

With regard to the measures prescribed in Article 53-7(1) and Article 227-7 of the Act, in order to ensure the opportunity to confirm that the customer's intention is in accord with the contents of the insurance products that the customer intends to apply for a contract so as to enable the customer to appropriately select/purchase insurance products, etc., whether the insurance company or insurance agents have taken measures to enable confirmation of appropriate execution. In cases where the method referred to in II-4-2-2(3)(i)A. or other equivalent methods are used, whether the following measures have been taken.

(Note) With regard to group insurance prescribed in Article 227-2(2) of the Regulation, when an organization, which is a policyholder, encourages the persons to be insured to subscribe to insurance, measures equivalent to system development such as the following (A) through (K) shall be taken to ensure the opportunity to confirm that the insured persons' intention is in accord with the contents of the insurance product.

(A) Preparation/Delivery of Intention Confirmation Documents

In order to ensure the opportunity to finally confirm that the customer's intention is in accord with the contents of the insurance products that the customer intends to apply for a contract before the customer concludes the contract, whether the information on the customer's intention is collected and documents for confirming that the customer's intention is in accord with the contents of the insurance products (hereinafter referred to as "intention confirmation documents") have been prepared, delivered to the customer, and stored by the insurance company, etc.

(B) Matters to be Described in Intention Confirmation Documents

Whether the following matters are described in the intention confirmation documents.

a. Information on the customer's intention

b. How the content of the insurance contract corresponds to the customer's intention

c Other matters to be particularly described concerning the customer's intention

For instance, the information such as the following may be

described by including the remarks section, etc.

(a) If the content of the insurance contract concerned does not meet all or part of the customer's intention, that fact

(b) If the customer strongly requested an intention or the customer has an intention of strong individuality in particular, information on that intention

(c) If the minimum necessary information for confirming that the content of the insurance contract concerned is in accord with the customer's intention was not provided, that fact

d. Full name or name of insurance agent

Whether it is described to clearly communicate the person in charge of preparing the said documents to the customer.

It should be noted that in cases where insurance agents use maiden names, the insurance company must establish a control environment for appropriately managing the names that are registered/notified as those of insurance agents and the names that are clearly communicated to customers.

(C) Methods to be Described in Intention Confirmation Documents

Whether the intention confirmation documents are described in an easy-to-understand manner.

It shall be noted that, for example, it is acceptable to list the items concerning the information on the customer's intention that is assumed in advance; in that case, however, the information on the customer's intention that is not assumed in advance ((B)c. above) cannot be described, and therefore, the remarks section shall be included.

(D) Timing of Confirmation/Delivery of Intention Confirmation Documents Period

Whether measures to confirm whether or not the content of the insurance contract that the customer intends to apply for is in accord with the customer's intention have been taken using intention confirmation documents before concluding the insurance contract.

In addition, whether measures to deliver the intention confirmation documents that the customer confirmed to the customer after the confirmation without delay have been taken.

It shall be noted that in cases where the customer requests immediate conclusion of the contract or it is difficult to deliver the said documents immediately because of solicitation by telephone, etc., in

consideration of the customer's convenience, it shall suffice to orally confirm the content to be described in intention confirmation documents and then deliver the intention confirmation documents after the confirmation without delay.

(E) Confirmation/Modification of Content Described in Intention Confirmation Documents

Of the content described in the intention confirmation documents, for the information on the customer's intention ((B)a. and c. above) in particular, whether it is confirmed with the customer whether there are any descriptions that are contrary to the facts and if the customer requests to modify the descriptions of the part concerned, whether it is immediately dealt with.

(F) Confirmation of Intention Regarding the Content of Insurance Contract

Of the content of the insurance contract that the customer intends to apply for, whether ingenious efforts are made to encourage the customer to reconfirm the matters that are required to be confirmed by the customer whether they are in accord with his/her intention in particular (specific content of coverage (compensation), amount of insurance premiums (including the payment method of insurance premiums and the payment period of insurance premiums), amount of insurance proceeds, period of coverage (compensation), and availability of dividends, etc. for the basic policy and special provision s) by methods such as including a question for the confirmation in the intention confirmation documents, etc.

(G) Media of Intention Confirmation Documents, etc.

Whether the intention confirmation documents are delivered in paper (including alternative electronic or magnetic means. the same applies in Ⅱ－4－2－2(3)(iv)B(G))form in principle in consideration of the need for storage by the customer.

It shall be noted that although they do not necessarily need to be independent documents (they may be integrated with the application form), if they are prepared to be the same documents as the others, the part that corresponds to the intention confirmation documents needs to be described in a manner that is clearly distinguishable from the others.

In addition, since the said documents are delivered to be confirmed by both the insurance company or insurance agents and the customer,

whether the documents, etc. are stored by methods that allow the insurance company or insurance agents to confirm them afterward.

(Note) In cases where they are delivered by electronic or magnetic means such as e-mail, etc., it is necessary to obtain the consent of the customer and that they can be stored in a printed form or by electronic or magnetic means.

(H) Response When the Customer Does Not Wish to Have the Intention Confirmation Documents to Be Prepared and Delivered

In cases where the customer does not wish to have the said documents to be prepared and delivered, whether the role of the said documents (that the documents are for both the insurance company or insurance agents and the customer to confirm whether or not the content of the insurance contract that the customer intends to apply for is in accord with the customer’s intention) is explained to the customers in writing, etc. and a control environment has been established to enable the verification afterward that the customer did not wish to have the intention confirmation documents to be prepared and delivered.

(I) Verification of Matters to be Described in Intention Confirmation Documents, etc.

With regard to the preparation and delivery of the intention confirmation documents, whether appropriate measures have been taken such as verifying the information on the customer's intention to be collected and the collection methods, etc. and then reviewing them as needed according to the characteristics of the insurance products and changes in the situation of the sales methods and based on the content of complaints from and consultations with the customer.

(J) Response When It Is Clear That the Customer Misunderstands the Content of the Insurance Contract, etc.

In cases where it is clear that the customer does not understand or misunderstands the content of the insurance contract, etc., whether efforts have been made to provide explanation in an easy-to-understand manner and resolve the misunderstanding.

(K) Explanation on the Range of Insurance Companies That Can Be Handled, etc.

Whether the range of insurance companies that the insurance agents can handle (for example, exclusive or shared agent; in the case of a shared agent, information on the number of insurance companies that

can be handled, etc.) is explained; and when the customer intends to make disclosure, whether explanation is provided for the availability of the right to receive disclosure.

(4) Matters Related to the Development of a System for Encouraging Subscription to a Group Insurance That Does Not Fall Under Article 227-2(2) of the Regulation

Since a group insurance in which the policyholder is an organization with no certain close relationship between the policyholder and the insured persons does not exist in light of the closeness between the policyholder and the insured persons, their interests with respect to the group insurance concerned, and the requirements to become members of the organization, such as those with a credit card company or financial institution, etc. being the policyholder and its members or depositors, etc. being the insured persons, does not fall under the provisions of Article 227-2(2) of the Regulation, in cases where the insurance company or insurance agents (including the organization that handled the group insurance by itself) that concluded or handled the group insurance concerned provide information and ascertain/confirm the intention when encouraging subscription, whether a system such as the following has been established.

(i) When encouraging subscription, whether appropriate measures have been taken to ensure that it is handled in accordance with the solicitation regulations such as, for example, preventing prohibited acts prescribed in Article 300(1) of the Act and not allowing circumvention of the solicitation regulations.

(ii) For an organization with a credit card company or financial institution, etc. being the policyholder and its members or depositors, etc. being the insured persons, etc., in cases where a loss of coverage (compensation) will result due to a cancellation of credit cards or savings accounts, etc. of the insured persons of the group insurance concerned, whether it is responded by developing a system to describe that fact in documents in which “alerting information” is described and provide the insured persons with appropriate explanation.

In addition, when credit cards or savings accounts are canceled, etc., if a loss of coverage (compensation) will result due to that cancellation, whether it is responded by developing a system to appropriately explain that fact.

(iii) When encouraging subscription to a group insurance in which a bank, etc. conducting insurance solicitation is a policyholder and its depositors are the insured persons, whether appropriate measures that take into account II-4-2-6-2 through II-4-2-6-10 have been taken.

(iv) When encouraging subscription by telephone, whether appropriate measures that take into account II-4-4-1-1(5) have been taken.

(5) Response for Duplication Compensation Not Based on Customer's Intention

Of the duplicate compensation, for those that are not based on the customer's intention, whether the insurance company or insurance agents take the following measures ensure sufficient and appropriate explanation on duplicate compensation, etc. is provided to the customer at the time of new contract or renewal/novation of contract (hereinafter referred to as "new contract, etc.") from the point of view of eliminating or preventing it from occurring.

(i) Whether the matters necessary for responding to duplicate compensation such as the method to ensure provision of explanation on duplicate compensation are appropriately prescribed in the internal rules, etc.

(ii) Whether appropriate education, management, and guidance on duplicate compensation are provided to insurance agents.

(iii) Whether, of insurance products (including special provision s) handled by the own company, a list of combinations of insurance products that would result in duplicate compensation when they are combined to make a contract has been prepared.

In addition, whether the list is reviewed as needed at the time of starting the sales of new insurance products.

(iv) When explaining an insurance product at the time of new contract, etc., whether it is confirmed with the customer whether the customer already subscribes to insurance which, if combined with the insurance product concerned to make a contract, would result in duplicate compensation.

In addition, if the customer already subscribed to insurance that corresponds to duplicate compensation, whether the customer's intention is confirmed after clearly explaining the relationship between the insurance premiums and the insurance proceeds, and then the compensation with appropriate content based on that customer's intent is provided.

(v) Whether a control environment to enable understanding/verification of the

actual conditions of confirmation with and explanation to the customer on duplicate compensation.

(6) Matters related to Article 295 of the Act (prohibition of self-contract by non-life insurance agencies)

(i) Self-Contract

Whether the proxy application company (meaning an affiliated insurance company applying for a registration as an agent, etc. under Article 284 of the Act; the same applies hereinafter) understands the status of self-contract of the non-life insurance agency and appropriately provides management/guidance, taking into account the following points.

A. Insurance contracts to be excluded from the calculation of self-contract shall be as follows. It shall be limited, however, to those for which actual payment of insurance premiums is made by the person with insurable interest other than the non-life insurance agency.

(A) Insurance contracts concluded by those engaging in entrusted business such as transportation and storage of third parties' properties, etc. for the entrusters on the entrusted cargos

(B) Marine cargo insurance contracts for export CIF or C&I sales contract

(C) Of marine cargo insurance contracts to hedge risks after loading on ships in export CIF or C&I sales contract, those for cargos imported under entrustment by third parties

(D) Marine cargo or transport insurance contracts for cargos transported between domestic locations based on domestics sales contracts equivalent to (B) or (C) above

(E) Automobile-related insurance contracts for automobiles for sale (automobiles manufactured or maintained for the purpose of sale) in the process of delivery from automobile manufacturers, distributors, or land transport companies to end consumers concluded by the manufacturers, distributors, or land transport companies of the automobiles concerned

(F) Insurance contracts for the hosted tours concluded by travel agents under the Travel Agency Act

(G) Insurance contracts for properties for sale or lease concluded by installment sellers or leasers

B. The calculation of insurance premiums for self-contract shall be handled as follows.

(A) In the case of an insurance contact in which own properties and properties of others are mixed, and when the insurance premiums that correspond to self-contract are not clearly separated, the total amount shall be deemed to correspond to the self-contract.

(B) If own properties are changed to properties of others and properties of others are changed own properties during the insurance period, insurance premiums for the self-contract may be calculated based on time distribution.

(ii) Specified Contracts

Since it is deemed to be a problem in light of the purpose of Article 295 of the Act that non-life insurance agencies make engaging in solicitation of insurance contracts in which a person having a close human or capital relationship with themselves is the policyholder or the insured person (hereinafter referred to as “specified contracts”) to be their primary business purpose (the percentage of the insurance premiums of specified contracts to the insurance premiums handled is more than 50%), whether efforts have been made, with consideration given to the following points, to understand the status of specified contracts and strictly provide management/guidance in a same manner as with self-contracts, thereby ensuring the fairness in insurance solicitation and promoting the independence of non-life insurance agencies.

A. Whether insurance contracts in which the following persons (hereinafter referred to as “specified persons” are the policyholder or the insured person are identified as specified insurance contracts.

(A) A relative (including a relative by affinity) sharing the living expenses with the non-life insurance agency and a relative within the second degree of kinship (not including a relative by affinity) not sharing the living expenses.

(B) A corporation (including an association or foundation that is not a corporation; the same applies hereinafter in II-4-2-2(6)(ii)A.) in which the non-life insurance agency, its spouse, or its relative within the second degree of kinship (not including a relative by affinity) is a full-time officer.

(C) A corporation with officers/employees (including part-time, temporarily transferred, and former officers/employees) having the concurrent position in a non-life insurance agency that is a corporation. It should be noted that “former officers/employees” here refers to those for

whom less than three years have passed since the date of leaving the corporation concerned.

(D) A person with the investment ratio to the non-life insurance agent that is a corporation exceeding 30%.

(Note) Method of Calculating the Investment Ratio

a. In the case where the investor is a corporation, if the amount calculated by totaling the amounts of investments by officers/employees belonging to the corporation and their relatives (not including relatives by affinity) sharing the living expenses exceeds 30%, that corporation

b. In the case where an investor is an individual person, if the amount calculated by totaling the amounts of investments by the person and his/her relatives (not including relatives by affinity) sharing the living expenses exceeds 30%, that individual person

B. Whether the determination of a non-life insurance agency whose primary business purpose is to engage in insurance solicitation (hereinafter referred to as a “specified contract handling agency”) is carried out every fiscal year of the non-life insurance agency. Whether other calculation methods are handled in the same manner as with self-contracts.

In addition, whether insurance contracts that are not deemed to be specified contracts are handled in an equivalent manner as self-contracts.

C. When a non-life insurance agency is determined to be a specified contract handling agency, whether the fact is reported to the local Finance Bureaus or Fukuoka Local Finance Branch Bureau (including the Okinawa General Bureau; hereinafter referred to as the “local Finance Bureaus, etc.”) along with the cause and a corrective action plan by the last day of a month following the month which includes the date of determination.

(Note) As a measure for the existing non-life insurance agencies, the following calculation is used for the time being until otherwise provided for by law for a non-life insurance agency that was registered before March 31, 1996 and has not changed the category under the non-life insurance agency system during the period between April 1 of the same year and March 31, 2001.

(A) The target insurance contracts shall be fire insurance, automobile, and accident insurance contracts (including insurance of medical expenses and insurance of long-term care expenses).

(B) The percentage of specified contracts shall be the highest percentage among the percentages of specified contracts respectively calculated for each specified person.

(iii) In cases where the percentage of premium income for self-contracts or specified contracts exceeds 30%, whether guidance for correction is provided to the non-life insurance agency.

(7) Matters Related to Article 300(1)(iv) of the Act

Whether the facts that would be disadvantageous to the customer are informed, such as the existence of cases where the policyholder may be required to pay a certain amount of money as a so-called surrender charge, etc., cases where the rights to claim special dividends and other rights to claim dividends that become available on the condition of continuing the contract for a certain period may be lost, and cases where a new insurance contract may not be able to be concluded due to the worsening of health conditions of the insured person, etc.

In addition, whether it is adequately confirmed that the customer understands the facts that would be disadvantageous by methods such as obtaining a confirmation seal of the customer, etc.

(8) Matters Related to Article 300(1)(v) of the Act

(i) In cases where the insurance company or insurance agents provide the policyholder or the insured person with various services and goods for the conclusion of insurance contracts or insurance solicitation, whether it is ensured that it does not fall under “offer of special advantage” with consideration given to the following points.

A. Whether the economic value and content of the said services, etc. are not beyond the social appropriateness.

B. Whether it does not practically fall under a discount/rebate of insurance premiums, in light of the degree of marketability and the range of use of the said services, etc.

C. Whether the provision of the said services, etc. does not significantly hinder the fairness among policyholders.

It shall be also checked whether the insurance company commits any acts that violate the prohibition of other business through the provision of the said services, etc.

(Note) There are cases where the insurance company or insurance

agents offer points to the policyholder or the insured person for the conclusion of an insurance contract and provide life-related discount services, etc. according to the said points, etc. It shall be noted, however, that in doing so, providing cashback according to the points earned falls under a discount/rebate of insurance premiums and is prohibited, except for the cases where it is done based on the documents listed in items of Article 4(2) of the Act.

(ii) When solicitating wholesale insurance and collective insurance contracts, group contracts of accident insurance/income indemnity insurance, and automobile insurance (fleet contracts), whether the following matters are checked.

A. The target organizations and groups shall meet the requirements prescribed in the statement of business procedures.

B. The quorums of organizations and groups shall be fulfilled.

C. The policyholders or insurers shall meet the requirements prescribed in the statement of business procedures.

D. The application of discount rates such as the group discount rate, discount range according to the loss rate, and superior fleet discount rate, etc. shall be appropriate.

(iii) whether the following points are considered for Article 234(1)(i) (in the case of a specified insurance contract, Article 234-27(1)(i)) of the Regulation.

A. Whether the insurance company has taken measures such as providing guidance and management, etc. to life insurance agents and insurance brokers (hereinafter referred to as “life insurance agents, etc.” in II-4-2-2(8)(iii)) not to solicit self-contracts for the purpose of providing a discount or rebate of insurance premiums, etc.

B. Whether the insurance company has taken measures such as providing guidance and management, etc. to life insurance agents, etc. which are corporations not to solicit contracts for the purpose of providing a discount or rebate of insurance premiums, etc. through the payment of fees, etc. if a corporation having a close relationship with the insurance company itself or the said life insurance agents, etc. is the policyholder.

C. A corporation having a close relationship shall include the following.

(A) A corporation listed below having a close relationship with the said life insurance agents, etc. in light of capital relationship.

a. A specified affiliated corporation of the said life insurance agent, etc.

b. A corporation with a specified affiliated corporation that is the said life insurance agents, etc.

c. A specified affiliated corporation of the corporation listed in a.

d. A corporation with a specified affiliated corporation that is the corporation listed with a. or b.

(B) A specified affiliated corporation prescribed in (A) shall be anyone (limited to a corporation) of those pertaining to a single corporation that fall under the persons listed in the following a. through f. (in the case of the person listed in b. through f., including the persons that do not have the voting rights of the said concerned) when they have 25% or more of the voting rights of all shareholders, all members, or all investors of the said corporation in total.

a. A single person having all or part of the voting rights of the said life insurance agents, etc.

b. A person having over 50% of the voting rights of all shareholders, all members, or all investors of the person listed in a.

c. A person having over 50% of the voting rights of all shareholders, all members, or all investors of the person listed in b.

d. A corporation of which over 50% of the voting rights of all shareholders, all members, or all investors are held by the person listed in a.

e. A corporation of which over 50% of the voting rights of all shareholders, all members, or all investors are held by the person listed in d.

f. A corporation of which over 50% of the voting rights of all shareholders, all members, or all investors are held by the person listed in b.

(C) A corporation having personnel exchange with the said life insurance agents, etc. such as concurrent position, temporary transfer, and transfer, etc. of officers (excluding part-time officers) or employees.

(D) Any other corporation that is deemed to have a close relationship with the said life insurance agents, etc. based on the background of its incorporation and transaction relationship.

(E) “Having a close relationship” prescribed in (D) refers to the situation where a single corporation can significantly affect the financial conditions or the sales or business policy of the other company.

It shall be noted that whether a corporation falls under the

corporation listed in (D) shall be determined in accordance with the actual conditions, and sufficient consideration shall be given to ensure not to allow the determination of the following corporations to circumvent the application of (D).

a. If the majority of officers and employees of a life insurance agent, etc. are former officers/employees of a specific corporation, that specific corporation

b. If a specific corporation has mainly involved in the establishment of a life insurance agent, etc., that specific corporation

(9) Matters Related to Article 300(1)(vi) of the Act

(i) Whether measures to obtain sufficient understanding of the customer on the presentation (including informing; the same applies hereinafter) of the insurance contract have been taken. Whether the presentation is made according to the characteristics of the product.

It shall be noted that the presentation shall include those made by the following methods (the same applies hereinafter in II-4-2-2(10)).

A. Documents and drawings used for solicitation such as pamphlets and policy leaflets, etc.

B. Advertisements using posters, signboards, and others equivalent thereto

C. Advertisements using newspapers, magazines, other publications, broadcasting, projections, theatrical performances, or electronic signs

D. Advertisements using the Internet, etc.

E. Other media for providing information

(ii) With regard to the comparative presentation, the acts that violate Article 300(1)(vi) of the Act are considered to include the following matters.

A. Presenting the matters or figures that are not based on objective facts.

B. Presenting not the whole but only a part of matters necessary for making correct judgments for the content of the insurance contract.

(Note 1) If comparative presentation using “contract outlines” (a case where the respective “contract outlines” are presented side-by-side or a case where the whole descriptions of “contract outlines” are summarized in a table format, etc.) is made, the whole of the matters necessary for making correct judgments for the content of the insurance contract are deemed to have been presented.

(Note 2) When making comparative presentation (including the case where the descriptions are summarized in a table format for presentation), if all

of the following requirements are met, the whole of the matters necessary for making correct judgments for the content of the insurance contract are deemed to have been presented.

(A) If the customer who received the comparative presentation wishes to obtain the “contract outlines” for all insurance products subject to the comparative presentation, measures to enable them to promptly obtain the “contract outlines” shall be taken.

For instance, the methods such as a. providing “contract outlines” at the same time as the comparative presentation for all insurance products that were subject to the comparative presentation or b. developing a system to enable viewing the “contract outlines” for all insurance products that were subject to the comparative presentation on websites over the Internet or, upon request from the customer, delivering the requested “contract outlines” by postal mail without delay, and then inform the customer of the system, etc. may be considered.

(B) For the comparative presentation, alerting texts such as the following shall be described.

a. The comparison table does not include all the contents of the insurance products, and should be used as only a reference information.

b. The contents of insurance products described in the comparison table need to be generally checked with the “contract outlines” and pamphlets.

C. Presenting the content of the insurance contract as if all is in good standing by especially emphasizing only the advantages or not indicating inseparable matters together when indicating the advantages.

D. Presenting the comparison of insurance contracts that are not recognized to be of the equivalent types of insurance under normal social or transactional conventions as if they are of the equivalent types of insurance.

(Note) For instance, when comparing insurance products with different insurance periods or when comparing insurance with dividends and insurance without dividends, etc., it is required to describe not to lead the customer to misunderstand as if they were equivalent insurance products by clearly describing the difference in the product contents, etc.

E. Presenting by comparing with the contents of the insurance contracts

that are not currently provided.

F. Presenting by unreasonably emphasizing the disadvantages of the contents of the other insurance contracts for the purpose of defaming/slandering the said insurance contracts rather than providing specific information.

(iii) In cases where making comparative presentation with other insurance companies' products, etc., whether measures have been taken (i) to ensure that presentation is made with the following matters included using document, etc. and (ii) not to make incorrect presentation of the characteristics of the other companies' products.

(Note 1) For (i) above, the said requirements shall be deemed to have been met if the requirements of (Note 1) or (Note 2) in (ii)B. above are met.

(Note 2) With regard to the content of coverage (compensation) and special provisions, omitting the matters that are deemed to exist almost commonly for all products to be compared and the matters that are deemed to be normally paid for the types of insurance that were subject to the comparison, omitting them from the description shall not immediately be deemed to be "misleading".

(A) Insurance period

(B) Content of coverage (compensation) (for the payment of insurance proceeds, major exceptions, etc.)

(C) Underwriting conditions (amount of insurance proceeds, etc.)

(D) Availability and content of various special provisions

(E) Premium rate/insurance premiums (cases shall be based on the same conditions to the extent possible and the calculation conditions shall be described side by side)

(F) Insurance premium payment method

(G) Relationship between insurance premiums paid and maturity refunds

(H) Other matters deemed to be important from the point of view of protecting policyholders, etc.

(iv) When making comparative presentation of insurance premiums, whether consideration is given to ensuring not to overly draw the customer's attention to insurance premiums or allow to pass over other important elements such as coverage (compensation), etc.

In addition, in order to prevent drawing the customer's attention only to insurance premiums, whether ingenious efforts are made to prevent the customer's misunderstanding with regard to the configuration of the

comparison table and description methods, etc. such as including the texts alerting that it is necessary to compare/consider by taking into account not only insurance premiums, but also other elements, including the content of coverage (compensation), etc.

(Note 1) Describing the preconditions that affect insurance premiums such as the outlines of the insurance conditions and content of coverage (compensation), etc. alongside is considered to be the minimum requirement for appropriate presentation.

(Note 2) In cases where applicable insurance premiums notably vary according to the preconditions such as the customer's age and sex, etc., it is considered appropriate to describe the texts alongside alerting that it is necessary to select products after inquiring the insurance company about the insurance premiums actually applied as insurance premiums may vary depending on differences in the preconditions.

(v) When making a comparative presentation, it is desirable to clearly indicate to the customer what entity (insurance company or insurance agent) makes the comparative presentation, whether there is any special interest that may impair the independence/impartiality of the comparative information provided (for example, existence of strong capital relationship, etc.) between insurance companies that provide insurance products compared and insurance agents, what information the comparative information provided is based on, etc.

(10) Matters Related to Article 300(1)(vii) of the Act

(i) Whether measures to eliminate the acts that violate Article 300(1)(vii) of the Act have been taken.

(ii) Presentation of expected dividends

A. (ii) With regard to the expected dividends, the acts that violate Article 300(1)(vii) of the Act are considered to include the following acts.

(A) Not presenting alongside the expected dividends the fact that the actual amount of dividends vary from the expected dividends presented and may be zero depending on the fiscal year.

(B) Despite the fact that the expected dividends presented are examples calculated under certain conditions as rough indications of the amount to be received in the future, not presenting that fact and the content of the said certain conditions.

(C) Not presenting the mechanism of dividends (the amount of dividends

is determined based on the settlement of accounts for the previous fiscal year of the payment period, etc.), payment method (each method of dividend accumulation, deduction from premium, addition to insurance proceeds, and cash payment, etc.), and the preconditions or conditions of the expected dividends.

(D) Not presenting multiple different amounts of expected dividends with different preconditions or conditions for the non-life insurance contract.

(E) Presenting a high amount of expected dividends that clearly exceeds the range of rational and objective predictions.

(F) When presenting special dividends (mu dividends), presenting them by not distinguishing them from ordinary dividends.

B. For life insurance contracts, when presenting or having insurance agent present the expected dividends, whether the amount of dividends calculated based on the assumption that the dividend rate changes around the actual dividend rate of the most recent settlement of accounts (before it is determined, the immediately preceding actual dividend rate or the rational and objective dividend rate conservatively calculated; the same applies hereinafter) is presented along with the amount of dividends calculated based on the assumption that, at least at a rational point in time, the interest dividend (including lambda dividend) rate (in the case of accumulating dividends, including the dividend accumulation interest rate) changes within the range from at most 1% above the interest dividend rate of the actual dividends of the most recent settlement of accounts to more percentage below it (however, lower limit of the interest dividend rate falling below the actual dividend rate is 0%).

C. In the case of B., whether documents, etc. that meet the requirements of A. for the expected dividends are presented to the policyholder, etc.

(iii) Matters to Be Observed in Solicitation of Variable Insurance or Non-File Insurance Products That Use Special Accounts

When soliciting variable insurance of non-life insurance products that special accounts, considering the characteristics of the mechanisms of these insurance products in which maturity refunds and insurance proceeds vary depending on the asset management results, etc., whether compliance is ensured from the point of view of preventing unnecessary troubles with the policyholder and confusion in the order of solicitation with particular attention to the provisions of Article 300(1)(vii) of the Act (including 233 of the Regulation).

(iv) Points of Attention in Solicitation of Insurance in Foreign Currency

When soliciting insurance in foreign currency (of the insurance contracts prescribed in Article 83(iii) of the Regulation, excluding those in which a business operator is the policyholder), whether it is ensured to provide sufficient explanations on the existence of foreign exchange risks at the time of solicitation and obtain a written confirmation from confirming that the policyholder understood the foreign exchange risks, etc. from the point of view of protection policyholders, etc. with particular attention to the provisions of Article 300(1)(vii) of the Act (including 233 of the Regulation).

(11) Matters Related to Article 300(1)(ix) of the Act and Article 234(1)(ii) of the Regulation (in the case of the specified insurance contract, Article 38(viii) of the Financial Instruments and Exchange Act as Applied Mutatis Mutandis and Article 234-27(1)(i) of the Regulation)

(i) “Unjustly taking advantage of its business position, etc.” refers to, for example, clearly indicating to provide benefits or disadvantages for the purpose of restraining the customer’s intention by exercising the influence based on the hierarchical relationship in business, etc. ; whether such acts are not committed.

(ii) Whether the non-life insurance companies or non-life insurance agents do not commit the following acts, etc., taking into account the purpose of the provisions of Article 234(1)(ii) of the Regulation.

A. Seriously disturbing the customer with intimidating behavior and violent language, etc.

B. Conducting insurance solicitation in a way that will invite social criticism such as relentlessly making a visit or phone call during the time period that would harm the private life or business of the customer who has clearly expressed the intention to reject the solicitation, etc.

(12) Matters Related to Article 234(1)(iv) of the Regulation (in the case of a specified insurance contract, Article 234-27(1)(i) of the Regulation)

(i) In case where the insurance company's credit or ability to pay, etc. are to be presented, whether appropriate measures have been taken.

(ii) With regard to the presentation of the insurance company's credit or ability to pay, etc., the acts that violate Article 234(1)(iv) of the Regulation are considered to include the following acts.

A. Presenting the matters concerning the insurance company’s financial

resources, credit, or ability to pay using the particulars other than the figures described in the business report or interim business report prescribed in Article 110 of the Act, the figures described in the explanatory documents detailing the status of its business and property prescribed in Article 111 of the Act, or the rating of credible credit rating agencies (hereinafter referred to as “objective figures, etc.”).

B. Not presenting the sources of the objective figures, etc. used, relevant time, and methods used, etc., and not providing sufficient explanation or providing false explanation about their meanings.

C. Misleading as if the payment for the insurance contract of the insurance company concerned is guaranteed because the objective figures, etc. presented are in good standing.

D. Extracting only part of the figures and presenting as if the whole figures are in good standing.

E. Presenting the other companies’ credits and abilities to pay by unreasonably emphasizing their subordinated nature for the purpose of defaming/slandering those companies.

F. When presenting the insurance company’s participation in financial assistance projects, etc. conducted by the Life Insurance Policyholders Protection Corporation of Japan (hereinafter referred to as the “Protection Corporation”), not presenting the fact that financial assistance by the Protection Corporation is provided under certain conditions and limitations and the insurance contract is not necessarily fully guaranteed.

(13) Matters Related to Article 234(1)(v) of the Regulation (in the case of a specified insurance contract, Article 234-27(1)(i) of the Regulation)

In cases where a single policyholder concludes (including novation and renewal) a single insurance contract or multiple insurance contracts between multiple insurance companies at the same time such as coinsurance contracts and tied sales of insurance products between insurance companies, etc., whether appropriate measures have been taken for the operations of insurance solicitation and conclusion of insurance contracts, including clarifying the contract relationship between parties, namely the respective insurance companies and the policyholder, not to cause the policyholder’s misunderstanding about the types of insurance and underwriting insurance companies.

(14) Matters Related to Article 227-9 of the Regulation

"Necessary and appropriate measures " prescribed in Article 227-9 of the Regulation shall mean measures under the provisions of Articles 8, 9, and 10 of the guideline for protection of personal information in the finance sector (hereinafter referred to as the "Financial Sector Guidelines") and I, II, III, and Attachment-2 of the guideline for practical affairs regarding safety control measures specified in the guideline for protection of personal information in the finance sector (hereinafter referred to as the "Practical Guideline").

(15) Matters Related to Article 227-10 of the Regulation

"Any other special and undisclosed information" prescribed in Article 227-10 of the Regulation refers to the information listed in (i) through (vii) below, and "any purpose other than the assurance of the proper operation of the business or any other purpose as may be deemed necessary" refers to the cases listed in items of Article 5(1) of the Financial Sector Guidelines.

(i) Information regarding labor union membership
(ii) Information regarding ethnicity
(iii) Information regarding sex life
(iv) Information regarding provisions under Article 2(iv) of the Cabinet Order to Enforce the Act on the Protection of Personal Information
(v) Information regarding provisions under Article 2(v) of the Cabinet Order to Enforce the Act on the Protection of Personal Information
(vi) Information regarding the fact that the related customer has been a victim of crime
(vii) Information regarding social status

(16) Matters Related to Article 307(1)(iii) of the Act

Whether measures to eliminate the acts that violate "any other extremely inappropriate conduct in connection with insurance solicitation" prescribed in Article 307(1)(iii) of the Act have been taken.

(17) Others

(i) Matters to Be Notified/Written Notice

A. Whether the matters to be notified by policyholders, etc. have been established so as to enable the policyholders, etc. to clearly understand the specific details to be notified and notify them, taking into account that the obligation of notification was changed from the voluntary obligation of

declaration to the obligation to respond to questions in the Insurance Act.

Whether the specific details of the matters to be notified are not left to the judgment of policyholders, etc., for example, asking the question “any other matters that should be notified, including the health conditions and medical history”.

B. Whether the form of the written notice clearly indicates the required matters in a way easier for policyholders, etc. to understand.

(ii) Matters Related to Automobile Insurance

Whether the following operations are carried out for automobile insurance.

A. Whether, in the novation and renewal of personal liability insurance and own company’s contracts, responses and operations are carried out so as to accept the conclusion of insurance contracts (including novation and renewal of contracts), except for the cases where the risks are actually deemed to be particularly high.

Whether responses and operations are carried out so as to accept the conclusion of insurance contracts (including novation and renewal of contracts) to the extent possible considering the actual status of each risk also for property liability insurance.

B. Whether responses and operation are carried out so as not to conclude only the certain insurance contracts based on the region, age, and sex, etc.

(iii) Others

Whether the following measures have been taken for the conclusion of insurance contracts (including changing contacts due to change of the ownership, etc.) and insurance solicitation.

A. Prevention of inappropriate acts to be committed for the purpose of improving sales, including the acts that might lead to harmful effects of excessive competition such as obtaining prospective customers by providing excessive support for deposits in financial institutions, solicitation by unlawfully using loans for insurance premium payment, and excessive provision of convenience to certain insurance agents, etc. as well as fictitious contracts and over insurance contracts, etc.

B. For first-sector and third-sector insurance contracts and insurance contracts listed in Article 3(5)(iii) of the Act, the following measures to prevent inappropriate insurance contracts such as fictitious contracts and insurance contracts intended to fraudulently obtain insurance proceeds,

etc., from occurring.

(A) Confirmation of the identity or existence of the policyholders (including corporations and sole proprietors) or the presence/absence of business activities of the corporations by documents that can be used to identify them such as driver's licenses and passports, etc., by documents that can be used to confirm the existence of corporations such as companies (including sole proprietors), by sending insurance policy certificates by postal mail and using the fact that they were not returned, from the insurance premium receiving institutions that have conducted the identity confirmation, by communicating with the policyholders with insurance agents visiting them or the insurance company using communication and information devices such as telephone, etc., and by any other appropriate methods

(B) Confirmation of the identity of the insured persons at health checkups when applying for or renewing insurance contracts by doctors confirming documents that can be used to identify the persons concerned such as driver's licenses and passports, etc., by insurance agents accompanying them, by the insurance company directly interviewing them, or by any other appropriate methods

(C) Measures for appropriate solicitation activities not to allow solicitation activities that deviate from the original purpose of insurance, such as contracts whose primary purpose is money management by corporations, etc. and contracts that assume cancellation before maturity within a short period from the beginning, etc., and to ensure the use of insurance products that complies with the original purpose according to the characteristics of the individual insurance products

C. Measures to prevent discriminatory treatment such as limiting regions to solicit insurance products without reasonable grounds, etc.

D. Measures to obtain the customer's understanding such as explaining reasonable grounds to the extent possible if it is decided not to conclude the insurance contract despite having received an application to do so.

II-4-2-3 Matters Related to Wholesale Insurance Contracts, etc.

The points of attention in performing supervising operations of processes for wholesale insurance contracts and collective insurance contracts, from the

point of view of ensuring the soundness of management of insurance companies and protecting policyholders, etc., shall be as follows.

(1) Wholesale Insurance Contracts

(i) Objectives/Purposes of Wholesale Insurance Contracts

Whether wholesale insurance contracts prescribed in “IV-1-16 Handling of Wholesale/Collective Insurance Contracts” are properly handled in accordance with the objectives/purposes thereof.

(ii) Covered Organizations and Applicable Rates of Wholesale Insurance Contracts

A. Whether the insurance company has concluded contracts for insurance premium intermediation or collection services, etc. with the appropriate representatives of organizations belonging to the policyholder.

B. Whether the applicable rates are properly calculated and applied according to the rate categories.

C. In cases where the situation of the policyholder or the insured person has changed, and insurance contract for the said policyholder, etc. becomes no longer subject to wholesale insurance contracts, whether the insurance premium rate to be applied to the said insurance contract are reviewed.

(iii) Collection Fees

Whether the collection fees to be paid to the representatives of organizations is at an appropriate level that takes into account the ensuring of the soundness of management and the fairness among policyholders as well as the promotion of fair competitions, etc. and the actual costs.

(2) Collective Insurance Contracts

(i) Objectives/Purposes of Collective Insurance Contracts

Whether collective insurance contracts prescribed in “IV-1-16 Handling of Wholesale/Collective Insurance Contracts” are properly handled in accordance with the objectives/purposes thereof.

(ii) Covered Organizations and Applicable Rates of Collective Insurance Contracts

A. Whether the insurance company has concluded contracts for insurance premium intermediation or collection services, etc. with the appropriate representatives of groups belonging to the policyholder.

B. Whether the applicable rates are appropriately calculated and applied

according to the rate categories.

C. In cases where the situation of the policyholder or the insured person has changed, and insurance contract for the said policyholder, etc. becomes no longer subject to collective insurance contracts, whether the insurance premium rate to be applied to the said insurance contract are reviewed.

(iii) Collection Fees

Whether the collection fees to be paid to the representatives of groups is at an appropriate level that takes into account the ensuring of the soundness of management and the fairness among policyholders as well as the promotion of fair competitions, etc. and the actual costs.

II-4-2-4 Life Insurance Contracts for Other Persons

The points of attention in performing supervising operations for concluding life insurance contracts for other persons (death insurance contracts in which a person other than the policyholder is the insured person and fixed amount accident and health insurance contracts in which a person other than the policyholder is the insured person and death due to injury or sickness is the grounds for claim payment (including a change of the beneficiary; in addition, for fixed amount accident and health insurance contracts, excluding those in which the beneficiary is the insured person or the heir thereof and death due to injury or sickness is not the only grounds for claim payment)), from the point of view of protecting insured persons, etc. ensuring sound and appropriate business of the insurance company, shall be as follows.

(1) Objectives/Purposes

(i) For insurance contracts in which a corporation (including a sole proprietor; the same applies hereinafter) is the policyholder and the beneficiary and its employees, etc. are the insured persons (hereinafter referred to as “business insurance”), whether business operations are conducted in accordance with the following objectives/purposes A. or B.

A. Securing financial resources for the payment of condolence money/retirement allowance for death, etc. (hereinafter referred to as “condolence money, etc.”) prescribed in the provisions concerning accident compensation, bereaved family compensation, and support for

injury and disease incurred off duty or any other equivalent provisions under the company's rules of employment, collective agreement, and any other rules to compensate for the life of bereaved families and employees (hereinafter referred to as "accident/bereaved family compensation provisions, etc.")

B. Securing financial resources for the costs of employing/training replacement employees that the company will bear in association with the death of employees, etc. and funds, etc. to prepare for business continuation and temporary credit uncertainty

(Note) When obtaining consent of the person to be insured, whether measures to ensure to enable the insured person to recognize the content of the contract such as the beneficiary and the amount of insurance proceeds, etc., for example, by the following methods.

(A) The insurance company to deliver to the insured person a copy of the application form for subscription and documents describing the content of the contract, etc.

(B) The insurance company to confirm with the policyholder how the insured persons will be able to recognize the content of the insurance contract. The results of confirmation shall be retained as specific verifiable records.

Furthermore, whether the insurance company has taken measures to enable the insured persons themselves to easily provide information to persons that are considered necessary such as their families by including texts encouraging the insured person to explain the subscription to the insurance concerned to their family in the documents describing the content of the contract to be delivered to the insured persons, etc.

(ii) For the contract of all subscription-type group term insurance (group term insurance for organizations in which all employees, etc. subscribe to the insurance; the same applies hereinafter), whether business operations are conducted in accordance with the objectives/purposes of the said insurance contract by clarifying that the objectives/purposes of the said insurance is to compensate for the life of bereaved families and employees and categorizing the part that guarantees financial resources for the payment of condolence money, etc. to be the "basic policy" and the part that guarantees various costs (economic losses of the company) such as the costs of employing/training replacement employees that the company

will bear in association with the death of employees, etc. to be the “special provision”, etc.

(Note) When obtaining consent of the person to be insured, measures shall be taken to ensure to enable the insured person to recognize the content of the contract such as the beneficiary and the amount of insurance proceeds, etc., for example, by the following methods.

(A) The life insurance company to deliver to the insured person documents describing the content of the contract, etc.

(B) The life insurance company to confirm with the policyholder how the insured persons will be able to recognize the content of the insurance contract. The results of confirmation shall be retained as specific verifiable records.

(2) Control Environment for Checking the Scope of Organization in Group Insurance or Group Contract, etc.

(i) Whether a control environment for checking whether the insured persons are included in the insured organizations has been developed.

(ii) Whether a control environment for checking whether the conditions of application of group term insurance, etc. are appropriately operated by methods prescribed in the statement of business procedures has been developed.

(3) How to Establish the Amount of Insurance Proceeds

(i) Whether the establishment of the amount of insurance proceeds in business insurance is appropriately operated from the point of view of eliminating moral risks such as underwriting standards, etc. of the amount of insurance proceeds, etc., taking into account the objectives/purposes of the insurance contract.

In cases where securing financial resources for the costs of employing/training replacement employees that the company will bear in association with the death of employees, etc. and funds, etc. to prepare for business continuation and temporary credit uncertainty are included in the objectives/purposes of the insurance contract, whether the amount of insurance proceeds are appropriately operated not to become too large by establishing the upper limit based on the standards such as annual income, years of employment, position, and annual sales and scale of the corporation, etc. at the time of concluding the insurance contract.

In addition, whether the establishment of the amount of insurance proceeds for employees is appropriately operated with consideration also given to the following (ii).

(ii) Whether appropriate measures have been taken for the establishment of the amount of insurance proceeds of all subscription-type group term insurance to ensure its use to be in accordance with the objectives/purposes of this insurance ((1) above) by setting the upper limit to be the amount of payment based on the accident/bereaved family compensation provisions, etc. for the basic policy part and to be the amount of insurance proceeds of the basic policy for the special provision part (however, not more than 20 million yen).

(4) Ensuring Payment of Insurance Proceeds Linked to the Accident/Bereaved Family Compensation Provisions, etc.

(i) In cases where all or equivalent part of insurance proceeds of business insurance are to be arranged for the payment of condolence money, etc. for employees who is the insured persons under the accident/bereaved family compensation provisions, etc., whether measures have been taken, from the point of view of ensuring sound and appropriate business operations, to confirm that information is provided to the insured persons or the persons who should be given compensation for bereaved family prescribed in Article 42 of the Regulation for Enforcement of the Labor Standards Act, etc. (hereinafter referred to as “beneficiaries”) and that insurance proceeds are used for welfare in accordance with the purpose of the insurance contract by A. obtaining a document for confirming that the insured persons or the beneficiaries understands the content of insurance claims (whether the details of the insurance contract such as the beneficiaries and the amount of insurance proceeds, etc. are described in the document confirming their understanding) or B. obtaining a document showing that the insured persons or beneficiaries have received the money or records of the payment to the insured persons or beneficiaries, etc. from policyholders at the time of insurance claims.

(ii) For the payment of insurance proceeds in all subscription-type group term insurance, whether the whole amount is to be paid to bereaved families of employees for the basic policy part, and if it is to be temporarily received by the company and then paid to bereaved families, whether it is done so after confirming the bereaved families’ understanding.

Whether the details of the insurance contract such as the beneficiaries and the amount of insurance proceeds, etc. are described in the document confirming their understanding.

(iii) Whether the payment of insurance proceeds for the “human value special provision” part in all subscription-type group term insurance is made after confirming the understanding of the beneficiaries of condolence money, etc.

Whether the details of the insurance contract such as the beneficiaries and the amount of insurance proceeds, etc. are described in the document confirming their understanding.

II-4-2-5 Automobile Liability Insurance

Since automobile liability insurance is linked to the automobile registration/inspection system and automobile liability insurance certificates need to be issued promptly to the policyholder, whether the non-life insurance company grants the authority to issue the certificates to non-life insurance agencies equipped with financial resources, credit, and ability to perform business operations in particular. Whether these non-life insurance agencies are provided with guidance to perform appropriate business operations, including ensuring prompt reimbursement of insurance premiums, etc.

II-4-2-6 Entrustment of Insurance Solicitation to Banks, etc.

II-4-2-6-1 Entrustment/Management of Insurance Solicitation to Banks, etc.

(1) When entrusting insurance solicitations to banks, etc., whether the insurance company takes the following measures from the point of view of ensuring their sound and appropriate operations and fairness in insurance solicitations.

(i) Establishing the policy of entrustment to banks, etc. that includes the following matters and establishing the content of the entrustment based on that policy.

A. Concept of entrustment to banks, etc. and concept of selecting banks, etc. to be entrusted

B. Types of insurance to be entrusted and expected sales volume (note

that the achievement shall not be the condition of the entrustment)

C. Content of operations of sales support (training, etc.) for banks, etc. to be performed by the insurance company

(ii) Establishing appropriate insurance solicitation fees from the standpoint of ensuring the soundness of management of the insurance company and fairness in insurance solicitation.

(2) Whether the insurance company entrusting insurance solicitation to banks, etc. takes the following measures as part of its governance from the point of view of ensuring their sound and appropriate operation.

(i) Correctly understanding the status of insurance solicitation by banks, etc.

(ii) Establishing a control environment for considering the cause and responding appropriately as needed if insurance solicitation by banks, etc. significantly increases and exceeds the risk management capacity of the insurance company or the level of dependence on insurance solicitation by certain banks, etc. becomes remarkably high compared to the original entrustment policy.

(3) With regard to the operations required to be performed after the conclusion of insurance contracts(Note), whether the division of operations has been clearly specified in the entrustment contracts between the insurance company and banks, etc. and clearly indicated to customers.

(Note) Operations such as, for example, responding to inquiries about the content of the contract, responding to complaints/consultation requests from customers, and providing guidance on various procedures and methods, including inquiries about the payment procedures of insurance proceeds, etc.

(4) Whether the insurance company has established a necessary control environment to ensure sound and appropriate management of the operations to be performed after the conclusion of insurance contracts such as, for example, making efforts to secure sufficient personnel for performing the said operations according to the volume of contracts that banks, etc. have acted as an agent or mediated for the conclusion.

(5) Whether banks, etc. have established a necessary control environment to ensure sound and appropriate management of the operations to be

performed after the conclusion of insurance contracts such as, for example, making efforts to secure sufficient personnel for performing the said operations according to the characteristics and volume of the operations to be performed by the banks, etc. based on the entrustment contracts, etc. after the conclusion of insurance contracts, etc.

II-4-2-6-2 Handling of Non-Disclosure Finance/Insurance Information

(1) In cases where specified insurance agents or banks, etc. that are insurance brokers use non-disclosure finance information (meaning non-disclosure finance information prescribed in Article 212(2)(i)(a) of the Regulation; the same applies hereinafter) in insurance solicitation-related operations, when obtaining consent of customers about the use of the non-disclosure finance information, whether the effective period of the said consent and method to revoke it, form of insurance solicitation using non-disclosure finance information (face-to-face or postal mail, etc.), extent of undisclosed information to be used (maturity date of fixed-term deposits, information on savings account activities, and other information on the management of financial assets, etc.) are clearly and specifically indicated to customers and necessary measures to disallow acting as an agent or mediating the conclusion of insurance contracts without obtaining customer's consent in advance(Note) by appropriate methods such as the following, for example, have been taken.

(Note) For example, developing administrative procedures to disallow explaining products without obtaining consent in advance when non-disclosure finance information is to be used, and furthermore disallow applying/concluding contracts without written consent may be considered.

(i) Face-to-Face

Method of explaining the use of non-disclosure finance information in insurance solicitation-related operations in writing in advance, recording the fact that consent has been obtained, and obtaining written consent before applying for contract

(ii) Postal Mail

Method of sending a document explaining about the use of non-disclosure finance information in insurance solicitation-related operations in advance, and receiving the response of consent before soliciting

insurance such as sending application forms for insurance

(iii) Telephone

Method of orally explaining about the use of non-disclosure finance information in insurance solicitation-related operations in advance, recording the fact that consent has been obtained, and then promptly sending a document explaining about the use of non-disclosure finance information (it may be delivered if meeting the customer in face-to-face after obtaining consent over the phone), and obtaining written consent before applying for contract

(iv) Internet, etc.

Method of explaining about the use of non-disclosure finance information in insurance solicitation-related operations by electronic or magnetic means in advance, and obtaining consent by electronic or magnetic means

(Note) Information on the attributes of customers (name, address, telephone number, sex, birth date, and occupation) are not included in non-disclosure finance /insurance information.

(2) In cases where specified insurance agents or banks, etc. that are insurance brokers use non-disclosure insurance information (meaning non-disclosure insurance information prescribed in Article 212(2)(i)(b) of the Regulation; the same applies hereinafter) in operations other than insurance solicitation-related operations such as loan of funds, when obtaining consent of customers about the use of the non-disclosure insurance information, whether the effective period of the said consent and method to revoke it, form of operations using non-disclosure insurance information (face-to-face or postal mail, etc.), extent of non-disclosure insurance information to be used (information on family structure, etc. learned during the insurance solicitation operations) are clearly and specifically indicated to customers and measures to obtain customer's consent in advance by appropriate methods equivalent to those listed in (1)(i) through (iv), for example, have been taken.

II-4-2-6-3 Insurance Solicitation Guidelines of Banks, etc.

Whether the following matters are prescribed in the insurance solicitation

guidelines established by banks, etc. to ensure fairness in insurance solicitation.

In addition, in order to inform customers of the content of the insurance solicitation guidelines, whether necessary measures such as delivering the insurance solicitation guidelines in document form, explaining about them, posting them at branches, or utilizing the Internet websites, etc. have been taken.

(1) The trade name or name of the underwriting insurance company of the insurance contract that banks etc. solicit shall be clearly indicated to customers, and appropriate explanation shall be provided to customers about the fact that the insurance contract is underwritten by the insurance company, that the insurance proceeds, etc. are paid by the insurance company, and any other locations of risks concerning the insurance contract.

(2) Information to enable customers to select from among multiple insurance contracts based on their independent judgments shall be provided.

(3) The fact that if banks, etc. violate laws/regulations and cause damage to customers, the said banks, etc. are liable for the sale as specified insurance agents shall be clearly indicated.

(4) The contact points at banks, etc. to receive complaints/consultation requests and the content of operation to be performed by banks, etc. after the conclusion of insurance contracts shall be clearly indicated to customers, and appropriate customer responses shall also be performed , as needed, after the conclusion of insurance contracts such as, for example, appropriately responding to complaints/consultation requests, including inquiries about the payment procedures of insurance proceeds, etc., in accordance with the entrustment contracts, etc.

(5) For the provision of explanation to customers at the time of insurance solicitation and customer responses for complaints/consultation requests, etc. listed in (1) through (4) above, a system to manage appropriate execution of customer responses, etc. by recording the content of interviews with customers, etc. shall be developed, and the records on the

explanation provided at the time of insurance solicitation, etc. shall be retained until the termination of the insurance period.

II-4-2-6-4 Confirmation of Parties Restricted from Insurance Solicitation by Bank, etc.

(1) Whether banks, etc. take the following measures to ensure not to act as agents or intermediaries for the conclusion of insurance contracts (excluding renewal or novation (excluding improvement of the content of insurance proceeds and any other benefits (excluding the improvement due to increase in value of the object of insurance contract or any other factors similar thereto) or extension of the insurance period, but including renovation) of those listed in Article 212(1)(i) through (5) or Article 212-2(1)(i) through (v)-4 of the Regulation and insurance contracts already concluded (limited to those that are concluded by the said banks, etc. acted as agent or mediated in consideration of fees or any other remunerations)) in which parties restricted from insurance solicitation by a bank, etc. (meaning parties restricted from life insurance solicitation by a bank, etc. prescribed in the introductory text of Article 212(3)(i) of the Regulation, parties restricted from non-life insurance solicitation by a bank, etc. prescribed in the introductory text of Article 212-2(3)(i) of the Regulation, or parties restricted from insurance solicitation by a bank, etc. prescribed in the introductory text of Article 212-5(3)(i) of the Regulation; the same applies hereinafter) are the policyholder or insured person in consideration of fees or any other remunerations.

(i) Measures to check whether the customers concerned fall under parties restricted from insurance solicitation by bank, etc. based on the customers' declaration in soliciting insurance after delivering documents explaining about the operations to check whether the customers concerned fall under parties restricted from insurance solicitation by bank, etc. or providing them by other alternative electronic or magnetic means to customers in advance

(ii) Measures to confirm that the customers do not fall under parties restricted from insurance solicitation by bank, etc. by comparing the information on the places of work of the customers concerned obtained from the customers concerned in the course of insurance solicitation with

the information on the borrowers of the banks, etc. concerned by the time when written applications forms for insurance contracts solicited and other documents are sent to the underwriting insurance company

(iii) Development of a control environment for not receiving or returning afterward insurance solicitation fees or any other remunerations for the insurance contracts concerned from the affiliated insurance company when it is confirmed that the customers fall under parties restricted from insurance solicitation by bank, etc. by the above measures

(Note 1) For the measures (i) and (ii), it shall be considered not to force customers to provide information on their places of work, etc.

It shall be noted that if whether the customers concerned fall under parties restricted from insurance solicitation by bank, etc. cannot be confirmed by the measures (i) and (ii), they shall be deemed not to fall under those parties unless there are special circumstances.

(Note 2) With regard to the confirmation by comparing with the information on the borrowers of the banks, etc. concerned in (ii) above, the method of comparing with database of the borrowers (needs to be updated at least once a year; the existing database, if any, may also be utilized), the method that of the head office, etc. centrally manages loan information and receives inquiry requests from each branch office, or any other methods that take into account the scale and characteristics of the banks, etc. may be used.

(Note 3) The act of establishing an organization mainly consisting of officers or regular employees of corporations, etc. to which the banks, etc. loan necessary funds for their business and soliciting insurance to them is practically considered to be insurance solicitation to the corporations concerned unless there are special circumstances.

(2) When banks, etc. receive entrustment of insurance solicitation from the insurance company, whether the banks, etc. concerned determine the acceptance of the operations concerned with due consideration to, for example, the business or financial soundness of the insurance company concerned, the status of development of a control environment for managing sales for the banks, etc. that are specified insurance agents, and the content insurance products for which the banks, etc. concerned are to solicit in order not to obstruct sound and appropriate management of other operations of the banks, etc. (including the operations entrusted by other

insurance companies).

II-4-2-6-5 Matters Related to Article 212-2(3)(i) of the Regulation

"Increase in value of the object of insurance or any other factors similar thereto" prescribed in Article 212-2(3)(i) of the Regulation includes, for example, the following factors.

(1) Increase in value of the object of insurance (increase in the amount of insurance proceeds of fire insurance due to extension and reconstruction of buildings, etc.)

(2) Replacement of object of insurance (increase in the amount of insurance proceeds of automobile insurance due to replacement of vehicles, etc.)

(3) Expansion of the insured range (expansion of the range of coverage of automobile insurance due to a change in the age conditions, etc.)

(4) Increase in the number of insured persons of group contracts

II-4-2-6-6 Matters Related to Article 234(1)(viii) of the Regulation

It shall be noted that when soliciting housing-related fire insurance, housing-related debt repayment support insurance, or housing-related credit life insurance to the customers from whom an application for housing loan has been received, it is necessary to provide explanation that the conclusion of the insurance contracts concerned is not the condition for the said housing loan by delivery of documents or other alternative electronic or magnetic means.

II-4-2-6-7 Matters Related to Article 234(1)(x) of the Regulation (in the case of a specified insurance contract, Article 234-27(1)(i) of the Regulation)

Not allowing customers to apply for loans for the purpose of soliciting

insurance to them, despite them seeking funds, shall be deemed to fall under the case of “knowing that the customer has made an application for monetary loan”.

II-4-2-6-8 Persons Responsible for Compliance With Laws and Regulations Concerning Insurance Solicitation, etc.

Whether the banks, etc., in order to reliably implement the operations to ensure compliance with laws and regulations concerning insurance solicitation prescribed in Article 212(2)(iii) of the Regulation, assign human resources with knowledge on laws and regulations concerning insurance solicitation and insurance contracts, etc. to be the persons responsible for the operations to ensure compliance with laws and regulations, etc. prescribed in the same item (including chief supervisors which supervise the said responsible persons and control and manage the operations to ensure compliance with laws and regulations, etc. concerning insurance solicitation).

II-4-2-6-9 Internal Audits on Insurance Solicitation by Banks, etc.

Whether the banks, etc., in order to ensure reliable implementation of internal audits on the banks, etc. concerned from the point of view of ensuring sound and appropriate management of insurance solicitation, assign human resources with knowledge on laws and regulations concerning insurance solicitation and insurance contracts, etc. to the sections concerned.

II-4-2-6-10 Matters Related to the Fair Trade Commission Guidelines

Whether the banks, etc. conduct business operations with due consideration to “Part 2 Section 2.2 Unfair Trading Practices Concerning Insurance Solicitation Operations by Banks, etc.” in the “Regarding Unfair Trading Practices Following Loosening of Financial Institutions’ Business Categories and Expansion of Business Scope” (December 1, 2004; Fair Trade Commission).

II-4-2-7 Re-Entrustment of Insurance Solicitation

(1) Control Environment

It is necessary to examine whether the principal insurance solicitation agent and the affiliated insurance company take “measures necessary for securing accurate, fair and efficient implementation of the insurance solicitation pertaining to the re-entrustment” prescribed in Article 275(5)(ii) of the Act with attention paid to the following points and check the status of efforts, etc. even after the authorization is obtained.

(i) Development of Control Environment at the Affiliated Insurance Company

A. In order to ensure adequate, fair, and efficient implementation of insurance solicitation pertaining to re-entrustment, whether a policy for appropriate re-entrustment, including the matters listed below, has been formulated.

- Types of insurance contracts to be handled in insurance solicitation pertaining to re-entrustment
- Qualifications, knowledge, abilities, and experiences, etc. required for conducting insurance solicitation pertaining to re-entrustment
- Flow of implementation procedures for insurance solicitation pertaining to re-entrustment
- Handling of personal information in insurance solicitation pertaining to re-entrustment
- For the operations required to be performed after the conclusion of an insurance contract,(Note) division of operations between the secondary insurance agent, the principal insurance solicitation agent and the affiliated insurance company, and the method of clearly indicating it to customers

  (Note) Operations such as, for example, responding to inquiries about the content of the contract, responding to complaints/consultation requests from customers, and providing guidance on various procedures and methods, including inquiries about the payment procedures of insurance proceeds, etc.
- Matters to be described in re-entrustment contracts
- Other matters necessary to ensure adequate, fair, and efficient implementation of insurance solicitation pertaining to re-entrustment

B. Whether a control environment to grant permission for re-entrustment in

accordance with the policy referred to in A. above has been established.

C. Whether a control environment to enable checking whether the implementation status of insurance solicitation pertaining to re-entrustment by the secondary insurance agent and the implementation status of education, management, and guidance to the secondary insurance agent by the principal insurance solicitation agent are in accordance with the policy referred to in A. above, periodically and when needed, based on entrustment contracts between the affiliated insurance company and the principal insurance solicitation agent and re-entrustment contracts between the principal insurance solicitation agent and the secondary insurance agent, etc. and, when needed, requiring improvement of the said implementation status has been established.

D. Whether a control environment to enable requesting for a change or cancellation of re-entrustment contracts when the secondary insurance agent is deemed to be inappropriate as a person that conducts insurance solicitation pertaining to re-entrustment, based on entrustment contracts between the affiliated insurance company and the principal insurance solicitation agent and re-entrustment contracts between the principal insurance solicitation agent and the secondary insurance agent, etc., has been established.

(ii) Development of Control Environment at the Principal Insurance Solicitation Agent

A. Whether a control environment for selecting secondary insurance agent in accordance with the policy referred to in (i)A. above, in addition to II-4-2-1(3) (Acceptance/Entrustment/Registration/Notification of Insurance Agents) and II-3-3-1(3) (Acceptance/Entrustment/Registration (Notification) of Small Amount and Short Term Insurance Agents) of the “Comprehensive Guidelines for Supervision for Insurance Companies (Supplement)” (Comprehensive Guidelines for Small Amount and Short Term Insurers), has been established.

B. With regard to insurance solicitation pertaining to re-entrustment by the secondary insurance agent, whether a control environment for appropriately providing education, management, and guidance in accordance with the policy referred to in (i)A. above, in addition to II-4-2-1(4) (Education/Management/Guidance of Specified Insurance Agents, etc.) and II-3-3-1(4) (Education/Management/Guidance of Small Amount and Short Term Insurance Agents) of the “Comprehensive Guidelines for

Supervision for Insurance Companies (Supplement)" (Comprehensive Guidelines for Small Amount and Short Term Insurers), has been established.

(2) Changing Important Matters Pertaining to Re-Entrustment

It should be noted that, in consideration of the purpose of Article 275(3) of the Act that includes "the execution of a contract on entrustment which includes the provisions on the matters relating to re-entrustment" to be subject to authorization, when important matters pertaining to re-entrustment have been changed such as, for example, insurance products of types that are different from those described in the written application for permission, are to be handled, application for authorization shall be required each time.

II-4-2-8 Direct Payment Service

When presenting that the direct payment service may be used in accordance with the preference of the person entitled to receive insurance proceeds and mentioning the content/level of goods and services provided by the partnered business operator in conducting insurance solicitation, etc., the insurance company or insurance agents shall check, in consideration of the following points, whether the measures prescribed in Article 53-12-2 of the Regulation have been taken and whether the provision of information prescribed in Article 227-2(3)(v) and Article 234-21-2(1)(iii) of the Regulation has been implemented.

(1) Whether information on the following matters is provided to the policyholder or insured person at the time of insurance solicitation.

(i) Fact that insurance proceeds can be received (purchasing goods and services from the partnered business operator or using the direct payment service are not required)

(ii) Standard for selecting the partnered business operator (if the partnered business operator has been determined, the name of the partnered business operator shall also be presented)

(iii) Fact that if the amount of insurance proceeds is less than the values of goods and services, the customer needs to pay for the shortfall (if a surplus is generated, the corresponding amount may be received as insurance proceeds)

(iv) Assumed cases where referring to partnered business operators that can

provide the goods and services originally assumed becomes difficult

(2) Whether referral fees or any other remunerations are received from the policyholders, insured persons, persons entitled to receive insurance proceeds, or partnered business operators.

(3) Whether the content/level of goods and services to be provided in agreement with the partnered business operators and procedures for the contact/payment methods to be used when the person entitled to receive insurance proceeds uses the direct payment service, etc. have been established.

(4) Whether measures to maintain the conditions enabling the provision of goods and services of the content and level explained to the policyholder or insured person at the time of insurance solicitation have been taken, such as checking the quality of goods and services provided by partnered business operators and replacing partnered business operators if problems are found, etc.

(5) Whether the fact that purchasing of goods and services from partnered business operators or using the direct payment service are not required (insurance proceeds can be received) is explained again to the persons entitled to receive insurance proceeds at the occurrence of insured events.

II-4-2-9 Obligation of Insurance Agents to Develop Systems (Matters Related to Article 294-3 of the Act)

Whether insurance agents have taken measures to ensure sound and appropriate management of insurance solicitation-related operations. In addition, whether the actual conditions are understood through audits, etc. and when it is deemed inappropriate, appropriate measures have been taken and efforts are made to develop a control environment for the improvement.

(Note) With regard to officers or employees of the insurance company and officers and employees of insurance agencies, in cases where the said insurance company or insurance agencies have developed system to provide appropriate training/instructions from the point of view of ensuring

appropriate solicitation, it shall be considered basically sufficient to participate in training in accordance with the said instructions.

(1) Whether appropriate education, management, and guidance are provided by establishing internal rules, etc. on compliance with laws and regulations, etc. concerning insurance solicitation, knowledge of insurance contracts, and development of a control environment for managing internal administration (including appropriate management of customer information) and taking measures to train officers or employees engaging in insurance solicitation and improve their qualifications.

(2) For customer information management (including outsourced contractors), II-4-5 shall basically apply according to the scale and business characteristics of insurance agents.

(3) For the points of attention when the insurance agents have parties engaging in solicitation-related acts to conduct solicitation-related acts, refer to II-4-2-1(2).

(4) Whether presentations that mislead about the positions to act as an agent or mediate the conclusion of insurance contracts for the insurance company are made.

(Note) It should be noted that simply presenting “fair/independent” may mislead customers to understand it as “being in an independent position between the insurance company and the customer”.

(5) It shall be checked whether insurance agents having those two or more affiliated insurance companies, etc. (meaning insurance agents having those two or more affiliated insurance companies, etc. prescribed in Article 227-2(3)(iv) and Article 234-21-2(1)(ii) of the Regulation; the same applies hereinafter in II-4-2-9(5)) have taken measures to ensure the provision of explanation of the reasons for suggesting subscription to insurance contracts prescribed in Article 227-2(3)(iv) and Article 234-21-2(1)(ii) of the Regulation and other sound and appropriate operations of insurance agents having those two or more affiliated insurance companies, etc. in consideration of the following points.

(i) Whether, of the products handled by insurance agents having those two or

more affiliated insurance companies, etc., the outlines of the products that can be compared (if products are narrowed down based on the characteristics of products such as insurance type and content of coverage (compensation), etc. according to the customers' intentions identified by the insurance agents, those narrowed down products) are clearly presented and the content of products are explained on customers' requests.

(ii) When presenting/recommending specific products to customers, whether the reasons for presenting/recommending those products are explained in an easy-to-understand manner. In particular, of the products that are handled by themselves and match the customers' intentions, when presenting/recommending products after further narrowing down based on the judgment of insurance agents having those two or more affiliated insurance companies, etc., whether objective standards such as the characteristics of products and level of insurance premiums and the reasons, etc. are explained.

(Note 1) It shall be considered not to allow practically narrowing down or presenting/recommending products to direct toward the products for which the insurance agencies receive high fees by pretending as if objectively explaining the reason for recommending the products.

(Note 2) It should be noted that when comparing with other products to indicate the advantages of products that they are recommending, for example, it is necessary to present the matters necessary for customers to make correct judgments about the content of insurance contracts by correctly presenting the whole aspects and characteristics of the other products concerned and explaining the reasons for the advantages of the recommending products, etc. (refer to Article 300(1)(vi) of the Act and II-4-2-2(9)(ii)).

(iii) Notwithstanding (i) and (ii) above, when narrowing down products or presenting/recommending certain products to customers based not on objective standards and reasons such as the characteristics of products and level of insurance premiums, etc., whether the standards and reasons, etc. (including capital relationships with certain insurance companies and other administrative procedural/business policy reasons , etc.) are explained.

(Note) It should be noted that when indicating the "fairness/independence" between each insurance company, the conditions such as capital

relationships with certain insurance companies, level of fees, and other administrative procedures/business policy, etc. shall not be considered as standards and reasons for narrowing down or presenting/recommending products, etc.

(iv) With regard to measures to appropriately present/recommend products and presenting the position of insurance agencies, etc. based on (i) through (iii) above, whether a control environment for providing them in the internal rules, etc. and then confirming/verifying the status of implementation periodically and when needed has been established.

(6) In cases where insurance agents accept the use of their trade names by other persons (including other insurance agents), whether appropriate measures to prevent customers from misidentifying those other persons and the insurance agents concerned has been taken such as explaining the fact that both parties are different entities and difference in product lineups if the lineups of insurance products handled by both parties are different from those advertised to customers, etc.

(7) Whether insurance agents engaging in insurance agents guidance business have taken measures to ensure appropriate execution of insurance agents guidance business by formulating the implementation policy specifying the basic matters concerning the guidance on the business of insurance solicitation with consideration given the following points.

(Note) It should be noted that businesses that does not specify the nature of the business of insurance solicitation such as consultation, etc. do not fall under insurance agents guidance business.

(i) With regard to the business of insurance solicitation by insurance agents subject to guidance, whether the measures prescribed in Article 227-15(1) of the Regulation have been taken such as establishing a control environment for appropriately providing education/management/instruction and requiring improvements, etc. when needed, etc.

(Note 1) When implementing insurance agents guidance business, whether a control environment to provide education/management/instruction has been established such as, for example, assigning personnel with certain knowledge/experience, etc.

(Note 2) The insurance company shall not be exempt from the responsibility to provide education/management/instruction (refer to II-4-

2-1(4)) even with insurance agents engaging in insurance agents guidance business providing guidance to insurance agents subject to guidance.

Therefore, it should be noted that the insurance company needs to provide education/management/instruction provided to insurance agents subject to guidance by themselves in conjunction with the establishment of a control environment for appropriately implementation of insurance solicitation.

(ii) Whether the matters prescribed in Article 227-15(2) of the Regulation are described in the implementation policy for the guidance of insurance agents subject to guidance.

(8) In addition to the above, a control environment for managing insurance solicitation by insurance agents shall be handled equivalently as described in II-4-2-1 through II-4-2-7 according to the scale and business characteristics of the insurance agents.

(9) When a serious problem is deemed to exist in the control environment of insurance agents, supervisors shall require the submission of a report under Article 305 of the Act as necessary, when it is deemed that there is a serious problem, supervisors shall take an administrative measure under Article 306 or 307(1) of the Act.

II-4-2-10 Books and Documents

Specified insurance agents prescribed in Article 303 of the Act (hereinafter referred to as “specified insurance agents” in II-4-2-11) shall specifically define the methods of preparing and storing documents prescribed in Article 237-2(1) of the Regulation in the internal rules, etc.

II-4-2-11 Business Reports

The criteria for items to be included in business reports of specified insurance agents shall be as follows.

It shall be noted that in the case of a foreign corporation, those pertaining to its business in Japan shall be prepared.

(1) Appended Form No. 25-2

It should be noted that if the business category of a specified insurance agent falls under either one of life insurance, non-life insurance, or small amount and short term insurance, other business categories shall also be subject to reports.

(i) “1. Overviews of the Business”

A. In the “(1) Insurance Agency Registration Date” section, enter the date of registration by the Commissioner of the FSA prescribed in Article 276 of the Act. If not applicable, it shall be left blank.

B. For the “(2) Name of Proxy Application Company (Operator)” section, if not applicable, it shall be left blank.

C. In the “(4) Status of Officers and Employees” section, enter the status at the end of the term. If not applicable, it shall be left blank.

D. In the “(5) Status of Business Offices” section, enter the status of business offices where the insurance agency is located at the end of the term.

E. In the “(6) Changes in Number of Insurance Companies from which Entrustment is Received (Most Recent Three Fiscal Years)” section, enter the status at the end of each term.

(ii) “3. Implementation Status of Insurance Agents Guidance Business, etc.”

In the “(1) Status of Changes in Number of Member Shops (Most Recent Three Fiscal Years)” section, enter the status of the number of shops conducting insurance solicitation at the end of the term.

(iii) “4. Number of Claims for Insurance Solicitation Occurred (Most Recent Three Fiscal Years)”

Enter the status of the number reported to each insurance company, etc. at the end of each term based on the definition of claims at the insurance company in principle.

(2) Appended Form No. 25-3

It shall be handled equivalently as in (1) above.

(3) Business reports shall be submitted to the Director-General of Local Finance Bureau having jurisdiction, etc.

II-4-3 Response to Complaints, etc. (Including Response to the Financial ADR System)

II-4-3-1 Significance

(1) Need for Dealing with Inquiries, Complaints, Disputes, etc. (Complaints, etc.)

Promptly and appropriately responding to inquiries, complaints, and disputes, etc. (complaints, etc.) from customers and gaining their understanding is an important activity that carries the connotation of complementing the accountability to customers after the fact.

In recent years, from the viewpoint of protecting customers and ensuring customer confidence in insurance products/services, dealing with complaints, etc. after the fact has become even more important.

Based on these perspectives, a financial ADR system has been introduced as a framework for simply and expeditiously processing complaints and resolving disputes related to financial products and services (refer to (Note) for description of ADR), and insurance companies are required to deal appropriately with complaints, etc., taking into account this financial ADR system.

(Note) ADR (Alternative Dispute Resolution)

An alternative method to courts for resolving disputes which are based on agreement by the parties, such as mediation or arbitration. ADR is expected to result in prompt, simple and flexible dispute resolution in a manner suited to the nature of the case, the circumstances of the parties and so on.

(2) Scope

There are various forms of expression that can be made regarding the business operations of an insurance company. Besides inquiries, there are also expressions of dissatisfaction made by customers, such as complaints and disputes. It is important for insurance companies to deal with these various forms of expression appropriately, and so they are required to develop appropriate internal control environments that enable such treatment.

In addition, insurance companies are also required to develop appropriate control environments respectively for complaints and disputes in the financial

ADR system.

It must, however, be added that the distinction between these complaints and disputes is relative and they are connected with each other. In particular, in light of the requirement in the financial ADR system for designated ADR bodies to ensure links between complaint processing procedures and dispute resolution procedures, rather than dealing with individual cases by formally dividing applications made by customers into “complaints” and “disputes,” it is important that insurance companies deal with complaints and disputes appropriately while taking into consideration their relativity and connections.

II-4-3-2 Establishment of Internal Control Environment for Dealing with Complaints, etc.

II-4-3-2-1 Significance

Insurance companies need to develop internal control environments to deal with complaints, etc. made by customers in a prompt, fair and appropriate manner, including measures and responses required in the financial ADR system.

II-4-3-2-2 Main Supervisory Focus

Supervisors shall examine whether the insurance company has, in developing an internal control environment for dealing with complaints, etc., developed an appropriate and effective control environment in light of the size and specific characteristics of its business operations. Supervisors shall take the following points, for example, into consideration, while being mindful of not applying them in a mechanical and uniform fashion.

(1) Role of Senior Managers

Whether the board of directors has exercised its functions properly with regard to the establishment of a company-wide internal control environment for the function of dealing with complaints, etc.

(2) Internal Rules, etc.

(i) Whether the section in charge of complaints, etc., its responsibility and authority, and the procedures for dealing with complaints, etc. (including responses in the event of clerical errors, etc.) have been established in the internal rules so that complaints can be responded to and dealt with in a prompt, fair and appropriate manner. Also, whether procedures concerning business improvement have been established so that the views of customers are reflected in the conduct of business operations.

(ii) Whether the insurance company has developed a control environment, including making sure that internal rules are thoroughly publicized and enforced by means of training and other measures (including the distribution of manuals and so forth) so that business operations for dealing with complaints, etc. can be conducted based on internal rules.

Particularly in cases where complaints, etc. are being made frequently by customers, whether confirmation is first being made of how internal rules (not only those for dealing with complaints, etc.) are publicized and enforced at branches, and whether the causes and problem areas in terms of control environments are being examined.

(3) Control Environment for Dealing with Complaints, etc.

(i) Whether the insurance company has appropriately assigned staff in charge of dealing with complaints, etc.

(ii) Whether the insurance company has developed a control environment wherein relevant departments cooperate and promptly deal with any complaints, etc. made by customers. In particular, whether the insurance company has developed a control environment wherein the responsible section or person in charge of dealing with complaints, etc. strives to fully understand the customer complaints, etc. faced by each individual employee, and reports promptly to the relevant departments.

(iii) In particular, whether the insurance company has established a control environment wherein whether complaints, etc. concerning non-payment of insurance proceeds, etc. are not only dealt with by the section in charge of payment that has determined the said non-payment, but also eventually appropriately dealt with by other sections such as the section in charge of compliance.

(iv) Whether the insurance company has developed a control environment

wherein it promptly settles any outstanding cases and prevents the occurrence of any long-term outstanding cases by conducting progress management aimed at the resolution of complaints, etc.

(v) Whether the insurance company has developed a control environment wherein it improves the response provided at contact points according to the occurrence of complaints, etc., and wherein it can receive complaints, etc. extensively, such as by setting access hours and means of access (for example, phone, mail, facsimile, email) which are considerate of customer convenience. Also, whether the insurance company has developed a control environment wherein it extensively publicizes these contact points and ways of making applications, and wherein it makes them well known to customers in a way that is easy for them to understand and which also takes into account their diversity.

(vi) Whether the insurance company has developed a control environment for ensuring the proper handling of personal information in accordance with the provisions of the Act on the Protection of Personal Information and other relevant laws and regulations, Guidelines on the Act on the Protection of Personal Information (Part on General Rules), the same Guidelines (Part on Provision to a Third Party in a Foreign Country), the same Guidelines (Part on Obligation to Confirm/Record at the Time of Providing Information to a Third Party), and the same Guidelines (Part on Anonymously Processed Information) (hereinafter collectively referred to as the “Protection Act Guidelines”), and the Financial Sector Guidelines when dealing with complaints, etc. (refer to II-4-5 “Control Environment for Managing Information on Customers, etc.”).

(vii) With regard to complaints, etc. concerning outsourced business operations conducted by an external contractor, including insurance agencies, whether the insurance company has developed a control environment for dealing with such complaints, etc. promptly and appropriately, such as by establishing a system of direct communication to the insurance company itself.

In addition, whether the insurance company has developed a control environment wherein the said complaints, etc. made by customers to external contractors are reported to the insurance company without omission.

(viii) Whether the insurance company has developed a control environment wherein it can communicate quickly with relevant departments and,

where necessary, cooperate appropriately with the police and other relevant organizations, in order to distinguish any pressure by anti-social forces disguised as a complaint, etc. from ordinary complaints, etc. and to take a resolute stance.

(4) Dealing with Customers

(i) Whether the insurance company goes beyond perceiving the handling of complaints, etc. as a simple problem of processing procedures, and instead regards it as a question of a control environment for providing after-the-fact explanations and aims to resolve a complaint, etc. with the understanding and agreement of the customer wherever possible while suitably interviewing customers on the circumstances according to the nature of the complaint, etc.

(ii) Whether the insurance company has developed a control environment wherein it provides customers, who have made a complaint, etc., with appropriate explanations, as necessary, according to the progress of the procedures for dealing with complaints, etc. while also being considerate of the specific characteristics of the customer, from the time the complaint is made to after its settlement (for example, an explanation of the procedures for dealing with complaints, etc., notification to the effect that the complaint, etc. has been received, an explanation on the progress, and an explanation of the results).

(iii) With regard to complaints, etc. made by customers, whether the insurance company has developed a control environment wherein, rather than only dealing with a complaint, etc. itself, it refers customers to appropriate external organizations according to the nature of the complaint, etc. and the wishes of the customer, and it provides information such as an overview of the standard procedures.

In cases where there are more than one means of processing a complaint or resolving a dispute (including the financial ADR system), customers should be able to choose freely, and so in referring customers to external organizations, care should be taken so that a customer’s choice is not unduly restricted.

(iv) Whether the insurance company has developed a control environment wherein, even during a period when proceedings for dealing with a complaint, etc. are pending at an external organization, the insurance company takes appropriate action where necessary with respect to the

customer who is the other party to the said proceedings (such as ordinarily providing the customer with general materials or explanations).

(5) Information Sharing, Business Improvements, etc.

(i) Whether the insurance company has developed a control environment wherein complaints, etc. and the associated results from dealing with them are categorized and reported to the internal control section and sales section, and wherein information necessary for the particular case is shared between those concerned, such as reporting important cases to the audit section and senior managers.

(ii) Whether the insurance company properly and accurately records and stores information on the contents of complaints, etc., and the results of dealing with them, including both complaints it deals with itself, and those dealt with through the mediation of an external organization. Also, whether the insurance company has developed a control environment wherein it analyzes the contents of complaints, etc., and the result of dealing with them, taking into consideration information, etc., provided by a designated ADR body, and applies this on an ongoing basis to the improvement of control environments for dealing with customers and conducting administrative processes and to the formulation of measures for preventing any occurrence or recurrence of complaints, etc.

(iii) Whether the insurance company has developed a control environment wherein the internal checks and balances function, such as examinations and audits, can function properly to ensure the effectiveness of how complaints, etc. are dealt with.

(iv) Whether the insurance company has developed a control environment wherein, when reflecting the treatment of complaints, etc. in the conduct of business operations, senior managers supervise over any decisions to implement measures needed for business improvement or recurrence prevention, as well as any examination or ongoing review of how the control environment for dealing with complaints, etc. should be.

(6) Relationship with External Organizations

(i) Whether the insurance company has developed a control environment wherein it cooperates appropriately with external organizations in working toward the prompt resolution of any complaints, etc.

(ii) Whether the insurance company has developed a control environment

wherein, when filing a petition for dispute resolution procedures itself, rather than simply filing a petition without fully exhausting its own procedures, it first responds sufficiently to the submission of the complaint, etc. from the customer and goes through an appropriate internal examination of the need for the petition.

II-4-3-3 Response to the Financial ADR System

II-4-3-3-1 In Cases Where There Is a Designated ADR Body

II-4-3-3-1-1 Significance

In order to enhance customer protection and to improve customer confidence in insurance products and services, it is important to ensure substantial equality between insurance companies and customers, and to resolve any complaints, etc. in a neutral, fair and effective manner. Therefore, in the financial ADR system, complaint processing and dispute resolution from a third-person perspective are conducted by designated ADR bodies with the participation of experts and others.

Under the financial ADR system, responses to complaint processing and dispute resolution are primarily regulated according to Basic Agreements to Implement Procedures (Article 2(42) of the Act) concluded between insurance companies and designated ADR bodies.

Insurance companies are required to appropriately address their obligations and so forth stipulated in their Basic Agreement to Implement Procedures, while bearing in mind the objective of processing the complaint or resolving the dispute at the designated ADR body.

II-4-3-3-1-2 Main Supervisory Focus

Supervisors shall, based on the above significance, examine whether the insurance company has, in responding to the financial ADR system, developed an appropriate and effective control environment in light of the size and specific characteristics of its business operations. Supervisors shall take the following points, for example, into consideration, while being mindful of not applying them in a mechanical and uniform fashion.

Supervisors shall also refer to the points of attention contained in “II-4-4-2 Establishment of Internal Control Environment for Dealing with Complaints, etc.”.

(1) Outline

(i) Basic Agreement to Implement Procedures

A. Whether the insurance company has promptly entered into Basic Agreements to Implement Procedures with designated ADR bodies which exist for each type of business (life insurance business, non-life insurance business, foreign life insurance business, foreign non-life insurance business, etc.).

In addition, for example, even in cases where there is a change, such as a designated ADR body having its designation rescinded or a new ADR body being established, whether the insurance company selects the best measure from the perspective of customer convenience, and in addition to promptly implementing any necessary measures (such as implementing new complaint processing measures or dispute resolution measures, or concluding a Basic Agreement to Implement Procedures), whether it takes appropriate action, such as making it known to all customers.

B. Whether the insurance company has developed a control environment wherein it can execute the contents of the Basic Agreements to Implement Procedures concluded with designated ADR bodies.

(ii) Publication, Publicity and Response to Customers

A. Whether the insurance company has properly publicized the name or trade name and the contact address of designated ADR bodies that are party to any Basic Agreements to Implement Procedures that it has concluded.

With regard to methods of publication, whether the insurance company has taken measures that are suited to the size and specific characteristics of its business operations, for example, presenting information on its website, putting up posters at its branches, producing and distributing pamphlets, and conducting publicity activities through the mass media. Even supposing that the insurance company has posted information on its website, if it is feasible that there are customers who cannot view this information, whether the insurance company gives consideration to these kinds of customers.

In publicizing such information, whether the insurance company is presenting it in a manner that makes it easy for customers to understand. (For example, in the case of publicizing information on a website, the page should be so designed that customers can easily

access the page that provides information on the use of the financial ADR system).

B. Whether the insurance company has developed a control environment wherein it publicizes any necessary information to customers, such as the flow of standard procedures by the designated ADR body and the effects of using a designated ADR body (such as the effect of interruption of prescription), in light of the Basic Agreement to Implement Procedures.

C. In cases in which an insurance company sells financial instruments arranged by financial instruments business operators, where multiple operators with varied forms of operation are involved, including the financial instruments business operators that arranged the instruments and the insurance company that sold the instruments, whether the operators involved are responding to customers in a careful manner; for example, whether the operators understand what the customers see as the problem and refer them to designated ADR bodies that are appropriate for the causes of the problems.

(2) Points of Attention Regarding Complaint Processing Procedures and Dispute Resolution Procedures

In light of the fact that, under Basic Agreements to Implement Procedures, insurance companies assume various obligations, including those to comply with procedures, submit materials and respect special conciliation proposals, supervisors shall take the following points, for example, into consideration when conducting examinations.

(i) Common Items

A. Whether the insurance company has developed a control environment wherein, in cases where it receives a request from a designated ADR body for compliance with procedures, submission of materials or the like, it responds to the request promptly, unless there is justifiable reason not to.

B. Whether the insurance company has developed a control environment wherein, in cases where it refuses a request from a designated ADR body to comply with procedures, submit materials or the like, rather than the section that caused the complaint or dispute simply deciding itself to refuse the request, the insurance company conducts a proper examination as an organization. Also,

whether the insurance company has developed a control environment wherein, wherever possible, it explains the reasons (justifiable reasons) for that decision.

(ii) Response to Dispute Resolution Procedures

A. Whether the insurance company has developed a control environment wherein, in cases where it is presented with a recommendation to accept a reconciliation plan or with a special conciliation proposal from a dispute resolution committee member, it makes prompt decisions on whether to accept or not.

B. Whether the insurance company has developed a control environment wherein, in cases where it has accepted a reconciliation plan or a special conciliation proposal, the section in charge takes prompt action, and the examination/audit section, etc. conducts a follow-up examination on matters including the progress of its fulfillment.

C. Whether the insurance company has developed a control environment wherein, in cases where it rejects acceptance of a reconciliation plan or a special conciliation proposal, it promptly explains its reasoning and takes necessary action, such as instituting legal proceedings, in light of operational rules (Article 308-7(1) of the Act).

II-4-3-3-2 In Cases Where There Is No Designated ADR Body

II-4-3-3-2-1 Significance

In the financial ADR system, even in cases where there is no designated ADR body, there is a legal requirement for insurance companies to instead implement complaint processing measures and dispute resolution measures. Insurance companies are required to ensure complete customer protection and to strive to improve customer confidence in insurance products and services by implementing these measures properly and by resolving any complaints or disputes regarding insurance products and services in a simple and expeditious manner.

II-4-3-3-2-2 Main Supervisory Focus

Supervisors shall examine whether the insurance company has developed a control environment in light of the size and specific characteristics of its business operations, wherein, in cases where it implements complaint processing measures and dispute resolution measures, it deals properly with any complaints or disputes made by customers while bearing in mind the objectives of the financial ADR system. Supervisors shall take the following points, for example, into consideration, while being mindful of not applying them in a mechanical and uniform fashion.

Supervisors shall also refer to the points of attention contained in “II-4-3-2 Establishment of Internal Control Environment for Dealing with Complaints, etc.”.

(1) Outline

(i). Selection of Complaint Processing Measures and Dispute Resolution Measures

A. Whether the insurance company, in view of the nature of its business (life insurance business, non-life insurance business, foreign life insurance business, foreign non-life insurance business, etc.), the occurrence of complaints, etc., its trading area and other factors, appropriately selects one or more of the following matters prescribed by law as its complaint processing measures or dispute resolution measures. In addition, it is desirable that the insurance company, in doing so, should have measures in place that enhance convenience for the customer in making complaints or disputes, such as providing an environment that makes it easier for the customer to geographically access relevant services.

(A) Complaint Processing Measures

a. The insurance company shall have a consumer counselor or the like with a certain level of experience provide guidance and advice to those employees engaged in processing complaints.

b. The insurance company shall develop its own operational system and internal rules, and shall publicize them.

c. The insurance company shall utilize financial instruments firms associations and certified investor protection organizations.

d. The insurance company shall utilize the National Consumer Affairs Center of Japan and consumer centers.

e. The insurance company shall utilize the designated ADR bodies for other business types.

f. The insurance company shall utilize corporations that can conduct complaint processing services in a fair and adequate manner.

(B) Dispute Resolution Measures

a. The insurance company shall utilize certified dispute resolution procedures prescribed in the Act on Promotion of Use of Alternative Dispute Resolution.

b. The insurance company shall utilize financial instruments firms associations and certified investor protection organizations.

c. The insurance company shall utilize bar associations.

d. The insurance company shall utilize the National Consumer Affairs Center of Japan and consumer centers.

e. The insurance company shall utilize the designated ADR bodies for other business types.

f. The insurance company shall utilize corporations that can conduct dispute resolution services in a fair and adequate manner.

B. Whether the insurance company has developed a control environment wherein it continuously monitors the processing status of complaints and disputes, and where necessary, reviews and revises its complaint processing measures and dispute resolution measures.

C. In cases where the insurance company utilizes a corporation that can conduct complaint processing services or dispute resolution services in a fair and adequate manner, whether the insurance company assesses whether the said corporation is a corporation adequately staffed and with an adequate accounting basis to conduct complaint processing services and dispute resolution services in a fair and adequate manner (Article 55-2(1)(v) of the Regulation and (2)(v) of the same Article), in a reasonable manner based on considerable materials and other factors.

D. In cases where the insurance company utilizes an external organization, although it is not a requirement for the insurance

company to necessarily enter an outsourcing contract with the said external organization, it is desirable that they make arrangements in advance with regard to such matters as the flow of standard procedures and items regarding the burden of expenses.

E. With regard to cases where expenses arise when the procedures of an external organization are used, whether the insurance company has taken measures to prevent the expenses from becoming an impediment to the filing of a petition for complaint processing or dispute resolution, such as taking measures likely to prevent the customer's share of expenses from becoming excessive.

(ii) Implementation

Whether the insurance company implements measures inappropriately, such as making the scope of the complaint processing measures and dispute resolution measures unduly restricted. It should also be kept in mind whether the insurance company has maintained appropriate coordination between complaint processing measures and dispute resolution measures (refer to "II-4-3-1(2) Scope").

(2) Points of Attention Regarding Complaint Processing Measures (cases where insurance companies develop their own control environments)

(i) Cases Where a Control Environment Is Developed Wherein Guidance and Advice to Employees Is Given by Consumer Counselors, etc.

A. Whether the insurance company has developed a control environment wherein it improves the skills of those employees engaged in processing complaints, such as periodically conducting training run by consumer counselors and the like.

B. Whether the insurance company has developed a control environment wherein it utilizes the specialized knowledge and experience of consumer counselors and the like, where necessary, for processing individual cases, such as building network systems with consumer counselors and the like.

(ii) Cases Where an Insurance Company Develops Its Own Operational System and Internal Rules

A. Whether the insurance company has properly developed an operational system and internal rules according to the occurrence of complaints, and whether it has developed a control environment wherein it processes complaints in a fair and adequate manner

based on the said system and rules.

B. Whether the insurance company has made customers aware of the contact point for making complaints in an appropriate manner, and whether it has properly published the operational system and internal rules pertaining to complaint processing.

In terms of the content of the publicity and publications, although publishing the full text of the internal rules is not a necessary requirement, in order for customers to confirm for themselves whether complaints are being processed in accordance with appropriate procedures, it is important that the contact address for processing complaints and the flow of standard operations be clearly indicated. Therefore, it should be kept in mind whether the insurance company has published the sections related to this.

For the methods of publicity and publication, refer to II-4-3-3-1-2(1)(ii).

(3) Points of Attention Regarding Complaint Processing Measures (when using external organizations) and Dispute Resolution Measures

(i) Publicity and Publication, etc.

A. In cases where the insurance company is using an external organization, from the perspective of protecting customers, it is desirable that the insurance company publicizes and publishes information on the external organization, including, for example, the fact that customers are eligible to use the external organization for raising complaints or disputes, the name of the external organization, its contact information, instructions on how to use it and so forth, in ways that customers can readily understand.

B. Whether the insurance company has developed a control environment for referring customers to other external organizations if the petition for complaint processing or dispute resolution is outside the scope handled by the external organization to which the customer was first referred because of geographical reasons, the nature of the complaint or dispute or for some other reason, or if handling of the complaint or dispute by another external organization is appropriate (not limited to external organizations used by the insurance company as complaint processing measures or dispute resolution measures).

C. For cases in which an insurance company sells financial instruments arranged by financial instruments business operators, refer to II-4-3-3-1-2(1)(ii)C.

(ii) Response to Procedures

A. Whether the insurance company has developed a control environment wherein, in cases where it receives a request from an external organization for compliance with complaint processing or dispute resolution procedures, a request for an investigation of the facts or a request for the submission of relevant materials or the like, it responds to the request promptly in light of the rules, etc. of the external organization.

B. Whether the insurance company has developed a control environment wherein, in cases where it refuses a request for compliance with complaint processing or dispute resolution procedures, a request for an investigation of the facts or a request for the provision of relevant materials or the like, rather than the section that caused the complaint or dispute simply deciding itself to refuse the request, the business operator conducts a proper examination as an organization, in view of such matters as the nature of the complaint or dispute, the nature of the facts or materials and the rules of external organizations.

Also, whether the insurance company has developed a control environment wherein it explains the reasons for the refusal wherever possible in light of the rules, etc. of the external organization.

C. Whether the insurance company has developed a control environment wherein, in cases where it is presented with a proposed solution such as a reconciliation plan or mediation plan from an external organization that has commenced dispute resolution procedures (hereinafter referred to as a “proposed solution”), it makes prompt decisions on whether to accept or not, in light of the rules, etc. of the external organization.

D. Whether the insurance company has developed a control environment wherein, in cases where it has accepted a proposed solution, the section in charge takes prompt action, and the examination/audit section, etc. conducts a follow-up examination on matters including the progress of its fulfillment.

E. Whether the insurance company has developed a control

environment wherein, in cases where it rejects acceptance of a proposed solution, it promptly explains its reasoning and takes necessary action, in light of the rules, etc. of the external organization.

II-4-3-4 Statements in Various Documents

Insurance companies are required to state the details of their response to the financial ADR system in various documents (alerting information, etc.). In cases where there is no designated ADR body, although insurance companies are required to state the details of their complaint processing measures and dispute resolution measures in these documents, it should also be kept in mind that appropriate matters should be stated in the context of actual conditions. If, for example, the insurance company utilizes an external organization, then the name, contact address and so forth of the said external organization (in cases where part of the services pertaining to the complaint processing or dispute resolution are entrusted to another organization, then including that other organization) should also be stated.

II-4-3-5 Supervisory Method and Actions

If a serious problem is deemed to exist in response to complaints, etc., supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 of the Act.

In this point, in cases where there is a designated ADR body, even if the insurance company is deemed to have a problem such as violation/negligence of the obligation to comply with procedures, etc., it is a non-fulfillment pertaining to the Basic Agreement to Implement Procedures between the insurance company and the designated ADR body and not immediately subject to an administrative measure. Therefore, the authorities shall make a decision by continually monitoring the overall response of the insurance company.

It should also be kept in mind that an individual dispute that arises between a customer and an insurance company is, in general, a problem pertaining to a private-law contract, and as such, is a matter to be resolved between the

parties, including basically the place of ADR and the judicature.

II-4-4 Customer Protection, etc.

II-4-4-1 Accountability to Customers and Principle of Suitability

In order to protect customers, insurance companies are required to ensure appropriate execution and other sound and appropriate management of their business operations.

For this reason, they are required to appropriately implement the following measures, etc. and verify their appropriateness, etc. afterward through audits by the internal audit section or audits of insurance agencies, etc. to improve them as required.

II-4-4-1-1 Points of Attention in Protecting Customers

(1) Whether fair administrative processes are implemented for customers.

(2) When conducting transactions with policyholders, whether appropriate and adequate explanations are provided on the content of transactions, etc.

(3) When selling products for which policyholders bear risks such as variable insurance and insurance in foreign currency, etc., whether appropriate and adequate explanations are provided to policyholders and measures to ensure obtaining confirmation from policyholders that they are provided with explanations.

(4) Considering that the provision of appropriate and adequate explanations is important in insurance solicitation to the elderly, whether the definition of the elderly and the insurance solicitation methods, including precise efforts and efforts to contribute to the prevention and early detection of problems, have been specifically specified in the internal rules, etc. and made, taking into account the characteristics of products and the elderly, etc.

With regard to such efforts, whether appropriate efforts such as taking the following measures, etc. are made.

(i) Method to request the presence of relatives, etc. at the time of insurance solicitation.

(ii) Method of soliciting insurance by multiple insurance agents at the time

of insurance solicitation.

(iii) Method of providing multiple opportunities of insurance solicitation to ensure allowing sufficient time to consider an application for an insurance contract.

(iv) Method of confirming that the content of products is in accord with the elderly's intentions, etc. by making a phone call to the elderly by persons other than those who have conducted insurance solicitation after receiving the application for an insurance contract.

In addition, whether appropriate efforts such as recording (voice recording, recording on reports, etc.) and storing the content of insurance solicitation and following up on the content of the contract after concluding the contract, taking into account the characteristics of products and the elderly, etc.

Whether the appropriateness, etc. of these efforts for insurance solicitation to the elderly are examined, etc.

(5) Considering that since new insurance solicitation, etc. by telephone by the insurance company or insurance agents (including conversion, acts of encouraging subscription to an insurance contract for group insurance which has been concluded or solicited by themselves, and any other acts for encouraging subscription to the relevant insurance contract) is non-face-to-face and conducted at a timing unexpected for customers, etc., complaints, etc. are likely to occur in particular, whether the insurance company or insurance agents that repeatedly and continuously carrying out the said acts specifically define and make efforts to contribute to the prevention and early detection of problems and provide appropriate education, management, and guidance to insurance agents.

In addition, whether these efforts are examined for their appropriateness, etc. and reviewed, as necessary.

With regard to such efforts, whether appropriate efforts that include the following measures are made.

(i) Talk scripts that define the details to be explained, etc. shall be developed and their use shall be ensured.

(ii) If the customer has indicated its intention to refuse subsequent phone calls, it shall be ensured not subsequent phone calls are made.

(iii) The content of phone calls shall be recorded and retained.

(iv) It shall be ensured that the causes of complaints, etc. are analyzed and

measures to prevent recurrence are formulated and publicized.

(v) The content of phone calls shall be checked by persons other than those who have conducted insurance solicitation, etc. (including those that did not result in conclusion of a contract) and actions shall be taken based on the results.

(6) Whether customer information is disclosed to third parties except when it is legally allowed or when consent is obtained from the customers concerned.

(7) Whether information on individual companies such as financial information if the borrowers are also handled strictly and carefully.

II-4-4-1-2 Measures Concerning Business Operations Prescribed in Article 100-2 of the Act, etc.

(1) Whether measures prescribed in Articles 53 through 53-10 of the Regulation, etc. are properly implemented.

(2) With regard to measures prescribed in Articles 53, 53-4, 53-6, and 53-8 through 53-10 of the Regulation, whether a system to provide education/management/guidance to the insurance company’s employees and insurance agents have been developed.

(3) With regards to the said measures, whether a system to investigate/understand the status of implementation by the company’s employees and specified insurance agents have been developed.

(4) When preparing operational reports, the following points shall be considered.

(i) Investment reports on insurance contracts listed in Article 74(i) of the Regulation

A. The following items (including those that fall under them) shall fall under the “external audit with respect to the insurance company's finance or business (limited to those pertaining to Performance-linked Insurance Contract)” prescribed in Article 54-4(1)(v) of the Regulation.

(A) Financial statement audit and internal control audit
(B) Accounting audit by a financial auditor under the Companies Act
(C) Assurance engagements on internal controls
(D) Examination of whether the performance disclosure information of asset management companies conforms to the Global Investment Performance Standards (GIPS)

B. With regard to the “capital relationship between the insurance company and the person concerned with the fund” prescribed in Article 54-4(2)(iii) of the same Regulation, if the person concerned with the fund falls under a person in which an insurance company holds the majority of all shareholders' voting rights, any other person that is listed in items of Article 13-8(1) of the Order as being closely related to the relevant insurance company, or a subsidiary company, etc., that fact shall be stated.

C. With regard to the “personal relationship” between the relevant insurance company and the person concerned with the fund prescribed in Article 54-4(2)(iii), the conditions of concurrent holding of positions by officers or employees at a specific time which is deemed to be reasonable shall be stated.

(ii) Investment status reports on insurance contracts listed in Article 74(iii) of the Regulation

Whether the following matters are described in the Investment status reports.

A. Changes in the performance of investment in the current term

(Note) Measures to clearly indicate the performance of investment after deducting costs, etc. for each relevant customer, such as delivering documents in which the performance of management that reflects the matters concerning various costs in the current term, shall be taken.

B. Analysis of the investment policy and whether investment activities are carried out in accordance with the investment policy

C. Future investment policy

(5) When preparing documents listed in Article 53(1)(ii) of the Regulation, whether the following matters are considered.

(i) With regard to “changes in the indicators showing the Actual Incidence Rate against the Assumed Incidence Rate provided in the Criteria for Exercise of Right to Modification of Base Rates” listed in (b) of the same

item, it shall be able to be described based on appropriate categorization that allows general understanding of the level of the indicators concerned.

(ii) With regard to “other matters which would serve as reference information for determining whether or not the case meets the criteria to exercise the rights to change basic insurance rates” listed in (c) of the same item, the reason for not exercising the rights to change basic insurance rates (reasons for the business judgment) even if the criteria to exercise the rights to change basic insurance rates are met and any other matters for reference shall be described.

(6) Whether a control environment that takes into consideration the following points has been developed for underwriting of insurance contracts in which a surviving employee's pension fund (meaning a surviving employee's pension fund prescribed in Article 3(xi) (Definitions) of the Supplementary Provisions of the Act on Partial Revision of the Employees' Pension Insurance Act, etc. for Securing the Soundness and Reliability of Public Pension Insurance Systems (Act No. 63 of 2013)) is the policyholder.

(i) If it is still likely to violate the provisions of Article 39-15(1) of the Cabinet Order for Employees' Pension Fund (Cabinet Order No. 324 of 1966) prior to repeal under Article 1 (Repeal of Cabinet Order for Employees' Pension Fund) of the Cabinet Order on Revision, etc. of Related Cabinet Orders Accompanying the Enforcement of the Act on Partial Revision of the Employees' Pension Insurance Act, etc. for Securing the Soundness and Reliability of Public Pension Insurance Systems (Cabinet Order No. 73 of 2014), which is to remain in force pursuant to the provisions of Article 3(2) (Replacement of Terms Concerning Surviving Employees' Pension Fund) of the Cabinet Order on Transitional Measures Accompanying the Enforcement of the Act on Partial Revision of the Employees' Pension Insurance Act, etc. for Securing the Soundness and Reliability of Public Pension Insurance Systems (Cabinet Order No. 74 of 2014) even with the insurance company having made a notification prescribed in Article 53(1)(vi)(a) of the Regulation, whether consultation with the policyholder is held, for example, to request for considering to change the management guidelines, etc. Furthermore, if it is still likely to violate the provisions of the same paragraph even though the said consultation, whether measures necessary to ensure that the policyholder concerned comply with the provisions of the same

paragraph have been taken, such as considering eventually urging the policyholder concerned to cancel the insurance contract, etc.

(ii) When the status of the policyholder's knowledge, experience and assets and the purpose of concluding the insurance contract, etc. are understood and the investment policies are presented, if it is deemed necessary in light of these circumstances, whether an appropriate control environment has been developed for providing the policyholder concerned with explanations on possible risks that can occur when investment is carried out based on the said investment policies.

(iii) When conducting due diligence and continuous monitoring on those engaging in important operations pertaining to fund assets prescribed in Article 54-4(2)(ii) of the Regulation and other investment, whether the internal rules, etc. in which specific standards and methods are specified have been established and an appropriate control environment in which the compliance section or the risk management section examines the status of implementation of the said due diligence and monitoring, etc. has been developed as necessary.

(7) With regard to measures prescribed in Article 53 of the Regulation, when presenting the matters to be described or explained in the said documents, etc. and the texts regarding the confirmation of the reception of the said documents in written application for an insurance contract, etc., whether the simplicity and clarity are ensured with consideration given to the font size, etc.

(8) From the point of view of ensuring appropriate insurance solicitation, the descriptions of the following content need to be included in documents listed in Article 53-4 of the Regulation.

(i) Fact that the insurance company concerned and a financial institution that falls under a person in specified relationship with the insurance company concerned are different corporations.

(ii) Fact that the insurance underwritten by the insurance company concerned is not a deposit underwritten by the financial institution concerned and not subject to the deposit insurance system.

(iii) Fact that officers and employees of the financial institution concerned cannot assist the conclusion of contracts between the insurance company and the policyholder by expressing their evaluations or

opinions, etc. on insurance products or services provided by the insurance company concerned or emphasizing those insurance products or the advantages, etc. as it may violate the provisions of Article 275 of the Act.

(iv) Fact that an act to cause a policyholder to make an application for an insurance contract, knowing that any of the persons in specified relationship (meaning a person in specified relationship under Article 100-3 of the Act and a person in special relationship under Article 194 of the Act) with the insurance company has extended or has undertaken to extend credit to the policyholder or insured person thereunder on the condition that such policyholder or insured person shall conclude the insurance contract with the insurance company concerned is prohibited by Article 300 of the Act.

(v) Fact that the insurance company concerned is required to take measures to ensure that the undisclosed information on customers of the financial institution concerned is not used in insurance solicitation for insurance that is underwritten by the insurance company concerned (excluding the cases where a written consent of the customers concerned are obtained in advance for the use of the said disclose information in insurance solicitation).

(9) With regard to contracts of the first-sector insurance (excluding pension insurance and pure endowment insurance) and insurance listed in Article 3(4)(ii) of the Act (excluding insurance contracts providing that damage will be compensated) in relation to the measures prescribed in Article 53-7(1) of the Regulation

(i) In cases where the insurance contract underwriting standards are specified in the internal rules, etc. and the amount of insurance proceeds, including other life insurance contracts or non-life insurance contracts (hereinafter referred to as “other insurance contracts” in II-4-4-1-2(9)) that the company learned, is excessively large compared to the said underwriting standards, where an adequate system for eliminating/suppressing moral risks by making more careful judgments on underwriting has been developed.

(ii) Whether an adequate system has been developed in which the internal rules, etc. that includes the method of judging/confirming the appropriateness (not being excessively large) of the amount of insurance

proceeds by comparing the amount calculated based on the figures such as income, assets, and forgone profits, etc. of the policyholder or insured person with the amount of insurance proceeds (including the amount of insurance proceeds of other insurance contracts learned by the company), etc. have been established and operations are managed based on them.

(Note) When establishing the internal rules, etc., whether the following points are considered:

A. Whether it is provided that when inspecting underwriting of insurance contracts in which a certain amount specified by the company (hereinafter referred to as the “maximum amount of insurance proceeds”) is exceeded, appropriate inspection shall be conducted by checking income, assets, and forgone profits, etc. of the policyholder or insured person by objective and rational methods, etc.

In addition, whether it is provided that if they cannot be checked by objective and rationale methods, more careful action is required from the point of view of eliminating/suppressing moral risks.

B. With regard to underwriting of death insurance (meaning death insurance prescribed in Article 53-7(2) of the Regulation)

(A) Whether the maximum amount of insurance proceeds for death insurance has been specifically defined in order to protect insured persons by preventing unlawful use of insurance and it has been provided that insurance with the amount of insurance proceeds exceeding this amount shall not be underwritten. In addition, whether it is provided that this maximum amount shall be added up to the amount of insurance proceeds for other death insurance for the same insured person based on the results of inquiries to the “policy data registration system/policy data inquiry system” of The Life Insurance Association of Japan or the “policy data registration system” of The General Insurance Association of Japan, etc. (hereinafter collectively referred to as the “policy data registration system, etc.”).

(B) Whether it is provided otherwise that in order to protect insured persons by preventing unlawful use of insurance, appropriate underwriting inspection shall be conducted through confirming the customer needs, etc.

(Note) “Insurance that is deemed unlikely to be used unlawfully” prescribed in Article 53-7(2) of the Regulation refers to those, including for example, (i) single premium whole life policy, single premium endowment insurance, other personal pension insurance in which the amount calculated by adding investment earnings, etc. to the amount equivalent to insurance premiums already paid is paid when the insured person dies, and educational insurance and (ii) group insurance for paying condolence money when unspecified visitors to amusement parks, etc. die by accidents, etc., for which it can be rationally explained that their unlawful use is unlikely to occur.

(iii) In cases where the maximum amount of insurance proceeds has been specified in the internal rules, etc., whether a system to examine whether insurance is underwritten within the said maximum amount has been established. In addition, in order to protect insured persons by preventing unlawful use of insurance, whether a system to examine to ensure appropriate underwriting examination has been established.

(iv) Whether a system to provide insurance agents with appropriate education, management, and guidance on the methods to determine/confirm the appropriateness of the amount of insurance proceeds (including the amount of insurance proceeds of other insurance contracts learned by the insurance company), etc. has been developed.

(v) Whether a system to adopt effective methods to eliminate/suppress moral risks when determining the amount of insurance proceeds, such as using the policy data registration system, etc., has been developed and whether the results that take into account the amount of insurance proceeds of other insurance contracts learned by using the said system or other methods are appropriately recorded.

(10) With regard to the measures prescribed in Article 53-7(1) of the Regulation, whether an adequate system has been developed for life insurance and non-life insurance contracts in which the internal rules, etc., including the method to ensure masures to request the policyholder or the insured person himself/herself to record his/her consent to the contents of the contract, have been appropriately defined and operations are managed based on them.

In cases where a person other than the policyholder or insured person

himself/herself is to record the consent, whether the limited cases where such other person can record the consent as well as how these cases are to be handled have been defined in the internal rules, etc.

(11) With regard to the measures prescribed in Article 53-7(1) of the Regulation, whether a system has been developed in which the customer is requested to confirm the content of the contract and, for example, a copy of the written application and documents describing the content of the application, etc. are delivered to the customer, etc. when accepting the application for an insurance contract.

(Note) When accepting the application for an insurance contract by non-face-to-face methods, the following points shall be considered.

(i) Requesting the customer to confirm the content of the contract, for example, orally when using telephone, by stating it in a document when using postal mail, and by presenting it by electronic or magnetic means when using the Internet, etc.

(ii) Sending a copy of the written application and documents describing the content of the application, etc., by postal mail, etc. without delay after the application if it is difficult to deliver them.

(12) With regard to the measures prescribed in Article 53-7(1) of the Regulation, whether a system has been developed for tontine-type products in which the insurance company or insurance agents provide the customer with adequate explanations on the characteristics of those products.

(Note) Tontine refers to the percentage of the cases where more benefits are provided to survivors as the shares of those who died are transferred to survivors.

(13) With regard to the information on customers that are individual persons, whether the following measures have been taken for the management of its safety and, if supervision of employees and handling of the said information are entrusted, supervision of the contractors under Article 53-8 of the Regulation as necessary and appropriate measures to prevent the leakage, loss, or damage of the said information.

(i) Measures under the provisions of Articles 8, 9, and 10 of the Financial Sector Guidelines

(ii) Measures under the provisions of I, II, III, and Attachment-2 of the Practical Guideline

(Note) In cases where insurance agents use the personal information in insurance solicitation for other companies or operating activities, etc. of side-line sections, due consideration needs to be given to ensure that it is not used other than for intended purposes by appropriately handling it under relevant laws and regulations, etc.

(14) Whether measures to ensure that any information on customers that are individual persons concerning their race, creed, family origin, registered domicile, health and medical care, or criminal records, and any other special non-disclosure information(Note) is not used under the provisions of Article 53-10 of the Regulation, except in cases listed in items of Article 5(1) of the Financial Sector Guidelines, have been taken.

(Note) Other special non-disclosure information refers to the following information.

(i) Information regarding labor union membership

(ii) Information regarding ethnicity

(iii) Information regarding sexual orientation

(iv) Information regarding provisions under Article 2(iv) of the Cabinet Order to Enforce the Act on the Protection of Personal Information

(v) Information regarding provisions under Article 2(v) of the Cabinet Order to Enforce the Act on the Protection of Personal Information

(vi) Information regarding the fact that the related customer has been a victim of crime

(vii) Information regarding social status

(15) Explanation on rights and obligations of members of mutual companies

Whether the insurance company that is a mutual company has taken measures to have insurance agents provide policyholders with correct explanation on the mechanism of the Member Representatives Meeting system and rights and obligations of members such as the rights of a small number of members when soliciting insurance.

II-4-4-1-3 Principle of Suitability in Specified Insurance Contract

In accordance with the provisions of Article 40(i) of the Financial Instruments and Exchange Act as Applied Mutatis Mutandis and Article 234-27(1)(iii) of the Regulation, the insurance company and insurance agents must ensure that sales and solicitation of specified insurance contracts are conducted in an appropriate manner suited to their customer's attributes, etc. after correctly understanding the customer's knowledge, experience, asset status, and purpose for concluding specified insurance contracts.

To this end, the insurance company and insurance agents must establish a system to appropriately understand the content of specified insurance contracts as a prerequisite for selling/soliciting specified insurance contracts. In addition, it is important to establish a system for customer management that enables correct understanding of the customer's attributes, etc. Furthermore, it is also necessary to consider/evaluate whether there are rational grounds for confirming that the content of specified insurance contracts suits the customer's attribute, etc. Attention must then be paid not to allow sales/solicitations that lack such rational grounds and inappropriate sales/solicitation to customers.

Based on these, for example, examinations shall be conducted with consideration given to the following points. It must also be noted that, as for the sales/solicitation methods, various methods such as solicitation to customers visiting business offices, solicitation to customers by phone, and solicitation using the Internet, etc. may be used, and it is necessary to consider appropriate sales/solicitation methods according to the individual characteristics.

(Note 1) Sales/solicitations of group insurance or group contract and asset formation insurance to an organization that is the policyholder shall not be subject to this item. It shall be noted, however, sales/solicitations to the said organization must be conducted in accordance with the provisions of Article 40(i) of the Financial Instruments and Exchange Act as Applied Mutatis Mutandis.

(Note 2) Since understanding/confirming the customer's intention is also important for observing the principle of suitability, reference shall be made to II-4-2-2(3) "Matters Related to Article 294-2 of the Act (obligation to ascertain/confirm intention)" as required.

(1) Appropriate Understanding of Content of Specified Insurance Contracts

With regard to individual-specified insurance contracts sold/solicited by

the insurance company and insurance agents, whether the information necessary for customers to conclude specified insurance contracts such as their risks, returns, and costs, etc. are adequately analyzed and identified. Whether a system that enables insurance agents involved in sales/solicitation correctly understand the said information and appropriately explain it to customers through conducting training and preparing explanatory documents, etc. according to the characteristics of the said specified insurance contracts has been developed.

(2) Accurate Understanding, Effective Utilization, and Strict Management of Customers' Attributes, etc.

(i) Whether the insurance company and insurance agents collect, for example, the following information when selling/soliciting specified insurance contracts. In addition, in case where it is found that the said information (excluding A.) has been changed when selling/soliciting new specified insurance contracts to the existing policyholders, whether the insurance company and insurance agents appropriately manage customer information by changing the registered information, etc. after confirming with the customers.

A. Date of birth (limited to the case where the customer is a natural person)

B. Occupation (limited to the case where the customer is a natural person)

C. Property status such as assets and income, etc.

D. Financial instruments transaction contracts (meaning "financial instruments transaction contract" prescribed in Article 34 of the Financial Instruments and Exchange Act) concluded in the past, whether or not the customer has experience in purchasing other investment-type financial instruments and the type thereof

E. In the case where the maturity refunds or cancellation returns of already concluded financial instruments are allocated to insurance premiums of specified insurance contracts, the type of the said financial instruments

F. Information on the motive/purpose of concluding specified insurance contracts and other customer needs

(ii) Whether the insurance company and insurance agents, when selling/soliciting specified insurance contracts, conduct appropriate solicitation in accordance with the content of the information described in

(i) collected from customers, not leading to insufficient protection of the customers concerned.

(iii) With regard to delivery of documents to be delivered before concluding contracts(contract outlines and alerting information) referred to in Article 37-3 of the Financial Instruments and Exchange Act as Applied Mutatis Mutandis, whether the insurance company and insurance agents provide customers with explanation in advance by methods and to the extent necessary for the customers to understand the content of the documents in light of the content of the information described in (i).

(iv) Whether the insurance company has developed a system such as the following for the information described in (i) collected from customers to enable the insurance company or insurance agents to verify the appropriateness of the sales/solicitations afterward.

A. System to appropriately store the information described in (i) collected from customers by the insurance company or insurance agents

B. System to enable utilization of the information described in A. for insurance agents to verify the appropriateness of sales/solicitations afterward

(v) Whether the insurance company, when determining to underwrite of specified insurance contracts, effectively utilize the information described in (i) collected from customer and, when needed, the said information already stored as described in (iv).

(3) Consideration/evaluation of rational grounds when selling/soliciting specified insurance contracts

(i) Whether the insurance company and insurance agents, before selling/soliciting specified insurance contracts to customers, examine/evaluate whether there are rational grounds for confirming that the content of individual target specified insurance contracts and the frequency/amount of a series transactions with the customers concerned suit the identified customers' attributes, etc.

(ii) From the point of view of ensuring such examination/evaluation, whether the methods have been established by the insurance and insurance agents to determine which elements for consideration and procedures are to be used in advance according to the characteristics of specified insurance contracts, etc.

(4) As an inappropriate act of sales/solicitation to customers, whether sales/solicitation of specified insurance contracts such as, for example, the following are not conducted.

(i) Act of selling/soliciting products with risk of loss to principal to customers who place importance on the safety of principal by the insurance company or insurance agents

(ii) Act of requesting to change the purpose of transaction to one that suits the said specified insurance contracts, in the act such as those described in (i), without having the customer correctly understand the meaning or reason of that change by the insurance company or insurance agents

(5) Whether the internal audit section, etc. of the insurance company and insurance agents appropriately monitor and then examine the status of compliance with this item, etc. In addition, whether efforts have been made to establish a system to ensure the effectiveness by reviewing the system, as required, taking into account the results of the examination.

II-4-4-2 Control Environment for Managing the Payment of Insurance Proceeds, etc.

(1) Significance

In recent years, with structural changes in the society and diversification of economic activities, etc. in Japan, more diverse insurance products are demanded to meet the policyholders' needs. Under such circumstances, there have been cases where problems such as inappropriate non-payment of insurance proceeds/benefits in life insurance companies and failures to pay incidental insurance proceeds in non-life insurance companies occurred and the trusts of policyholders and users in overall insurance business were significant damaged.

Making the payment of insurance proceeds, etc. in a timely and appropriate manner is the essential, basic, and most important function for insurance companies in conducting insurance business, and the establishment of a control environment for managing appropriate payment based on the voluntary guidelines, such as the following, under the exercise of appropriate governance functions based on principle of self-responsibility is demanded.

In reviewing the main supervisory focus for the control environment for managing the payment of insurance proceeds, etc., taking into account analysis of the causes of serious problems, such as inappropriate non-payment of insurance proceeds/benefits and failure to pay incidental insurance proceeds, for the establishment of a control environment for managing timely and appropriate payment, the matters in which particular importance is placed for the overall payment of insurance proceeds are as follows.

(i) “Guidelines for Handling of Appropriate Payment of Insurance Proceeds, etc.”
(January 27, 2006: The Life Insurance Association of Japan)
(ii) “Guidelines for Handling of Reception of Correct Notification”
(June 30, 2005: The Life Insurance Association of Japan)
(iii) “Points of Attention in Applying Voidance Due to Fraud to Violation of Notification Obligation”
(June 30, 2005: The Life Insurance Association of Japan)

(2) Main Supervisory Focus

(i) Recognition of Directors, etc. and Roles of Board of Directors, etc. Pertaining to Payment of Insurance Proceeds, etc.

A. Whether the board of directors has clearly defined the policy for the establishment of a control environment for managing appropriate payment of insurance proceeds, etc.

B. Whether the directors fully recognize that timely and appropriate payment of insurance proceeds, etc. seriously affects the ensuring of sound and appropriate business operations.

C. Whether the board of directors has developed a system to enable management of insurance proceeds, etc. in an integrated manner by establishing a section o manage overall operations for the payment of insurance proceeds, etc. (hereinafter referred to as the “payment management section”). In addition, in the above system, whether, for instance, the function of mutual checking between each section related to the management of payment of insurance proceeds, etc. is fully performed.

Whether the organizational structure is reviewed as needed and improvements are made according to changes to the policy for

establishing a control environment for managing payment and development of the payment management methods.

D. Whether the board of directors sufficiently considers the matters that have significant impacts on the protection of policyholders, etc. such as revision/abolition of standards for assessing the payment of insurance proceeds, etc.

In addition, whether other standards for managing payment have also been reported to the board of directors, etc. and developed.

E. Whether the board of directors, etc. appropriately utilizes inspections/internal audits, etc., periodically receives reports on the status (including amounts and contents, etc.) of payment and non-payment of insurance proceeds, etc., including the matters that have significant impacts on the interests of policyholders, etc. such as information on complaints about payment and lawsuits, and utilizes the identified payment-related information in the development of a control environment for managing and executing operations, etc. such as making necessary decisions and giving instructions based on the results of cause analysis.

In addition, whether the board of directors or the directors, etc. who are granted with authorities from the board of directors have identified the actual conditions of handling of payment-related complaints from customers by receiving reports in a timely and appropriate manner, rather than leaving it to the payment management section, and taken measures by making necessary decisions and giving instructions.

F. Whether the board of directors or the directors, etc. who are granted with authorities from the board of directors has, in order to establish a control environment for managing appropriate payment of insurance proceeds, etc., clearly established a company-wide policy on personnel affairs and human resource development for securing human resources with a good knowledge of operations in required sections, etc., establishment of a system, and development of procedures/forms for payment operations such as the rules, manuals, business forms, etc.

In particular, whether it is adequately recognized that human resource development of personnel who will engage in payment assessment requires a long-term perspective.

G. Whether the board of directors, etc. appropriately allocates management resources to enable appropriate business operations for the payment of

insurance proceeds, etc. In addition, whether the board of directors, etc. checks whether the payment of insurance proceeds, etc. is appropriately managed.

(ii) Recognition and Roles of Managers Involved in Management of Payment of Insurance Proceeds, etc.

A. Whether the head of the payment management section and the directors, etc. responsible for payment management (hereinafter referred to as the "payment managers for insurance proceeds, etc.") understand and recognize the importance of establishing a control environment for managing appropriate payment.

In addition, whether the payment managers for insurance proceeds, etc. takes appropriate measures to have the section's persons in charge understand and recognize the importance of establishing a control environment for managing appropriate payment.

B. Whether the payment management section provides relevant sections such as the product development section, solicitation section, and computer system section (hereinafter referred to as "relevant sections") and business sites, etc. with management and guidance necessary for establishing a control environment for managing appropriate payment.

C. Whether the payment managers for insurance proceeds, etc. take appropriate measures to review and improve the rules, manuals, and business forms for payment management and the procedures and forms for payment operations such as payment assessment standards, taking into account, for example, the issues identified through the content of products, results of internal audits, deplorable events, complaints/inquiries, trends in precedents, and changes in medical conditions, etc.

D. Whether the payment managers for insurance proceeds, etc. appropriately assign personnel by considering their expertise to ensure that organizations carrying out the payment management can effectively perform their functions. In addition, as for the assignment of personnel, whether human resources with expertise such as those with practical experience are assigned.

E. Whether the payment managers for insurance proceeds, etc. ensure personnel rotation so as not to have employees engage in the same operation within the same section for a long period of time. In cases where employees engage in the same operation within the same section

for a long period of time due to unavoidable reasons, whether other appropriate measures have been taken to prevent accidents.

F. In cases where a problem relating to the payment of insurance proceeds, etc. is identified, whether the payment management section has taken improvement measures in cooperation with relevant sections based on sufficient analysis of the causes. In addition, whether the status is reported to the board of directors, etc.

(iii) Human Resource Development of Persons in Charge of Payment Assessment and Maintenance/Improvement of Assessment Capacity

A. Whether the payment managers for insurance proceeds, etc. have formulated human resource development measures to secure persons in charge of payment assessment with expertise based on a long-term perspective.

B. Whether the payment managers for insurance proceeds, etc. have established a method/system to maintain/improve payment assessment capacity.

In particular, whether measures to obligate certain training and effect measurement, etc. and other measures have been taken to enable persons in charge of payment assessment to conduct appropriate payment assessment, for example, ensuring continued efforts in acquiring medical knowledge and improving the understanding of the terms and conditions, special provisions, and precedents.

In addition, whether the contents of education and training are reviewed in a timely and appropriate manner according to medical progress and changes in medical care, etc.

(iv) Cooperation With Relevant Sections

A. Whether a control environment has been established in which the payment management section and relevant sections closely cooperate not only at the time of payment, but also in sales/solicitation of insurance products and appropriately handling complaints/dispute settlements.

B. In developing/revising insurance products, whether the product development section and other relevant sections adequately confirm the matters to be considered and then consider them using check sheets for preventing omissions, etc. under appropriate schedule management with the payment management section. In particular, whether the interpretation of the terms and conditions is adequately considered in the product development section, payment management section, and section

in charge of compliance, etc. In addition, whether the results are appropriately reflected to the payment assessment standards, assessment manuals, and pamphlets, etc.

Whether the content of consideration, etc. is directly reported to the board of directors, etc. and the payment managers for insurance proceeds, etc. as needed.

C. Whether the payment management section has developed a control environment in which compliance-related problems identified in the course of payment assessment are reported to the section in charge of compliance.

In addition, whether the payment management section has developed a control environment wherein the information on the status of explanations provided at the time of solicitation is obtained from the section in charge of compliance and other relevant sections, as necessary.

D. For cases that do not meet the grounds for payment prescribed in the terms and conditions, for example, complaints concerning claims for a surgery that is not subject to the payment or a single hospitalization exceeding the maximum number of days for the payment, etc., whether the payment management section and relevant sections mutually cooperate to analyze the causes of the complaints and then consider measures to prevent them.

E. In establishing a system for the payment of insurance proceeds, etc., whether a control environment that takes into account the following points has been developed.

(A) Whether the payment management section and relevant sections, including the computer system section, cooperate in building a system toward the establishment of a control environment for managing appropriate payment of insurance proceeds, etc. based on a company-wide policy established by the board of directors, etc.

(B) Whether the payment management section and relevant sections mutually cooperate, at the time of developing/revising insurance products, to conduct system design, program design, and tests for enabling appropriate payment. In addition, after the development of the system, whether a control environment has been established to check whether the said system functions without any problems.

In addition to the above, for checking at the time of developing systems for insurance product development, etc. and checking/management after the system development, also refer to “II-3-13-2 Control Environment for Information Technology Risks”.

F. Whether the payment management section and relevant sections, including the product development section, report all the information concerning the payment management that seriously affects business management to the board of directors, etc. and the payment managers for insurance proceeds, etc. accurately without omission in an easy-to-understand manner.

(v) Development of Control Environment in the Payment Management Section

A. Whether a control environment has been developed wherein employees of the payment management section understand and recognize that the payment of insurance proceeds, etc. is the core business of the insurance company and make continued efforts toward building and establishing a control environment for managing appropriate payment of insurance proceeds, etc.

In addition, whether they keep in mind that not only payment operations, but also measures that take into account all customer and consumer responses, including, for example, selling/soliciting insurance products, accepting notification of accidents, procedures for claims, and responding to complaints and inquiries afterward, are required.

B. Whether the payment management section reflects the opinions of external experts as necessary when examining the appropriateness of final judgments of payment assessments and assessment results afterward. Also, whether they make use of complaints from customers in building and establishing a control environment for managing appropriate payment by analyzing them from the viewpoint of customers.

C. Whether the roles and authorities of employees of the payment management section have been clearly defined. For instance, whether the settled amount of insurance proceeds, etc. and rational difference between payment and non-payment have been defined in the provisions concerning settlement authority.

D. Whether a control environment has been established wherein if grounds for payment of insurance proceeds, etc. occur, user protection, prompt and appropriate provision of explanation on procedures for claiming

insurance proceeds, etc. from the point of view of user convenience, delivery of documents for claims of insurance proceeds, etc., loss investigation, affirmation of fact, and customer response, etc. will be carried out.

In particular, whether a control environment has been developed wherein loss investigation is carried out in a way not to unreasonably damage the honors, credits, and privacy, etc. of relevant parties and third parties.

E. Whether unreasonable claims, etc. from anti-social forces, etc. are steadily and thoroughly dealt with.

In addition, whether efforts have been made to enhance control environments for contract examination and payment examination by appropriate shared use of the “policy data registration system”, “policy data inquiry system”, “inquiry system for payment assessment”, and “unlawful claim prevention system”, etc.

F. Whether specific handling standards for the management of customer information to be used in handling claims and payment of insurance proceeds, etc. have been established and thoroughly informed to officers/employees, taking into account that sensitive information will be handled.

With regard to the management of information on customers who are individual persons, in particular, whether appropriate handling under the provisions of the rules, Act on the Protection of Personal Information, Protection Act Guidelines, Financial Sector Guidelines, and Practical Guideline is ensured.

G. Whether a control environment to be used when selling/soliciting insurance products, accepting notification of accidents, and responding to claims that take into account the following points has been developed.

(A) Whether the payment management section in cooperation with relevant sections has taken measures to provide explanation on procedures for insurance claiming insurance proceeds, etc. in an adequate and easy-to-understand manner and to prevent omission of claims from occurring each time when responding to customers in selling/soliciting insurance products and accepting notification of accidents, etc. Whether efforts have been made to provide information by, for example, in addition to including it in “policy leaflets” and posting it on web pages, preparing explanatory materials on the payment of

insurance proceeds, etc. and delivering them to consumers and policyholders, etc.

It shall be noted that the content described in the said explanatory materials need to clearly indicate at least the contact points for handling inquiries from customers and that the inclusion of specific case examples of payment and non-payment is desirable.

(B) Whether the types of insurance proceeds, etc. to be paid to policyholders, etc. are presented in documents to be sent, etc. in an easy-to-understand manner. In addition, whether appropriate notification on maturity refunds, expiration returns, and cancellation returns, etc. is made to policyholders, etc.

(C) Whether business forms such as written claims are reviewed in a timely and appropriate manner, taking into account the fact that insurance products are being diversified, so as to prevent omission of claims from occurring and make the content easier to understand. For instance, whether inspections are conducted on the business forms for which complaints, etc. have been made and analysis is conducted from the point of view of customers., etc.

(D) Whether procedures to allow agents, etc. of beneficiaries to make claims if the beneficiaries are unable to make claims for insurance proceeds, etc. have been developed.

H. With regard to the handling of the so-called partial payment, meaning the payment of part of insurance proceeds before the total amount of damage is determined, by the insurance company, whether a control environment has been developed wherein the insurance company appropriately handle the case with consideration given not only to the needs of the insured persons, but also to the needs of the victims, from the point of view of ensuring fairness between the insured persons and the victims, by establishing procedures for partial payment in the manuals and rules, etc. and presenting examples of cases where partial payment is made, etc.

I. Whether a control environment to be used when conducting payment assessment that takes into account the following points has been developed.

(A) Whether a control environment has been established wherein adequate investigation/confirmation of the facts is conducted when judging whether insurance proceeds, etc. can be paid, regardless of

whether the insurance company or the claimant has the burden of proof.

(B) Whether a control environment has been established wherein the payments requiring advanced legal judgments or medical judgments are judged not only by the payment management section's persons in charge, but also based on opinions heard from the legal section and doctors, etc. Furthermore, whether a control environment has been established wherein external experts are asked for their opinions, as necessary.

In addition, it is desirable to establish a mechanism to externally check the appropriateness of payment assessment with members including external legal experts and academic experts, etc.

(C) Whether a control environment has been established wherein appropriate payment assessment is conducted based on manuals/rules, etc. in which payment assessment standards and procedures for payment operations, etc. are prescribed.

(D) Whether a control environment has been established wherein when conducting settlement negotiation services, attention is paid not only to the protection of policyholders, but also to the protection of victims, and when the negotiating partner is an individual person in particular, negotiations are carried out with due consideration by carefully hearing the other party's claims and providing explanations in a careful and easy-to-understand manner, etc.

(E) Whether a control environment has been established wherein when different employees are in charge of the payment operations for the same insured event, mutual cooperation between the employees is promoted.

(F) Whether a control environment has been established wherein the trends in precedents, etc. that can affect the judgments on whether insurance proceeds, etc. can be paid are identified without omission.

(G) Whether the content of payment assessment manuals is systematic and comprehensive.

(H) Whether an adequate control environment has been established for secondary checking by managers, etc.

(I) Whether sufficient measures regarding computer systems to check/prevent payment failures, etc. and urge payment have been implemented.

(J) From the point of view of protecting policyholders, etc., whether management of deadlines such as, for example, commencement date, ending date, and expiration date of delayed interest, etc. is appropriately carried out.

(K) Whether the payment management section appropriately carries out progress management to ensure prompt payment of insurance proceeds, etc. without failure. In addition, whether measures to shorten the number of days required from the acceptance of claims from customers to the payment (in the case of non-payment, the notification of the fact) have been taken, such as appropriately conducting examinations on the matters requiring confirmation without delay in payment assessment, etc.

(L) Whether the payment management section has taken measures, when a certain amount of time is required until the payment (in the case of non-payment, the notification of the fact), such as explaining to the customer who claims insurance proceeds, etc. the reason why a certain amount of time is required and the prospect of payment, etc. in an easy-to-understand manner.

J. Whether a control environment to be used after conducting payment assessment that takes into account the following points has been developed.

(A) Whether measures to ensure appropriate response by specialized staff at contact points have been taken from the point of view of responding to inquiries for payment and complaints about non-payment in a prompt and accurate manner.

In addition, whether a control environment has been established wherein if insurance proceeds are to be paid not to the insured persons or claimants of compensation for losses or damages, etc., but directly to the business operators who have repaired the property damages or medical institutions that have provided treatments for injuries, etc., inquiries or complaints from these persons are appropriately dealt with.

(B) Whether a control environment has been established wherein if customers make complaints on the results of payment assessments, the facts constituting the grounds for the decisions of payment or non-payment, etc. are confirmed again.

(C) Whether the grounds for the calculation of insurance proceeds, etc. are explained in a careful and easy-to-understand manner in response

to inquiries from customers, for example, by providing explanations on the details of payment assessment standards in cases where insurance proceeds, etc. are calculated based on payment assessment standards. In addition, whether the grounds for calculation are clearly defined.

(D) In the case of non-payment, whether explanations on the reason for the non-payment, including the descriptions of the provisions of the terms and conditions constituting the grounds, are provided to the customer in a careful and easy-to-understand manner.

(E) In cases where insurance proceeds are to be paid not to the insured persons or claimants of compensation for losses or damages, etc., but directly to the repair business operators or medical institutions, etc., but a difference exists between the amount of payment assessed by the insurance company and the amount claimed by the said repair business operators or medical institutions, etc., whether that fact is explained to the insured persons or claimants of compensation for losses or damages, etc. when it is necessary to protect the insured persons or claimants of compensation for losses or damages, etc.

(F) Whether the dispute settlement rules prescribing simple and prompt procedures for accepting and resolving complaints, etc. have been developed.

(G) It is desirable from the point of view of further strengthening the control environment for managing payment that, in addition to dispute settlement functions of each of life insurance and non-life insurance associations, each insurance company has developed, for example, a mechanism, etc. for reassessment.

K. Whether the payment management section has developed a control environment for checking afterward such as the following.

(A) Whether the matters for which authorities are delegated from the payment managers for insurance proceeds, etc. are appropriately managed by periodically conducting inspections/audits to see whether appropriate exercise of authority is carried out, etc.

(B) Whether a control environment has been established wherein the payment of insurance proceeds, etc. that involves multiple payment sections is periodically checked, from the point of view of preventing payment failures, by, for example, developing a mechanism in which

after identifying possible cases of payment failures, each payment section mutually check them, etc.

(C) Whether a control environment has been established wherein the cases for which claims for insurance proceeds, etc. to be paid are dropped upon customers' requests can be examined afterward to see whether truly appropriate administrative processes are implemented.

(D) Whether a control environment has been established wherein model documents to be used for explaining to customers about the reason for non-payment are reviewed/improved from the point of view of customers, taking into account the issues identified through complaints/inquiries, etc. Whether, in conducting reviews or making improvements, experts with knowledge on consumer issues, etc., for example, are utilized.

In addition, whether a control environment has been established wherein the notifications of non-payment actually sent to customers are examined to see whether their contents were appropriate.

(E) Whether the contents of the cases of non-payment are analyzed and the analysis results are used in developing measures and a control environment for appropriate payment of insurance proceeds, etc.

(F) Whether a control environment has been established wherein whether complaints concerning non-payment are not only dealt with by the section in charge of payment that has determined the said non-payment, but also eventually appropriately dealt with by other sections such as the section in charge of compliance.

(G) It is desirable from the point of view of further strengthening the control environment for managing payment that, for example, a mechanism to examine the appropriateness of payment assessments by external experts afterward, etc. has been developed.

L. Whether outsourcing of operations of payment of insurance proceeds, etc. such as revising/abolishing payment assessment standards and conducting payment assessments, etc. are handled under the provisions of Article 98 of the Act and Article 51 of the Regulation as they are operations incidental to those prescribed in Article 97 of the Act.

In addition, whether the content of "II-5-1 Outsourcing of Administrative Processes of Insurance Companies" is considered when outsourcing operations incidental to the operations of payment of insurance proceeds, etc. (for example, sending/receiving bills and checking contracts, etc.).

M. In order to enable policyholders and other users to appropriately determine the status of operations of the insurance company, it is desirable that efforts are made to actively disclose information such as the number and details of cases of non-payment of insurance proceeds, etc. and information on complaints, etc.

N. Whether the payment management section or relevant sections have developed a control environment wherein when cancelling contracts due to a serious reason prescribed in the terms and conditions, notifications are made to the policyholders within a reasonable period of time after the said serious reason is known or may have been known.

(vi) Internal Audits

A. Whether the representative director or the board of directors fully recognize that internal audits seriously affect the establishment of a control environment for managing appropriate payment of insurance proceeds, etc.

B. Whether the internal audit section has been established as an independent organization so as to fully check the actions of sections subject to audit, including the payment management section.

In addition, whether the internal audit section conducts audits without being unreasonably restricted by sections subject to audit.

C. Whether the board of directors, etc. assign appropriately number of human resources with a good knowledge of payment operations to the internal audit section to enable internal audits on the control environment for managing payment to function effectively.

In addition, whether the internal audit section has been granted with sufficient authorities to examine the control environment for managing payment.

D. Whether officers and employees of the payment management section fully recognize that internal audits have important roles in establishing a control environment for managing appropriate payment.

E. Whether the internal audit section has prepared the internal audit implementation guidelines, etc. for examining the control environment for managing appropriate payment and obtained approval of the board of directors, etc. In addition, whether the head of the internal audit section has confirmed the appropriateness/effectiveness of the implementation guidelines, etc.

F. Whether the internal audit section has formulated efficient and effective audit plans, taking into account the frequency and depth, to examine the control environment for managing appropriate payment.

G. Whether the internal audit section periodically conducts audits of all operations of the payment management section and relevant sections based on the internal audit implementation guidelines, etc.

H. Whether the internal audit section reports the results of internal audits on the control environment for managing payment and other important matters to the board of directors in a timely and appropriate manner. In particular, whether problems that seriously affect business management are immediately reported.

I. Whether the internal audit section analyzes the results of examination and correctly notifies them to sections subject to audit, including the payment management section, etc. without delay. Furthermore, whether the internal audit section appropriately manages the status of improvement in the payment management section and reflects it to subsequent internal audits.

In addition, whether the payment managers for insurance proceeds, etc. make use of the results of internal audits, etc. in the establishment of a control environment for managing appropriate payment of insurance proceeds, etc.

(vii) Auditor's Audits

A. Whether auditor's audits on the payment of insurance proceeds, etc. are conducted from the point of view of auditing the appropriateness of the business execution system. Whether audits are conducted in a comprehensive manner, for example, by relating the problems from the perspectives of solicitation management, etc. with problems of customer services shown by the status of complaints from customers, etc.

B. Whether the audit committee has established a systematic audit method for the practical operations of payment of insurance proceeds, etc.

C. Whether auditors conduct audits directly on the operations of payment of insurance proceeds, etc. by hearing the payment managers for insurance proceeds, etc. and conducting visiting audits on the payment management section, etc.

D. Whether auditors report the results of internal audits on the payment of insurance proceeds, etc. and other important matters to the board of directors and board of auditors in a timely and appropriate manner.

(3) Supervisory Method and Actions

If a problem is deemed to exist in the control environment for managing the payment of insurance proceeds, etc., supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 or 133 of the Act.

II-4-5 Control Environment for the Management of Information Related to Customers, etc.

II-4-5-1 Significance

It is extremely important to ensure the appropriate management of customer information, as such information constitutes the basis of insurance contract transactions.

In particular, information on customers that are individual persons needs to be handled in an appropriate manner in accordance with the rules, Act on the Protection of Personal Information, Protection Act Guidelines, Financial Sector Guidelines, and Practical Guideline.

Since any leaking of personal information, including credit card information (card numbers, expiry dates, etc.; hereinafter referred to as “credit card information, etc.”) is likely to result in secondary damage, such as unauthorized purchases using a stolen identity, strict management is required.

Furthermore, because insurance companies are in a position where they can access corporate-related information (Article 1(4)(xiv) of the Cabinet Office Order on Financial Instruments Business, etc.), they are required to control that information strictly and to prevent insider trading and any other unfair acts.

In consideration of the above, it is important for insurance companies to establish a control environment wherein they can properly manage information related to customers and information related to corporations (hereinafter referred to as “information related to customers, etc.”).

II-4-5-2 Main Supervisory Focus

(1) Control Environments for the Management of Information Related to Customers, etc.

(i) Whether senior managers recognize the necessity and importance of ensuring the appropriateness of managing information related to customers, etc., and whether they have developed an internal control environment, such as establishing an organizational structure (including establishing appropriate checks between sections) and formulating internal rules for ensuring the appropriateness.

(ii) Whether the insurance company has formulated a specific standard for

the handling of information related to customers, etc. and communicated it to all officers and employees through the provision of training and other means. In particular, whether the insurance company has formulated a standard for the provision of information related to customers, etc. to third parties, based on careful deliberations from the point of view of compliance (confidentiality obligation and accountability to customers) and reputation.

(iii) Whether the insurance company has established systems to examine whether information related to customers, etc. is managed appropriately, including thorough management of access to information related to customers, etc. (such as preventing access rights assigned to certain people from being used by others), measures to prevent the misappropriation of information related to customers, etc. by insiders, and a robust information management system that prevents illegal access from the outside.

Also, whether the insurance company has attempted to implement appropriate measures for preventing illegal acts utilizing information related to customers, etc., such as the dispersal of authority concentrated upon specific personnel and the enhancement of the controls and checks over personnel who have broad powers.

(iv) In cases where the insurance company entrusts(Note) the handling of information related to customers, etc., whether it has implemented the following measures.

(Note) The term “entrust” includes all contracts in which an insurance company allows all or part of the handling of information related to customers, etc. to be conducted by another person, including insurance agencies, regardless of the form or type of contract (the same applies hereinafter in II-4-5-2).

A. With regard to the management of outsourced contractors, including insurance agencies, whether the insurance company has clarified the responsible divisions and confirms that outsourced contractors are properly managing the information related to customers, etc., such as by monitoring on a periodic or as-needed basis how business operations are being conducted at outsourced contractors.

B. Whether the insurance company has confirmed that the outsourced contractors, including insurance agencies, have systems in place to take appropriate actions and to promptly report to outsourcers in the event that information is leaked.

C. Whether the insurance company restricts the rights of outsourced contractors, including insurance agencies, to access information related to customers, etc. to the extent necessary according to the nature of the outsourced business.

On that basis, whether the insurance company checks that the workers at outsourced contractors, including insurance agencies, to whom access rights are given and the scope thereof have been defined.

Furthermore, whether the insurance company checks that access to information is being managed thoroughly at outsourced contractors, including insurance agencies, on a periodic or as-needed basis, such as by confirming how the access rights are being used (including matching authorized persons against actual users) in order to prevent access rights assigned to certain people from being used by others.

D. In cases where information is being successively entrusted more than once, whether the insurance company checks whether the outsourced contractor, including insurance agencies, is adequately supervising the subcontractors and other such business operators. Also, whether direct supervision of the subcontractor and other such business operators is being conducted in-house, as necessary.

(v) Whether the insurance company has established arrangements and procedures for appropriately reporting to responsible divisions, notifying customers and the public, and reporting to the authorities in a prompt and appropriate manner when information related to customers, etc. has been leaked, so that secondary damage can be prevented.

Also, whether the insurance company analyzes the causes of information leaks and has implemented measures designed to prevent a recurrence. Furthermore, in light of incidents of information being leaked at other companies, whether the insurance company examines measures needed to prevent a similar incident from recurring.

(vi) Whether audits covering the broad range of business operations pertaining to management of information related to customers, etc. are being conducted by an independent internal audit section on a periodic or as-needed basis.

Also, whether the insurance company has implemented appropriate measures, such as training programs, in order to increase the specialization of the staff engaged in audits pertaining to the management of information related to customers, etc.

(2) Management of Personal Information

(i) With regard to the information on customers that are individual persons, whether the following measures are taken for the security control, supervision of employees, and, if handling of the said information is entrusted, supervision of the contractors under Article 53-8 of the Regulation as necessary and appropriate measures to prevent the leakage, loss, or damage of the said information.

A. Measures under the provisions of Articles 8, 9, and 10 of the Financial Sector Guidelines

B. Measures under the provisions of I, II, III, and Attachment-2 of the Practical Guideline

(Note) In cases where insurance agents use the personal information in insurance solicitation for other companies or operating activities, etc. of side-line sections, due consideration needs to be given to ensure that it is not used other than for intended purposes by appropriately handling it under relevant laws and regulations, etc.

(ii) Whether measures to ensure that any information on customers that are individual persons concerning their race, creed, family origin, registered domicile, health and medical care, or criminal record, and any other special undisclosed information(Note) is not used under the provisions of Article 53-10 of the Regulation, except in cases listed in the items of Article 5(1) of the Financial Sector Guidelines, are taken.

(Note) Other special undisclosed information refers to the following information.

A. Information regarding labor union membership

B. Information regarding ethnicity

C. Information regarding sexual orientation

D. Information regarding provisions under Article 2(iv) of the Cabinet Order to Enforce the Act on the Protection of Personal Information

E. Information regarding provisions under Article 2(v) of the Cabinet Order to Enforce the Act on the Protection of Personal Information

F. Information regarding the fact that the related customer has been a victim of crime

G. Information regarding social status

(iii) With regard to credit card information, etc., whether the insurance company has implemented the following measures.

A. Whether the insurance company has set an appropriate period of time for keeping credit card information, etc., which takes into account the purpose of use and other circumstances, and whether it limits the locations where such information is kept, and disposes the information in a prompt and appropriate manner after the retention period has lapsed.

B. Whether the insurance company has implemented appropriate measures when displaying credit card information, etc. on computer monitors, such as not displaying whole credit card numbers, unless needed for business operations.

C. In cases where the handling of credit card information, etc. is outsourced to a third-party entity, whether the insurance company conducts off-site and on-site inspections on a periodic or as-needed basis on whether the rules and systems for protecting credit card information, etc. are functioning effectively in the outsourced contractor, including insurance agencies.

D. In cases where credit card information, etc. is being successively entrusted more than once, whether the insurance company conducts direct supervision of the subcontractor and other business operators, etc. in-house, such as conducting off-site and on-site inspections on a periodic or as-needed basis, except when outsourced contractors, including insurance agencies, are deemed to have been conducting adequate supervision of subcontractor and other business operators, etc.

(iv) Whether the insurance company has implemented measures to ensure that the provision of personal data to a third party complies with Article 11 of the Financial Sector Guidelines, etc. In particular, whether the insurance company makes efforts to appropriately obtain consent from customers that are individual persons according to the characteristics and methods of those operations with consideration also given to the following points.

A. Based on Article 3 of the Financial Sector Guidelines, in cases where consent to provide information to a third party is to be obtained from customers that are individual persons by non-face-to-face methods such as PCs and smartphones, etc., whether the insurance company has established specifications in which ingenious efforts are made for the texts of consent, font sizes, screen specifications, and other methods for obtaining consent to be used to enable customers that are individual persons to clearly recognize the third party to which information is to be provided, the content of information to be provided to that third party, and

purpose of use of the information by that third party.

B. Even in cases where consent to provide information to a third party has previously been obtained from customers that are individual persons, whether the insurance company obtains consent of the customers that are individual persons again if the third party to which information is to be provided or the content of information to be provide is different or if information is to be provided to an extent more than necessary to achieve the predetermined purpose of use at the third party.

C. In cases where information is to be provided to multiple third parties or the purpose of use of information varies depending on the third party to which information is provided, whether the insurance company appropriately considers the extent to which information is to be provided to the third parties and the method and timing of obtaining consent, etc. to enable customers that are individual persons to recognize the fact that personal data is to be provided to multiple third parties and/or the purpose of use at each third party.

D. Whether the insurance company gives due consideration in obtaining consent to provide information to a third party to eliminate the risk of harmful effects such as abuse of superior position or conflict of interest with the customers that are individual persons, etc. For instance, whether customers that are individual persons are not forced to give consent to an excessive extent with regard to the third parties to which information is to be provided, the purpose of use by the third parties, and content of information to be provided.

(3) Prevention of Insider Trading and Other Unfair Acts Using Corporate-Related Information

(i) Whether the insurance company has established an appropriate internal control environment, such as by developing internal rules pertaining to the sale, purchase and other transactions of securities by officers and employees, and the revision thereof as necessary.

(ii) Whether the insurance company has made efforts for strengthening the sense of compliance, such as enhancing professional ethics and ensuring a full understanding of relevant laws and regulations and internal rules, aimed at preventing insider trading and other unfair trading by officers or employees.

(iii) Whether the insurance company has implemented appropriate measures to prevent unfair trading, such as requiring reports when officers or employees who are in a position to access corporate-related information have sold, purchased, or carried out other transactions of securities related to the said corporation.

II-4-5-3 Supervisory Method and Actions

If a problem is deemed to exist in the control environment for managing information related to customers, etc., supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 or 133 of the Act.

II-4-6 Development of a System to Protect Customers' Interests

II-4-6-1 Significance

Conflict of interest is a problem that can occur both among sections of insurance companies and among parent companies, subsidiary companies, sister companies, and affiliated companies within the same financial group (hereinafter referred to as "insurance companies, etc." in II-4-6-1). In addition, insurance companies, etc. are permitted to exchange non-disclosure information with their parent corporations, etc. or subsidiary corporations, etc. under certain conditions such as the establishment of an information management system. In line with this, it is necessary that insurance companies, etc. recognize the importance of managing conflict of interest more than ever and establish a control environment for appropriate business management.

Therefore, financial groups that operate a broad range of businesses need to carry out internal control by the imposition of discipline based on the principle of self-responsibility to prevent the harmful effects of conflict of interest within the group It should be noted that the rules for managing conflict of interest, etc. function effectively by establishing a control environment for managing appropriate business management and a control environment for ensuring compliance through voluntary efforts of financial institutions.

In addition, in establishing a control environment for managing conflict of interest, the content, scale and characteristics of businesses operated by companies within the financial group, etc. as well as the point of view of reputational risks in insurance companies or within the same financial groups need to be considered.

On the other hand, considering that some member companies within the groups of insurance companies, etc. may engage in businesses irrelevant to the customers of the insurance companies, etc., there is no necessity to require all insurance companies, etc. to conduct conflict of interest management at the same level or to the same extent. Thus, it should be noted that when insurance companies, etc. conduct conflict of interest management at different levels or to different extents within their groups, they are required to give sufficient explanation on such different treatment to external parties.

II-4-6-2 Main Supervisory Focus

(1) Identification of Transactions With the Risk of Conflict of Interest, etc.

(i) Whether a control environment has been developed wherein transactions with the risk of conflict of interest are identified and categorized in advance and are continually evaluated.

(ii) Whether the contents, scale, and characteristics of business activities of the insurance company and companies within the financial group, etc. are reflected to the process of identifying conflict of interest.

In addition, whether new business activities and changes to laws, regulations, and business practices, etc. can be appropriately dealt with in that process.

(2) Methods of Conflict of Interest Management

Whether a system has been developed in which management method(s) such as the following, for example, can be chosen and combined according to the characteristics of conflict of interest and the management method(s) is/are periodically examined.

(i) Separation of Sections (limiting sections to share information)

When limiting the sections to share information, whether measures have been taken to strictly block the transfer of information between sections for which a conflict of interest may be caused, such as access control and physical blocking, etc., taking into account the content of business and its actual status.

(ii) Changing the Conditions or Method of Transaction or Cancelling Transactions of the Other Section

When changing the conditions or method of transaction or cancelling transactions of the other section, whether the authorities and responsibilities for the decision of the said change or cancellation are clearly defined, including the case where officers, etc. of parent financial institutions, etc. or subsidiary financial institutions, etc. are involved in that decision.

(iii) Disclosure of the Fact of Conflict of Interest to Customers

Whether a control environment has been established wherein fair treatment of customers is ensured when disclosing the fact of conflict of interest to customers by obtaining the consent of customers after disclosing the content of the conflict of interest and the reason for selecting the method to be disclosed (including the reason for not selecting other

methods), etc. in a clear and fair manner by methods such as in writing, etc. In addition, whether the level of the disclosed content sufficiently suits the characteristics of the customers concerned.

(3) Control Environment for Managing Conflict of Interest

(i) Whether a control environment has been established wherein conflict of interest is centrally managed by assigning a person to manage/supervise conflict of interest (hereinafter referred to as the “conflict of interest manager”), etc.

(ii) Whether a control environment has been established wherein independence of the conflict of interest manager, etc. from sales sections is ensured to enable sufficient checking. In addition, whether the conflict of interest manager, etc. plays the roles of making efforts to establish a control environment for managing conflict of interest and raising awareness of officers/employees, etc. and periodically examines the control environment for managing conflict of interest.

(iii) Whether the conflict of interest manager, etc. has established a control environment wherein it gathers information necessary for managing conflict of interest, including transactions of parent financial institutions, etc. or subsidiary financial institutions, etc., and appropriately manages conflict of interest.

(iv) Whether the internal rules clearly defining the operational procedures based on the conflict of interest management policy have been established. In addition, whether a control environment has been ensured wherein officers, employees, and subsidiary financial institutions, etc. are informed of conflict of interest management through education and training, etc.

(4) Formulation of the Conflict of Interest Management Policy and Disclosure of Its Outline

(i) Whether the method of identifying conflict of interest, types, management structure (including responsibilities and roles, etc. of officers and employees), management methods (if conflict of interest management is conducted at different levels and to different extents, the content of and reasons for such difference are included), and scope of management, etc. are clearly defined in the conflict of interest management policy. In addition, whether the contents and scales of business activities conducted by companies within the financial group, etc. are adequately reflected in the

conflict of interest management policy.

(ii) Whether the purposes of the conflict of interest management policy are clearly expressed when disclosing the outline of the conflict of interest management policy. In addition, whether adequate disclosure methods that enable the outline to be adequately conveyed to customers, etc. are used, such as putting up posters at branches and posting it on websites, etc.

II-4-6-3 Supervisory Method and Actions

If a problem is deemed to exist in the control environment for managing conflict of interest, supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall take an administrative measure under Article 132 or 133 of the Act.

II-4-7 Prevention of Customers' Misrecognition, etc.

II-4-7-1 Significance

There are cases where the insurance company concerned establishes its business office in a building that is also occupied by a business office of another company from the point of view of improving customer convenience and rationalizing operations. In such cases, it is important that measures to prevent customers from misrecognizing are taken.

II-4-7-2 Main Supervisory Focus

In cases where the insurance company has established its business office on the same floor of the same building in which a head office/branch, etc. of another company is located, whether appropriate measures are taken from the point of view of preventing customers from misrecognizing, protecting customer information, and security. In addition, in cases where computer equipment is shared, whether the insurance company has established a control environment wherein the insurance company itself can comply with the information management regulations.

II-4-8 Measures such as Verification at the Time of Transaction

II-4-8-1 Significance

It is important that insurance companies, which have a public nature and play an important economic role, are never exploited in terrorism financing or money laundering.

In order to prevent insurance companies from being exploited by crime organizations and contributing to expanding profits gained from criminal activities, it is necessary to establish an advanced and robust company-wide control environment for legal compliance. In particular, insurance companies are required to establish an internal control environment for measures such as verification at the time of transaction, preservation of transaction records, etc. and reporting of suspicious transactions (hereinafter referred to as the "verification at the time of transaction, etc.") based on the Act on Prevention of Transfer of Criminal Proceeds (hereinafter referred to as the "Anti-Criminal Proceeds Act"). In addition, in order to make measures against international terrorism financing or money laundering based on the FATF Recommendations effective, it is required to establish a control environment for appropriately handling these measures for not only businesses conducted at domestic business offices, but also businesses conducted at overseas business offices.

II-4-8-2 Main Supervisory Focus

When examining a financial institution's control environment for properly implementing verification at the time of transaction, etc. based on the Anti-Criminal Proceeds Act and measures stipulated in the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" (hereinafter referred to as the "AML/CFT Guideline"), including a risk-based approach, supervisors shall pay attention to the following points.

(Note 1) In properly conducting verification at the time of transaction, etc., reference must be made to the "Points to Keep in Mind Concerning the Act on Prevention of Transfer of Criminal Proceeds" (Financial Services Agency, October 2012).

(Note 2) A risk-based approach means that financial institutions, etc. are expected to identify and assess money laundering and financing of terrorism

risks to which they are exposed and take measures based on those risks to mitigate them effectively.

(1) With regard to businesses of the insurance company, whether verification at the time of transaction and creation/preservation of transaction records, etc. under the Anti-Criminal Proceeds Act are properly carried out according to risks of each transaction.

(i) When implementing verification at the time of transaction, whether the insurance company verifies the credibility and validity of the identity not only by identifying customer attributes properly, but also by requiring the submission of customer identification documents, for example. Whether it properly responds to and manages a problem, etc. identified in relation to a customer.

(ii) When conducting transactions with corporate customers, whether the insurance company checks the corporate customers' identification matters, purposes of conducting the transactions, and the content of their businesses as well as the identification matters of the substantial controllers.

(iii) When conducting transactions for which there is especially a strong necessity for conducting rigid customer management as mentioned below, based on the first sentence of Article 4(2) of the Anti-Criminal Proceeds Act and each paragraph of Article 12 of the Anti-Criminal Proceeds Act Enforcement Order, whether (re-)verification at the time of transaction is made in a proper manner (for example, a customer's identification matters are confirmed not only in a normal way but also in a more rigid way in which customer identification documents or supplementary documents are additionally received. In addition, when confirmation of the conditions of assets and revenues is obligated, whether such confirmation is made in a proper manner.

A. A transaction in the case that a counterparty to the transaction is suspected of impersonating a customer, etc., or representative, etc., for whom related verification at the time of the transaction is conducted.

B. A transaction with customer, etc., who is suspected of having falsified matters subject to related verification at the time of transaction when such verification has been made.

C. A specified transaction, etc., with a customer, etc., who resides or is located in a country or region in which the establishment of a system to

prevent the transfer of criminal proceeds (as specified under Article 12(2) of the Anti-Criminal Proceeds Act Enforcement Order) is not considered sufficient.

D. A specified transaction with a customer, etc. who is a foreign PEP(Note).

(Note) Meaning the head of a foreign country or a person in an important position of foreign governments, etc. (Politically Exposed Person) as set forth in items of Article 12(3) of the Anti-Criminal Proceeds Act Enforcement Order and items of Article 15 of the Ordinance for Enforcement of the Act concerning Prevention of Transfer of Criminal Proceeds (hereinafter referred to as the “Anti-Criminal Proceeds Act Enforcement Ordinance”).

(iv) Whether the insurance company takes measures that take account of the specific characteristics of transactions (e.g., transactions conducted over the Internet without any face-to-face contact) when implementing verification at the time of transaction for customers.

(2) Whether the insurance company properly implements the suspicious transaction reporting based on the Anti-Criminal Proceeds Act.

(i) Whether the insurance company ensures that the supervisory department reports to the authorities promptly when a certain transaction is judged to constitute a suspicious transaction.

(ii) In judging whether a certain transaction constitutes a case requiring the reporting of suspicious transactions, whether the insurance company comprehensively takes account of the various specific information that it has acquired and holds, such as the data of verification at the time of transaction, customer attributes, specific characteristics of the transaction, and the circumstances at the time of the transaction, as well as the National Risk Assessment of Money Laundering and Terrorist Financing that is prepared and published by the National Public Safety Commission under Article 3(3) of the Anti-Criminal Proceeds Act (hereinafter referred to as the “ National Risk Assessment”), and conducts appropriate examinations based on Article 8(2) of the Anti-Criminal Proceeds Act and Articles 26 and 27 of the Anti-Criminal Proceeds Act Enforcement Ordinance. In addition, whether the insurance company properly responds to and manages any problem identified in relation to the relevant transaction.

(Note) Among customer attributes and specific characteristics of the

transaction that should be considered are the customer's nationality (whether the customer's home country falls within FATF's list of non-cooperative countries and territories), whether the customer is a foreign PEP, the nature of business in which the customer is engaging, the value and number of transactions, and whether it is a foreign or domestic transaction.

(iii) Whether the insurance company detects, monitors, and analyzes suspicious customers and transactions through systems and manuals according to the nature and contents of its own business.

(Note) For examples that may constitute cases requiring suspicious transaction reporting and examples of past cases in which insurance companies actually reported to the authorities, refer to the "List of Referred Cases of Suspicious Transactions" (refer to the FSA website).

(3) In order to properly implement measures such as verification at the time of transaction under the Anti-Criminal Proceeds Act, whether the following measures (i) through (vii) are taken. Furthermore, whether the insurance company has established an internal control environment, etc. for judging whether to implement the suspicious transaction reporting, by comprehensively taking account of basic customer information obtained through appropriate implementation of verification at the time of transaction, the specific characteristics of transactions, and other matters based on the full recognition of the co-relation between verification at the time of transaction and the reporting of suspicious transactions.

(i) Regarding the data of verification at the time of transaction obtained from a customer, whether the insurance company constantly strives to keep track of up-to-date customer attributes through ongoing monitoring of transactions with the customer, for example.

(ii) Whether the insurance company has established internal rules, etc. that specify internal arrangements and procedures for implementing measures such as verification at the time of transaction. In addition, whether it has fully communicated the rules to all officers and employees and ensured their full understanding thereof.

(iii) Whether the insurance company provides employees with training and education concerning measures such as verification at the time of transaction on a periodic and ongoing basis. In addition, whether it evaluates the level of the understanding of the employees receiving

training and takes follow-up measures, when necessary, in light of their implementation of measures in daily business processes.

(iv) Whether the insurance company has appointed/assigned an appropriate person as a supervising manager (meaning supervising manager prescribed in Article 11(iii) of the Anti-Criminal Proceeds Act; the same applies hereinafter), such as a management-level compliance manager for anti-terrorism financing and anti-money laundering measures.

(v) Whether the insurance company studies and analyzes the risk of being exploited in cases of terrorism financing and money laundering, and properly conducts measures that take account of the results thereof, based on the Anti-Criminal Proceeds Act.

A. Whether the insurance company appropriately studies and analyzes the risk of its transactions being exploited in cases of terrorism financing and money laundering from the viewpoint of the nature of the transaction or product and the form of the transaction, the country or region related to the transaction, and the customer attributes, by taking account of the content of the National Risk Assessment, and prepares a document, etc. that describes the results of the analysis (hereinafter referred to as the “document, etc. prepared by specified business operators”) and conducts a periodic review thereof.

B. Whether the insurance company takes account of the content of the document, etc. prepared by specified business operators, and collects and analyzes the necessary information, as well as continuously investigating in detail the confirmation records and transaction records it has preserved.

C. When carrying out transactions for which there is especially a strong necessity for conducting rigid customer management set forth in the first sentence of Article 4(2) of the Anti-Criminal Proceeds Act, transactions that require special attention in customer management set forth in Article 5 of the Anti-Criminal Proceeds Act Enforcement Ordinance, and other transactions that are deemed to have a high danger potential of terrorism financing and money laundering in consideration of the content of the National Risk Assessment (hereinafter referred to as “high risk transactions”), whether the supervising manager approves the transaction, and whether the insurance company prepares a document, etc. that describes the results of the collection and analysis of information, and preserves it along with the conformation record or transaction record.

(vi) When hiring employees, whether the insurance company screens candidates from the viewpoint of properly implementing anti-terrorism financing and anti-money laundering measures.

(vii) Whether the insurance company ensures the effectiveness of verification at the time of transaction by identifying and examining the implementation status of the identification through periodic internal reviews and internal audits, and by revising and reviewing the implementation method, for example.

(4) Whether overseas offices (branches, subsidiaries, etc.) have a control environment for properly implementing countermeasures against terrorism financing and money laundering.

(i) Whether overseas offices properly implement countermeasures against terrorism financing and money laundering at the same level as in Japan to the extent permitted by applicable local laws and regulations, etc.

(Note) In particular, it should be noted that overseas offices located in countries or regions where the FATF Recommendations are not applied or not fully applied are required to take countermeasures at the same level as in Japan.

(ii) If the local obligation to implement countermeasures against terrorism financing and money laundering is stricter than in Japan, whether overseas offices implement such stricter local countermeasures.

(iii) If overseas offices cannot implement appropriate countermeasures against terrorism financing and money laundering at the same level as in Japan because such countermeasures are prohibited by local applicable laws and regulations, etc., whether overseas offices immediately provide information on the following to the FSA or the local Finance Bureau that has jurisdiction over the region where the head office is located:

- The country or region concerned
- Specific reasons for the inability to implement appropriate countermeasures against terrorism financing or money laundering; and
- If alternative measures are taken to prevent being exploited in cases of terrorism financing or money laundering, the particulars thereof.

II-4-8-3 Supervisory Method and Actions

If, based on the inspection results and reports on deplorable events, etc., a problem is deemed to exist in the steady execution of measures, such as verification at the time of transaction and in the internal control environment for appropriately implementing measures described in the AML/CFT Guideline, supervisors shall require the submission of a report under Article 128 of the Act as necessary, and if it is deemed that there is a serious problem, they shall consider issuing a business improvement order under Article 132 of the Act. In doing so, if it is deemed that the internal control environment is extremely vulnerable and a risk of being exploited in cases of terrorism financing or money laundering, etc. exists, supervisors shall issue an order to suspend part of business for a certain period of time necessary for business improvement under Article 132 of the Act.

In addition, in the case of a serious/malicious violation of laws and regulations or act that harms the public interest, etc., supervisors shall consider stricter measures under Article 133 of the Act.

II-4-9 Prevention of Damage that May be Inflicted by Anti-Social Forces

II-4-9-1 Significance

Eliminating anti-social forces from society is a task critical to ensuring the order and safety of society, so it is necessary and important for corporations to promote efforts to ban any relations with anti-social forces from the viewpoint of fulfilling their social responsibility. In particular, as insurance companies have a public nature and play an important economic role, they need to exclude anti-social forces from financial transactions in order to prevent damage from being inflicted not only on insurance companies themselves and their officers and employees but also on their customers and other stakeholders.

Needless to say, if insurance companies are to retain public confidence and maintain the soundness and appropriateness of their business operations, it is essential that they deal with anti-social forces in accordance with laws and regulations without bowing to pressure from them. Therefore, insurance companies must strive, on a daily basis, to develop a control environment for banning any relations with anti-social forces in accordance with the purpose of the “Guideline for How Companies Prevent Damage from Anti-Social Forces” (agreed upon at a meeting on June 19, 2007 of cabinet ministers responsible for anti-crime measures).

In particular, anti-social forces have become increasingly sophisticated in their efforts to obtain funds, disguising their dealings as legitimate economic transactions through the use of affiliated companies in order to develop business relations with ordinary companies. In some cases, the relations thus developed eventually lead to problems. In such cases, senior managers of insurance companies need to take a resolute stance and implement specific countermeasures.

It should be noted that if an insurance company delays specific actions to resolve a problem involving anti-social forces on the grounds that unexpected situations, such as the safety of officers and employees being threatened, could otherwise arise, the delay could increase the extent of the damage that may be ultimately inflicted on the insurance company itself and its officers and employees.

(Reference) “Guideline for How Companies Prevent Damage from Anti-Social Forces” (agreed upon at a meeting on June 19, 2007 of cabinet

ministers responsible for anti-crime measures)

(1) Basic Principles on Prevention of Damage That May be Inflicted by Anti-Social Forces

- Institutional response
- Cooperation with external expert organizations
- Ban on any relations, including transactions, with anti-social forces
- Legal responses, both civil and criminal, in the event of an emergency
- Prohibition of engagement in secret transactions with and provision of funds to anti-social forces

(2) Identification of Anti-Social Forces

In judging whether specific groups or individuals constitute “anti-social forces,” which are defined as groups or individuals that pursue economic profits through the use of violence, threats and fraud, it is necessary not only to pay attention to whether they fit the definition in terms of their affiliation, such as whether they constitute or belong to “boryokudan” crime syndicates, “boryokudan” affiliated companies, “sokaiya” racketeer groups, groups engaging in criminal activities under the pretext of conducting social campaigns or political activities and crime groups specialized in intellectual crimes, but also to whether they fit the definition in terms of the nature of their conduct, such as whether they are making violent demands or unreasonable demands that go beyond the limits of legal liability (refer to the “Key Points of Measures against Organized Crime,” a directive issued in the name of the Deputy Commissioner-General of the National Police Agency on December 22, 2011).

II-4-9-2 Main Supervisory Focus

The insurance company should not have any relations with anti-social forces and, in cases where it has established a relationship with an anti-social force unwittingly, supervisors, while also giving consideration to the characteristics of specific transactions, including the point of view of relieving victims, shall pay attention to such as the following points in order to examine its control environment for banning any relations with anti-social forces as soon as possible after the counterparty has been found to be an anti-social force and its

control environment for dealing with unreasonable demands by anti-social forces appropriately.

(1) Institutional Response

In light of the need and importance of an action to ban any relationship with anti-social forces organically, whether the responsibility of responding to the situation is not left solely to the relevant individuals or divisions but senior managers including directors are appropriately involved, and there is a policy for the entire organization to respond. In addition, whether there is a policy calling for the corporate group as a whole, not just the involved insurance company alone, to take on an effort to prevent any relationship with anti-social forces. Furthermore, whether the insurance company also makes efforts to eliminate anti-social forces when conducting transactions such as providing financial services in collaboration with other companies outside the group (consumer credit companies, etc.).

(2) Developing of a Centralized Control Environment Through Anti-Social Forces Response Section

Whether the insurance company has established a section in charge of supervising responses to ban any relationship with anti-social forces (hereinafter referred to as the “anti-social forces response section”) so as to develop a centralized control environment for preventing anti-social forces from inflicting damage, and whether this section is properly functioning.

In particular, whether the insurance company pays sufficient attention to the following points in developing the centralized control environment.

(i) Whether the anti-social forces response section is actively collecting and analyzing information on anti-social forces and has developed a database to manage such information in a centralized manner and has a system to appropriately update it (i.e., addition, deletion or change of information in the database). In addition, whether the section is making efforts to share information within the group in the process of collecting and analyzing such information, while making appropriate use of information provided by self-regulatory organizations, etc. Furthermore, whether the anti-social forces response section has a system to take advantage of information on anti-social forces for screening counterparties of transactions and evaluating the attributes of shareholders of the insurance company.

(ii) Whether the insurance company makes sure to maintain the

effectiveness of measures to ban any relations with anti-social forces by, for example, having the anti-social forces response section develop a manual for dealing with anti-social forces, provide on-going training, foster cooperative relationships with external expert organizations such as the police, the Center for the Removal of Criminal Organization and lawyers on an ongoing basis. In particular, whether the insurance company is prepared to report to the police immediately when it faces the imminent prospect of being threatened or becoming the target of an act of violence, by maintaining close communications with the police on a daily basis so as to develop a systematic reporting system and build a relationship that facilitates cooperation in the event of a problem.

(iii) Whether the insurance company has a structure in which relevant information is swiftly and appropriately conveyed to the anti-social forces response section for consultation when transactions with anti-social forces are found or such forces have made unreasonable demands, etc.. In addition, whether the anti-social forces response section has a structure to swiftly and appropriately report relevant information to the management. Furthermore, whether the anti-social forces response section has a structure to ensure the safety of individuals encountering anti-social forces in person and to support sections involved in dealing with them.

(3) Execution of Appropriate Prior Screening

Whether the insurance company bans allowing anti-social forces to become a counterparty to a transaction by conducting appropriate advance screening using information on such forces in order to prevent transactions with anti-social forces, and makes sure provisions regarding the exclusion of “boryokudan” crime syndicates are introduced in all contracts and terms of transactions.

With regard to affiliated loans (four-party type),(Note) whether the insurance company has established a control environment wherein it develops a system to conduct prior screening by itself after thoroughly introducing the exclusion of “boryokudan” crime syndicates and examines the status of introducing the exclusion of “boryokudan” crime syndicates and the status of development of a database on anti-social forces at partner consumer credit companies.

(Note) “Affiliated loan (four-party type)” refers to a loan in which a consumer credit company receives, examines, approves an application from a

customer through a member shop, and then a financial institution loans funds to the customer based on a guarantee by the consumer credit company.

(4) Execution of Appropriate Follow-up Review

Whether, for the purpose of making sure any relationships with anti-social forces are eliminated, there is a structure to conduct an appropriate follow-up review on existing credits and contracts.

(5) Implementation of Examination of Payment of Insurance Proceeds, etc.

Whether the insurance company has developed a control environment for the appropriate implementation of examination of payment of insurance proceeds, etc. from the point of view of preventing unreasonably claims, etc. from anti-social forces.

(6) Measures to Terminate Transactions with Anti-Social Forces

(i) Whether the insurance company has a system under which information confirming the existence of a transaction with anti-social forces is swiftly and appropriately reported to senior managers, including directors, etc., via the anti-social forces response section, and responds to the situation under appropriate directions and involvement by senior managers.

(ii) Whether the insurance company regularly communicates with external expert organizations, including the police, the National Center for the Removal of Criminal Organization, lawyers and so forth, and promotes efforts to eliminate any transactions with anti-social forces by utilizing the servicer functions of the Resolution and Collection Corporation, etc.

(iii) Whether the insurance company, when it has learned through a follow-up review after initiating a transaction that the counterparty is a member of an anti-social force, takes measures to prevent the provision of benefits to anti-social forces, such as terminating relationships with such forces to the extent possible.

(iv) Whether the insurance company has a control environment to prevent providing funds or engaging in inappropriate or unusual transactions for whatever reason if the counterparty has been found to be an anti-social force.

(7) Dealing with Unreasonable Demands by Anti-Social Forces

(i) Whether the insurance company has a system under which information that anti-social forces have made unreasonable demands is swiftly and appropriately reported to senior managers, including directors, etc., via the anti-social forces response section, and responds to the situation under appropriate directions and involvement by senior managers.

(ii) Whether the insurance company actively consults external expert organizations, such as the police, the Center for the Removal of Criminal Organizations, and lawyers, when anti-social forces make unreasonable demands, and responds to such unreasonable demands based on guidelines set by the Center for the Removal of Criminal Organizations and other organizations. In particular, whether the insurance company has a structure to report to the police immediately when there is an imminent prospect of a threat being made or an act of violence being committed.

(iii) Whether the insurance company, in response to unreasonable demands by anti-social forces, has a policy to take every possible civil legal action and to avoid hesitating to seek the initiation of criminal legal action by pro-actively reporting damage to the authorities.

(iv) Whether the insurance company ensures that the section in charge of handling problematic conduct promptly conducts a fact-finding investigation upon request from the anti-social forces response section, in cases where unreasonable demands from anti-social forces are based on problematic conduct related to business activity or involving an officer or employee.

(8) Management of Shareholder Information

Whether the insurance company manages shareholder information properly, through means such as checking the transaction status of its own shares and examining information regarding the attributes of its shareholders.

II-4-9-3 Supervisory Method and Actions

If, based on the inspection results and reports on cases of deplorable events, etc., a problem is deemed to exist in the control environment to ban any relationship with anti-social forces, supervisors shall require the submission of a report under Article 128 of the Act as necessary, and, as a result of examining the said report, if it is deemed that there is a serious problem from

the point of view of soundness/appropriateness of business operation, they shall consider issuing a business improvement order under Article 132 of the Act. In doing so, if it is deemed that the internal control environment is extremely vulnerable and it is necessary to have the insurance company focus on the improvement of the internal control environment, etc., as shown by, for example, a failure to take appropriate steps toward dissolving relations with anti-social forces despite recognizing the provision of funds thereto and the presence of inappropriate business relations therewith, supervisors shall issue an order to suspend part of business for a certain period of time necessary for business improvement under Article 132 of the Act.

In addition, in the case of a serious/malicious violation of laws and regulations or act that harms the public interest, etc., such as organically repeating/continuing to provide funds or have inappropriate business relations despite recognizing the counterparty to be an anti-social force, supervisors shall consider stricter measures under Article 133 of the Act.

(Note) For the response to anti-social forces, the matters described in II-1-2-1(1)(vi) (representative director), II-1-2-1(2)(iv) (directors and board of directors), II-1-2-2(1)(vii) (directors and board of directors), II -1-2-2(3)(vii) (executive officers), II -1-2-3(1)(vi) (representative director), II -1-2-3(2)(iv) (directors and board of directors), II-4-2-2(16)(iii)B. (points of attention in solicitation of insurance contracts), and II-4-4-2(2)(v)E. (control environment for managing the payment of insurance proceeds, etc.) shall also need to be considered.

II-4-10 Ensuring of Appropriate Presentation

(1) Whether the insurance company has established a system in which information is appropriately disclosed with due consideration to the purpose of information disclosure.

(2) Whether the insurance company has taken measures to ensure appropriate presentation of materials for solicitation (including advertisement), etc. according to the media used for presentation and characteristics of products.

(3) Whether the insurance company has appropriately formulated the internal rules, etc. to ensure appropriate presentation.

(Note) Whether the insurance company has appropriately formulated the internal rules, etc. to ensure appropriate presentation of the insurance period, content of coverage, underwriting conditions, premium rate, and insurance premiums, etc. based on the following matters, etc.

(i) When presenting the qualities of the coverage of insurance products, whether they are presented to mislead the policyholders, etc. as if they are in extremely good standing by not indicating inseparable matters in an easy-to-understand manner, etc.

It must be noted that, for instance, in cases where even if certain limitations on content of coverage of insurance products such as the following exist, the limitations are not presented or presented in such a way that the policyholder, etc. is likely to overlook, such as presenting them in small fonts, in an extremely short period of time, or in a location away from where the content of coverage is emphasized with no clear indication of reference to that location, etc., the presentation may mislead the policyholder to believe that the content of the insurance product is much better than it actually is.

A. A certain uninsured period after the conclusion of the contract exists for all or part of the grounds for benefit claim

B. The amount of insurance proceeds (benefits), etc. is reduced or extinguished based on the conditions such as the age of the insured person, number of years after the conclusion of the contract, number of days of hospitalization, and disease covered, etc.

C. There are cases not covered by insurance benefits if the grounds for benefit claim is medical treatment based on advanced medical care, depending on the medical practice, medical institution, and indication, etc.

In addition, it must be noted that if the information that is not directly related to the quality of the content of coverage of insurance products is presented as if it is in good standing, it may mislead that the products are significantly better than the actual ones.

(ii) When presenting the advantages of trading conditions of insurance products, whether they are presented to mislead the policyholders, etc. as they are extremely advantageous by not indicating the limitations, etc. in an easy-to-understand manner, etc.

It must be noted that, for example, if insurance premiums are presented using the insurance premiums of young people, etc. that are not considered to be the main policyholder group as an example and the conditions such as the applicable age, etc. are presented in extremely small fonts that are likely to be overlooked by policyholders, etc., it may mislead the policyholders to believe that the said insurance premiums are applied to policyholders, etc. other than young people and that the products are significantly cheaper than they actually are.

In addition, it must be noted that if the information that is not directly related to the advantages of the trading conditions of insurance products is presented as if it is advantageous, it may mislead that the products are significantly more advantageous than the actual ones.

(iii) Whether insurance products/services, etc. are presented based on objective facts.

In cases where the terms that directly mean the best in the industry or other ranking, terms that directly mean uniqueness, or terms that mean relative advantage are used, for example, whether the contents of the arguments have been objectively verified.

In addition, when displaying objective facts, whether a part is not presented or is emphasized so as to lead policyholders, etc. to misunderstand the facts, as described in the following examples.

A. Whether the amount of copayment of medical fees that do not reflect the benefits based on the High-Cost Medical Expense Benefit is not presented so that it may be misrecognized as being too large.

B. Whether, in TV commercials, etc., important matters are not presented in the screen as notes without ensuring sufficient visibility.

(iv) In cases where the terms that directly mean the best in the industry or other ranking, terms that directly mean uniqueness, or terms that mean relative advantage are used when presenting insurance products/services,

etc., whether the grounds for the contents of the arguments are also clearly presented.

For instance, when using the terms such as “best”, “worst”, “best in Japan”, “number one”, “the only company”, “first in the industry”, “not available in other companies”, “wide”, “lowest level”, and “comparatively cheap”, etc., the survey methods, references, or preconditions that constitute the grounds for these terms need to be presented.

(v) When presenting insurance products sold at banks, etc. (including the presentations made by banks, etc.), whether the fact that the products concerned are the insurance company’s products is appropriately presented so as not to lead to a misunderstanding as if the products concerned are the products of the banks, etc. such as time deposits.

(4) Whether the insurance company has taken measures to make presentation to draw attention to the importance of reading documents describing the “contract outlines” and “alerting information” according to the presentation media and content to be presented.

(5) Whether the insurance company has developed an adequate examination system to ensure appropriate presentation, including legal checks by the section in charge of compliance, etc.

Whether the examination is carried out with consideration given to the following points.

(i) Whether the content of the materials, etc. used for solicitation to be presented is examined without omission by the methods such as centrally managing them at the head office.

(ii) Whether the terms and conditions, “contract outlines”, “alerting information”, pamphlets, and policy leaflets, etc. are checked to ensure the consistency of the individual contents to be presented.

(iii) Whether the presentation of the interest reserve rate in the materials, etc. used for solicitation is checked from the point of view of improving the public nature and objectivity, etc.

(iv) In cases where problems, etc. in the presentation have been pointed out in the complaints from policyholders, etc., whether the content pointed out is analyzed, and if a problem is found to exist, whether appropriate measures for improvement are taken.

(6) With regard to Article 300(1)(vi) and (vii) of the Act concerning the explanations of the nature of products, the following points shall be considered.

(i) The presentation of insurance contracts shall be handled equivalently as described in “II-4-2-2(9)”.

(ii) The presentation of the expected dividends shall be handled equivalently as described in “II-4-2-2(10)”.

(7) For specified insurance contracts, the regulations on advertisement, etc. set forth in Article 37 of the Financial Instruments and Exchange Act as Applied Mutatis Mutandis shall be observed with consideration given to each of the above items.

II-4-11 Response to Persons with Disabilities

II-4-11-1 Significance

The Act for Eliminating Discrimination against Persons with Disabilities imposes prohibition of unfair discriminatory treatment and best-effort obligations for reasonable accommodation of disabled persons on business operators, and insurance companies are subject to the imposition.

II-4-11-2 Main Supervisory Focus

Whether, in responding to persons with disabilities, the insurance company makes appropriate responses in accordance with the respective provisions of the “Guidelines for the Promotion of Elimination of Discrimination on the Grounds of Disabilities in Business Fields Under the Jurisdiction of the Financial Services Agency” (Notice No. 3 of 2016).

In addition, whether the insurance company has developed a necessary internal control environment such as understanding and examining the status of the responses and reviewing response methods, etc..

II-4-11-3 Supervisory Method and Actions

When supervisors have recognized an issue of supervisory concern regarding responses to disabled persons by insurance companies, through daily supervising operations or complaints from persons with disabilities,etc., they shall check the status of the development of an internal control

environment by holding in-depth hearings with the insurance company.

When there is doubt about the development status of the internal control environment at an insurance company, supervisors shall request reporting (including reports based on the provisions of Article 128 of the Act) and examine the situation as needed. If said development status is deemed problematic, the supervisor shall urge improvement.

II-5 Others

II-5-1 Outsourcing of Administrative Processes of Insurance Companies

II-5-1-1 Significance

Making business management more efficient has been an issue in each insurance company, and outsourcing of a broad range of business operations is expected to take place more than ever. When each insurance company outsources its business operations, whether it is adequately handled, from the point of view of protecting customers and ensuring the soundness of business management, according to the content of business operations to be outsourced, etc.

(Note 1) “Outsourcing of business operations” above refers to entrusting by an insurance company of a part or all of the business operations necessary for its business to a company other than that insurance company (refers to those that do not fall under life insurance agencies, non-life insurance agencies, and insurance brokers).

(Note 2) With regard to outsourcing of business operations necessary for conducting businesses specific to insurance companies, in particular, consideration shall be given to ensuring carrying out examinations by periodically understanding the situation through hearings, etc.

(Note 3) For cases where the said outsourcing is conducted between an insurance company and its subsidiary companies, etc., also refer to “III -2-2 Subsidiary Companies, etc.” of the Guidelines.

II-5-1-2 Main Supervisory Focus

(1) Whether the insurance company makes efforts, from the points of view of protecting customers, to develop a control environment (including requesting the outsourced contractor to develop a control environment in the outsourcing contract, etc.) such as the following.

(i) Whether the insurance company has made it clear that the outsourcing of business operations does not cause any change in the contractual rights and obligations involving it and its customers, who continue to have the same rights as if the business operations were conducted by the insurance

company itself.

(ii) Whether the insurance company has developed a control environment that ensures the prevention of inconveniences that may be caused to customers should they not be provided the services guaranteed under their contracts related to outsourced business operations.

(iii) Whether the insurance company has developed a control environment to enable appropriate loss investigation from the point of view of protecting users and ensuring user convenience at the outsourced contractor if loss investigation is outsourced.

In particular, whether a control environment has been developed wherein loss investigation is carried out in a way not to unreasonably damage the honors, credits, and rights such as privacy, etc. of relevant parties and third parties.

(iv) Whether the insurance company has developed a system to manage information related to customers, etc. including prohibition of its use other than for intended purposes at the outsourced contractor, and imposed a confidentiality obligation on the outsourced contractor.

(v) For the outsourcing of handling of information related to customers, etc., refer to “II-4-5 Control Environment for the Management of Information Related to Customers, etc.” of the Guidelines.

(vi) Whether the insurance company has established a control environment for properly handling complaints, etc. by, for example, opening a contact point through which customers can directly consult the insurance company.

(2) Whether the insurance company makes efforts to conduct comprehensive examinations on the following points, etc. from the points of view of ensuring the soundness of its business management and develop a necessary control environment (including requesting the outsourced contractor to develop a control environment in the outsourcing contract, etc.).

(i) Risk Management

Whether the insurance company comprehensively examines the risks related to outsourcing such as impacts on its businesses when services are not provided in accordance with the outsourcing contract and considers measures to be taken when such risks are actualized.

(ii) Selecting Business Operators to be Outsourced

Whether the insurance company selects the business operators to be outsourced from the point of view of whether they can provide services of

an adequate level in the context of the rationality of the insurance company's business management, whether their financial/business management conditions are adequate to ensure the provision of services and liability for damages, etc. in accordance with the contract, and whether there is not any problem in the context of the insurance company's reputation, etc.

(iii) Content of Contracts

Whether the content of contracts is in accordance with the content of outsourced business operations, etc. and adequate as, for example, the following points are clearly indicated.

A. Content, level, and cancellation procedures, etc. of services to be provided.

B. Responsibilities of the outsourced contractor if the services are not provided in accordance with the outsourcing contract. Matters related to liability for damages that may occur in relation to the outsourcing (including responses to ensure execution of liability for damages such as providing security as necessary, etc.)

C. Content of report the insurance company receives from the outsourced contractor on the status of the outsourced business operations and that of the outsourced contractor's business management related to those operations.

D. Agreements when responding in accordance with inspections and supervisory requests to the insurance company by the financial authorities.

(iv) Statutory Obligations, etc. Imposed on the Insurance Company

Whether the insurance company has not outsourced business operations in such a way that hinders the execution of statutory obligations, etc. imposed on the insurance company when the said outsourced business operations are carried out by the insurance company itself.

(v) Control Environment on the Insurance Company Side

Whether the insurance company has developed an internal control environment such as that for assigning managers for, monitoring, and examining the outsourced business operations (including measures such as including the provisions that allow the insurance company to examine the outsourced contractor on the appropriateness of its business operation processes in the outsourcing contract, etc.).

(vi) Information Provision

Whether the insurance company has established an internal control environment wherein appropriate information can be promptly obtained as necessary, in addition to periodical reports on the status of execution of the outsource business operations from the outsourced contractor to the insurance company.

(vii) Audits

Whether the outsourced business operations are subject to audit at the insurance company.

(viii) Responses in Emergency Situations, etc.

Whether the insurance company considers responses to prevent significant damage to businesses of the insurance company from occurring even in cases where the services are not provided in accordance with the outsourcing contract. In addition, whether the insurance company has developed a control environment wherein it can provide the services to customers in place of the outsourced contractor, etc.

(ix) Outsourcing to Group Companies

In cases where outsourcing contracts are concluded between the insurance company and its group companies, whether the content of the contracts does not practically provide support to the outsource contractors, thereby violating the arm's-length rule.

II-5-2 Information Disclosure Regarding Corporate Social Responsibility (CSR), etc.

II-5-2-1 Significance

(1) CSR is a concept generally interpreted to include the economic, environmental and social responsibilities a company recognizes in relation to its diverse range of stakeholders, and activities conducted on the basis of those responsibilities. CSR is significant in that the company can enhance its sustainability by fulfilling those responsibilities.

(2) It should be left to individual insurance companies which are private companies to decide, based on the principle of self-responsibility, not only whether to engage in CSR activity but also whether to make information disclosure regarding such activity. Evaluation of an insurance company's CSR activity should be made by a diverse range of stakeholders, including users, under the principle of market discipline.

(3) However, if easy-to-understand information disclosure regarding CSR activity is made in a timely and appropriate manner, users are expected to more easily obtain information useful for judging the sustainability of insurance companies and their insurance products and services when deciding which insurance companies to make transactions with. From this viewpoint, by clarifying supervisory viewpoints regarding CSR-related information disclosure by insurance companies as a minimum standard, supervisors shall promote information disclosure that is appropriate and useful for users.

II-5-2-2 Main Supervisory Focus

Whether the insurance company makes information disclosure appropriate from the viewpoints of the following matters in order to enable a diverse range of stakeholders, including users, to properly evaluate its CSR and to contribute to the improvement of the convenience for users.

(1) Suitability with Objective

Whether the insurance company's CSR report comprehensively covers the fields of economy, environment and society and whether its contents suit the objective of adequately meeting the needs of a diverse range of stakeholders, including users, by using comprehensive descriptions and reflecting social backgrounds. In addition, whether disclosure is made in a timely and effective manner.

(2) Reliability

Whether the insurance company compiles its CSR report through a transparent process and uses precise, objective and verifiable data and information, thereby ensuring that the report is highly reliable and widely acceptable for many stakeholders.

(3) Readability

Whether the insurance company strives to make its CSR report as easy-to-understand as possible so that a diverse range of stakeholders, including users, can understand it. In addition, whether the insurance company pays sufficient attention to the need to enable comparison between recent and past reports by, for example, maintaining consistency.

II-5-2-3 Supervisory Method and Actions

An insurance company's CSR-oriented efforts and information disclosure are voluntary activities based on business decisions in line with the principle of self-responsibility. Therefore, even if the insurance company's CSR report fails to take account of the above supervisory viewpoints, supervisors do not need to take supervisory measures.

However, in cases where information disclosure is imprecise or inappropriate so that it may cause misunderstanding by users, the disclosure practice shall be examined from the viewpoint of the appropriateness of business operations.

II-5-3 Compensation Structure

II-5-3-1 Significance

It is possible for an internationally operating financial institution to design and operate its compensation structure by giving consideration to overseas employment and compensation practices. On the other hand, depending on that design and operation, it could result in increased incentives for officers and employees to take risks, and if this tendency becomes excessive, it could lead to serious problems, such as for risk management of insurance companies or insurance holding companies with overseas branch offices or invested foreign corporations(Note 1) (hereinafter referred to as “insurance companies with overseas bases, etc.” in II-5-3).

Internationally as well, at the Financial Stability Board and other forums, discussion has been advanced on the design and operation of the compensation structures of financial institutions. The upshot is that insurance companies with overseas bases, etc. need to ensure that compensation structures do not lead to officers and employees taking excessive risks while also giving consideration to these international trends. In light of this, the supervisory authorities shall supervise the compensation structures of insurance companies with overseas bases, etc. with due consideration of II-5-3-2 “Main Supervisory Focus” while also taking into account, inter alia, international guidelines published by the Financial Stability Board(Note 2). In performing actual supervision, supervisors shall also take into account the size of the insurance company with overseas bases, etc., the content of its business operations, and its establishment of overseas bases, and shall be mindful of not applying these guidelines in a mechanical and uniform fashion.

In addition to the risk of officers and employees being provoked into taking excessive risks with regard to the compensation structure, supervisors shall also take due care with regard to whether any similar risks are noticeable with regard to employment practices, personnel evaluation systems and the like. Also, in light of the fact that senior managers are charged with governance and other important responsibilities and that they receive compensation for this, it should be kept in mind that they are duly required to conduct appropriate management.

(Note 1) “Invested foreign corporations” refers to “invested foreign corporations” described in III-2-2-4(2) that conduct insurance business or

asset management business. It should be noted that it is desirable that insurance companies and holding companies without overseas branches and invested foreign corporations are also handled equivalently as described in II-5-3-2 “Main Supervisory Focus”.

(Note 2) - “FSF Principles for Sound Compensation Practices,” Financial Stability Forum (April 2009)

- “FSB Principles for Sound Compensation Practices. Implementation Standards,” Financial Stability Board (September 2009)

(Note 3) The design/operation of the compensation structure of foreign insurers should primarily be supervised by the authorities of their home countries on a group basis in an appropriate manner so as to prevent incentives for officers and employees to take risks from being excessively strong.

On the other hand, from the point of view of appropriately cooperating in supervision by the home countries’ authorities, etc., the status of design/operation of compensation structures of insurance companies (insurance companies, foreign insurance companies, etc., or specified corporations prescribed in the Insurance Business Act) based in Japan shall also be monitored. In particular, in cases where the risk of officers and employees of companies based in Japan being provoked into taking excessive risks, etc. is deemed to exist, more in-depth examination shall be conducted on the problems in risk management and take necessary measures such as actively presenting problems to the home countries’ authorities, etc.

II-5-3-2 Main Supervisory Focus

(1) Role of the Compensation Committee, etc.

(i) With regard to the compensation structure for officers and employees of the insurance company with overseas bases, etc. (including its subsidiary companies, etc. and their invested foreign corporations, as necessary; the same applies hereinafter), whether a committee to monitor the condition of that and an appropriate control environment by which the necessary checks of the management team can be exercised to ensure the appropriate design and operation of the compensation structure (hereinafter referred to as the “compensation committee, etc.”) has been

established. Also, whether the necessary authority, systems and so forth have been secured so that the compensation committee, etc. can exercise the monitoring and checking function independently from the operational divisions (including officers in charge of sales).

(Note 1) “Subsidiary companies, etc.” refers to “subsidiary companies, etc.” described in III-2-2 that conduct insurance business or asset management business.

(Note 2) For insurance companies with overseas bases, etc. that have not established the compensation committee, etc., the following points shall be considered.

- Whether specific compensations are determined by the board of directors, etc. based on the internal rules, etc. within the range of maximum amount of compensation for officers determined at the Member Representatives Meeting or general meeting of shareholders and the appropriateness, etc. of the level of overall compensation amounts is deliberated by the board of auditors, etc..
- Whether the policy and internal rules, etc. for compensations for employees are determined by the board of directors including outside directors, etc. and the appropriateness, etc. of the level of overall compensation amounts is deliberated by the board of auditors, etc.

(ii) Whether the compensation committee, etc. has confirmed that the overall level of compensation will not have a material impact on the future adequacy of the financial soundness standards, taking into account the present state and future forecasts of financial soundness of the insurance company with overseas bases, etc.

(iii) Whether the compensation committee, etc. pays sufficient attention to the perspectives of risk management, such as whether it cooperates closely with the risk management section regarding the evaluation of the appropriateness of the design and operation of the compensation structure.

(iv) Whether the compensation committee, etc., through monitoring how the compensation structure is operated, checks whether any problems have not arisen, such as compensation being excessively linked to short-term earnings or being overly reflective of performance.

(2) Consistency between Compensation Structure and Risk Management, etc.

(i) Whether the compensation of employees in the risk management sections and compliance sections is determined independently from other business

sections, and whether such compensation appropriately reflects the importance of their responsibilities. Also, whether, in addition to the degree to which risk management and legal compliance goals are achieved, compensation-related performance for these employees is measured in a way that primarily reflects the degree of their contribution to the establishment of a control environment for risk management and a control environment for legal compliance.

(ii) Whether the productivity-linked portion of compensation for officers and employees (as for employees, those employees who have a significant influence on the overall risk-taking of the insurance company with overseas bases, etc.; the same applies hereinafter) is appropriate given their responsibilities and the actual scope of their work, and in light of the policies concerning the financial soundness of the entire insurance company with overseas bases, etc. and the degree of risk that the insurance company with overseas bases, etc. can face.

(iii) In cases where a considerable portion of the compensation for officers and employees is linked to productivity, whether the design takes into account the response to financial risks that could arise before the compensation is finalized (measures to ensure financial soundness standards).

(iv) Whether the productivity-linked portion of compensation for officers and employees has been designed to decrease to a significant degree in the event of poor business results.

(v) Whether methods of paying compensation which emphasize the creation of more long-term corporate value (for example, payments in stock or the granting of stock options) and methods of paying compensation which also take into account the period of time up until risks are actualized (for example, setting fixed-period transfer restrictions in cases where payments are made in stock, setting exercise periods if stock options are granted, or redemptions in the event compensation payments are carried over if business results are poor) have been adopted according to the responsibilities of officers and employees and the actual scope of their work.

(vi) With regard to a compensation structure that could adversely affect risk management (such as guaranteed minimum bonuses paid across two or more years, or a system of large retirement allowances), whether appropriate improvement measures have been examined and

implemented.

(vii) Even in cases where a compensation structure has been designed which is consistent with risk management, whether a control environment has been developed for properly monitoring and checking the risk of acts been conducted by officers or employees which could compromise the intent of that design (such as transactions which are likely to reduce risks superficially, etc.).

(3) Disclosure of the Design/Operation of the Compensation Structure

It is desirable that useful information on the consistency between the compensation structure of the insurance company with overseas bases, etc. and risk management such as, for example, the following items are actively disclosed, taking into account international best practices.

(i) Information on the compensation committee, etc.

(ii) Important information on the design of the compensation structure (for the productivity-linked portion, in particular, outlines of the method of measuring performance, method of reflecting performance in the amount of compensation, and method of payment, etc.)

(iii) Important information on the operation of the compensation structure (in particular, matters concerning the amount of total compensations for officers and employees, percentage of the productivity-linked portion in that total, and actual payment method, etc.)

II-5-3-3 Supervisory Method and Actions

(1) With regard to compensation structures of insurance companies with overseas bases, etc., supervisors shall conduct hearings on a periodic and ongoing basis on their response to identified issues in light of international trends and other factors. In addition, supervisors shall actively utilize frameworks of cooperation with overseas authorities, and shall conduct in-depth hearings regarding any issues related to overseas bases that are consequently identified.

(2) In cases where off-site monitoring, inspection results, or the like mentioned in (1) above reveal a problem in the business operation or internal control environment of the insurance company with overseas bases, etc.,

supervisors shall require the submission of a report based on Article 128 of the Act, as necessary.

In addition, in light of the reports submitted, in cases where it is deemed necessary for improvement, supervisors shall also take such action as issuing a business improvement order based on Article 132 of the Act.

II-5-4 Ensuring Smooth Execution of Orderly Resolution

II-5-4-1 Measures to Ensure the Effectiveness of Stay Decision in Contracts Governed by Foreign Laws

II-5-4-1-1 Significance

The amendment of the Deposit Insurance Act in June 2013 has provided the Prime Minister with the power to make a decision that a “clause on specified cancellation, etc.” in a contract, meaning a clause which provides specified cancellation, etc. (specified cancellation, etc. prescribed in Article 137-3(2) of the same Act) that is to be triggered by an application of related measures, etc. prescribed in Article 137-3(1) of the same Act, is null and void for a period prescribed in Article 137-3(1) of the same Act (such a decision is hereinafter referred to as a “stay decision”). In the above conjunction, the provisions in Article 131 of the same Act with respect to special provisions for procedures of creditor protection concerning business transfer, etc. were revised. In order to avoid severe disruption to Japan’s financial system, financial institutions, etc. to which specified confirmation prescribed in Article 126-2(1) of the same Act is applicable are required to develop an appropriate control environment to ensure that the effectiveness of stay decisions and special provisions for procedures of creditor protection prescribed in Article 131 of the same Act (hereinafter collectively referred to as the “effectiveness of stay decision, etc.”) extend to contracts governed by laws other than Japanese law.

II-5-4-1-2 Main Supervisory Focus

In light of the development at the global level aimed at ensuring the effectiveness of temporary stay on early termination rights in contracts governed by foreign laws, supervisors shall set the following items as their

supervisory focus in examining the companies' controls on contracts governed by laws other than Japanese law(Note), taking into account the circumstances of individual transactions.

(Note) The necessary measures must be taken at the insurance group level.

(1) Supervisory Focus With Respect to Conclusion of a Contract, etc.

Whether an insurance company, etc. has taken necessary actions to ensure, regardless of the counterparties' jurisdictions, that the effectiveness of stay decision applies to a contract governed by laws other than Japanese law, where the insurance company, etc. concludes or materially amends the contract or enters into a transaction based on the existing contract, provided that the new or the existing contract, as the case may be, contains a clause on specified cancellation; is agreed with any counterparty other than central counterparties; and is with respect to subject transactions which refers to, among the transactions prescribed in Article 35-18 of the Regulation for Enforcement of the Deposit Insurance Act as "transactions pertaining to goods with a quotation on an exchange or any other market quotation, or transactions equivalent thereto", over-the-counter derivative transactions, financial and other derivative transactions, the sale or purchase of securities on condition of repurchase or resale, the lending and borrowing of securities, the trading of bonds with options, forward foreign exchange transactions, over-the-counter commodity derivative transactions, and similar transactions, including transactions entered into for the purpose of collateralizing these transactions.

(Note) Actions to comply with the requirements above include:

(i) Adhering to an internationally common protocol aimed at ensuring the effectiveness of stay decision on contracts governed by laws other than Japanese law and confirming that the counterparty has adhered to such a protocol; and

(ii) Indicating clearly in the contract that the effectiveness of stay decision applies to the subject transactions.

(2) Supervisory Focus With Respect to Existing Contracts

It is desirable that companies that are required to take the actions set out in (1) also take those actions, as necessary, with respect to existing contracts of subject transactions which include a clause on specified cancellation and are governed by laws other than Japanese law (excluding the cases where

the firm enters into a new transaction based on the existing contract), taking into account the significance of the potential systemic impact that may be caused by the non-enforceability of the effectiveness of stay decision to the contract.

II-5-4-1-3 Supervisory Method and Actions

Based on the supervisory focus above, supervisors shall conduct in-depth hearings on the control environment of the insurance company group. Where necessary, supervisors shall also require the insurance company group to submit a report to the FSA, pursuant to Article 128 or 271-27 of the Act and Article 136 of the Deposit Insurance Act.

If any material impediment to ensuring smooth execution of orderly resolution is identified as a result of requiring the submission of a report, supervisors shall consider issuing a business improvement order pursuant to Article 132 or 271-29 of the Act and an order pursuant to Article 137-4 of the Deposit Insurance Act.

III. Points of Attention in the Conduct of Administrative Processes Regarding Inspection/Supervision of Insurance

III-1 Basic Concept for Inspection and Supervising Operations of Insurance

In order to achieve the above-mentioned purpose of inspection and supervision of insurance (I-1(1)), the FSA also needs to continuously take actions against insurance companies according to the scale and characteristics of individual insurance companies.

For this reason, it is essential, when examining/supervising insurance companies, that supervisors first understand the policy of each company on how to address the challenges such as establishing a business model, protecting policyholders, etc. ensuring financial soundness, and establishing a control environment for managing compliance risks, and then correctly understand under what governance system the policy is to be implemented, what potential risks and issues are involved, and how each company intends to recognize and respond to these risks, etc.

In order to respond to important issues with a viewpoint of overall business management and lead it to sound development of the national economy, it is necessary for each insurance company to reform its management system to make improvements toward best practices on its initiative without being pointed out by the authorities. The FSA shall, in the course of continued monitoring through understanding the actual situations and dialogue, etc., encourage each company's efforts to pursue better practices.

In doing so, if a serious problem is found from the point of view of the soundness and appropriateness of business operations or if it is deemed that business operations cannot be improved with insurance companies' voluntary efforts alone, supervisors shall consider taking administrative measures (III-4), including business improvement order under Article 132 of the Act, etc.

Furthermore, when inspecting/supervising insurance companies, due consideration shall also be given to the following points.

(1) Ensuring Sufficient Communication With Insurance Companies

When conducting inspection/supervision, it is important to correctly understand/analyze the information on business management of insurance companies and, as necessary, appropriately respond to it on time. In order to do so, in addition to reports from insurance companies,the FSA needs to regularly

promote sufficient communication and actively collect information under a sound and constructive tense relationship with insurance companies. and to More concretely, it is necessary to make efforts to understand not only financial information, but also various information on business management by ensuring daily communications with insurance companies through interviews and exchange of opinions, etc. with a broad range of their officers and employees, including senior managers, outside directors, and persons in charge of internal audits, periodically and on time.

(2) Respecting Voluntary Efforts of Insurance Companies

The FSA is in the position to examine, pursuant to laws and regulations, the management decisions of insurance companies which are private companies in line with the principle of self-responsibility, etc. and encourage the improvement of problems. When conducting inspection/supervision, supervisors shall, fully taking into account this position, give sufficient consideration to respecting voluntary efforts of insurance companies regarding their business operations.

(3) Ensuring Efficient and Effective Inspection/Supervising Operations

From the point of view of effectively utilizing limited resources of the FSA and insurance companies, inspection/supervision needs to be conducted efficiently and effectively by fully taking into account the scales and characteristics of insurance companies. Therefore, when requesting insurance companies to submit reports and materials, etc., supervisors shall consider limiting them to the extent actually necessary for inspection/supervising operations and make efforts to improve the efficiency and effectiveness by always checking the necessity and methods, etc. of current inspection/supervising operations and make improvements when necessary, etc.

Considering the point of view of reducing the burden of operations of insurance companies, etc., reports and materials already submitted shall be periodically checked once a year. In doing so, consideration shall be given to sufficiently hearing insurance companies' opinions.

Besides, when requesting insurance companies and insurance agents to submit reports and materials, etc. regarding small-scale business offices, etc. of the insurance companies and insurance agents (meaning "insurance agents" prescribed in Article 2(23) of the Act but excluding "small amount and short term insurance agents"; the same applies hereinafter), supervisors shall consider not to hinder smooth execution business operations by fully taking into account the

characteristics of the business offices concerned concerning services and products handled, etc.

(4) Ensuring International Level of Supervision

The supervisory authorities shall, considering that some insurance groups subject to the Guidelines for Supervision operate businesses internationally, make efforts to reflect the “Common Framework for the Supervision of Internationally Active Insurance Groups” (ComFrame) adopted by IAIS in November 2019, etc. in conducting inspection/supervision and designate Internationally Active Insurance Groups (IAIG) in Japan that operate businesses internationally under the provisions of the ComFrame.

In addition, for overseas activities of insurance groups, supervisors need to closely cooperate with financial supervisory authorities in the jurisdictions where bases of the insurance groups are located (host jurisdictions).

III-1-1 Procedures of Inspection/Supervising Operations

Inspection/supervising operations of insurance companies are based on encouraging each company to make necessary improvements by appropriately combining various methods such as monitoring through understanding the actual situations and dialogue, etc. supervisory measures, feedback, and information provision according to the situation and the characteristics and seriousness, etc. of problems that each company is facing.

In addition to the above, supervisors are required to correctly understand changes in the global economic/market environment surrounding insurance companies through daily monitoring and, concerning individual situations of each company, encourage efforts to pursue best practice in risk management, etc. and resolve issues in establishing a control environment for business management/governance, etc. in dialogue with insurance companies, taking into account monitoring data and results of hearings on an as-needed basis, etc.

III-1-2 Specific Methods of Inspection/Supervising Operations

(1) Continued and Focused Unified on-Site/off-Site Monitoring

The FSA shall, after understanding the characteristics and issues of each company, conduct continued monitoring to follow up on the status of improvements by using different monitoring methods, including on-site inspection, according to the characteristics and priority of the issues.

When using different monitoring methods, sufficient consideration shall be given, in addition to individual specific situations of each company, to the viewpoints such as the effectiveness of each method in understanding the actual situations, degree of burden on the authorities side and the insurance companies side, and urgency of the problems, etc. Basically, supervisors shall first conduct an analysis of materials related to the management/financial/risk figures, etc. and monitoring such as hearing from relevant internal/external parties, and then make judgments on the necessity of on-site inspection under Article 129 of the Act (in the case of foreign insurance companies, Article 201 of the Act and in the case of underwriting members and licensed specified corporations, Article 227 of the Act; the same applies hereinafter), taking into account the results of an analysis on whether an issue concerning the current soundness/appropriateness, etc. exists.

(2) Specific Methods

(i) Presupposed Acts in Understanding the Actual Situations and Conducting Dialogue

A. Information Collection/Profiling (understanding of characteristics)

The FSA shall conduct monitoring to understand the characteristics, issues, and individual-specific situations on each occasion such as the status of voluntary efforts for improvement, etc. of each company. This includes the understanding the impact that changes in the environment surrounding insurance companies have on business management and the status of each company's response to it.

In addition, since the trends of domestic/overseas economy and financial/capital markets and the actions of insurance companies affect each other, supervisors are also required to analyze/understand that interaction.

Although such information collection and profiling is based on the accumulation of the results of daily monitoring and is not constrained to

specific formats, supervisors shall make efforts, for example, from the following points of view.

(A) Macroeconomic Perspectives

It is necessary to analyze/understand the impacts that changes in domestic and overseas economic, financial market, political, and social environments have on each company and financial system. Therefore, it is effective, for example, to collect information on changes in domestic and overseas environments such as problematic conducts in Japan and abroad including general companies, revisions of laws and regulations and trends in precedents both domestic and overseas, trends in discussions in overseas authorities and international organizations, and changes in economic/social environments (increased interest in SDGs, etc.), etc. in cooperation with relevant departments within the Agency, local Finance Bureaus, and relevant Ministries and Agencies, etc., and then analyze/understand the issues common to other companies in the same business and other industries, similar businesses/products, and legal systems, etc.

Supervisors shall make efforts to understand/identify the issues inherent in the overall financial sectors by analyzing the horizontal expansion and spread of problematic events through such information collection/analysis.

(B) Microeconomic Perspectives

In order to realize effective dialogue, etc. with insurance companies, it is essential to accumulate in-depth knowledge of the actual circumstances specific to each company. In particular, as the starting point, it is necessary to confirm the management philosophies of insurance companies such as what visions they have in their business environment (customer characteristics, competitive environment, etc.) and what they intend to do to achieve them. In order to do so, it is effective to collect information such as the following, for example, from the insurance companies concerned and their stakeholders (employees, customers, local communities, shareholders, etc.).

- Not only typical materials such as financial data and risk figure data, etc., but also materials and agenda, etc. of meeting bodies for making business management decisions shall be analyzed
- Not only periodic hearings on the settlement of accounts and risk management, but also hearings on business trends from those of each

rank, including responsible persons of each section, shall be conducted

- In order to understand how insurance companies recognize risks and carry out their business operations, opinion exchange with the internal audit sections, audit (and supervisory) committee members/auditors, and outside directors, etc. shall be conducted
- In order to improve insurance companies' understanding the customer and industry characteristics, opinion exchange with business operators and local relevant parties, etc. shall be conducted
- Financial services users' opinions, etc. collected by utilizing various channels such as information on inquiries and complaints, etc. brought to the Counseling Office for Financial Services Users and results of various hearings as well as external information including media reports and external inquiries, etc. shall be analyzed

Supervisors shall understand insurance companies' business models/business strategies, business operations, and organizational control environment through information collection/analysis such as the above and traditional monitoring, and then understand their respective issues, characteristics, and the impacts of changes in environments surrounding insurance companies.

B. Identification of Priority Issues and Formulation of Monitoring Policy/Plan

In order to discuss substantially important management matters with senior managers of insurance companies as well as to utilize limited administrative resources as efficiently as possible, it is necessary to prioritize the issues across insurance companies that are common to issues of each company identified through the above-mentioned information collection and understanding the characteristics, with due consideration to the importance and urgency of the times such as social demand. The cross-sectoral high-priority issues so identified shall be specified in the annual policy, etc. and published at the beginning of the business year.

It is then necessary to formulate the monitoring policy/plan by taking into account the status of business management specific to each company, specify specific response policy/plan to priority issues, and establish a system to assign appropriate personnel, etc. In doing so, supervisors shall use on-site inspection and other monitoring as well as monitoring of each

company and horizontal monitoring differently according to the nature of the important issues to enable insurance companies to concentrate their management resources to the improvement of substantially important matters.

It should be noted that on-site inspection is positioned as a method of understanding the actual situations in a series of monitoring processes, instead of being conducted periodically as before. However, if the on-site inspection is not conducted for a long period, the possibility of problematic events that are difficult to predict by the authorities may have been relatively increased and that fact may be considered as a risk factor.

In addition, if a new issue has occurred or is found during the term, supervisors shall strive for appropriate monitoring according to the requirements of the time by flexibly reviewing the monitoring plan, etc.

(ii) In-Depth Understanding of Actual Situations of Each Company

In order to understand the actual situations, supervisors shall select the most efficient and effective method from among various hearings, requesting for voluntary submission of materials, questionnaire, legally requiring the submission of a report, and on-site inspection according to the nature of the issue, the progress of response, and the actual situations of each company.

In addition, if the authorities have identified in the past or are separately identifying the information, supervisors shall consider reducing the burden of insurance companies by, for example, checking the content of that information in advance and then utilizing it to the extent possible.

Furthermore, in cases where monitoring is conducted based on analysis conducted in the past, if a new issue is identified through information collection, understanding of the actual situations, and dialogue, supervisors shall appropriately respond to it according to the nature of the new issue.

Each method selected shall be implemented with consideration given to, for example, the following points. Regardless of which method is to be implemented, supervisors shall carefully explain to insurance companies what issues the authorities have identified and what discussions they are intending to make.

A. Various Hearings

In order to deepen mutual understanding of priority issues with insurance companies, Supervisors shall conduct multi-layered hearings with the top management, responsible persons of each section and each business office, and persons engaged in the actual work, etc. according to the nature

of the issue.

It should be noted that, considering that efforts to pursue best practices are to exhibit originality and ingenuity according to the environments and characteristics of insurance companies, supervisors need to give consideration so as not to have the authorities force certain answers.

In addition, as part of such various hearings, concentrated hearings or dialogue may be conducted for a certain period on specific themes within the facilities of insurance companies.

B. Request for Voluntary Submission of Materials

Supervisors shall make efforts to carefully explain to insurance companies and gain their understanding by clearly indicating what recognition of issues on which the request concerned is based and what content of materials is required for it in a manner that the purpose of the request is clearly and correctly communicated with consideration given to the burden of insurance companies. In doing so, supervisors shall make efforts to reduce the burden imposed on insurance companies by dispersing the implementation period, avoiding duplicate requests, and setting the submission due date to allow plenty of time, etc. In particular, if the method covers multiple insurance companies, such as questionnaire, etc., supervisors shall give sufficient consideration to each company's characteristics and environment.

C. Requiring Submission of a Report Under Article 128 of the Act

If it is deemed necessary, supervisors shall require the submission of a report under Article 128 of the Act (in the case of a foreign insurance companies, etc., Article 200 of the Act; and in the case of a licensed specified corporation or an underwriting member, Article 226 of the Act; the same applies hereinafter). In that case, supervisors shall carefully explain to insurance companies what recognition of issues by the authorities on which the request concerned is based is.

D. On-Site Inspection Under Article 129 of the Act

If it is determined necessary to conduct an in-depth examination of the current soundness/appropriateness, etc., supervisors shall conduct on-site inspections under Article 129 of the Act. In that case, supervisors shall re-confirm the correctness of priority issues identified in discussions with senior managers and establish a hypothesis, always keeping in mind what important management issues are and what the root causes are. Furthermore, supervisors shall strive to make fundamental discussions on

important issues concerning business management of insurance companies and financial administration rather than to reach easy conclusions by further collecting and understanding the facts and actual situations to verify the hypothesis and then discussing with senior managers based on facts and actual situations collected.

For basic procedures for on-site inspection, refer to Attachment 1 “Basic Procedures for On-Site Inspection”. In addition, in cases where a notice of the inspection results is issued, within a week from the date of the issuance in principle, supervisors shall, under Article 128 of the Act, require the insurance company to submit a report on the fact-checking, analysis of the cause, and improvement measures, etc., on the matters pointed out within a month. With regard to the matters to be reported, reference shall be made to Form III-1-2-1(1) in Forms and Reference Materials as the basic form, but supervisors shall sufficiently consider specifying appropriate and adequate matters to be reported individually according to the content pointed out.

(iii) Dialogue

Dialogue shall be conducted according to the presence/absence and probability of the occurrence of serious problems concerning financial soundness and compliance, etc., individual specific situations on each occasion such as the status of voluntary efforts of insurance companies to improve business management, etc., and nature of the problem.

When conducting dialogue, supervisors shall, while making efforts to enable insurance companies to express their positions with a sense of security to the extent possible by eliminating assumptions on the authorities’ side and the imposition of hypotheses, first sufficiently understand the concepts and policies of insurance companies, and then ensure to carry out the dialogue by presenting the facts.

Furthermore, in conducting dialogue, supervisors must sufficiently take into account the interactions that have been made between the authorities and each company, etc. and strive to carry out operations with consideration given to the continuity of dialogue.

A. In cases where the probability of the occurrence of serious problems concerning the financial soundness and compliance, etc. is deemed to have increased in the understanding of the actual situations by the authorities, first the insurance companies shall examine the validity of issues, root causes, and improvement measures themselves, and then the

in-depth dialogue on the formulation/implementation of improvement measures shall be conducted between the authorities and insurance companies. However, in cases where it is deemed highly urgent such as the above-mentioned problems having already occurred, etc., the authorities shall clearly indicate the matters that they believe will require improvement, and then confirm the response policies of each company.

B. It is important that the insurance companies for which the probability of the occurrence of serious problems is not deemed to exist continue to make efforts to advance their business models and risk management by utilizing originality and ingenuity according to the situations they are in. For this reason, the authorities shall understand the business environments and business management issues of each company or strategies and policies of each company in-depth based on the understanding of their characteristics through daily monitoring, and then conduct the in-depth dialogue on business models, risk management, and human resource development, etc. with insurance companies with the aim of having insurance companies themselves to gain “awareness” without presupposing any particular answers (other reference cases with regard to best practices, etc. shall be shared, as necessary, in this process).

(iv) Flexible and Appropriate Combinations of Various Methods

As described above, the FSA uses various methods in its administrative operations for responding to insurance companies, but each of them has advantages and disadvantages from the point of view of the effectiveness and the burden/costs, etc. on the authorities’ and insurance companies’ sides. Therefore, the FSA aims to realize effective and efficient inspection/supervising operations by achieving flexible combinations that can utilize the advantages of each method according to the issues of each company and the occurrence/non-occurrence of serious problems concerning the financial soundness and compliance, etc. For example, other than the already mentioned methods, the following methods may be considered.

・ Feeding back the industries’ common situations and issues and case examples in specific fields, etc. contributes to the utilization of originality and ingenuity by insurance companies themselves. In particular, the in-depth dialogue will become possible after establishing advanced common values between the authorities and insurance companies by feeding back these measures based on the issues each company has. Even in that case, it is necessary that the authorities respect independent business decisions of

each company and do not inappropriately intervene in their judgments on individual transactions.

- Information such as the business policy and efforts to improve it that insurance companies voluntarily disclose can deepen dialogue with customers and other relevant parties and contribute to the efforts of insurance companies to improve their business management.
- If issues of each company concern the areas of customer protection and customer convenience, the effectiveness of dialogue can be improved by, instead of entirely focusing on interactions between the authorities and insurance companies, conducting questionnaires and hearings to third parties such as trading partners and users and feeding back the results when conducting dialogue between the authorities and insurance companies.
- Measures to make approaches to stakeholders related to insurance companies' business environments with the FSA sharing common values and goals with relevant parties other than insurance companies and providing information regarding its stances of various analysis and financial administration, as necessary, may be considered.

(v) Response Based on the Results of Monitoring

With regard to the above-mentioned feedback of the results of financial monitoring, ingenious efforts shall be made in determining how to proceed with it that is appropriate for focused discussions on priority issues by not being bound by the traditional form of "notification of the inspection results", but instead continuing to make discussions on the points on which their recognitions vary after confirming the differences, etc.

For instance, appropriate follow-ups shall be provided by feeding back the results to insurance companies in ways such as the following and requiring them to continue discussions and, when necessary, make improvements

A. The results of on-site/off-site monitoring conducted throughout the year shall be delivered in writing as a "feedback letter" for the year, as necessary.

B. When the on-site inspection has been conducted, the results shall be fed back each time in principle. The methods used for feeding back vary depending on the events identified and the content of the on-site inspection. For instance, for minor events and items for which the response described in (iii)B. above is to be taken, feedback shall be made in the form of "comments" and "opinions of the authorities" and for serious events, in the

form of “notification of the inspection results”.

C. With regard to the issues common to the industry, in addition to A. and B. above, the information shall be provided as needed.

Problems found and information collected through monitoring shall be categorized into (i) those limited to individual insurance companies, (ii) those common to the industry concerned, (iii) those also common to other industries, and (iv) those that affect businesses under the jurisdiction of the authorities, relevant Ministries and Agencies, or other industry organizations, etc. and reflected in the annual policy and monitoring plan for the next term through the processes of III-1-2(2)(i)A. above, etc. In addition, cross-sectional horizontal monitoring shall be considered and approaches shall be made to businesses under the jurisdiction of the authorities, relevant Ministries and Agencies, or other industry organizations, taking into account the extent of problems that goes beyond monitoring.

III-1-3 Quality Control

In order to ensure appropriate judgment on the quality and depth of monitoring through understanding of the actual situations and dialogue in the entire processes of inspection and supervising operations, quality control shall be carried out at the organization level. Supervisors shall make efforts to ensure the quality of inspection/supervising operations from a broad perspective of maximizing the welfare of all the people with regard to whether originality and ingenuity of each company are respected and whether inappropriate burdens are imposed on each company, etc., taking into account the actual individual situations specific to business environment and management philosophy of each company.

Therefore, relevant executives of the Strategy Development and Management Bureau and the Supervision Bureau shall continue to make necessary improvements on the following points, for example, by conducting multifaceted/multi-layered examinations with consideration also given to the opinions from insurance companies.

- When conducting information collection, hearings, and dialogue, whether effective cooperation and information sharing are taking place among monitoring teams for each business category/area not to impose an

excessive burden on insurance companies with duplicate requests, etc. In addition, when requesting the submission of materials, whether the content of the request is clear, whether the differences/characteristics of each company are considered, and whether the submission due date is set to allow plenty of time.

- When understanding the characteristics of each company, whether the actual individual situations specific to its business environment and management philosophy, etc. are sufficiently considered. In addition, whether objective materials/facts are considered to avoid the persons in charge at the authorities falling into assumptions.
- When identifying priority issues, whether supervisors are able to focus on substantially important management issues according to the actual individual situations of each company. In addition, whether common issues that expand to other insurance companies and business categories have been overlooked.
- When formulating the monitoring policy/plan, whether appropriate monitoring targets and methods have been selected and a system to conduct monitoring has been established.
- When requesting the submission of a report, whether the authorities' recognition of the issue is carefully explained to the insurance company.
- Based on III-1-2-(2)(iii) above, whether appropriate dialogue has been conducted. In addition, whether dialogue has been conducted as one-sided guidance.
- Whether the analysis of the root causes are conducted for issues and problems found as a result of monitoring.
- When feeding back the results of monitoring, whether the most appropriate method has been chosen for making discussions focused on priority issues. In addition, with regard to the content to be fed back, whether appropriate discussions and requests for improvements, etc. have been made according to the importance of the issue, whether trivial problems have been pointed out, and whether inappropriate intervention in business management has resulted.

In carrying out the feedback, in addition to the opinion submission system for overall monitoring, efforts shall be made to enhance the opportunities to receive honest opinions and criticisms from insurance companies such as, for example, executives visiting insurance companies to directly hear their opinions about

monitoring.

In addition, supervisors shall conduct an external evaluation on financial administration through hearings to insurance companies and employees of the FSA, etc. and hearing opinions from external experts through the panel of experts, etc.

III-1-4 Cooperation with Local Finance Bureaus, etc.

(1) Cooperation Between the FSA and Local Finance Bureaus

Under the provisions of Article 49 of the Order, authorities concerning the registration of specified insurance agents, orders to submit reports and materials, and questioning and on-site inspection are delegated from the Commissioner of the FSA to the Directors-General of local Finance Bureaus (those having jurisdiction over the location of the principal offices of specified insurance agents).

In order to ensure appropriate solicitation operations of specified insurance agents, efforts shall be made to establish close cooperation between the FSA and local Finance Bureaus by mutually providing helpful information on the specified insurance agents concerned, if any, as appropriate.

(2) Cooperation Among Local Finance Bureaus

The Directors-General of local Finance Bureaus exercising the authorities delegated as prescribed in Article 47 or 49 of the Order shall, when the authorities delegated cover jurisdictional districts of other local Finance Bureaus, consult with those other local Finance Bureaus in advance and otherwise make efforts for close cooperation by providing helpful information, if any, to those other local Finance Bureaus, as appropriate, etc.

(3) Authorities Other Than Those Delegated Above

When an application for permissions or approvals pertaining to the authorities of the Commissioner of the FSA other than those delegated to the Directors-General of local Finance Bureaus under the provisions of Article 47 or 49 of the Order is received, the Director-General shall transfer the application to the Supervision Bureau with opinions of the local Finance Bureau attached and make efforts for close cooperation by providing helpful information on the insurance company concerned, if any, to the sections of the Supervision

Bureau in charge, as appropriate, etc.

III-1-5 Delegation, etc.

III-1-5-1 Internal Delegation of Part of Authorities of the Directors-General of Local Finance Bureaus having jurisdiction to the Directors-General of Local Finance Offices having jurisdiction

If the principal office of a specified insurance agent is located within the jurisdictions of a Local Finance Office, the Otaru Branch Office, or the Kitami Branch Office, the Directors-General of local Finance Bureaus having jurisdiction (including the Directors-General of the Fukuoka Local Finance Branch Bureau and the Okinawa General Bureau; the same applies hereinafter) shall be able to have the Director-General of the said Local Office or Branch Office execute the authorities delegated to it based on its decision.

In that case, written applications and written notifications, etc. to which those authorities pertain shall be submitted to the Directors-General of local Finance Bureaus having jurisdiction.

III-1-5-2 Reports on the Amount of Payment of Registration and License Tax Pertaining to Business License of Banks, etc.

The Commissioner of the FSA (registrar) which grants business license of banks, etc. must, under the provisions of Article 32 of the Registration and License Tax Act, notify the amount of payment of registration and license tax to the Minister of Finance with jurisdiction over the said Act.

Therefore, each local Finance Bureau shall compile the number of payment cases and the amount of payment of registration and license tax for the period from April 1 of the preceding year to March 31 of the current year in the Form III-1-5-2 in Other Forms for Reporting, etc. of Forms and Reference Materials and report them to the Supervision Bureau by the end of April of the current year, as the Commissioner of the FSA, the registrar, will need them for making the above reports.

III-1-6 Administrative Reports on Individual Insurance Companies

In cases where the following measures have been taken, supervisors shall immediately report them to the Director-General of the Supervision Bureau.

(1) Requesting the submission of reports and materials under the provisions of Article 128(1), Article 200(1), and Article 226 of the Act.

(2) Receiving a statement of insurance company voting right holdings prescribed in Article 271-3(1) of the Act.

(3) Receiving a statement of changes prescribed in Article 271-4(1) and (3) of the Act and a correction report prescribed in (4) of the same Article.

(4) Receiving notification of reference date prescribed in Article 271-5(1) of the Act, a statement of insurance company voting right holdings prescribed in the same paragraph, and a statement of changes prescribed in (2) of the same Article.

(5) Ordering the submission of a correction report prescribed in Articles 271-6 and 271-7 of the Act.

(6) Ordering the submission of reports and materials prescribed in Article 271-8 of the Act.

III-1-7 Measures Regarding Financial Services Support in the Event of Disasters

III-1-7-1 Financial Services Support Measures for Disaster-Stricken Areas

The government is required, under the Basic Act on Disaster Management, to take financial measures, etc. necessary to achieve the purpose of the same Act (Article 9(1) of the same Act). In light of this, when a disaster has occurred, supervisors shall, while maintaining close contact with relevant organizations, ensure that insurance companies quickly and appropriately implement the following measures within limits deemed necessary, in light of the extent of damage and other circumstances of the affected areas and the demand for

funds in such areas.

(1) Measures to Provide Convenience for the Payment of Insurance Proceeds, etc.

Supervisors shall request insurance companies to provide as much convenience as possible for policyholders, etc. who have lost their insurance policy certificates or registered seals, etc.

(2) Measures Regarding the Payment of Insurance Proceeds and Grace Period for Insurance Proceeds

Supervisors shall request insurance companies to take measures to provide convenience such as considering to pay life or non-life insurance proceeds as promptly as possible and extending the grace period for the payment of life or non-life insurance premiums according to the situation of the damage suffered by policyholders.

(3) Measures Regarding Responses to Suspension of Services

In cases where an insurance company has suspended its over-the-counter services, supervisors shall request the insurance company to ensure that all customers know at which business offices the said services have been suspended through means such as putting up posters at business offices and posting notices in newspaper advertisements and on the Internet.

III-1-7-2 Various Financial Services Support Measures in Areas Designated for Enhanced Earthquake Disaster Prevention/Mitigation Measures Related to Tokai Earthquake

When areas for enhanced earthquake disaster prevention/mitigation measures have been designated under the Act on Special Measures Concerning Countermeasures for Large-Scale Earthquakes, designated administrative organizations are required to take preemptive measures to mitigate the damage from earthquakes and prevent secondary disasters.

However, it is difficult to manage administrative processes related to financial instruments business on an area-by-area basis, given the advanced automation and the expansion of networks of unmanned services operations, therefore, regarding the possible Tokai Earthquake, supervisors shall ensure

that insurance companies take the following measures in an appropriate manner in light of the fund demand in the affected areas, while maintaining close contact with relevant organizations.

(1) Response to Earthquake Alert by Insurance Companies with Head Office or Business Offices such as Branch Offices in Areas Designated for Enhanced Earthquake Disaster Prevention/Mitigation Measures Regarding Tokai Earthquake

(i) In cases where the alert is issued during business hours, supervisors shall request the insurance companies to suspend services at business offices, etc.

(ii) Supervisors shall request the insurance companies to ensure that all customers know at which business offices, etc. services have been suspended through means such as putting up posters at business offices and posting notices in newspaper advertisements Internet.

(iii) In cases where the alert is issued on a holiday or before or after the business hours of business offices, etc., supervisors shall request the insurance companies to refrain from resuming services so as to enable the smooth implementation of anti-disaster measures if the earthquake actually occurs.

(iv) Others

A. In cases where the alert is removed, supervisors shall request insurance companies to resume normal operations and services as soon as possible.

B. Supervisors shall request the insurance companies to take appropriate emergency measures based on “III-1-7-1 Financial Services Support Measures for Disaster-Stricken Areas” if the earthquake actually occurs.

(2) Response to Earthquake Alert by Insurance Companies with Business Offices in Areas Not Designated for Enhanced Earthquake Disaster Prevention/Mitigation Measures

Even if insurance companies have suspended business operations and services at the head office or branch offices, etc. in areas designated for enhanced earthquake disaster prevention/mitigation measures, supervisors shall request them to conduct business and provide services as usual at branch offices or the head office, etc. in other areas.

III-1-7-3 Administrative Report

In cases where the above measures have been taken, supervisors shall immediately report them to the Director-General of the Supervision Bureau.

III-1-8 Complaints/Information Provision Regarding Insurance Companies

III-1-8-1 Response to Complaints, etc.

When inquiries/complaints, etc. regarding insurance companies are received, the authorities shall explain to persons who lodge complaints, etc. that they are not in a position to act as a mediator, etc.

They shall then refer such persons to consultation contact points of insurance companies and insurance-related organizations and a designated ADR body, as necessary. If persons who have made inquiries/complaints, etc. consent to the provision of information to the insurance companies, the authorities shall, in principle, provide information to the insurance companies.

III-1-8-2 Reporting

(1) Local Finance Bureaus shall record the inquiries, complaints, etc. regarding insurance companies that are deemed to be useful for supervising such insurance companies (refer to Form III-1-8-2(1) in Other Forms for Reporting, etc. of Forms and Reference Materials). When they find any information that is deemed to be particularly important, they shall immediately report such information to the FSA division in charge.

(2) The number of cases of complaints received a year within the jurisdiction of each local Finance Bureau shall be compiled as of the end of March each year and reported to the FSA division in charge by the end of April (refer to Form III-1-8-2(2) in Other Forms for Reporting, etc. of Forms and Reference Materials)

III-1-8-3 Cooperation with the Counseling Office for Financial Services Users

(1) In order to ensure that inquiries, complaints, etc. brought to the Counseling Office for Financial Services Users are appropriately reflected in the administrative processes regarding supervision, supervisory departments and bureaus shall take the following measures:
(i) analyze the inquiries, complaints, etc. referred from the counseling office; and
(ii) exchange information with the Counseling Office.

(2) In addition, if persons who have made inquiries/complaints, etc. to the Counseling Office for Financial Services Users consent to the provision of information to the insurance companies, supervisory departments and bureaus shall, in principle, provide information to the insurance companies.

III-1-9 Response to Inquiries about Interpretations of Laws and Regulations, etc.

III-1-9-1 Scope of Laws and Regulations Regarding Which Inquiries May be Processed

Inquiries may be processed only regarding the laws and regulations that are under the jurisdiction of the FSA, including the Insurance Business Act. Comments shall never be made in response to inquiries regarding laws and regulations outside the jurisdiction of the FSA.

III-1-9-2 Method of Response to Inquiries

(1) Regarding an inquiry to which a reply can be made based on existing documents and reference materials, such as the Guidelines for Supervision and reports, etc. compiled by advisory councils, etc., the reply shall be provided promptly.

(2) When local Finance Bureaus have received an inquiry to which they find it difficult to reply on their own, they shall compile an “inquiry letter” (refer to Form III-1-9-2(2) in Other Forms for Reporting, etc. of Forms and Reference

Materials) and consult with the FSA division in charge via FAX, etc. (invoice shall be from the director of the division of the local Finance Bureau in charge to the general deputy director of the FSA division in charge).

(3) When business operators to which the laws and regulations under the jurisdiction of the FSA are directly applicable or business associations(Note) comprising such business operators have made a general inquiry that meets the requirements specified in the following (i) and (ii) with regard to the said laws and regulations, the head of the FSA division in charge shall provide a written reply and make it public if it is deemed to be appropriate to do so from the viewpoint of improving the predictability of the application of laws and regulations.

(Note) A “business association” refers to a group formed by a substantial number of business operators engaging in the same type of business to which the laws and regulations under the jurisdiction of the FSA are directly applicable in order to promote their common interests, or a federation of such groups (limited to the top-tier organization in the case of business sectors where there are layers of associations and federations).

(i) Scope of Inquiries for Which the Reply May Be Published

An inquiry must meet all of the following requirements if the written reply thereto is to be made public:

A. Must not ask whether a law or regulation applies to a specific transaction involving a specific business operator, but rather ask about the general interpretation of the law or regulation (not eligible for the application of the prior confirmation procedures on the application of laws and regulations by administrative agencies (hereinafter referred to as the “no-action letter system”)).

B. Must not seek factual recognition.

C. Must relate to transactions and other matters common to business operators to which the laws and regulations under the jurisdiction of the FSA are directly applicable (in cases where the inquirer is an association of business operators, the inquiry must concern transactions and other matters common to business operators constituting the association) and must be regarding matters that many business operators are expected to inquire.

D. Must not ask about points that are clear in light of the guidelines for

administrative processes, etc. that have been made public in the past.

(ii) Written Inquiry Forms (Including Electronic Forms)

The inquirer who wishes to use this system shall submit a written inquiry that specifies the following items. In addition to the written inquiry, the inquirer may be asked to submit additional or corrected documents, if necessary, in order to judge the contents of the inquiry and whether it meets the criteria specified in (i) above.

A. The legal provision which the inquiry concerns and specific points of issue

B. The inquirer's opinion concerning the inquired points of issue and the basis thereof

C. A statement from the inquirer agreeing to have the contents of the inquiry and the response thereto made public

(iii) Contact Point for Inquiry

A written inquiry shall be submitted to the FSA division in charge with jurisdiction over the law or regulation in question or the section of the local Finance Bureau in charge that has jurisdiction over the inquirer. When a local Finance Bureau section has received an inquiry, it shall immediately forward it via FAX or e-mail to the FSA division in charge.

(iv) Reply

A. The head of the FSA division in charge shall strive to reply to the inquirer within two months in the principle of the arrival of a written inquiry at the contact point. In cases where it is not possible to reply within two months, it is necessary to provide the reason for the delay and the expected date of reply to the inquirer.

B. Written replies shall contain the following disclaimer:

"This reply expresses a general view regarding the law or regulation in question that the FSA formed at this time exclusively based on information contained in the written inquiry, in its capacity as the entity that has jurisdiction over the said law or regulation. Therefore, the reply does not provide judgment regarding the application of the said law or regulation to a specific case or have binding power on the judgment of the investigative or judicial authorities."

C. When the FSA division in charge decides not to reply to the inquiry through the said process, it shall notify the inquirer of the decision and provide the basis thereof.

(v) Publication

When the FSA has provided a reply according to the procedures prescribed in (iv) above, it shall immediately publish the inquiry and the reply on its website.

(4) Regarding inquires which do not fit the description of (3) above but are made frequently, a “reference circular” that describes the reply to the inquiry (refer to Form III-1-9-2(4) in Other Forms for Reporting, etc. of Forms and Reference Materials) shall be compiled, distributed to the relevant departments and bureaus and stored at Financial Services Agency division in charge of the FSA division or the planning unit of the local Finance Bureau section in charge.

(5) In cases where the inquirer seeks a written reply from the FSA and where the no-action letter system is applicable in light of III-1-9-3(2), the inquirer shall be asked to apply for the said system.

III-1-9-3 Prior Confirmation Procedures on the Application of Laws and Regulations by Administrative Agencies (No-Action Letter System)

Under the no-action letter system, private companies seek prior confirmation as to whether specific practices related to their planned business activities are subject to specific laws and regulations, and the said organizations make the replies they receive public. The FSA has established detailed rules concerning the no-action letter system. This section only specifies the administrative procedures concerning the no-action letter system, and therefore supervisors shall make sure to refer to [Material 1] “Detailed Rules concerning the Prior Confirmation Procedures on the Application of Laws and Regulations by Administrative Agencies” in Reference Materials of Forms and Reference Materials when using the no-action letter system.

(1) Contact Point for Inquiry

Inquiries shall be submitted to the Planning and Management Division, Supervision Bureau of the FSA.

The Planning and Management Division shall immediately process the inquiry if it meets the requirements of the criteria for items to be included specified in (2)(iii) below and forward it to the responsible division/office that

has jurisdiction over the law or regulation in question.

Financial institutions, etc. under the jurisdiction of local Finance Bureaus shall submit an inquiry to the relevant bureaus, which shall in turn immediately forward the written inquiry to the Planning and Management Division, Supervision Bureau of the FSA via FAX, etc.

(Note) In principle, the local Finance Bureau forwarding the written inquiry to the Planning and Management Division, Supervision Bureau of the Financial Supervisory Agency shall attach its own opinion thereto.

(2) Flow of Processes after Receipt of a Written Inquiry

The responsible division/office that has received the inquiry shall check whether it is appropriate to reply thereto in light of (i) and (iii) below in particular. In cases where the inquiry is not eligible for the no-action letter system, the inquirer shall be notified of the ineligibility. In cases where it is deemed to be necessary for the inquirer to submit additional or corrected documents, the inquirer may be asked to do so. However, it is important to avoid imposing an excessive burden on the inquirer, by minimizing the volume of requested additional or corrected documents.

(i) Subject of the Inquiry

Whether the inquiry has been submitted by a private company planning to engage in a new business or transaction in order to inquire about the following matters, concerning the laws and regulations listed on the Financial Supervisory Agency's website as subject to the no-action letter system (hereinafter referred to as "relevant laws and regulations (provisions)" and government orders based thereon.

A. Whether engaging in the business or transaction in question amounts to operating without authorization.

B. Whether engaging in the business or transaction in question amounts to operating without notification.

C. Whether engaging in the business or transaction in question leads to the suspension of business operation or rescission of a license (adverse dispositions).

D. Whether engaging in the business or transaction in question leads to the direct imposition of a certain obligation or limitation of rights.

(ii) Scope of Eligible Inquirers

Whether the inquirer is an individual or a legal person planning to start a new business and wishing to inquire about the applicability of the relevant

laws and regulations (provisions), or a lawyer or the like employed by the said individual or legal person. Whether the inquirer has submitted a written inquiry that meets the criteria for items to be included specified in (iii) below and agreed to have the content of the inquiry and the reply thereto made public.

(iii) Criteria for Items to be Included in Written Inquiries

A written inquiry (including electronic forms) must meet the following requirements:

A. Describing specific and concrete facts relating to planned business activity.

B. Containing specific indication of the provisions of the relevant laws and regulations (provisions) regarding which the inquirer wishes to check the applicability to the planned activity.

C. Containing a statement from the inquirer agreeing to have the contents of the inquiry and the reply thereto made public.

D. Clarifying the inquirer’s opinion concerning the applicability of the provisions of the laws and regulations in B. above and the basis thereof.

(iv) Reply

In principle, the head of the division/office that has received the inquiry shall reply to the inquirer within 30 days from the arrival at the contact point of a written inquiry from the inquirer. However, in the following cases, the response timeframe shall be set as follows. In any case, the Financial Supervisory Agency shall strive to ensure that the response time, including the time needed for submitting additional or corrected documents, is made as short as possible.

A. In cases where the inquiry concerns advanced financial techniques or technologies, thus requiring a careful judgment, the FSA shall make a reply within 60 days in principle from the receipt of the inquiry.

B. In cases where the relevant section's conduct of administrative processes may be impeded significantly by an excessive volume of inquiries, a reply may be delayed till 30 days from the initial receipt of the inquiry or later but must be made within a reasonable period of time.

C. In cases where the law or regulation in question is under the joint jurisdiction of the FSA and another government agency, a reply shall be made within 60 days in principle from the receipt of the inquiry.

In cases where the inquirer has been asked to submit corrected or additional information, the days involved in gathering the said information

shall not be counted in the response timeframe. If it is not possible to make a reply within 30 days, the FSA shall provide the reason for the delay and the expected date of reply to the inquirer.

(v) Publication of Inquiries and Replies

As a general rule, the contents of inquiries and the replies thereto shall be posted on the FSA's website in their entirety within 30 days from the issuance of the reply.

However, in cases where the inquirer requests a delay in the publication of the inquiry and the reply thereto, and provides a rational reason for the delay and specifies the time when publication may be made, the FSA may delay the publication of the inquiry and the reply. In such cases, the publication may not necessarily be delayed until the date requested by the inquirer. When the reason for the requested delay has ceased to be valid, the FSA may make the inquiry and the reply thereto public after giving prior notice to the inquirer. In cases where an inquiry or the reply thereto contains information that falls under the category of matters of non-disclosure, as specified under the Act on Access to Information Held by Administrative Organs, the FSA may, as necessary, withhold such information from disclosure.

III-1-9-4 System to Eliminate Regulatory Gray Zones

Article 9(1) of the Act on Strengthening Industrial Competitiveness (hereinafter referred to as the "Strengthening Act") stipulates a system under which persons who intend to conduct new business activities may request confirmation of the interpretation of provisions of the law that stipulates regulations concerning the intended new business activities and related business activities, as well as ordinances based on the law (including notifications; hereinafter referred to as the "laws and ordinances" in III-1-9-4), and the presence or absence of application of said provisions to the new business activities and related activities (hereinafter referred to as the "gray zone elimination system"). This paragraph prescribes the administrative processes of the gray zone elimination system. Reference shall invariably be made to the "Guide to the Use of the 'Special System for Corporate Field Tests' and the 'Gray Zone Elimination System' of the Act on Strengthening Industrial Competitiveness" (Ministry of Economy, Trade and Industry, January 20, 2014)

formulated by the Ministry of Economy, Trade and Industry (hereinafter referred to as the “Usage Guide” in III-1-9-4).

(1) Contact Point for Inquiry

The contact point for inquiry shall be the Strategy Development Division, Strategy Development and Management Bureau of the FSA.

The Strategy Development Division, Strategy Development and Management Bureau of the FSA, which is the contact point for inquiry, shall promptly accept any inquiry form or copy thereof that satisfies the requirements of the criteria for items to be included specified in (2)(iii) below when it arrives. If the laws and ordinances related to the request for confirmation described in said inquiry form are under the jurisdiction of the head of another relevant administrative organ, the confirmation shall be requested without any delay to the said head of the relevant administrative organ.

(2) Procedures Following the Receipt of Inquiry Form

After accepting an inquiry form, the Strategy Development Division, Strategy Development and Management Bureau shall promptly forward said inquiry form to the responsible division/office that has jurisdiction over the laws and ordinances related to the request for confirmation described in the inquiry form. While discussing with said responsible division/office, the Strategy Development Division, Strategy Development and Management Bureau shall check the following (i) through (iii) in particular regarding whether or not a response shall be given to the matter, and in the case of a request for confirmation that cannot use the system, the person who submitted said inquiry form (hereinafter referred to as the “submitter” in III-1-9-4) shall be thus notified. In addition, if any corrections to the inquiry form or submission of additional documents are necessary, the required responses may be requested of the submitter. However, additional documents shall be limited to the minimum to avoid excessive burden on the submitter.

In the case where a request concerning laws and ordinances under the jurisdiction of the FSA has been received as the head of the relevant administrative organ outlined in Article 9(3) of the Strengthening Act, pursuant to provisions thereof, the above notification and request for required responses shall be made to the relevant minister in charge set forth in the same paragraph.

(i) Subject of the Request for Confirmation

Whether A. and B. below are satisfied.

A. Whether the submitter is a person who intends to conduct new business activities.

(Note) “New business activities” refer to the development or production of new products, the development or provision of new services, the introduction of new production or sales methods of products, the introduction of new provision methods of services and other new business activities through which improvement of productivity (including resource productivity (the degree of the contribution of the use of energy or the use of mineral resources (excluding their use as energy) to the economic activities of those who intend to conduct new business activities)) or cultivation of new demand is expected and which have no danger of injuring public order or morals (Article 2(3) of the Strengthening Act; Article 2 of the Regulation for Enforcement of the Act on Strengthening Industrial Competitiveness (hereinafter referred to as the “Strengthening Act Enforcement Regulation”)).

B. Whether the submitter is a person who intends to conduct new business activities related to businesses under the jurisdiction of the FSA. However, this shall not apply to cases where the Commissioner of the FSA has received a request as the head of the relevant administrative organ set forth in Article 9(3) of the Strengthening Act, pursuant to provisions thereof.

(ii) Subject of the Inquiry

Whether the submitter requests confirmation of the interpretation of provisions of the laws and ordinances under the jurisdiction of the FSA that stipulate regulations concerning the new business activities and related business activities the submitter intends to conduct, as well as the presence or absence of application of said provisions, and inquires on matters such as the following:

A. Whether conducting the business or transaction corresponds to unlicensed trading.

B. Whether conducting the business or transaction corresponds to unregistered trading.

C. Whether conducting the business or transaction would be subject to suspension of business or rescission of license (adverse disposition).

D. Whether obligations will be directly imposed or rights be restricted in

relation to the conduct of the business or transaction.

(iii) Criteria for Items to be Included in the Inquiry Form

Whether the following matters are included in accordance with Form 5 of the Strengthening Act Enforcement Regulation and based on the Usage Guide.

A. The goals of the new business activities and related business activities

B. The particulars of the new business activities and related business activities

C. Timing of conducting the new business activities and related business activities

D. Clauses of the laws and ordinances for which confirmation of interpretation and presence or absence of application are requested

E. Specific matters to be confirmed

(Reference) Usage Guide

Gray zone elimination system

Documents to be submitted

5. Specific matters to be confirmed

Describe the provisions of the laws and ordinances that are the basis of the regulations and the interpretation of which points thereof are unclear, as well as the points where it cannot be determined whether the new business activities would be subject to the regulations. Also, state the reason that conducting the new business activities would be difficult due to such points and your views concerning the matter.

In order to gain a clear and straight-forward response from the ministries that have jurisdiction over the regulations, describe the points you wish to confirm as specifically as possible, such as, “Since it is not clear whether xx is subject to regulations pursuant to the xx Act, I would like to confirm if it is possible to conduct xx in my new business activities without obtaining a permit pursuant to the xx Act,” instead of, for example, “Are the xx regulations an obstacle?”

(3) Response

(i) The division/office to which the inquiry form was forwarded shall, in the case where the Strategy Development Division, Strategy Development and Management Bureau has decided to respond, issue a written response to the submitter by using Form 6 of the Strengthening Act Enforcement

Regulation within one month, in principle, from when the inquiry form or copy thereof arrived from the submitter at the contact point for inquiry.

The division/office to which the inquiry form was forwarded shall, if there are unavoidable circumstances that prevent the issuance of a written response within the above period, in light of the status of examination of the interpretation of the provisions of the laws and ordinances and the presence or absence of application related to the request for confirmation stated in the inquiry form, notify the fact and its reason to the submitter every period that is no longer than one month, until said written response is issued.

(ii) In the case where the Commissioner of the FSA received the request from the head of another relevant administrative organ pursuant to provisions of Article 9(3) of the Strengthening Act, the division/office to which the inquiry form was forwarded shall, based on (1) of the same Article, state in the written response using Form 6 of the Strengthening Act Enforcement Regulation the interpretation and presence or absence of application of the provisions of the laws and ordinances related to the said request within one month, in principle, from the day when the minister in charge set forth in (1) of the same Article received the submission of the inquiry form and copy thereof, pursuant to the same paragraph, and send it to said minister in charge through the Strategy Development Division, Strategy Development and Management Bureau.

In such case, if there are unavoidable circumstances that prevent the issuance of a written response within the above period, in light of the status of examination of the interpretation of the provisions of the laws and ordinances and the presence or absence of application related to said request, notify the fact and its reason to said minister in charge through the Strategy Development Division, Strategy Development and Management Bureau every period that is no longer than one month, until said written response is issued.

(iii) In the case where the Commissioner of the FSA requested confirmation from the head of another relevant administrative organ pursuant to Article 9(3) of the Strengthening Act, when the Commissioner was sent a written response using Form 6 of the Strengthening Act Enforcement Regulation from said head of another relevant administrative organ, said written response shall be issued to the submitter through the Strategy Development Division, Strategy Development and Management Bureau or

the division/office to which an inquiry form was forwarded regarding the same matter as said request of confirmation.

Besides, in the case where notification was received from said head of another relevant administrative organ to the effect that a written response cannot be issued within one month, in principle, as well as the reason, shall be notified to the submitter.

III-1-10 Points of Attention in Preparing Written Applications, etc. to Be Submitted by Insurance Companies, etc.

It should be noted that when stating the names of officers, etc. or Responsible Actuaries in written applications, etc. to be submitted by insurance companies, insurance holding companies, or insurance brokers, for those who have changed their surnames, their old surnames and given names may also be stated in parentheses.

It should also be noted that if old surnames and given names have already been stated in written applications for license, etc. or written notifications of the appointment/resignation of officers, etc. submitted, it is permissible to state only the said old surnames and given names until notification to change the old surnames and given names is made, including the forms other than those for the said documents.

III-1-11 Points of Attention regarding procedures in paper or in person

With respect to applications and notifications, etc. by insurance companies, etc. to the authorities, and notices of disposition, etc. issued by the authorities to insurance companies, etc., pursuant to the provisions of Article 6 (1) and Article 7(1) of the Act on the Promotion, etc. of Administration Utilizing Information and Communications Technology(hereinafter referred to as the "Digital Procedures Act"), respectively, notwithstanding the provisions of the relevant laws and regulations, such applications and notifications, etc. may be made by using an electronic data processing system, even if the provisions of the relevant laws and regulations prescribe that such applications and notifications, etc. shall be made in writing or by other means.

In light of the purpose of the Digital Procedures Act, the provisions of the

Supervisory Guidelines pertaining to procedures subject to the Digital Procedures Act may also be conducted using an electronic data processing system, regardless of whether such procedures are conducted in writing or in person. In addition, with the rapid progress of digitalization in all economic and social activities, the government as a whole is reviewing Japan's systems and practices that presuppose written documents, seals, and face-to-face procedures, and is working toward the realization of a remote society where procedures can be completed without actually visiting an office.

In order to steadily promote these efforts, the FSAhas also been promoting the computerization of administrative procedures by revising The Electronic Application and Notification System of the FSA　to enable online submission of all applications and notifications received from insurance companies, etc., as well as revising the Cabinet Office Ordinance and Supervisory Guidelines to abolish the use of seals.

Furthermore, with regard to procedures among private businesses, the Government of Japan held the "Study Group for Reviewing Procedures in paper, in person and seals in the Financial Industry" to encourage the entire industry to review its practices, and has been working to digitize documents, eliminate the need for seals, and review face-to-face regulations.

Based on these efforts in the public and private sectors, excluding the cases where the original documents are required to be sent as described in "III-1-12 Points of Attention Regarding Submitting Applications, etc.", the application form can be submitted by using an electronic data processing system or other methods that utilize information communication technology.

In light of the purpose of the above-mentioned treatment, it is recommended that procedures based on the provisions of this Supervisory Guidelines be conducted, to the extent possible, in a manner other than in writing or in person, taking into consideration the intentions of the other party to the procedures.

III-1-12 Points of Attention Regarding Submitting Applications, etc.

Based on "III -1-11 Points of Attention regarding procedures in paper or face-to-face ," applications and notifications to the authorities by insurance companies, etc. shall, in principle, be required to be submitted by the methods listed in (1) and (2) below.

However, for attached documents issued by public institutions (copy of resident certificate, ID card, copy of family register, documents certifying payment of taxes and fees, etc.), the original documents should be sent.

(1) The Electronic Application and Notification System of the FSA

Among the applications, notifications, etc. to the authorities by insurance companies, etc., excluding the procedures for requesting submissions using The Integrated System for Supporting the Operation of the FSA (hereinafter referred to as the "integrated system") listed in (2) , the submission of such applications and notifications by insurance companies, etc. to the authorities shall, in principle, be requested by the submission deadline stipulated by laws and regulations using the The Electronic Application and Notification System of the FSA.

(2) The Integrated System for Supporting the Operation of the FSA

Business reports (or interim business reports in the case of interim periods) shall, in principle, be submitted using the integrated system.

III-2 Administrative Processes Regarding the Insurance Business Act, etc.

III-2-1 Registration, etc. Administration of Specified Insurance Agents

The registration administration of specified insurance agents shall be carried out with consideration given to the following points.

It shall be noted that registration administration of small amount and short term insurance agents shall be based on III-2-4 (Administration of Registration of Small Amount and Short Term Insurance Agents) of the “Comprehensive Guidelines for Supervision for Insurance Companies (Supplement)” (Comprehensive Guidelines for Small Amount and Short Term Companies).

(1) Registration of Specified Insurance Agents (Matters Related to Article 276 the Act)

(i) Application for Registration (Matters Related to Article 277 of the Act)

Whether application for registration prescribed in Article 277 of the Act (hereinafter referred to as “application for registration” has been made for specified insurance agents.

(ii) Application for Registration through the Affiliated Insurance Company as Agent, etc. (Matters Related to Article 284 of the Act)

For specified insurance agents or persons prescribed in Article 280(1)(ii) through (vi) of the Act (hereinafter referred to as “specified insurance agent, etc.”) under the provisions of Article 284 of the Act application for registration, notification under Article 280(1)(i) of the Act (hereinafter referred to as

“notification of change”), notification under the provisions of Article 280(1)(ii) through (vi) of the Act (hereinafter referred to as “notification of abolition, etc.”, or notification under the provisions of Article 302 of the Act (hereinafter referred to as “notification of employees”) may be made through the affiliated insurance company as agent.

(iii) Notification/Application of Proxy Application Companies, etc.

In cases where an affiliated insurance company makes an application for registration, etc. for a specified insurance agent, etc. as an agent under the provisions of Article 284 of the Act, supervisors shall require the head office or local/branch office (hereinafter referred to as “local office, etc.”) of the said affiliated insurance company to prepare Attached Form No. 70 “Notification of Proxy Application Local Office” (in the case of a life insurance company) or Attached Form No. 73 “Non-Life Insurance Agency Proxy Application” (in the case of a non-life insurance company) and submit it to the local Finance Bureau, etc. having jurisdiction over the location of the principal office of the specified insurance agent managed by the said local office, etc.

However, in the case of a life insurance company, if the location of the principal office of the specified insurance agent managed by the said local office, etc. is Tokyo-to, supervisors shall require the said local office, etc. to submit it to the Tokyo Local Finance Office. (Hereinafter the local Finance Bureau, etc. having jurisdiction over the location of the principal office of the specified insurance agent and the Tokyo Local Finance Office shall be referred to as the “local Finance Bureau, etc. having jurisdiction”.)

Local office, etc. of an affiliated insurance company of a specified insurance agent shall be referred to as “proxy application company” or “proxy application local office” (hereinafter referred to as “proxy application company, etc.”), and supervisors shall require it to make the above an application for registration, etc. under the name of the head of the local office, etc.

In addition, in cases where an affiliated insurance company makes an application for registration, etc. as an agent, if a specified insurance agent has two or more affiliated insurance companies, supervisors shall require one of the affiliated insurance companies to make the application as an agent.

If the person who makes an application for registration, etc. is an employee of an insurance agency, supervisors shall require the affiliated insurance company that makes an application for registration, etc. for the insurance agency to which the person who makes the said application for registration, etc. is to belong to make the application.

(iv) Reception of Documents Such as Written Applications for Registration, etc.

A. When documents such as written applications for application, etc. (hereinafter referred to as “application documents, etc.”) are submitted (including sending application data, etc. to the “electronic application/notification system”; the same applies in (2) Notification of Change, etc. and (3) Notification of Abolition, etc.) by proxy application companies, etc., the local Finance Bureaus, etc. having jurisdiction shall receive them.

(Note) When application documents, etc. are submitted from proxy application companies, etc. via the Life Insurance Association of Japan or the General Insurance Association of Japan, the local Finance Bureaus, etc. of competent jurisdiction shall also receive them.

B. With regard to specified insurance agents that are officers or employees of life insurance companies or officers or employees of those who received entrustment from life insurance companies, in cases where overall management of the said specified insurance agents is collectively carried out by a business office of life insurance companies or those who received entrustment from life insurance companies, the said business office shall be able to be deemed to be the “principal office” prescribed in Article 49(1) of the Order of the said specified insurance agent.

C. As with the principal office of an insurance agency, the secondary office that independently conducts transactions with non-life insurance companies shall be able to be registered separately from the principal office.

In this case, the registration applicant shall be able to be the representative of the principal office of a non-life insurance agency to be registered, instead of the head of the local office, etc. of the said non-life insurance agency.

D. When application data, etc. is sent to the “electronic application/notification system”, the local Finance Bureau, etc. having jurisdiction that received the application data, etc. shall separately receive a revenue stamp.

(v) Screening Criteria for Written Applications for Registration, etc.

A. Whether the specified insurance agent for which an application for registration is being made does not fall under Article 279(1)(vi) of the Act.

B. Whether the descriptions of the written application for registration (Appended Form No. 17 of the Regulation) are based on the criteria for items to be included specified in III-2-1 (Life Insurance Agents) and

Appedix-1 and Appendix-2 of III-2-2 (Non-Life Insurance Agent) in II. Other Forms for Reporting, etc. of Forms and Reference Materials of this Guidelines.

In addition, in cases where there are multiple representatives of a non-life insurance agency that is a corporation, whether the representatives other than the first one described in Appended Form No. 65 “Representative or Administrator (Appended Table)” (hereinafter referred to as the “Representative Appended Table”) are attached to the written application.

C. Affixing of Required Revenue Stamps

(A) If the registration applicant is an insurance agency, whether a revenue stamp of the amount prescribed in the Registration and License Tax Act is affixed.

(B) If the registration applicant is a life insurance agency that is an “office employee”, “sales employee”, “employee of an individually owned insurance agency”, or “employee of an insurance agency that is a corporation”, whether a revenue stamp of the amount prescribed in Article 39-3 of the Order is affixed.

D. When deficiencies are found in the content of a written application for registration, the written application for registration shall be returned to the proxy application company, etc. to be corrected.

In the application for the registration of a life insurance agent, occupation shall be categorized as follows.

(A) Office employee (symbol “O”)

An officer (excluding a representative officer and auditor and a member of the audit committee) or employee of a life insurance company who is regarded as an office employee under the rules of employment, etc. or any other equivalent person

(B) Sales employee (symbol “S”)

An employee of a life insurance company who is mainly engaged in insurance solicitation and regarded as a sales employee under the rules of employment, etc. or any other equivalent person

(C) Individually owned insurance agency (symbol “I”)

An individual who received entrustment for insurance solicitation of a life insurance company

(D) Insurance agency that is a corporation (symbol “C”)

A corporation that received entrustment for insurance solicitation of a

life insurance company

(E) Employee of an individually owned insurance agency (symbol “IE”)

An employee of (C)

(F) Employee of an insurance agency that is a corporation (symbol “CE”)

An officer (excluding a representative officer and auditor and a member of the audit committee) and employee of (D)

(vi) Documents to be Attached to Written Applications for Registration

With regard to the documents to be attached to written applications for registration, whether the following documents prescribed in items of Article 277(2) of the Act and items of Article 214(1) of the Regulation are attached.

It shall be noted with regard to handling of attached documents that for the application for registration under the provisions of Article 284 of the Act, it shall suffice to present them in principle, and they shall be retained at the proxy application company, etc. in a state always ready to be submitted.

A. Documents to be attached to written applications for registration that are certified by a public agency must be issued within three months before the date of application.

B. Documents to be attached to written applications for registration shall be as follows.

(A) Case where the registration applicant is a person

a. Documents prescribed in Article 277(2)(i) of the Act (Appended Form No. 17-2 of the Regulation)

b. A document certifying that the registration applicant is a specified insurance agent (Article 214(1)(i) of the Regulation)

c. An extract of certificate of residence or any other substitutive document (Article 214(1)(iii) of the Regulation

(B) Case where the registration applicant is a corporation

a. Documents prescribed in Article 277(2)(i) of the Act (Appended Form No. 17-2 of the Regulation)

b. A document indicating the names and addresses of officers prescribed in Article 277(2)(ii) of the Act (prepared using Appended Form N. 66 to be submitted)

It should be noted that a document indicating the names and addresses of the officers may be used in place of the list of officers. (Officers to be notified in a written notification for officers/employees engaging in insurance solicitation may be excluded.)

c. A document certifying that the registration applicant is a specified

insurance agent (Article 214(1)(i) of the Regulation)

d. The articles of incorporation or a certificate of registered matters, or any other substitutive document (hereinafter referred to as the “articles of incorporation, etc.”) (Article 214(1)(ii) of the Regulation)

C. “A document certifying that the registration applicant is a specified insurance agent” prescribed in Article 214(1)(i) of the Regulation shall be an entrustment contract for insurance solicitation, Appended Form No. 71 “Proxy Application for Registration for Life Insurance Agent (and) Proxy Notification of Change to Registered Matters/Abolition of Business, etc.”, or Appended Form No. 73 “Non-Life Insurance Agency Proxy Application” (hereinafter collectively referred to as “proxy application form”).

D. “Any other substitutive document” prescribed in Article 214(1)(ii) of the Regulation shall be a transcript/extract of the commercial registry, etc.

(Note 1) The articles of incorporation, etc. shall have descriptions that in the registration of a life insurance agent in principle, the life insurance agent can conduct business related to life insurance solicitation and that in the registration of a non-life insurance agent in principle, the non-life insurance agent can conduct business related to non-life insurance solicitation.

(Note 2) For the articles of incorporation, it shall suffice to attach a copy of the original if it contains the description stating the fact that it is identical to the original.

E. “Any other substitutive document” prescribed in Article 214(1)(iii)(a) of the Regulation shall be the following documents, and “any other substitutive document” prescribed in (b) of the same paragraph shall be a transcript/extract of the commercial registry, etc.

(A) A certificate of information specified in the residence certificate

(B) A seal registration certificate

(C) A copy of the following documents within the term of validity

A driver's license, health insurance card, welfare certificate (health and welfare certificate of a person with mental disabilities, physical disability certificate, medical treatment and education handbook, etc.), pension book, passport, basic resident register card, residence card or special permanent resident certificate, or My Number Card

(Note) For the articles of incorporation, etc., it shall suffice to attach a copy of the original if it contains the description stating the fact that it is identical to the original.

(vii) Written Proxy Applications, etc.

When application documents, etc. are submitted by a proxy application company, supervisors shall check whether a written proxy application is attached.

(viii) Handling of the Registry of Specified Insurance Agents (hereinafter referred to as the “registry” in III-2-1)

The registry shall be organized and stored to enable proper management of specified insurance agents. In cases where application for registration, etc. is sent to the “electronic application/notification system” using electronic data, a list output by the said system shall be the registry.

(ix) Notification of Completion of Registration

When a specified insurance agent is registered, a document indicating the fact shall be prepared using Appended Form No. 67 (life insurance company) or No. 68 (non-life insurance company) and delivered to the proxy application company, etc. without delay under the provisions of Article 278(2) of the Act.

(x) Denial of Registration

A. In cases where registration is denied under the provisions of Article 279(1) through (3) of the Act, the fact shall be notified to the proxy application company, etc. using Appended Form No. 69 “Denial of Registration” without delay under the provisions of (4) of the same Article.

B. A written notification of denial of registration shall state the reason for denial by clearly specifying the item number of items of Article 279(1) of the Act under which the applicant falls or the location that includes false detail with regard to an important particular or fails to detail a material fact in the written application or a document attached thereto.

(2) Notification of Change, etc.

(i) Notification of Change in Matters Described in the Written Application for Registration (Matters Related to Article 280(1)(i) of the Act)

A. Whether the specified insurance agent makes notification of change when there has been a change to the matters listed in items of Article 277(1) of the Act.

B. In cases where a proxy application company, etc. makes notification of change as an agent for a specified insurance agent, the notification shall be made to the local Finance Bureau, etc. having jurisdiction to which the said specified insurance agent is currently registered.

C. When notification of change is received, the matters changed shall be

registered in the registry for the said specified insurance agent.

(ii) In making a notification of change, the following points shall be considered.

A. In cases where the names of the location where offices are located are changed under relevant laws and regulations such as the Act on Indication of Residential Address (Act No. 119 of 1962), notification of change may be omitted.

B. In cases where an insurance agency that is a corporation makes a legal organizational change, notification of change shall be made.

C. In cases where the occupational category of a life insurance agent is to be changed from “office employee”, “sales employee”, “employee of an individually owned insurance agency”, or “employee of an insurance agency that is a corporation” to “individually owned insurance agency”, whether a revenue stamp of the amount prescribed in the Registration and License Tax Act is affixed to the notification of change.

D. In cases where the content of a notification of change is for the change of the principal office of the said specified insurance agent to the location that is under the jurisdiction of other local Finance Bureaus, etc. having jurisdiction, the local Finance Bureau, etc. having jurisdiction to which the said specified insurance agent is currently registered shall send the registry to the local Finance Bureau or the Tokyo Local Finance Office that will be the new local Finance Bureau, etc. having jurisdiction.

E. A notification to an affiliated insurance company referred to in Article 280(2) of the Act shall be made, after receiving a notification of change and checking the content thereof, to the proxy application company, etc.

(3) Notification of Abolition, etc. (Matters Related to Article 280(1)(ii) through (vi) of the Act)

(i) Whether the specified insurance agent, etc. makes notification of abolition, etc. when it comes to fall under any of the items of the Article 280(1).

(ii) In cases where a proxy application company, etc. makes notification of abolition, etc. prescribed in Article 280(1)(iii) through (vi) of the Act as an agent for a specified insurance agent, the notification shall be submitted to the local Finance Bureau, etc. having jurisdiction to which the said specified insurance agent is currently registered.

(iii) When a notification of abolition, etc. is received, the registration of the said specified insurance agent shall be deleted under the provisions of Article 308(1)(ii) of the Act.

(iv) A notification to an affiliated insurance company referred to in Article 308(2) of the Act shall be made, after receiving a notification of abolition, etc. and checking the content thereof, to the proxy application company, etc.

(4) Notification of Officers or Employees (Matters Related to Article 302 of the Act)

(i) When a non-insurance agency intends to have its officers or employees engage in insurance solicitation, whether a notification of employees is made.

(ii) It shall be noted that when making a notification of officers or employees to engage in insurance solicitation, those subject to the said notification may not engage in insurance solicitation before the date of the notification of employees.

(5) Management of Register of Specified Insurance Agents (Matters Related to Article 285 the Act)

With regard to the registers of specified insurance agents to be kept by an affiliated insurance company under the provisions of Article 285(1) of the Act, the affiliated insurance company shall have local offices, etc. keep those of specified insurance agents belonging to the said local offices, etc. and appropriately manage them according to changes made to the matters described in written applications for registration of specified insurance agents or abolition of registration.

(6) Notification of Deletion Associated With the Cancellation of Registration

When the registration of specified insurance agents has been canceled pursuant to the provisions of Article 308(1)(i) of the Act, a notification shall be made to the affiliated insurance company of the said specified insurance agent using Appended Form No. 74 under the provisions of (2) of the same Article.

(7) Procedures When an Insurance Company Becomes an Insurance Agency in Conducting Agency Services or Business Handling Services for Other Insurance Companies (Matters Related to Article 98 of the Act)

(i) The insurance company shall obtain permission from the Commissioner of the FSA under the provisions of Article 98(2) of the Act or make notification to the Commissioner of the FSA under the proviso to the same paragraph, and then register to the local Finance Bureau, etc. having jurisdiction as an insurance agency under Article 276 of the Act.

(ii) In the case of (i), of the documents to be attached to the written application under the provisions of Article 277(2) of the Act, the attachment of those describing the names and addresses of officers of the insurance company to be the said insurance agency (related to (ii) of the same paragraph) and the articles of incorporation, etc. of the insurance company to be the said insurance agency (related to Article 214(1)(ii) of the Regulation) shall be able to be omitted.

In addition to the documents to be attached, if the document certifying the permission of the Commissioner of the FSA or the entrustment contract is written in foreign language, the translation thereof shall also be attached.

(iii) In cases where the insurance company to be the said insurance agency conducts agency services or business handling services for non-life insurance solicitation operations, the head of the local office, etc. of the said insurance agency, as an officer or employee under Article 302 of the Act, shall be able to notify the Directors-General of the local Finance Bureau, etc. having jurisdiction of the local Finance Bureau to which it is registered, date of registration, and the fact that it has been registered.

(8) Re-Entrustment of Insurance Solicitation (Matters Related to Article 275 the Act)

In cases where the permission referred to in Article 275(3) of the Act is obtained for re-entrustment of insurance solicitation, the operations of registration of specified insurance agents conducted by an affiliated insurance company, principal insurance solicitation agent, and secondary insurance agent shall be handled equivalently as described in III-2-1(1) through (7).

III-2-2 Subsidiary Companies, etc.

From the point of view of prohibition of other businesses prescribed in Article 100 of the Act, the scope of businesses of subsidiary companies, etc. of insurance companies shall be as follows.

(Note 1) It should be noted that in cases where an insurance company or its subsidiary companies holds shares or equity interests of a domestic company (excluding subsidiary companies of the said insurance company) in a total number that exceeds the voting right holding threshold (meaning the

number prescribed in Article 107(1) of the Act; the same applies hereinafter), businesses that the said domestic company (hereinafter referred to as “specified investing company”) can conduct are those that companies listed in Article 106(1)(i) through (vii) of the Act, companies listed in (xii) of the same paragraph, and companies listed in (xiv) of the Act can conduct and must meet the standards for subsidiary companies prescribed in the rules, notices, and this Guidelines.

(Note 2) When determining subsidiary companies, etc. and affiliated corporations, etc., regardless of whether the said insurance company prepares securities reports, etc. under the Financial Instruments and Exchange Act, whether the criteria such as the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements Statement No. 60 of the Audit Committee of the Japanese Institute of Certified Public Accountants “Audit Treatment to Determine the Scope of Subsidiaries and Affiliated Companies in Consolidated Financial Statements” (dated December 8, 1998), and other business accounting standards that are generally accepted as fair and appropriate are met shall also be considered.

(Note 3) It should be noted that a “company” prescribed in Articles 106 and 107 of the Act shall not include a special purpose company (for example, a company that has been incorporated for the purpose of securitizing assets or raising equity capital, etc.), association, investment corporation, partnership, LCC, and any other business entity that is equivalent to a company (hereinafter referred to as “business entity that is equivalent to a company”), but whether the purposes of restricting businesses of subsidiary companies, etc. and prohibiting other businesses does not deviate through a business entity that is equivalent to a company shall be considered.

(Note 4) Of the treatment of subsidiary companies, etc. of an insurance holding companies, the approval prescribed in Article 271-22(1) of the Act that is required when the insurance holding company is to make any company other than those listed in the same paragraph of the Act as its subsidiary company is not necessary if the insurance holding company is to make a similar company its subsidiary corporation, etc. (excluding a subsidiary company) or affiliated corporation, etc. It shall be noted, however, that the content of businesses that the company (including a specified investing company) conducts or is to conduct shall not fall under any of the following.

(1) The content of the said businesses fall under the following (i) or (ii), and therefore the social credibility of insurance companies that are subsidiary

companies of the insurance holding company may be ruined.

(i) The content of the said businesses may harm the public policy and good morals.

(ii) The content of the said businesses may preclude the stable lives of the citizenry or sound development of the national economy.

(2) The content of the said businesses is likely to damage the soundness of management of the company concerned in light of the amount of stated capital and human resource structure, etc. of that company, and if the soundness of management is damaged, the soundness of management of insurance companies that are subsidiary companies of the insurance holding company may also be damaged.

It shall also be noted that consideration shall be given to a company that is to become a subsidiary company, etc. or affiliated corporation, etc. of an insurance company to ensure that it is not for the purpose of deviating the purposes of restricting businesses of subsidiary companies and prohibiting other businesses.

III-2-2-1 Scope of Businesses of Subsidiary Companies, etc.

With regard to the scope of businesses of subsidiary companies, etc., the following points shall be considered.

(1) Whether dependent services (meaning dependent services subscribed in Article 106(2)(i) of the Act) conducted by subsidiary companies of an insurance company are limited to businesses related to the business of the insurance company that does not serve as the basis for that business.

(Note) It should be noted that subsidiary companies or affiliated corporations, etc. of an insurance company that conduct dependent services also need to meet the criteria prescribed in the “Establishment of the Criteria for Determining Whether a Company Conducting Dependent Services for an Insurance Company or Insurance Holding Company, or Subsidiary Companies Thereof Under the Provisions of Article 106(10) of the Insurance Business Act, etc.” (Notice No. 38 of 2002; hereinafter referred to as the “Notice on Income Dependency”). It should also be noted that in this case, the “amount of income” is the same as that referred to in the Notice (income from the said insurance company and its subsidiary

companies).

(2) Whether finance-related services (meaning finance-related services subscribed in Article 106(2)(ii) of the Act) conducted by subsidiary companies of an insurance company are within the following scope.

(i) Agency services (excluding those that fall under businesses listed in Article 56-2(2)(ii) of the Regulation) or business handling services related to insurance business of the insurance company

- Whether they are within the scope of businesses listed in Article 51 of the Regulation

(ii) Credit guarantee business

A. Whether businesses related to business loan of the said insurance company and subsidiary companies, subsidiary corporations, etc., and affiliated corporations, etc. of the said insurance company and its insurance holding company are not handled, and whether they are handled with consideration given to the following points.

B. In the business operations of a credit guarantee company, whether sufficient consideration is given to ensuring the establishment of a specialization structure for insurance business, enhancement of internal reserves, and other preparations for appropriate payment by setting of appropriate credit guarantee rate and execution of appropriate allocation process, etc. based on the characteristics of the guarantee not to obstruct smooth execution of credit guarantee. In particular, for credit guarantee within the group, considering that credit risks are not externally transferred, whether sufficient consideration is given to ensure that the business conditions of the said credit guarantee company do not affect the ensuring of the soundness of management of the said insurance company and subsidiary companies, subsidiary corporations, etc., and affiliated corporations, etc. of the said insurance company and its insurance holding company.

C. When a credit guarantee company conducts a credit guarantee, whether unnecessary personal collateral is not also secured in addition to physical collateral.

D. Whether the insurance company does not commit any acts such as forcing debtors requiring credit guarantee to receive credit guarantee of a credit guarantee company that the insurance company has established as its subsidiary company.

E. Whether the insurance company reduces the portion equivalent to the following from the interest rates of guaranteed housing loans of a credit guarantee company compared to the ordinary interest rates.

(A) Losses associated with bad debts that are normally expected

(B) Costs required for establishing, managing, and disposition of collateral, etc.

(C) Costs expected to be reduced by simplifying credit investigation and examination of loan application, etc.

(iii) Sales of Computer Software

- Whether the software is mainly (50% or more as a guideline) related to the businesses of the said insurance company and financial and pension operations, etc. of companies. Whether software that considerably deviates from the businesses of the said insurance company is not sold (it is permissible to provide software developed by a parent insurance company for itself (including processing part of the software) to other insurance companies, banks, etc., and financial instruments business operators conducting securities-related businesses).

(iv) Telecommunications Business (So-Called Van Business)

- Whether products/services that are mainly (50% or more as a guideline) related to the businesses of the said insurance company and financial and pension operations, etc. of companies are handled.

(Note) When an inquiry about the notification to the Ministry of Internal Affairs and Communications under Article 16(1) of the Telecommunications Business Act has been received, it shall be replied that “notification is not required if subsidiary companies, etc. provide services of intermediating other persons' communications (hereinafter referred to as “intermediating services”) not for the purpose of profit (cases where it is clear from the prices and the conditions for providing services set by the said subsidiary companies, etc. that intermediating services are provided not for the purpose of gaining profit such as, for example, a case where a jointly owned subsidiary company, etc. provides intermediating services only for the investing financial institutions: 100% invested subsidiary companies are included)”.

(v) Health/Welfare-Related Business

A. Health-related business includes, for example, business that establishes facilities such as an indoor exercise facility or function such

as a call center, etc. and assigns professional instructors or medical professionals, etc. to contribute to the maintenance/improvement of health of members and consulters.

B. Welfare-related business includes, for example, operation and management of elderly welfare-related facilities such as welfare facilities for the elderly (including residences with health and welfare services for the elderly); meal provision/transfer business for residents of elderly welfare-related facilities; operation and management of rehabilitation institutions (including fitness clubs); consultation, agency services, and research and development on health, medical care, and welfare such as long-term care; development, loan, and sale of care equipment; training for care personnel, and visiting care and in-home care services for the elderly.

(vi) Investment Advising Business

- Whether investment advising business is handled from the point of view of the characteristics of business and protection of investors, with consideration given to the following points.

A. Whether safe custody is handled not by the company concerned, but by trust banks, etc.

B. Whether the scope of providing investment advice does not include real properties and antiques, but includes securities and financial products.

(vii) Arrangement/Introduction Business

- Whether arrangement/introduction business is not handled in a way that deviates from the purpose of prohibiting other businesses, such as including businesses not related to insurance business in the scope of arrangement/introduction business, etc. The scope of arrangement/introduction business includes, for example, mediation, introduction, and arrangement of automobile repair business operators, etc. mainly for policyholders, etc. of automobile insurance; and mediation, introduction, and arrangement of medical institutions, etc. mainly for policyholders, etc. of overseas travel accident insurance.

(viii) Leasing Business

- When concluding leasing contracts for real properties, whether leasing business is limited to a form similar to financing (so-called financing lease), excluding development/operation of public facilities such as education, cultural facilities, and social welfare facilities, etc., and

whether businesses other than those that a company eligible to be a subsidiary company can conduct, such as real property business, etc, are not conducted.

(Note) Whether a control environment for managing the prevention of abuse of advantageous position and transactions involving conflict of interest, and considering that insurance companies cannot conduct real property business, whether sufficient consideration/verification is conducted in advance from the point of view of complying with laws and regulations, etc. to ensure not to experimentally act as agent or mediate the sales, purchasing, or leasing of real properties.

(3) Whether specified subsidiary corporations, etc. (meaning subsidiary corporations, etc. that are not specified investing companies; the same applies hereinafter) and specified affiliated corporations, etc. (meaning affiliated corporations, etc. that are not specified investing companies; the same applies hereinafter) of an insurance company are as follows. However, this does not apply for a business entity that is equivalent to a company.

(i) Whether the scope of businesses of specified subsidiary corporations, etc. and specified affiliated corporations, etc. of an insurance company is within the scope of business that a company eligible to be a subsidiary company (meaning a company eligible to be a subsidiary company prescribed in Article 106(1) of the Act) can conduct and meets the standards for subsidiary companies prescribed in the Regularion, Notice and this Guidelines for Supervision.

It should be noted that companies that conduct specialized banking-related services (meaning specialized banking-related services prescribed in (2)(iii) of the same Article) can be specified subsidiary corporations, etc. or specified affiliated corporations, etc. of an insurance company only when the insurance company has banks as its subsidiary companies, etc..

(Note) It should be noted that only when specified subsidiary corporations, etc. or specified affiliated corporations, etc. conduct businesses related to commercial real properties, businesses listed in Article 56-2(1)(xviii) of the Regulation that the said companies conduct do not need to meet the standards equivalent to the standards prescribed in Article 2(1)(i), Article 6(i), or Article 7(i) of the Notice on Income Dependency.

(ii) With regard to specified subsidiary corporations, etc. or specified affiliated corporations, etc. of an insurance company that exclusively conduct

dependent businesses mainly for businesses conducted by specified investing companies or other specified subsidiary corporations, etc. or specified affiliated corporations, etc. (hereinafter referred to as “subordinated corporations, etc.”) of the said insurance company, if the percentage of the amount of income from subordinated corporations, etc. in the total income exceeds 50% (in cases where businesses listed in Article 56-2(1)(xviii) of Regulation are conducted, if real property subject to those businesses are shared by two or more persons and one of them is the said insurance company or its subsidiary company, the amount calculated by multiplying the amount of income for the said businesses of a company established by the said insurance company or the said subsidiary company according to its share in the said real property by the percentage of the said share shall be deemed to be the total income), it is permissible to treat them as not violating (i) above.

(iii) In cases where specified subsidiary corporations, etc. and specified affiliated corporations, etc. of an insurance company that have been notified as affiliated companies (including companies established by the said affiliated companies for conducting their businesses and companies conducting businesses similar to them, and excluding companies that fall under (iv)) and had been conducting businesses other than those that can be conducted by companies eligible to be a subsidiary company at the time of the enforcement of the Act on Revision, etc. of Related Acts for the Financial System Reform (hereinafter referred to as the “new Act”) continue to conduct those businesses, it is permissible to treat them as not violating (i) above for the time being, provided that the names, businesses, and other required matters of the said specified subsidiary corporations, etc. and specified affiliated corporations, etc. have been reported as ordered separately.

However, this shall not apply to the cases where the said specified subsidiary corporations, etc. or specified affiliated corporations, etc. become subsidiary companies or specified investing corporations of the said insurance company and the cases where the said specified subsidiary corporations, etc. and specified affiliated corporations, etc. newly conduct businesses other than those that had been conducted by them before the enforcement of the new Act.

(Note 1) An affiliated company refers to a company in which an insurance company invests that has a close relationship with the insurance based

on the history of its establishment and financial and personal relationships, etc.

(Note 2) In cases such as the following, it is permissible to treat them equivalently as the above-mentioned specified subsidiary corporations, etc. or specified affiliated corporations, etc. unless doing so would deviate from the purpose of the Insurance Business Act.

A. Case where affiliated corporations of an insurance company that have been notified as such conduct the above-mentioned businesses and there are unavoidable circumstances for becoming specified investing companies (limited to subsidiary corporations, etc. or affiliated corporations, etc.) of the said insurance company at the time of the enforcement of the new Act through the said insurance company's acquisition of the shares of the said affiliated companies held by other companies (limited to the case where notification prescribed in Article 132 of Supplementary Provisions of the new Act)

B. Case where companies that have met the above requirements as specified subsidiary corporations, etc. or specified affiliated corporations, etc. of an insurance company became specified investors (limited to subsidiary corporations, etc. or affiliated corporations, etc.) of the said insurance company under the provisions of Article 107(4)(i) of the Act (limited to case where the approval prescribed in the same item has been obtained) at the time of the enforcement of the new Act

C. Case where companies that have meet the above requirements as specified subsidiary corporations, etc. or specified affiliated corporations, etc. of each of two insurance companies became specified subsidiary corporations, etc. or specified affiliated corporations, etc. (hereinafter referred to as "surviving companies") of either one of the said insurance companies through a merger at the time of the enforcement of the new Act (limited to the case where, if the surviving companies continue to conduct the businesses that they had been conducting after the merger, necessary reviews had been conducted on the said businesses by the end of March 2002)

(iv) Whether specified subsidiary corporations, etc. or specified affiliated corporations, etc. do not conduct businesses other than those that companies eligible to be a subsidiary company can conduct, such as real property business for individuals, sale of goods and travel mediation business, etc.

In cases where specified subsidiary corporations, etc. or specified affiliated corporations, etc. had been conducting these businesses at the time of the enforcement of the new Act, however, whether necessary reviews have been conducted by the end of March 2002 in principle.

It should be noted that in cases where specified subsidiary corporations, etc. or specified affiliated corporations, etc. had been conducting dependent businesses or finance-related businesses (including those that have been reported as businesses equivalent to these businesses as ordered separately) or both of these businesses (limited to the case where the said dependent businesses meet the standards that are equivalent to the standards prescribed in each proposal of the Notice on Income Dependency (based on the example in (ii) above; however, the incomes from those conducting insurance solicitation through entrustment from an insurance company may be included in the incomes from subsidiary companies of the said insurance company in calculation); it is permissible to treat this case as if the provisions of Article 56-2(3) of the Regulation do not apply), it is permissible to treat these cases as not violating (i) above for the time being provided that necessary reviews have been conducted on the businesses other than the said dependent businesses or finance-related businesses by the end of March 2002.

(Note 1) It should be noted that if the said specified subsidiary corporations, etc. or specified affiliated corporations, etc. have not completed the necessary review after the end of March 2002, they shall be requested to submit a report on the justifiable reason for not having completed the reviews as ordered separately.

(Note 2) In association with the businesses conducted by subsidiary companies of an insurance company, in cases where there are unavoidable circumstances from the point of view of public nature, etc. to have specified subsidiary corporations, etc. or specified affiliated corporations, etc. of the said insurance company conduct businesses required by local governments, etc., it is permissible to treat the said businesses as “businesses equivalent to these businesses” even if they are businesses other than those that can be conducted by company eligible to be a subsidiary company.

III-2-2-2 Treatment of Agency/Mediation Companies Selling/Purchasing Collateral Properties (Excluding Real Properties) for Loans, etc. of Other Business Operators

Whether agency/mediation companies selling/purchasing collateral properties (excluding real properties) for loans, etc. of other business operators are treated with consideration given to the following points.

(1) Whether business operations of the said companies are limited to the following.

Agency/mediation services (hereinafter referred to as “agency services, etc.”) for selling/purchasing collateral properties (excluding real properties) for loans, etc. conducted when other business operators need to exercise the security interest for recovering those loans, etc.

(Note) It should be noted that, based on the purpose of prohibiting other businesses, agency services, etc. for selling/purchasing are not permitted other than for exercising the security interest.

(Note 2) It should be noted that, considering that insurance companies cannot conduct real property business, agency services, etc. for selling/purchasing real properties are not permitted.

(Note 3) It should be noted that acquiring, holding, managing, and selling collateral properties are not permitted for companies other than those prescribed in Article 56-2(1)(xxiv) of the Regulation.

(2) In the execution of business operations of the said companies, whether the standards of the Notice on Income Dependency are met.

III-2-2-3 Treatment of Holding/Managing Companies of Collateral Properties Related to Loans, etc. of Insurance Companies (Self-Bidding Companies)

Whether holding/managing companies of collateral properties related to loans, etc. of insurance companies are treated with consideration given to the following points.

(1) Whether business operations of the said companies are limited to the following.

(i) Acquisition of collateral properties related to the said loans, etc. conducted when the parent insurance company needs to exercise the security interest for recovering those loans, etc. (including the case where a third party

exercises the security interest for collateral properties related to the parent insurance company) (for properties other than real properties, acquisition is not limited to that through successful bidding at auction, but also includes acquisition by so-called underhand sales).

(ii) Holding, management, and sale of properties acquired (hereinafter referred to as “holding, etc.”).

(2) In the execution of business operations of the said companies, whether the following points are observed.

(i) Holding, etc. of Real Properties

a. Whether the price of successful bidding at auction is based on the minimum sale price published by the court.

b. When acquiring real properties, whether due consideration is given to the operation to ensure not to have social criticisms.

c. Whether the business operations conducted during the period of holding the real properties acquired are limited to those for maintaining/improving the value that is essential for smooth sale of the said real properties such as leveling ground, completing construction of unfinished buildings, and purchasing adjacent land, etc.

d. In cases where the said real properties are leased during the period of holding the real properties acquired, whether business operations are limited to the extent that does not prevent smooth sale of the said real properties.

e. When the said companies execute business operations, whether they conduct businesses that affiliated companies cannot conduct, such as hotel business.

(ii) Holding, etc. of Movable Properties

a. Based on the fact that movable properties are of great variety and the potential risks of holding, etc. of them are also wide-ranging, whether a control environment has been established wherein the risks such as liability for management and liability for non-conformity to contracts that may arise from the holding, etc. of the said movable properties are properly identified, analyzed, and managed according to the types and characteristics of the said movable properties to appropriately respond to these risks.

b. When acquiring the said movable properties, whether they are appraised using objective and rational appraisal methods.

c. Whether efforts have been made to appropriate manage the movable properties acquired according to their types and c haracteristics, etc. to improve/maintain their values.

d. Whether efforts have been made to consider appropriate methods of selling them and converting them into cash according to their types and characteristics, etc. and to realize them.

e. When the said companies conduct the holding, etc. of movable properties, whether they conduct businesses that are inappropriate for affiliated companies to conduct.

(iii) Holding, etc. of Claims

a. When acquiring the said claims, whether they are appraised using objective and rational appraisal methods.

b. Whether efforts have been made to maintain the values of the claims acquired, such as obtaining information necessary for determining the credit capability of the third-party debtors of the said claims (debtors of the target claims) as needed and continuously monitoring their financial conditions.

c. Whether efforts have been made to realize smooth recovery of the claims acquired by taking appropriate recovery measures (including transfer to third parties) on time.

(iv) Holding, etc. of Other Properties

Whether other properties are handled equivalently as for the holding, etc. of the above-mentioned real properties, movable properties, and claims.

(3) whether the target properties are collateral properties related to loans, etc. of the parent insurance company and purchasing the said properties is expected to enable recovery by the parent insurance company.

(Note) Loans, etc. include the claims such as the reimbursement rights, etc. obtained by the parent insurance company by performing the guarantee obligation that have been the secured claims the said properties.

(4) Others

(i) Whether the said companies that conduct the holding, etc. of real properties have obtained the license referred to in Article 3 of the Real Estate Brokerage Act under the provisions of the same Act.

(ii) Whether the said companies that conduct the holding, etc. of properties other than real properties have obtained the license, permission,

registration, or approval necessary for the holding, etc. of the said properties.

(iii) Whether the said companies conduct segregated management of balance/profit and loss for each property acquired.

(iv) Whether the parent insurance company and the said companies take necessary measures to ensure the financial soundness of the said companies.

III-2-2-4 Scope of Businesses of Overseas Subsidiary Companies, etc. of Insurance Companies

(1) It must be noted that it is necessary to ensure not to allow overseas subsidiary companies, etc. of insurance companies to conduct businesses other than those that can be conducted by companies eligible to be a subsidiary company by applying the same concept concerning the scope of businesses that is applied to domestic subsidiary companies, etc. also to the scope of businesses of those overseas subsidiary companies, etc.

(Note) This shall not apply to the case where it is necessary to exercise the security interest for recovering overseas loan claims, but it is extremely difficult to sell collateral assets due to the situations of the local market, and when there is no other appropriate disposition method under the local laws, a subsidiary managing company is established to hold/manage foreclosure assets.

In addition, businesses conducted by foreign companies conducting insurance business that are permitted by the local authorities shall be permitted in principle, provided that they do not deviate the purpose of laws.

(2) Subsidiary corporations, etc. and affiliated corporations, etc. that have been reported as invested foreign corporations (including companies established by the said invested foreign corporations to have them conduct their businesses and other companies that conduct businesses equivalent thereof) and have been conducting businesses other than those that can be conducted by companies eligible to be a subsidiary company shall be treated equivalently as described in III-2-2-1(3)(iii) above.

(Note) “Invested foreign corporations” refers to overseas foreign corporations in which insurance companies invest in a form of management control or

management participation.

Management control refers to a case where an insurance company substantially holds a majority of the voting rights (including the case where the said insurance company holds a majority in its calculation for its own account even if the name of the owner of voting shares or investment is of a person other than the said insurance company such as its official) of a foreign corporation (including the case where the said insurance company and the said foreign corporation substantially hold a majority of the voting rights of another foreign corporation or the said foreign corporation substantially holds a majority of the voting rights of another foreign corporation).

Management participation refers to a case where an insurance company substantially holds at least 50% of the voting rights of a foreign corporation and has significant influence on the financial and business policies of the foreign corporation through personnel, financial, and trading relationships, etc. It should be noted that “has significant influence” does not apply, in principle, to the case where there is another investor that substantially holds a majority of the voting rights of the said foreign corporation.

(3) It should be noted that in cases where an application for authorization referred to in Article 106(7) of the Act is made to make a company prescribed in (1)(viii) through (xii) of the same Article (in the case of a company listed in the same items, limited to a foreign company) or holding company subject to special provisions prescribed in (4) of the same Article (hereinafter collectively referred to as the “foreign company, etc. conducting insurance business”) a subsidiary company, the following matters need to be clearly stated in the written statement of reasons or other application documents for authorization.

(i) Whether or not the foreign company, etc. conducting insurance business has subsidiary companies that are not companies eligible to be a subsidiary company

(ii) In cases where companies described in (i) are subsidiary companies, the content of businesses conducted by the said companies and the recent financial and profit and loss status of the said companies

(iii) The content of the required measures to be taken so that the said companies are no longer subsidiary companies within five years from the date on which the companies described in (i) became subsidiary

companies

It shall be noted that the authorization referred to in the same paragraph cannot be granted in cases where it may cause adverse effects on the financial soundness of the insurance company, cases where the content of businesses of companies other than companies eligible to be a subsidiary company may injure public order or morals and thereby ruin social credibility of the foreign company, etc. conducting insurance business, and cases where it cannot be confirmed that the foreign company, etc. conducting insurance business can implement management of subsidiary companies adequately and fairly to ensure the appropriateness of businesses of the said companies other than companies eligible to be a subsidiary.

(4) The purpose of Article 106(4) of the Act is to grant a grace period for five years for the application of regulations on the scope of businesses of subsidiary companies as an exception when making companies other than companies eligible to be a subsidiary company subsidiary companies by making the foreign company, etc. conducting insurance business subsidiary companies on the premise that the insurance company takes required measures to make the said companies no longer its subsidiary companies. In addition, the fact that the cases where companies other than companies eligible to be a subsidiary company can be subsidiary companies for more than five years by obtaining approval of the Commissioner of the FSA are limited to cases where the circumstances listed in the items of (6) of the same Article exist is also based on the same purpose. Based on these, “unavoidable circumstances” in the items of the same paragraph may be considered to include the following circumstances.

(i) Those related to (i) of the same paragraph

A. Activities to sell the shares of companies other than companies eligible to be a subsidiary company have been initiated, but the selling schedule has been delayed due to the local economic conditions and status of negotiation with the potential buyer, etc.

B. Due to local legal reasons, the liquidation proceedings of companies other than companies eligible to be a subsidiary company have not been progressed.

(ii) Those related to (ii) of the same paragraph

In light of the characteristics of the local insurance market, it is

indispensable to continue to have companies other than companies eligible to be a subsidiary company as subsidiary companies, and the purposes cannot be achieved by entrusting businesses to third parties without the capital relationship.

It should be noted that since the provisions of (4) of the same Article are exceptions to the regulations on the scope of businesses of subsidiary companies, when making application for approval referred to in (5) of the same Article, the fact that those unavoidable circumstances exist at the time of the application and the policy for holding the voting rights of companies other than companies eligible to be a subsidiary company (measures considered to eliminate the unavoidable circumstances within one year after obtaining the approval, etc.), etc. need to be specifically described in the application documents each time.

(5) It should be noted that despite III-2-2-4(1), an insurance company may have companies other than companies eligible to be a subsidiary company as its subsidiary corporations, etc. (excluding subsidiary companies; the same applies hereinafter in III-2-2-4(5)) or affiliated corporations, etc. by making the foreign companies, etc. conducting insurance business its subsidiary companies, but in view of the purpose of the regulations on the scope of businesses of subsidiary companies, it is necessary to take required measures to make them no longer subsidiary corporation, etc. and affiliated corporations, etc. within roughly five years in principle.

The same shall apply to cases where an insurance company makes companies other than companies eligible to be a subsidiary company its subsidiary corporations, etc. or affiliated corporations, etc. by making the foreign companies, etc. conducting insurance business its subsidiary corporations, etc. or affiliated corporations, etc.

III-2-3 Points of Attention on Crypto-Assets

III-2-3-1 Significance

Although there are various designs and specifications of cryptocurrency assets, there are some that are difficult to track their transactions, such as

transferring records not disclosed and there is a high risk of being used for terrorist financing and money laundering. In addition, in general, it is difficult to appreciate the intrinsic value of crypto-assets because there are no other assets to support their value, hence, as considering that price fluctuations are significant when an insurance company group holds crypto assets, it is necessary to take into consideration the risk of price fluctuation. Besides regarding the management of crypto-assets, there are system risks such as system malfunctions and cyber-attacks.

In addition to the above, considering the reputational risks where these risks become apparent, the acquisition of crypto-assets by an insurance company group must be within the minimum necessary range. For an insurance company group, on the other hand, in the business of acquiring, holding or disposing of crypto-assets, including those by indirect methods such as investment in a fund whose actual investment target is crypto-assets, etc. (hereinafter referred to as "acquisition of crypto-assets, etc."), the businesses related to crypto-assets (hereinafter referred to as "crypto-assets related businesses") need to have a secure system in place so that there is no risk of hindering the operation of the insurance company's individual business or causing serious damage to the insurance company group.

Besides although underwriting of insurance in which the insurance company does not acquire crypto assets, such as underwriting of various insurances for companies operating the crypto-assets exchange business and underwriting various insurances to compensate the damages related to the crypto-asset exchange business, does not correspond to crypto-assets related businesses, it is necessary to pay attention to whether it is a deed that breaks the regulation.

III-2-3-2 Main Points of View

Regarding cryptocurrency-related operations in the insurance company group, the above-mentioned system needs to be established. Specifically, it is necessary to pay attention to the following points regarding such preparation.

(1) Risk Identification/Evaluation/Reduction based on the Characteristics of Crypto-Assets, etc.

Based on the mechanism of the crypto-assets (including issuers,

managers, other related parties, and the contents of the projects closely related to the crypto-assets.), the anticipated use, distribution status, technology used for the crypto-assets, and other characteristics of the crypto-assets (hereinafter referred to as "characteristics of the crypto-assets, etc."), whether the identification and evaluation of the risk of crypto-assets have been thoroughly examined, and the internal control system has been established to appropriately reduce the risks, including the following measures (2) to (4). Also, whether these are being regularly verified and reviewed.

(2) Measures against Terrorist Financing and Money Laundering

Whether, if there is a high risk that will be used for terrorist financing and money laundering, the suitability of crypto-assets related businesses is carefully assessed. For example, it shoud be noted that insurance companies should not conduct crypto-assets related business regarding crypto-assets of which the transfer records are extremely difficult to be tracked, because those are particularly likely to be used for terrorist financing and money laundering.

Besides, whether appropriate measures are taken in line with those described in the Guidelines for Countermeasures against Money Laundering and Terrorist Financing, such as paying attention to the status of terrorist financing and money laundering countermeasures of other parties of crypto-assets related businesses. In particular, regarding crypto-assets related business, if there is a possibility that cryptocurrency assets will be transferred from or to those who live or reside overseas, whether appropriate measures are taken in accordance with the guideline II-2 (4).

(3) Measures to Ensure Financial Soundness

Even if it is necessary to acquire cryptocurrency assets in the business of the insurance company group, from the viewpoint of ensuring soundness, whether an appropriate policy has been established, for example, limiting the amount of crypto-assets to be acquired to the minimum necessary range for the business. Also, regarding the holding of crypto-assets, whether it is possible to take appropriate measures such as promptly selling them, taking into consideration the market risk and liquidity risk of the crypto-assets.

Furthermore, whether the insurance company group will not acquire crypto-assets for the purpose of investment.

(4) Security Management Measures Related to Crypto-Assets Related Business

a. Whether the departments and responsible persons in charge of managing crypto-assets are appointed (when multiple departments are in charge of managing cryptocurrency assets, the responsibility and liability are identified between departments). Also, whether persons who have sufficient knowledge and experience regarding the characteristics of the crypto-assets are properly stationed to handle it.

b. Whether the management of crypto-assets, dealing with problems in case of outflow, and other internal rules regarding cryptocurrency assets are properly established, and the officers and employees are well and thoroughly informed. Also, whether the internal regulations are regularly verified and reviewed.

c. Whether the system risk management architecture for managing the crypto-assets being handled, such as the measures to prevent the outflow of crypto-assets due to unauthorized access, is securely established. Also, whether the system risk management system is regularly verified and reviewed by experts.

III-2-4 Arm's Length Rule

When there is an application for approval under Article 100-3 or the proviso of Article 194 of the Act, regarding the transactions or acts listed in each clause of Article 100-3 or Article 194 of the Act, whether there are compelling reasons listed in each clause of Article 54 or Article 134 of the Regulation will be examined, and the items to be paid attention to in that case are as follows.

(1) When applicable to Article 54(iii) or Article 134(ii) of the Regulations

(i) Whether the specified related parties (which refer to the specified related parties specified in Article 100-3 of the Act or the specially related parties specified in Article 194 of the Act; the same shall apply hereinafter) are in a financial crisis and need reconstruction assistance.

(ii) Whether sufficient self-help efforts and clarification of management responsibilities are made for specific parties to receive reconstruction assistance.

(iii) Whether it is more economically rational to carry out the transaction or act

than when the specified related parties are wound up and liquidated.

(iv) Whether, in the case of debt waiver or monetary donation, the total amount of the expected loss due to the support during the period of the management improvement plan amortized and/or allocated before the start of the plan.

(2) When Applicable to Article 54 (iv) of the Regulations

- Whether it is clear from the social norm that if the insurance company does not carry out the transaction or act with a specific party, it will suffer a larger loss in the future.

III-2-5 Modification of Insurance Clauses

III-2-5-1 Reporting of Modification of Insurance Clauses

(1) Approval of Reporting of Modification of Insurance Clauses

The following points should be paid attention to when approving reporting of modification of insurance clauses under Article 240-2(3) of the Act.

(i) Whether it is not currently difficult to continue the insurance business.

(ii) Whether it is rational that it may be difficult to continue the insurance business, for example, if the insurance clauses are not modified when the future business and property situation is predicted not to pay off the debt with the property of the insurance company. (Note 1)

Of these, at the time of the prediction of (ii) above:

A. (a) Matters related to financial and economic trends such as interest rates, stock prices, and exchange rates;

(b) Matters related to insurance contracts, such as new contract expansion rate, insurance contract continuation rate, insurance accident occurrence rate, etc.; and

(c) Matters related to operations such as asset allocation

must be based on objective and reasonable assumptions regarding each of them (Note 2).

B. The effects of management improvement measures that can be taken to continue the insurance business, such as mergers and reorganizations, organizational changes, business cost reductions, and business restructurings must be incorporated.

(Note 1) Regarding the analysis period, the practice of analyzing the future

income and expenditure for 10 years in the life insurance company has been established according to the business standards of the Institute of Actuaries of Japan, which can be used as the reference. But since considering that the procedure for modifying the insurance clauses is voluntary and autonomous, it does not exclude the analysis for a longer period in all cases.

(Note 2) The method stipulated in the practical standards of the Institute of Actuaries of Japan can be used as a reference in determining whether or not the assumptions made in these analyses are objective and appropriate.

(2) Contents of the Report Form

Of the documents to be attached as stipulated in Article 196 of the Regulation when making a report under Article 240-2(1), "a document stating any other matters which would serve as reference information" as stipulated in Article196(iii) of the Regulation shall include predictions of the future business and property conditions prepared by the method shown in (1) (ii) above, and matters related to the contents of the management improvement measures incorporated in the predictions.

III-2-5-2 Appointment of the Insurance Inspectors

If approved under Article 240-2(3) of the Act, the insurance inspectors shall be appointed promptly in principle to investigate the details of the modification of the insurance clauses and other matters.

As a general rule, the insurance inspectors shall be appointed from: (1) the actuaries (including corporations); (2) certified public accountants; and (3) lawyers.

III-2-5-3 Measures to be Taken by the Insurance Company

Whether, when the insurance company proceeds with the procedure for modification of insurance clauses, the following policy is taken into consideration and appropriate measures are taken.

(1) Efforts to Improve Management

Whether, when modifying insurance contracts, the insurance company clearly and plainly explains to the general meeting of shareholders and policyholders about, in addition to the circumstances leading to the modification of insurance contracts, the measures to be taken as the result of considering the wide range of management improvement measures including merger/reorganization, organizational change, project cost reduction, business reorganization, etc. in order to reliably implement insurance contracts after the insurance clauses are modified, and the prediction of the future business and property conditions that incorporate them.

(2) Dealing with the Funds and Subordinated Loans

Whether the explanation is clearly and plainly given to the shareholders' meeting and policyholders on the measures to be taken as the result of considering measures such as reduction of funds and subordinated loans, reduction of interest rates, or increase of interest rates so as not to impose a burden only on policyholders who are subject to the modification of insurance clauses.

(3) Matters Concerning Management Responsibility

Whether the management system after the modification of insurance clauses, including the reasons, are clearly and plainly explained to the general meeting of shareholders and policyholders, etc.

(4) Policy on Policyholders' Dividends, etc.

Whether, if there is a policy regarding policyholders' dividends, the distribution of surplus, or other payment of money related to the insurance contracts as per the modification of insurance clauses, the details are clearly and plainly explained to the general meeting of shareholders and policyholders, etc.

III-2-5-4 Approval of the Modification of Insurance Clauses

(1) Approval of the Modification of Insurance Clauses

When approving the modification of insurance clauses based on Article 240-11(2) of the Act, the following points must be paid attention to.

(i) Whether the procedure for the general meeting of shareholders was properly implemented.

(ii) Whether each matter shown in III-2-5-3 is clearly and easily explained to the policyholders.

(iii)Whether it is expected that the insurance company will take sufficient management improvement measures and that the possibility of being difficult to continue the insurance business will be resolved by those measures and the modification of the insurance clauses resolved at the general meeting of shareholders, etc.

(iv)Whether there are any problems from the viewpoint of protection of policyholders, etc., that the modification of the insurance clauses is significantly unfair to specific policyholders.

(2) Contents of the Offer Form

Of the documents stipulated in Article 200 of the Regulations attached when seeking approval pursuant to Article 240-11(1) of the Act, "a document stating any other matters which would serve as reference information" stipulated in Article 200(v) shall include the matters related to the contents of management improvement measures to be taken in conjunction with the modification of the insurance clauses .III-2-6 Asset Management Limit

In approving the proviso of Article 48-3(2) of the Regulations and the proviso of Article 48-5(2) of the Regulation, the plan for eliminating the excess of the asset management limit in the future is requested and the implementation status of the plan shall be regularly reported except for in the case that the excess will be promptly resolved.

III-2-7 Dealing with the Standard Policy Reserves When They Are Not Accumulated

(1) Regarding the accumulation for policy reserves, when the insurance company accumulates premium reserve and refund reserve (hereinafter referred to as the "premium reserve, etc.") by applying Article 69(4)(iv), the insurance company shall apply to obtain authoraization of change of the statement of calculation procedures listed in Article 4(2)(iv) of the Law (including examination at the time of license). If there is that application, it shall

be dealt with by paying attention to the following points.

(i) Whether the insurance company that applies Article 69(4)(iv) of the Regulations and accumulate premium reserves, etc. by a method other than the standard policy reserve or the Level Premium System has established a plan for the accumulation of policy reserve (hereinafter referred to as the "accumulation plan") to be accumulated by the standard policy reserve or the Level Premium System within a reasonable period of time. In addition, whether the plan is appropriate based on the business plan or business performance etc.

(ii) For the insurance companies that apply the provisions of Article 69(4)(iv) of the Regulations, if profits are expected to remain favorable, such as when current net income or current net surplus is expected to be generated, whether the insurance company takes measures for steady implementation of the accumulation plan such as accelerating the implementation of the accumulation plan.

(iii) Whether, when changing the accumulation plan, there are truly unavoidable reasons, such as the case that a recoverable temporary loss has occurred.

(2) Whether, when the accumulation of premium reserve etc. is shfted to the amount based on the standard policy reserve or the Level Premium System, the statement of calculation procedures has been changed without delay.

(3) Regarding the implementation status of the accumulation plan, the report based on Article 128 of the Act shall be requested every year, and if the status falls below the reserve rate in the accumulation plan for the current fiscal year, a hearing shall be held on the reason and measures for achieving the plan.

After conducting hearings, if the response is found to be inadequate, a report shall be requested on the measures to steadily implement the accumulation plan based on Article 128 of the Act, and if it is found that there are serious problems, administrative disposition based on Article 132 of the Act shall be taken.

The insurance companies' measures to be taken for the achievement or restoration of standard policy reserves can be considered as follows:

(i) Improvement of income and expenditure by reducing project costs and reviewing insurance premiums;

(ii) Securing resources for increasing policy reserves through capital increases, etc.; and

(iii)Improvement of income and expenditure by improving the continuation rate and changing the sales strategy (only when there is a track record including similar ones.)

The improvement measures by financial reinsurance shall not be recognized as the countermeasures in this case.

III-2-8 Restrictions on the Acquisition of Voting Rights

Regarding approval under Article 107(2) of the Act, it is necessary to pay attention to the following points in addition to the need for approval each time the company intends to hold more than the voting right holding threshold and for more than one year.

(1) The new business activities conducted by the company specified pursuant to the Cabinet Office Ordinance as a company exploring new business fields (so-called venture business company) as prescribed in Article 106(1)(xiii) or Article 271-22(1)(x111) of the Act refers to the development or production of new products that enables developing new business fields, the development or provision of new services, the introduction of new methods for production or sales of new merchandise, and other business activities, and the fields include not only the types of business targeted for the establishment for R&D, but also the types of other various services. In judging the applicability, the regions and types of the business will be taken into consideration, but the introduction of technologies and methods that are already prevalent to a considerable extent and business that is still in the research and development stage are not included.

(2) The "day of commencement" prescribed in Article 56(5)(i) to (iii) of the Regulation refers to the date on which the company that had already engaged in the business have decided to start the new business activity prescribed in (i) of the same Clause (so-called the "second establishment".)

III-2-9 Exemption from the Application of Regulations on the Dividends to

Members in the Mutual Insurance Company

With respect to the application for the approval of exemption from the application of the member dividends regulations under Article 55-2(5) of the Act, if it is deemed necessary for the applicant company to make efforts to enhance its capital base to deal with the changes in the business environment, the application shall be approved because the situation falls under "unavoidable circumstances in light of the status of its settlement of account " prescribed in (4) of the same Article.III-2-10 Liability Reserve Bonds

Liability reserve bonds shall be treated in accordance with the Industry Audit Committee Report No. 21, the '"Treatment of Accounting and Auditing for Liability Reserve Bonds" in Insurance Industry, issued by the Japanese Institute of Certified Public Accountants on November 16, 2000.

III-2-11 Insurance Company's Major Shareholder

III-2-11-1 Items to Be Confirmed in the Approval Examination for Insurance company’s major shareholder

(1) When examining whether there are risks of impairing the sound and appropriate operation of the business of the insurance company in light of matters related to the funds acquired by the applicant company for approval as the insurance company’s major shareholder (hereinafter referred to as the "application company") in relation to the voting rights of the insurance company, the purpose of holding the voting rights, and other matters related to the holding of voting rights, it is important to ensure the continued and stable management of the business from the perspective of protecting policyholders, etc., and therefore, for example, to thoroughly examine it.

a. Whether the policy and purpose of the holding voting rights of the insurance company are not likely to undermine the soundness and appropriateness of the insurance company's business. for example, whether the company has the policy of not holding voting rights for the purpose of short-term trading, but rather to continue to hold voting rights for a certain period in light of the characteristics of the insurance business, and to stabilize and grow the management of the insurance company through governance as a shareholder (including how this can be ensured);

Also how the plans regarding the public offering of the share are considered.

b. Whether or not there are any risks of harm to the soundness and appropriateness of the insurance company's business in terms of the source of funds for the acquisition of voting rights. For example, whether it is possible to acquire the voting rights without excessive borrowing.

c. Whether or not the transactions among the group companies, including the applicants are properly secured.

(2) When examining whether there are risks of impairing the sound and appropriate management of the insurance company's business in light of the applicants' assets and income/expenses, the following points, for example, shall be thoroughly verified.

a. Whether there are not any risks of harm to the soundness and appropriateness of the insurance company's business in light of the applicants' financial condition and fund-raising status.

b. Whether sufficient cash flow, etc. are prepared to ensure the soundness of the management of the insurance company even if the insurance company is unable to make profits as planned, in particular, for those who hold more than 50% of the voting rights of the insurance company.

c. When reviewing for approval, financial statements for the most recent fiscal year and materials such as audit reports (if the applicant is a foreign corporation, etc., similar materials showing its financial status) shall be requested, and whether there is not any additional information in the audit report to the effect that there are significant doubts about the premise of the applicant as a going concern shall be confirmed.

(3) When examining whether the applicant has sufficient understanding of the public nature of the insurance business and sufficient social credibility in light of its personnel composition, etc., the following points, for example, shall be thoroughly verified.

(i) Whether the applicant has an understanding of the public nature of the insurance business and sufficient social credibility in light of the applicant's management system and the management control system of the insurance company in which the applicant holds voting rights not less than the major shareholder threshold.

(ii)To ensure the soundness of the management of the insurance company, it

is a prerequisite that the independence of the management of the insurance company be ensured. However, to ensure that the independence of the management of the insurance company is not impaired due to the requirements of the management strategy of the applicant, for example, the following points shall be sufficiently verified

(a) Whether the independence of management of the insurance company is impaired or not by the fact that the officers or employees of the applicant concurrently serve as the officers or employees of the insurance company.

(b) Whether the sound and appropriate management of the insurance company's business is not impaired in terms of risk management by the applicants being entrusted with a part of the insurance company's business.

(4) Even if the management independence of the insurance company is ensured, there is a possibility that the insurance company may be exposed to risks of the applicants that the insurance company does not intend, such as deterioration of the applicants' management. In particular, in cases where the insurance company and the applicants share a common operating base, there is a risk that the insurance company's operating base may be lost at once (co-funding risks) due to the bankruptcy of the applicant. To deal with such risks, for example, the following points shall be sufficiently verified.

a. Whether or not there are sufficient measures in place to block the applicant's incurring risks owing to the insurance company. Moreover, such measures should include, at the minimum, the following items:

(a) In the event of deterioration in the applicant's business conditions, the applicant shall not receive support or financing from the insurance company.

(b). The applicant shall assume in advance various risks, such as a decline in the stock price of the insurance company and defection of business partners, owing to the deterioration of the applicant's business performance, disposal of the insurance company's shares, the disappearance of synergy effects, and reputational risks, caused by the insurance company, and shall take measures to prevent such risks from damaging the soundness of the insurance company's management (e.g., securing revenue sources and funding sources, and enhancing capital).

(c) In particular, in cases where the insurance company shares the

applicant's operating base, measures should be taken to ensure that the bankruptcy of the applicant will not make it difficult for the insurance company to continue its business.

b. Even with the risk-blocking measures described above, it is assumed that there may be cases where it is difficult to completely block the applicant's risks owing to the insurance company. From the perspective of early identification of deterioration in the management of the insurance company due to the management risks of the applicant, the financial conditions and social credibility of the applicant that may affect the management of the insurance company shall be fully considered in the process of examination for approval of the insurance main shareholder.

III-2-11-2 Matters to Be Considered in Post-approval Supervision

(1) For insurance company’s major shareholder, the company shall be required to submit disclosure materials, such as annual securities reports (including the status of fundraising) (if there are no disclosure materials, the materials in which its management and financial conditions are described) and the documents in which the business relationship with the insurance company (contracts, borrowings, etc.) of which the major shareholder holds more than the threshold number of voting rights for each fiscal year of the major shareholder in accordance with the provisions of Article 271-12 of the Act.

(2) If there is any doubt about the effectiveness of measures to ensure the independence of the insurance company and to block business risks to the insurance company based on the results of off-site monitoring or inspections, the company shall request the insurance company’s major shareholder to submit a report pursuant to Article 271-12 of the Act, as necessary, and if a serious problem is found, the company shall cope with the problems by issuing an order for taking measures pursuant to Article 271-14 of the Act.

III-2-12 Points to Be Paid Attention to by Financial Institutions in Relation to the Enhancement Law

With regard to the items to be included in the plan for business restructuring

and the plan for specific business restructuring prescribed in the Act on the Strengthening of Financial Institutions, etc., the following points should be paid attention to, in line with the way the insurance company presents its financial statements, etc.

III-2-12-1 Matters Related to the Setting of the Targets for Improving Productivity and Financial Soundness Through Business Restructuring in the Guideline for the Implementation of Business Restructuring

(1) Life Insurance Companies

a. The "operating profit" in the guideline for the implementation of business restructuring (hereinafter referred to as the "Implementation Guideline") 1. (a)(1) refers to, for example, the core profit.

b. The "value of turnover of tangible fixed assets" in a. (2) of the Implementation Guideline 1 refers to, for example, the value obtained by dividing annualized premium by the book value of the tangible fixed assets.

c. The "value added per employee" in the Implementation Guideline 1. (a)(3) Refers to, for example, the total value added by one employee (the sum of basic profit, labor cost, and depreciation).

d. The "total interest-bearing debt" in the Implementation Guideline 1.(b)(1) refers to all the hybrid capital instruments, including, for example, insurance policy reserves, and the "working capital" refers to, for example, the loan receivables excluding the non-performing loan.

e. The "ordinary income" in the Implementation Guideline 1 (b)(2) refers to, for example, the operating income, and the "ordinary expenses" refers to, for example, the ordinary expenditure.

(2) Non-life Insurance Companies

a. The "operating profit" in the Implementation Guideline 1. (a)(i) refers to, for example, the amount of underwriting income minus underwriting expenses.

b. The "tangible fixed assets turnover ratio" in the Implementation Guideline 1. (a)(2) refers to, for example, the sum of the net premium written and reserve premium written divided by the book value of the tangible fixed assets.

c. The "value added per employee" in the Implementation Guideline 1.(a)(3) refers to, for example, the total value which has been added by one

employee (the sum of insurance underwriting profit minus insurance underwriting expenses, labor cost, and depreciation).

d. The "total interest-bearing debt" in the Implementation Guideline 1.(b)(1) refers to , for example, all the hybrid capital instruments, including, for example, insurance policy reserves, and the "working capital" refers to, for example, the loan receivables excluding the non-performing loans.

e. The "ordinary income" in the Implementation Guideline 1. (b)(2) refers to, for example, the ordinary revenue, and the "ordinary expenses" refers to, for example, the ordinary expenditure.

III-2-12-2 The Matter Concerning the Definition of the Corporate Reorganization of the Implementation Guideline 2. (a).

(1) Life Insurance Companies

(a) The "sales" of the Implementation Guideline 2. (a)(3) refers to, for example, the annual-basis premium.

(b) The "sales cost per unit concerning the goods or service" of the Implementation Guideline 2. (a)(5) refers to, for example, the working expenses per unit of the annual-basis premium.

(2) Non-life Insurance Companies

(a) The "sales" of the Implementation Guideline 2. (a)(3) refers to, for example, the total amount of the net premium and income deposit premium by policyholders.

(b) The "sales cost per unit concerning goods or service" of the Implementation Guideline 2. (a)(5) refers to, for example. the expense per unit of the total amount of the net premium and income deposit premium by policyholders (total amount of damage inspection expenses, and miscellaneous charges and expenses of collection, other insurance underwriting expenses, business expenses, and administrative expenses).

III-2-12-3 The Business Type in the Structural Excess of Supply of the Implementation Guideline 2.b. (3) or the standard of a business sector

(1) Life Insurance Companies

The "sales" in the "operating profit on sales" of the Implementation Guideline 2.b.(3)(ii) refers to, for example, the annual-basis insurance premium, and "operating income" refers to, for example, the basic profit.

(2) Non-life Insurance Companies

The "sales" in the "operating profit on sales" of the Implementation Guideline 2.(b)(3)(ii) refers to, for example, the total amount of the net premium and the income deposit premium by policyholders, and the "operating income" refers to, for example, the amount of the insurance undertaking profit minus the insurance underwriting expense.

III-2-12-4 The Matters Related to the Setting of the Targets for Improving Productivity and Financial Soundness of the Implementation Guideline 3 by the Business Restructuring.

(1) Life Insurance Companies

To the Implementation Guideline 3. (a)(1) to (3), and (b) (1) and (2), the above-mentioned III-2-12-1(1) a. to e. are applied, respectively.

(2) Non-life Insurance Companies

To the Implementation Guideline 3. (a)(1) to (3), and (b) (1) and (2), the above-mentioned III-2-12-1(2) a. to e. are applied, respectively.

III-2-12-5 the Matter Concerning the Definition of the Specific Corporate Reorganization of the Implementation Guideline 4. (a)

(1) Life Insurance Companies

The "sales" of the Implementation Guideline 4.(a)(iv) and (v) refers to, for example, the annual-basis premium.

(2) Non-life Insurance Companies

The "sales" of the Implementation Guideline 4.(b)(4) and (5) refers to, for example, the total amount of the net premium and income deposit premium by policyholders.

III-2-13 Management of the Incidental Business

III-2-13-1 Management of "Other Incidental Business "

Whether or not sufficient responses from the following perspectives and development are secured in the business of insurance companies under Article 98(1), of the Act, excluding the operations listed in each item of the same provision (hereinafter, "other incidental business ").

(1) Regarding the consulting service, the business matching business, human-resources introduction business, and office fiduciary obligation which the insurance company carries out for a customer company, when separating from specific business and carrying out such business from the viewpoint of effective use of the expert knowledge in full in the specific business of the service for the correspondent company, etc., it also falls under "other incidental business."

(Note 1) These types of business also include advice for the insurance company going public etc. to the customer company carried out for the business of these, or the business introduced to the customer company of which going public, etc. are possible for the financial instruments broker that carries out securities-related business.

Moreover, the business which only introduces a customer to the financial-instruments trader who carries out securities-related business without solicitation is also included in "other incidental business."

(Note 2) The business which deals with the consultation concerning individual property accumulation is also included in "other incidental business."

(Note 3) The business concerning introducing the investment trust management company to the financial-instruments broker etc. which carries out securities-related business, or an asset management company is also included in "other incidental business."

(Note 4) The office support business carried out for an insurance agent, the business in the same group, etc. is also included in "other incidental business " in principle if related with the business which the insurance company concerned is carrying out.

(Note 5) Pay attention to the human-resources introduction business in that

permission is necessary granted based on the Employment Security Act.

Moreover, mind in the enforcement not to abuse the dominant status on dealings unfairly.

Furthermore, it should be noted that the control environment regarding the following points shall be established when conducting the business, from the perspective of customer protection and compliance with laws and regulations..

a. Whetherthe control environment is established to ensure strict compliance with laws and regulations, including the prevention of acts that could pose a problem under the Antimonopoly Law as abuse of a superior position..

(Note 1) Whether the control environment to ensure strict compliance, such as not falling under the category of investment advisory business as defined in the Financial Instruments and Exchange Law, is established in conducting the business of providing consultations on the formation of individual assets .

(Note 2) Whether the control environment to ensure that the products, the contents of the service and the price, etc. concerning the pertaining business do not fall under an action applicable to Article 300(1)(v), or an action applicable to Article 234 (1)(i) of the Regulation implemented so as not to serve as the activities prohibited in the Act.

b. Whether the contractual coverage of products, the information of the service, prices,, etc., which are offered, are specified in writing.

c. Whether with regard to the management of customer information related to the incidental business, specific standards for handling such information, including the use of such information for purposes other than those for which it is intended, are established, and a verification system to ensure that such information is thoroughly communicated to officers and employees, is established. (refer to II-4-5-2).

(2) Whether, in the judgment of whether the business other than the business defined in above (1) (the business carried out for the purpose of effective use of surplus capacity is included) falls under the category of "other incidental business ", treated with comprehensive consideration enough from the following viewpoints to pay careful attention to that other businesses are forbidden in Article 100 of the Act.

a. Whether the business concerned is covered in the list of business listed in each item of Article 97 and Article 98(1) of the Act.

b. Whether the structure of the business concerned is not excessive for the structure of the intrinsic business which the business accompanies.
c. Whether the functional affinity with the insurance business and the homogeneity of the risks are recognized regarding the business concerned.
d. Whether the business contributes to the application of the surplus capacity which arose properly while the insurance company carried out intrinsic businesses.

III-2-13-2 The Agency of Business or Business Agent of the Insurance Business,etc.

When the insurance company seeks to carry out agency of business or act as a business agent of the insurance business,etc. of a subsidiary corporation or a person with close affiliation pursuant to the provision of the proviso to Article 98(2) of the Act (hereinafter the "business agency, etc." in III-2-13-2), the insurance company shall submit a letter of notification to the Commissioner of the FSA in the attached form 6-3 beforehand.

In this case, the following points of view in addition to the items listed in each item of Article 100-3 or Article 194 of the Act, and Article 51-2(2) of the Regulation shall be paid attention to.

(1) The other party of the contract shall be a subsidiary company or a person who falls under the category of a person with a close affiliation listed in each item of Article 51-3 or 141-3 of the Regulation.

(2) After the notification, when the other party of the contract of the business agency, ceases to fall under the status of a subsidiary corporation or a person with a close affiliation, permission is required from the Commissioner of the FSA pursuant to the main provision of Article 98(2), beforehand.

III-2-14 Re-recruitment of Funds

The following points shall be paid attention to when the approval to change the Articles of Incorporation pertaining to the matters regarding the redemption of the

funds (Article 126(ii) of the Act),and accepting the notification of an increase in the total amount of the funds (Article 127(iv)of the Act), and the notification of the amendment of the Articles of Incorporation ((v)of the same Article). After a certain period, the resolution of the Member Representatives Meeting on the increase of the funds (including establishing multiple times), when recruiting Funds, pay special attention to whether the recruitment of the Fund is based on the purpose of the law, such as from the viewpoint of protecting the rights of members. Besides, it should also be paid attention to that there is an application or equivalent of the provisions of the Insurance Business Act or the Companies Act concerning duty of care, duty of fidelity, liability for damages, etc. to the company in concluding the funds contribution agreement, etc., regarding the directors of mutual insurance companies.

(1) Whether the decision-making of the Member Representatives Meeting was made after sufficient explanations at the Member Representatives Meeting on the conditions for re-recruitment of the Fund, such as the increase in the total amount of the funds described in the Articles of Incorporation (the amount divided by the time of application), the timing of recruitment (for example, the time specified within the range of about three months), the level of interest on the funds, and the method of repayment of thefunds, etc.

(2) Whether or not there are risks that the repayment of the Fund and the payment of interest on the funds may not meet the limitations of Article 55(1) and (2) of the Act, and other measures that may lack the protection of members' rights, with respect to the conditions for re-recruitment of the funds.

(3) Whether all the funds will be recruited after the Member Representatives Meeting and by the end of the next fiscal year.

(4) Whether, even if the full amount of the total amount of the Fund stipulated in the Articles of Incorporation is not recruited due to unavoidable circumstances, a resolution on the provisions of the articles of incorporation will be required again at the next Member Representatives Meeting.

(5) Whether, in the case of recruiting funds after the period of deciding the resolution concerning the increase of the funds (including the stipulating of multiple periods) from the Member Representatives Meeting, it is necessary to

report to the authorities because each of the Fund applications falls under Article 127(iv) of the Act, but in that case, the conditions, etc. of the recruiting funds meeting the requirements of (1) and (2) above.

III-2-15 Preparation of Explanation Documents, Public Viewing, etc.

III-2-15-1 Application of the Principles of Importance

(1) Regarding the scope of consolidation and the principle of importance regarding the scope of the interest method, in addition to consolidated financial statements, etc. prepared under the Financial Instruments and Exchange Act, pay attention so that the consolidated financial statements of insurance companies (Article 110(2) of the Act, and Article 59(4) and (5) of the Regulation), and the consolidated statements of the insurance holding companies (Article 271-24(1)of the Act, Article 210-10(1) and (2) of the Regulation) shall be also covered.

(Note) The instruction documents to be consolidated are clearly stated in the Regulation (Article 59-3(1)(i) and Article 210-10-2(1)(i) (a).

(2) Whether, with regard to the contents of these statements comply with the provisions of Article 5(2) and Article 10(2) of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, and Report No. 52 of the Audit Committee of the Japan Institute of Certified Public Accountants, "Handling of audits pertaining to the application of principles of importance concerning the scope of consolidation and the scope of application of the interest method" (July 21, 1993).

Besides, whether or not, in judging the importance, they are judged in parallel on both the qualitative and qualitative sides, and the characteristics of individual subsidiaries, etc. engaged in the financial industry are fully considered from the viewpoint of properly displaying the financial status and operating results of the insurance company group.

III-2-15-2 Notes on the Items Described

(1) General Notes

a. Whether , in addition to what is stipulated in this Supervisory Guidelines,

appropriate and easy-to-understand expression are used for each description, referring to Cabinet Office Order on Disclosure of Corporate Affairs,and the Regulation on consolidated financial statement, etc.

b. Whether, if there are no applicable items in the company for each description item, or if annotations are required, appropriate expressions are used to that effect.

(Note) It should be paid attention to that among the matters shall be described in the consolidated explanation documents, those pertaining to the fiscal year 1997 or earlier will be stated to that effect if the insurance company has not made consolidated financial statements.

c. Pay attention so that there is no problem to voluntarily and proactively disclose information other than the mandatory disclosure items stipulated in the Regulation. In particular, of the matters that should be used as a reference to know the business and property status of insurance companies, especially important items such as solvency margin ratios should be disclosed quarterly. Besides, in the case of exposure to areas of strong market interest, etc., in light of international best practices, it is desirable to disclose them actively so that user and invester can judge properly.

(2) Notes on the Individual Items

a. Whether there is a systematic and easy-to-understand explanation of the "organization for management" using the organization chart, etc.

b. Whether the "Contents of Major Business" contain the contents for each category such as insurance underwriting and asset management, acting on behalf of the business management and administrative affairs, and the counter sales operations such as that of the government bonds.

c. Whether the "Business Overview in the Most Recent Business Year" provides a general explanation of the business conditions, business performance, asset management, profit and loss status, and issues that the Company should address.

d. Whether the total amount of individual insurance, individual annuity insurance, and group insurance are described, and they state the amount of the group pension insurance holding contract.

e. The "Asset Management Indicators (Add-on Table)" shall state the accounts other than special accounts.

f. Whether the "Risk Management System" includes the risk content, basic

policy for risk management, and risk management systems such the examination systems, inspection systems, and comprehensive management systems for asset liabilities.

g. Whether the "Legal Compliance System" includes the basic policies and operational systems for compliance.

h. Whether the trade name, the company name, and the contact information of the designated ADR organization of the other party to the basic contract for the implementation of procedures listed. If the designated ADR agency is not present, whether the content of the complaint handling and dispute resolution measures properly described in accordance with the actual situation's (e.g., using an external organization) name and contact information of the external organization).

i. Whether "the contents of the main business of insurance companies and their subsidiaries, etc. and the structure of the organization" have a systematic and easy-to-understand explanation of the main business in the insurance company group and the positioning of the group companies that make up the business in the industry etc. and the situation of the business indicated by the business system diagram.

j. Whether "the amount of ordinary income belonging to the category in accordance with the classification of each type of business, the ordinary income or ordinary loss, and the amount of assets when the insurance company, its subsidiary corporations, etc. operate two or more different types of businesses (hereinafter, "ordinary income, etc.") (excluding each case where the ratio of the ordinary income, etc. to the total amount is small, by segment information for the type of business stipulated in Article 15-2(1) of the Regulation on Consolidated Financial Statements.

III-2-15-3 Disclosure of the Amount of Risk-managed Claims and the Amount of Receivables Classified Based on the Debtor Category

(1) Whetherthe consolidated Risk-managed claims are prepared for insurance companies, subsidiary corporations, etc. included in the scope of consolidation based on the consolidated balance sheet.

(2) Disclosure Categories of Risk-managed Claims

a. Claims to Bankrupt Borrowers

The "liabilities on which accrued interest income is not recognized as there is no prospect of collection or repayment of the principal or interest due to the fact that the payment of the principal or interest has been delayed for a considerable period or for other reasons" in Article 59-2(1) (v) (b)(1) of the Regulation refers to cases where accrued interest income is not included in profit in accordance with the "Treatment of Accrued Interest Income of Insurance Companies" issued by the Commissioner of the National Tax Agency on October 8, 1969.

b. Bad Claims

(i) The "loans on which interest payments are deferred for restructuring or supporting the debtors" in Article 59-2,(1)(v) (b) (2) of the Regulation shall refer to the "loans on which accrued interest income is not recognized as the interest rate shelving".

(ii) Pay attention so that the "bad claims" shall refer to the "liabilities for which the interest is not accrued as the interest rate shelving. It should be paid attention to the fact that the "bad claims" include the "interest rate reduction and exemption" are judged based on the status of interest collection after the interest rate reduction and exemption, and if the accrued interest after the interest rate reduction and exemption is not recognized as income, it should be included in the "bad claims" to be disclosed.

c. Restructured Claims

(i)Pay attention to the fact that the "arrangements in favor of the debtor" in Article 59-2, (1) (v) (b) (4) of the Regulation does not matter whether the arrangements are made by agreement between the creditor and the debtor or by law or judgment. Specific examples of such arrangements could include, for example, the following types of claims or combinations of claims, but it should be paid attention to that regardless of these, loans that meet the definition of the regulation are subject to disclosure.

(a) Claims with reduced or exempted interest rates: Loans for which the interest rate for the initial commitment period has been reduced to a level lower than the interest rate normally applied to debtors with the same credit risks as the debtor (hereinafter referred to as the "base interest rate") at the time of the revision of the commitment terms

(b) Postponed Interest Payment claims: Loans for which the payment of Interest Is Postponed.

(c) Claims to debtors with financial support: Loans to debtors that have

waived claims or provided other forms of support, and have decided to continue to provide the necessary support for the implementation of the restructuring plan.

(d) Claims to bankrupt debtors: Loans to bankrupt debtors that provide certain concessions favorable to the debtor with interest rates lower than the base rate at the time of modification of the contract terms.

(e) Partially forgiven claims: Loans for which a portion of the principal or interest has been forgiven based on the agreement of the relevant parties in a private placement, or an approval decision in a corporate reorganization or civil rehabilitation proceedings.

(f) Claims for which payment in kind has been made: Remaining balance of loans for which assets such as real estate or accounts receivable have been delivered by the debtor to the creditor as partial payment of the debt (including delivery through the exercise of security interests).

(g) Claims for which the debtor's shares were accepted: The remaining balance of liabilities for which the debtor received shares issued by the debtor as partial payment of the debt. However, this excludes cases where the liabilities have been converted into shares issued by the debtor in accordance with the original agreement.

(Note) In making judgments regarding the above cases, for example, the following points should be paid attention to.

a. The base interest rate should be set in accordance with economic rationality.

b. With respect to an individual debtor, it should be determined whether or not a yield substantially equivalent to that when the base rate is applied to the loans is secured, taking into account the overall profitability of the transaction for the debtor, such as income from fees, dividends, etc. other than interest, reduction of credit risk due to collateral, guarantees, etc., and competitive perspective.

c. In particular, when the debtor is a small or medium-sized enterprise, the classification shall be made based on the actual business conditions of the enterprise, taking into account not only the financial conditions of the enterprise but also the enterprise's technological capabilities, sales capabilities and growth potential, payment of remuneration to the representative or other officers, income and assets of the representative or other officers,

guarantee status and guarantee capacity, etc.

d. Even for cliams for which terms and conditions have been amended, the credit risk itself should be mitigated if there is a certain prospect of the sale of assets held by the company in question and the repayment resources are secured through such sales.

(ii) In the past, even loans to debtors who have made interest rate reductions, interest payment graces, debt waivers, grace periods of repayment of the main unit, and receipt of substitute payments and shares for rebuilding or supporting the management of debtors in the past, the interest rate on the execution of new loans has declined due to changes in financial and economic conditions, etc., or if it is expected that the base interest rate has been secured for the loans as a result of an improvement in the management situation of the debtor and the decrease in credit risk, the liabilities will not fall under the loans conditions mitigation claim.

In particular, if the business reconstruction has been initiated through the implementation of financial support in line with the highly likely (Note 1) or drastic (Note 2) business reconstruction plan (Note 3) (Note 4), it may be judged that loans based on the management reconstruction plan do not fall under the liabilities condition relief liabilities. Besides, if you have not formulated a likely drastic business reconstruction plan, if the debtor is a small and medium-sized enterprise and is expected to formulate the business reconstruction plan within the maximum of one year from the date of the change in the loans terms (Note 5), it may be judged that it does not fall under the liabilities condition relaxation claim from the date of the change of the loans to the debtor up to one year.

(Note 1) "Highly feasible" means that the plan meets all of the following requirements. However, if the debtor is a small or medium-sized enterprise and the progress of the plan is generally steady for more than one year, the plan may be judged to be a "highly feasible" plan.

(a) The consents should have been obtained with the relevant parties necessary to realize the plan.

(b) The amount of support, such as debt forgiveness, in the plan is fixed, and there is no situation in which additional support beyond that in the plan is expected to be necessary.

(c) The expense and profits in the sufficiently shall be strict.

(Note 2) “Drastic” does not exclude a reasonable extension of the period of approximately 3 years (considering the size of the debtor company or the characteristics of the business). Later, it means that the debtor's business conditions are good and that there are no matters. If the debtor is a small and medium-sized enterprise, it often takes longer to improve management than a large enterprise. Therefore, in III-2-15-3 (4) c. "the reasonable and feasible" is formulated. If the "high management improvement plan" has been formulated, the plan can be regarded as a highly feasible and drastic plan.

(Note 3) The SME Revitalization Support Council (including Industrial Reconstruction Counseling Center) or

the rehabilitation plan formulated and supported by The Resolution and Collection Corporation, a business plan formulated and supported by the Industrial Reconstruction Counseling Center in the liabilities purchase support business, and a business rehabilitation ADR procedure (Specific Certification Dispute Resolution Procedure (Article 2(16) of the Strengthening Law)), the business revitalization plan(Article 25 of the Regional Economy Vitalization Corporation of Japan Law) Article 2) of the business operator that the Enterprise Turnaround Initiative Corporation of Japan made a purchase decision (Article 31(1) of the same law) and the Business Rehabilitation Plan(Article 19(2)(i) of the Great East Japan Earthquake Business Rehabilitation Support Organization Law) of the business operator that the Great East Japan Earthquake Business Rehabilitation Support Organization decided to purchase (Article 25(1) ofthe same law) is a "highly feasible drastic business restructuring plan" only when it is recognized that the plan meets the requirements stated in (Note 1) and (Note 2).

(Note 4) Even if the business reconstruction based on the existing plan meets all the requirements of (Note 1) and (Note 2), the same shall apply as the condition "when business reconstruction has been initiated through the implementation of financial support in line with a highly likely and drastic management reconstruction plan."

For example, when the financial institution changes the terms of liabilities to the debtor, and the debtor has formulated a management improvement plan, etc. (including other financial institutions (including government-affiliated financial institutions, etc.) that the debtor has

formulated a management improvement plan, etc. in line with the changes in the terms of the liabilities, etc. and the credit guarantee association has formulated a management improvement plan, etc. in accompanying the change in the terms of the existing guarantee.), if the plan is deemed to meet the requirements of (Note 1) and (Note 2), it may be judged that the loans pertaining to the change of the liabilities conditions, etc. made by the financial institution to the debtor does not fall under the liabilities relaxation condition.

Even if the plan initially meets all the requirements of (Note 1) and (Note 2), including the case of (Note 3), it will be deemed to lack these requirements after that, and for liabilities based on the plan., if it is expected that a yield that is substantially the same as the case where the base interest rate is applied is not secured, pay attention to the fact that the loans based on the plan will fall under that condition.

(Note 5) "When there is a prospect of formulating such a business reconstruction plan" means that, there is no agreement yet between the insurance company and the debtor, but that there are resources for the debtor's business reconstruction (e.g., assets that can be sold, expenses that can be reduced, plans for development of new products, and prospects for expansion of sales channels), and that the debtor is willing to formulate a business reconstruction plan.

(3) Claims Which are subject to Disclosure as the Amount of Claims Classified based on the Debtor Category In the main text of Article 59-2(1)(v)(d) of the Regulation, the outstanding interest and temporary payment listed as the claims shall specifically refer to the following:

a. The outstanding interest refers to the outstanding interest on loaned securities or loans; and

b. The temporary payment refers to a temporary payment equivalent to the liabilities (compensation right incurred by making a substitute payment based on the acceptance of payment and a temporary payment related to the loans.)

(4) Disclosure Classification of the Claims Classified Based on the Debtor Classification

According to the criteria stipulated in Article 59-2(1)(v)(d) of the Regulation, the categories are as follows. However, in that case, instead of applying the following criteria mechanically and uniformly, the debtor's repayment ability will be examined based on the debtor's actual financial condition, cash flow, profitability, etc. After confirming the liabilities conditions and the performance status of the liabilities, based on the characteristics of the type of industry, etc., the outlook for business continuity and profitability, debt repayment ability by cash flow, validity of management improvement plans, etc., support status of the financial institutions, etc. will also be examined. It is appropriate to classify after comprehensively considering the above. In particular, if the debtor is a small and medium-sized enterprise, it is appropriate to consider not only the financial status of the company, but also to consider technical capabilities, sales force, growth potential, condition of payment of compensations to officers including representatives, condition of income, content of asset, guarantee status or guarantee capacity of representatives, comprehensively based on the actual management situation of the company in order to classify the claims.

(Note 1) Regarding the disclosure target of claims classified based on the debtor classification, it is determined based on the criteria stipulated in Article 59-2(1)(v)(d) of the Regulation.

(Note 2) In classifying debtors, in support of companies that need to be enriched in capital due to sudden changes in the business environment, it should be paid attention to the fact that it is strongly required to improve the management of the client companies by not only changes in liabilities conditions, but also the capital borrowing and investment, etc.

* "Capital borrowing" means a loan whose lending terms are deemed to have enough capital characteristics and which can be treated as capital in evalutation of debtors.

It should be noted that capital similarity is judged based on the actual characteristics of the loan. Capital similarity is not limited by the debtor's attributes (scale etc. of the enterprise) or creditors' attributes (financial institution, industrial corporation, individual, etc.) and the purpose of loans, etc., and it is basically judged from the viewpoint such as the repayment condition, the interest rate setting, and subordination.

In general, it is thought that the following conditions are required to be met:

a. As for repayment condition, the repayment period must exceed five years

when it is contracted, and the loan must be repaid in a lump sum at the maturity date, or a long-term grace period equally appreciable as a lump sum repayment must been set.

b. As for the interest rate setting, the interest rate must be set corresponding to the profit available for dividend as is the case with the capital (the mechanism, in which the interest cost is suppressed when the debtor is in a severe condition, such as a performance-linked type, etc., is set).

c. As for subordination, it must be secured at the time of legal bankruptcy (or the loan must be equipped with a mechanism in which the loan cannot be repaid in advance of other claims at least until legal bankruptcy).

a. Bankrupt and Substantially Bankrupt Claims

"Bankrupt and substantially bankrupt claim" refers to "a claim against a debtor who has fallen into failure for the reasons of a statement of commencement of bankruptcy proceedings, commencement of reorganization-proceedings, and commencement of rehabilitation proceeding, etc. a claim on the same condition," and it is a claim against a debtor who has fallen into failure substantially in status, such as serious financial difficulties with no outlook of reconstruction, or who has fallen into failure for the reason of bankruptcy, liquidation, reorganization of corporation, civil rehabilitation, disposition of suspension of business by clearing house, etc. As for a request for special conciliation based on the Act on Special Conciliation for Expediting Arrangement of Specified Debts, the debtor should not be judged as falling into bankruptcy merely because of such request but should be judged based on the actual state of the debtor's management.

Specifically, it includes claims against: (1) a debtor who has a large amount of non-performing loans in its financial position, or has a clearly excessive amount of debts compared to the debtor’s repayment capacity, and has been in a state of substantial insolvency for a considerable period and has no prospect of recovery of its business although it continues its business formally; (2) a debtor who suffers a large amount of loss due to a disaster, accident or sudden change of economic status (or similar reasons) with no outlook for reconstruction and is substantially in arrears of principal or interest for a long period (in principle, six months or more in arrears, and not considered to be in arrears for a transitory period), or who is voluntarily in arrears of principal or interest for a long period (in principle, six months or more in arrears, and not considered to be in arrears for a

transitory period); (3) a debtor who is deemed to have discontinued operations virtually in a situation such as abolition of business offices due to the voluntary closure of business.

Furthermore, in cases where the progress of the management improvement plan, etc. is significantly below the plan, and a rapid recovery in business performance is not expected in the future, and the management improvement plan, etc. has not been reviewed, or where some financial institutions have not agreed to provide support based on the management improvement plan, etc., and it is deemed certain that the debtor will fall into bankruptcy in the future, the debtor "is in serious financial difficulties and there is no prospect of recovery", and therefore, the debtor is subject to bankrupt and substantially bankrupt claims.

b. Doubtful Claims

A doubtful claim is "a claim against a debtor who is not currently in a state of bankruptcy, but whose financial situation and business performance is worsened, and which is highly likely to become unable to collect its principal and interest based on contracts." These are claims against debtors (including debtors who are still being supported by financial institutions) who are not currently in a state of bankruptcy, but are in financial difficulty and are making poor progress with their management improvement plans, and are highly likely to fall into bankruptcy in the future.

Specifically, these are claims against debtors who are currently continuing their business, but have effectively fallen into a state of insolvency, have extremely weak business conditions, are delinquent on their loans, and so have significant concerns about the ultimate collection of principal and interest, and therefore have a high probability of incurring losses, and are deemed to have a high probability of falling into bankruptcy in the future.

Claims against debtors whose reorganization plan has been approved in accordance with the Corporate Reorganization Act or the Civil Rehabilitation Act, etc., may be judged as Doubtful Claims.

Furthermore, for debtors for whom the reorganization plan, etc. has been approved, if any of the following requirements are met, the reorganization plan, etc. is judged to be reasonable and highly feasible, and the claim against such debtor may be judged to be a substandard claim or a normal claim.

(i) If, after the approval of the reorganization plan, based on the plan, the

debtor is found to be in good business condition and has no particular financial problems within 5 years in principle (if the debtor does not need support from financial institutions, etc. to restructure and is able to ensure the continuity of its business through self-help efforts, this includes situations where there are problems with loan terms, such as the reduction, exemption, or shelving of interest rates, situations where there are problems with performance, such as principal or interest payments being effectively overdue, as well as situations where the debtor's business conditions are weak or unstable, or situations where there are problems with the debtor's financial condition that require careful management going forward.), and it is recognized that the reorganization plan, etc. will generally continue to proceed as planned.

(ii) If, based on the plan, the debtor is found to be in a good business condition and has no particular financial problems in more than 5 years but within 10 years in general (if the debtor does not need support from financial institutions, etc. to restructure and is able to ensure the continuity of its business through self-help efforts, this includes situations where there are problems with loan terms, such as the reduction, exemption, or shelving of interest rates, situations where there are problems with performance, such as principal or interest payments being effectively overdue, as well as situations where the debtor's business conditions are weak or unstable, or situations where there are problems with the debtor's financial condition that require careful management going forward), and a certain period has passed since the decision to approve the reorganization plan, etc., and the progress of the reorganization plan, etc. has generally exceeded the plan, and it is recognized that the plan will generally continue to progress as planned.

c. Substandard Claims

Subsrandard claims are of claims against debtors that require careful management, such as debtors with problematic lending conditions (e.g., interest rate reduction, exemption, or shelving), debtors with performance problems such as principal or interest payments being effectively overdue, or debtors whose business conditions are weak or unstable, or financial condition is problematic, refers to the "claims past due three months or more and the restructured claims."

Moreover, the claims that are not formally past due but are effectively past due for three months or more are also classified as substandard

claims. Whether it is substantial past due or not is judged based on such factors as whether or not the loans made close to the due date are used to repay the principal or interest.

For debtors for whom a management improvement plan has been formulated on the premise of support of financial institutions, etc., if all of the following requirements are met, the management improvement plan, etc. will be judged to be reasonable and highly feasible, and the claims against such debtors will be judged to be either substandard claims or normal claims. (Such a plan is referred to as a "reasonable and highly feasible management improvement plan.)

If the debtor is a small or medium-sized enterprise, it may not be possible to formulate a large and detailed management improvement plan as in the case of a large enterprise, taking into account the size of the enterprise and the number of employees, etc. Even if the debtor has not formulated a management improvement plan, it is necessary to make a judgment on the classification of claims based on materials prepared and analyzed by the financial institution in line with the debtor's actual situation, for example, plans to sell assets in the future, plans to reduce executive compensation and overhead expenses, plans to develop new products, etc. and plans to improve income, expenditure, etc.

Besides, if the debtor is a small or medium-sized enterprise, it is not always possible to prepare a detailed management improvement plan, etc. Therefore, due to economic trends and other factors, the progress of the management improvement plan, etc. may fall short of the plan (sales and net income are generally less than 80% of the business plan).In such cases, it is necessary to analyze the reasons for the below-plan progress and consider the prospects for future management improvement, rather than making mechanical and uniform judgments based solely on the progress of the management improvement plan. (However, if the progress of the management improvement plan is significantly below the plan, it will not be treated as a "reasonable and feasible management improvement plan"). When examining the progress and future prospects of the management improvement plan, etc., it is appropriate to focus more on the cash flow prospects, although it is also important to examine the balance sheet aspects.

Besides, if the debtor has formulated a management improvement plan, etc. using loan systems prepared by goverments, and the management

improvement plan, etc. has been formulated after examination by the national or prefectural government, the judgment shall be made by comprehensively taking into account the actual situation of the debtor and the involvement of the national or prefectural government.

This standard is only a guideline for verifying the reasonableness and feasibility of management improvement plans, etc., and should not be applied mechanically or uniformly when examining the classification of claims.

(i) The period of the management improvement plan, etc. is generally within 5 years, in principle, and the feasibility of the plan is high.

However, this includes cases where the period of the management improvement plan, etc. is longer than 5 years but generally within 10 years, and the progress of the management improvement plan, etc. is generally in line with the plan after the formulation of the management improvement plan, etc. (i.e., sales and net income are generally 80% or more of the business plan) and it is recognized that it will continue to proceed geneally as planed in the future.

(ii) The debtor is found to be in a good business condition and has no particular financial problems based on the plan (if the debtor does not need support from financial institutions, etc. to restructure and is able to ensure the continuity of its business through self-help efforts, after completion of the period of the plan, this includes situations where there are problems with loan terms, such as the reduction, exemption, or shelving of interest rates, situations where there are problems with performance, such as principal or interest payments being effectively overdue, as well as situations where the debtor's business conditions are weak or unstable, or situations where there are problems with the debtor's financial condition that require careful management going forward).

(iii) All financial institutions agree to provide support based on the business improvement plan.

However, if it is possible to restructure by providing support alone or by providing support from some of the financial institutions, etc., it is considered sufficient if the financial institutions, etc. concerned agree to provide support based on the business improvement plan, etc..

(iV) The support provided by financial institutions is limited to interest rate reduction and exemption, maintenance of loan balance, etc., and does

not involve the provision of funds to the debtor such as debt forgiveness or cash donation.

However, in cases where the financial institution has already provided funds to debtors through debt forgiveness, cash donation, etc. since the start of the management improvement plan, etc., and is not expected to do so in the future, and in cases where the financial institution needs to provide funds to debtors through debt forgiveness, cash donation, etc. in the future based on the management improvement plan, etc., but has already recorded the estimated amount of loss from the support as a full allowance and loss will not be incurred in the future.

It should be paid attention to that in cases where loan systems prepared by goverments are used, interest subsidies, etc. by prefectural governments subsidized by the national government based on such institutional funds are not included in the debt forgiveness, etc.

d. Normal Claims

Normal claims are defined as “claims with no particular problems in terms of the debtor's financial condition or business performance, and are classified as other than claims in bankrupt and substantially bankrupt claims, doubtful claims, and substandard claims.

Moreover, the claims against the national government, local governments, and controlled financial institutions are classified as normal claims.

III-2-15-4 Places Where Explanatory Documents Available for Public Inspection

Whether, although the name of the "sales office or office" where insurance companies make explanatory documents available for public inspection differs from insurance company to company in terms of organization, the insurance company take sufficient care to keep explanatory documents in the following locations, etc,.

(1)The term "sales office or office" refers to a place that has space for insurance company staff and sales staff to serve policyholders, etc., and is considered to be the business organization of the insurance company.

For example, branches and offices of life insurance companies and branches and offices of non-life insurance companies are included.

(Note) Computer centers, welfare facilities, etc. are not included.

(2)The hours of public inspection can be the business hours of the place where the information is available for public inspection.

(3)Whether, due to the nature of the organization of the place for public inspection, for example, when staff members are not present at the place, are measures taken to indicate the hours when public inspection is available.

(4)Whether the major agents that have space to serve policyholders, etc. different from the place used for residence are also instructed to provide the same level of disclosure as sales offices or offices by, for example, keeping explanatory documents of insurance companies and making them available for public inspection.

(Note) Whether the measures such as establishing internal rules on the scope and handling of "major agents" are being taken.

III-2-15-5 Points to Be Paid Attention to When Preparing Simple Supplementary Materials for Explanatory Documents

Whether, when the insurance company prepares simple supplementary materials (pamphlets, etc.) for explanatory documents, is its consideration given to the content of such supplementary materials so that the content is not presented as if the entire document were excellent by extracting some indicators, etc.

III-2-16 Supervisory Response to Deplorable Event, etc.

The supervisory response to deplorable event, etc. shall be handled as follows

(1)First Report of Discovery of deplorable event, etc.

When the insurance company discover the deplorable event and first report it to supervisors, the following points shall be confirmed:

The same treatment shall be applied when there is no first report from the insurance company and the report of deprovable event is submitted.

a. Whether the reports are made promptly to administrative departments such as headquarters, internal audit departments, and to the board of directors, etc. in accordance with internal rules, etc.
b. Whether the facts that may violate penal laws and regulations are reported to the police and other relevant organizations.
c. Whether the department independent of the incident (internal audit department, etc.) investigates and clarifies the incident.

(2) Acceptance of the Reports of Deplorable Event, etc.

In accordance with who has committed the acts prescribed in each item of Article 85(5) of the Regulation (each item of Article 166(4) of the Regulation for foreign insurance companies, etc.; for licensed specified corporations, each item of Article 192(4) of the Regulation: the same shall apply hereinafter), such as an insurance company, subsidiary company prescribed in Article 2(12) of the Act (excluding an insurance company or a small amount and short term insurance company, which is a subsidiary company of another insurance company), subcontractors, or their officers or employees (excluding those who are registered or notified as insurance agents) (hereinafter referred to as "insurance company, etc." in III-2-16), or those who are registered or notified as insurance agents or their officers or employees (hereinafter referred to as "insurance agent." in III-2-16), supervisors respond as follows.

a. Acceptance of Written Report for Notification of Deprolable Events, etc. concerning Insurance Companies, etc.

If the insurance company, etc. commit any of the acts falling under any of the items of Article 85(5) of the Regulation, the Insurance Division shall receive a written report for notification of deprolable event, etc. addressed to the Commissioner of the FSA from the representative director of the insurance company of insurance companies, etc. concerned.

b. Acceptance of Written Report for Notification of Deprolable Events, etc. concerning an Insurance Solicitor

If the insurance agent commits any of the acts falling under any of the items of Article 85(5) of the Regulation, the Financial Bureau, etc. shall accept a written report for notification of deprolable events, etc. from the head of the branch office, branch shop, etc. of the insurance company managing the insurance agent to the Director General of the Financial Bureau, etc. having jurisdiction over the location of the principal office of the insurance agnet.

The financial bureaus, etc. that have received such written report for notification of deprolable event, etc. shall compile the contents of such notification of deprolable event and the number of cases received for one month, and report them to the Insurance Division by the 10th of the following month.

However, if the financial bureau, etc. judge that it is urgent, it shall report to the Insurance Division as needed.

c. The following items shall be confirmed upon receipt of the r Written Report for Notification of Deprolable Events, etc.

(i) In accordance with the provision of Article 85(1)(xvii)) of the Regulation, written report for notification of deprolable event, etc. is to be submitted within 30 days from the date when the insurance company becomes aware of the occurrence of the misconduct, etc. At the time of receipt of the written report, it is to be confirmed whether the report is properly made in accordance with the provisions of laws and regulations.

(ii) In cases where an insurance company or insurance agent has not made a public announcement even though it may have a significant impact on the judgment of policyholders, etc., it shall be confirmed whether the decision is made after being considered appropriately.

(iii) When receiving a written report for notification of deprolable event, etc. pertaining to an insurance agent who belongs to two or more affiliated insurance companies, etc. (it refers to those prescribed in Article 2(24) of the Act, licensed specified corporations and affiliated specified insurers prescribed in Article 4-2 of the Supplementary Provisions of the Act. The same applies in III-2-16.) , if the event may also occur at another affiliated insurance company, etc., considering its content and characteristics, and it shall be confirmed whether a similar event has occurred at another affiliated insurance company, etc. by conducting a hearing with the insurance agent, etc. as necessary. However, it should be noted that it is necessary to take into consideration the Act on the Protection of Personal Information, etc.

(3) Verification of the Appropriateness of Operations

The relationship between deprolable events and the appropriateness of operations shall be verified based on the following points.

The verification shall be also taken into account the factors described in a. and b. in the proviso to III-4-1.

a. In the case of a written report for notification of deprolable event, etc. concerning an insurance company, etc.

(i) Whether there are not any executives involved in the event, or there is any systematic involvement. Also, whether the responsibility of the management is clarified.

(ii) Whether the facts are being investigated, and the similar problems are being checked in other departments, and whether the managers and others are being held accountable in a strict manner.

(iii) Whether effective measures to prevent recurrence are being taken in a timely and appropriate manner through analysis of the causes based on the facts.

(iv) What the impact of the event on the management of the insurance company is.

(v) Whether the internal check and balance function are being properly exercised.

(vi) Whether there are sufficient education, management, and guidance for officers and employees within the insurance company.

(vii) Whether response after discovery of the event is appropriate.

b. In the case of written report for notification of deprolable event, etc. pertaining to an insurance agent

(i) The viewpoint of verification for insurance companies responsible for education, management and guidance of insurance agnets shall be as follows

(a) Whether the company is rigorously investigating the truth of the facts, checking whether similar problems have occurred in other departments (or other offices in the case of insurance agencies), and holding managers and others accountable.

(b) Whether effective measures to prevent recurrence are being taken in a timely and appropriate manner through analysis of the causes based on the facts.

(c) What the impact of the incident on the management of the insurance company is.

(d) Whether the internal check and balance function is being properly exercised.

(e) Whether the insurance company's education, management, and guidance for insurance agents is sufficient.

(f) Whether the response after the discovery of the incident is appropriate.

(ii) The viewpoint of verification for insurance agents shall be as follows. Furthermore, the size, characteristics of operation, and content of the deplorable event, etc. of the insurance agent shall be taken into account.

(a) Whether there are not any executives involved in the event, or there is any systematic involvement. Also, whether the responsibility of the management is clarified.

(b) Whether the facts are being investigated, and similar problems are being checked in other departments (in the case of insurance agencies, other offices, etc.), and whether the managers and others are being held accountable in a strict manner.

(c) Whether effective measures to prevent recurrence are being taken in a timely and appropriate manner through analysis of the causes based on the facts.

Especially, when the cause of occurrence is the issue specific to the insurance agencies, whether the insurance agencies themselves conduct abovementioned measures in a timely and appropriate manner.

(d) Whether the internal check and balance function are being properly exercised.

(e) Whether there are sufficient education, management, and guidance for insurance agents within the insurance agencies.

(f) Whether response after discovery of the event is appropriate.

(4) Supervisory Measures

The following measures shall be taken when the written report for notification of deprolable event, etc. is submitted.a. Hearings shall be conducted with the insurance company regarding the facts, analysis of the causes of the incident, and measures for improvement and response, etc., and, based on the occurrence of similar incidents at the insurance company, a report shall be required from the insurance company, as necessary, in accordance with Article 128 of the Act, and, if a serious problem is found, an administrative action shall be taken in accordance with Article 132 or 133 of the Act.

Besides, the Finance Bureau, etc. shall endeavor to closely cooperate with the FSA as appropriate.

b. Hearings shall be conducted with the insurance agent (or the said insurance agencies when the said insurance agent is an officer or employee of the insurance agencies) who has committed any of the acts falling under any of each item of Article 85(5) of the regulation regarding the facts, analysis of the causes of the incident, and measures for improvement and response,

etc., taking into account the abovementioned a. by the Finance Bureau, etc., as necessary.

Based on the result, a report shall be required from the specific insurance agent, as necessary, in accordance with Article 305 of the Act, and, if a serious problem is found, an administrative action shall be taken in accordance with Article 306 or 307 of the Act.

In addition, the Finance Bureau, etc. shall endeavor to closely cooperate with the FSA as appropriate.

c. When the Finance Bureau, etc. find it necessary, for example, where the area in which an insurance agent who has committed any of the acts falling under any of the items of Article 85 (5) of the Regulation (or an insurance agencies if the insurance agent is an officer or employee of the insurance agencies) conducts business falls under the jurisdiction of other Finance Bureau, etc., and damage, etc. is expected in the jurisdiction of the other Finance Bureau, etc., the Finance Bureau, etc. shall endeavor to closely cooperate with the other Finance Bureau, etc. such as providing information to the said Finance Bureau, etc. Besides, in the case of cooperation, a report shall be made to the Insurance Division.

d. The FSA shall analyze the occurrence of acts prescribed in each item of Article 85(5) of the Regulation, and provide information to the Finance Bureau, etc. when it is deemed necessary, such as when similar cases tend to occur frequently nationwide.

(5) Standard Period of Time for Processing

When requiring reports under Article 128 of the Act pertaining to a written report for notification of deplorable event, etc. (Article 305 of the Act for Specific Insurance Agents), or taking administrative actions based on Article 132 of the Act (Article 306 of the Act for Specific Insurance Agents) or Article 133 (Article 307 of the Act for Specific Insurance Agents), those actions shall be conducted within about one month (two months when the Finance Bureau, etc. conducts cooperation with the FSA or hearings directly with the insurance agent (or the insurance agencies if the insurance agent is an officer or employee of the insurance agencies)) as a general rule from the date of receipt of the written report for notification of deplorable event, etc. (if you require a report under Article 128 or Article 305, the said report).

III-2-17 Calculation of solvency Margin Ratio

The accuracy of the Solvency margin ratio shall be checked considering the following points in accordance with the provisions of Article 86, Article 87, Article 161, Article 162, and Article 190 of the Regulation, and fully taking into account the Notice on Calculation of Capital, Funds, Reserves, etc. of Insurance Companies and the Amount Equivalent to Risks in Excess of Normal Estimates (Ministry of Finance Notice No. 50 of February 29, 1996; hereinafter referred to as the "Notice" in III-2-17). If there is a problem, notification of the details of the problem shall be provided and attention shall be drawn to it.

III-2-17-1 Checking the Contents of the Notification Form

When receiving notification of borrowing monetary consumption loans with the subordinated special provisions prescribed in Article 85(1)(xii) (or Article 166(1)(v)) of the Regulation (hereinafter, "subordinated loan") or issuing bonds with subordinated special provisions (hereinafter called "subordinated bonds"), the following points should be considered to confirm that these are eligible to contribute to the enhancement of ability for paying insurance proceeds.

(1) Whether there is any statement to the effect that the content of the contract gives priority to the senior creditor, by establishing legal structure as conditional claims which has the effect of the subordinated creditor's right to claim payment shall be suspended and the subordinated creditor's right to claim payment shall become effective on the condition that the senior creditor receives payment in full in the event of a subordinated situation, such as bankruptcy or corporate reorganization,.

(2) Whether there is any statement to the effect that the content of the contract is such that any change that is disadvantageous to the senior creditor or any payment that is contrary to the subordination clause is invalid.

(3) Whether there is any statement that any optional redemption by the debtor requires the prior approval of the authorities.

III-2-17-2 Checking the Stability and Eligibility of the Capital, etc.

(1) Whether the "step-up interest rate is excessive" or not as prescribed in Article 1(10) of the Notice shall be determined in light of the following conditions.

a. The step-up interest rate shall not be added for the period from the time of the contract until the day when five years have passed.

b. Whether it is below the "150 basis points" minus "swap spread between the index on which the original interest rate is based and the index on which the interest rate is based after step-up," or "50% of the original credit spread" minus "the swap spread between the index on which the original interest rate is based and the index on which the interest rate is based after step-up ."

However, in the case of specified hybrid capital instruments prescribed in Article 1(6) of the Notice, "150 basis points" above shall be read as "100 basis points".

c. Whether the swap spread is calculated based on the difference in pricing between the initial reference security/interest rate and the reference security/interest rate after the step-up at the time of pricing, rather than at the date of notification, and it is planned to ensure that it is within the scope of b. above.

(Note) However, this check should be performed for securities issued, borrowed, or renewed on or after June 9, 1998.

(2) Whether the insurance company that raised the capital, etc., does not make loans to the lenders of subordinated loans, etc., by way of circumvention of loans, etc., that are the source of the capital, etc.

III-2-17-3 Check for Deduction of "Intentional Retention

The case in which it has to be deducted as “deductible item" under Article 1-2 of the Notice” from total solvency margin is the case in which a company "intentionally holds shares or other capital-raising instruments of other insurance company to improve the ratio indicating the enhanced solvency of the said other insurance company" (hereinafter referred to as "intentional holdings").

For the time being, this "intentional holding" refers specifically to the

following cases. Whether they fall under this category or not.

(1) Life Insurance Companies

a. The case in which, from April 1, 1999, a life insurance company has provided subordinated loans or undertaking subordinated bonds for a Japanese life insurance company, or from February 4, 2000, a life insurance company has provided subordinated loans or undertaken bonds for a Japanese non-life insurance company, or from March 31, 2001, a life insurance company has provided subordinated loans or undertaken subordinated bonds for a Japanese bank subsidiary, a long-term credit bank subsidiary, a securities subsidiary, etc.

   * In such cases, the loans are deemed to be made for recapitalization cooperation, and all of them fall under the category of "intentional holding.

b. The case in which, from April 1, 1999, a life insurance company has undertaken shares of Japanese life insurance companies and other capital-raising measures (excluding subordinated loans and subordinated bonds), or from February 4, 2000, a life insurance company has undertaken shares of Japanese non-life insurance companies and other capitalraising measures (excluding subordinated loans and subordinated bonds), or from March 31, 2001, a life insurance company has undertaken shares of Japanese banking subsidiaries, long-term credit bank subsidiaries, securities subsidiaries, etc. and other capital-raising measures (excluding subordinated loans and subordinated bonds) for management reconstruction, support, and recapitalization.

   * Besides, in cases other than the aforementioned purposes of management restructuring, support and recapitalization, holding of outstanding shares and other capital-raising instruments procured from secondary markets, etc. for pure investment purposes, etc. and temporary holding by securities subsidiaries for market-making, etc. do not fall under the category of "intentional holding.

(2) Non-life Insurance Companies

a. The case in which, from April 1, 1999, a non-life insurance company has provided subordinated loans or undertaken subordinated bonds for a Japanese non-life insurance company, or from February 4, 2000, a non-life insurance company has provided subordinated loans or undertakne subordinated bonds for a Japanese life insurance company, or from March

31, 2001, a non-life insurance company has provided subordinated loans or undertaken subordinated bonds for a Japanese bank subsidiary, a long-term credit bank subsidiary, a securities subsidiary, etc.

* In such cases, the loans are deemed to be made for recapitalization, and all of them fall under the category of "intentional holding.

b. The case in which, from April 1, 1999, a non-life insurance company has undertaken shares of Japanese non-life insurance companies and other capital-raising measures (excluding subordinated loans and subordinated bonds), from February 4, 2000, a non-life insurance company has undertaken shares of Japanese life insurance companies and other capital-raising measures (excluding subordinated loans and subordinated bonds) or from March 31, 2001, a non-life insurance company has undertaken shares of Japanese banking subsidiaries, long-term credit bank subsidiaries, securities subsidiaries, etc. and other capital-raising measures (excluding subordinated loans and subordinated bonds) for management reconstruction, support, and recapitalization. .

* In cases other than the aforementioned purposes of management restructuring, support and recapitalization, holding of outstanding shares and other capital-raising instruments procured from secondary markets, etc. for pure investment purposes, etc. and temporary holding by securities subsidiaries for market-making, etc. do not fall under the category of "intentional holding.

(Note)With respect to (1) and (2) regarding "intentional holding," the check for "cases where it is recognized that the holding is intentionally made by a third party through lending to the third party" is also applied. In the case of insurance companies, the check shall be conducted for capital procurement for which the payment of funds was made on or after April 1, 1999, and for capital procurement by banking subsidiaries, etc., long-term credit banking subsidiaries, etc., and securities subsidiaries, etc., the check shall be conducted for capital procurement for which the payment of funds was made on or after March 31, 2001.

III-2-17-4 Checks When Calculating the Solvency Margin Ratio

(1) Whether, in the case of securitization of assets, even if it falls under the

legal form of transfer, there is a substantial transfer, such as complete transfer of risk to the transferee.

(2) Whether, if the transfer falls under the category of intentional retention, the amount equivalent to such retention is deducted from the total solvency margin of the lender insurance company, and the deduction is made appropriately.

(3) Whether the amount falls under the condition, while the "amount equivalent thereto" prescribed in the Article 1(4) (iii) of the Notice refers to the amount of voluntary reserve (including the amount accumulated in the fiscal year) recorded in the net assets section for the appropriation to the repayment of foundation funds.

(4) Whether the "amount equivalent to the balance of the subject transaction pertaining to the transaction deemed to be intentionally conducted" in Article 2(8)(i)(ii) of the Notice is properly calculated.

(Note) In cases where the outstanding balance of transactions as of the end of the fiscal year is significantly higher than the average of outstanding balance as of the end of the each month of the said fiscal year or in cases where the ratio of the outstanding balance of derivatives transactions to the outstanding balance of physical assets as of the end of the fiscal year (hereinafter referred to as the "coverage ratio") is significantly higher than the average of the coverage ratios as of the end of each month of the fiscal year, the reasons for the difference shall be heard.

III-2-17-5 Checks When Accepting Notification of Early Redemption, etc.

When accepting notifications of early repayment of subordinated liabilities or early redemption of subordinated bonds as prescribed in Article 85, Clause 1, Item 13 (or Article 166, Clause 1, Item 6) of the Regulation, or notifications of acquisition of own shares as prescribed in Article 85, Clause 1, Item 16 of the Regulation, the purpose of the public notice shall be fully taken into account, and the relevant notifications shall be checked.

III-2-17-6 Minimum Guarantee Risk for Variable Annuities, etc.

For variable annuities, etc., which guarantee a minimum amount of insurance claims, etc., it is necessary to appropriately manage and assess the minimum guarantee risk so as not to hinder the fulfillment of obligations in the future, as well as to reasonably and appropriately accumulate premium reserve and contingency reserve III and secure solvency based on actuarial data, etc. In doing so, the following points should be taken into consideration.

(1) Standardized Method

When using the standard method (which determines the amount equivalent to the guaranteed minimum risk corresponding to the level that can cover approximately 90% of events together with the reserve for insurance premiums) for the evaluation of the amount equivalent to the guaranteed minimum risk pursuant to the provision of Article 2, Clause 4 of the Public Notice, the amount of the guaranteed minimum risk shall be determined based on the amount of insurance benefits, etc. of variable annuity contracts, etc. concluded before March 31, 2005.

(2) Alternative Method

In the case where an alternative method is used for the evaluation of the amount equivalent to the guaranteed minimum risk pursuant to the provision of Article 2, Clause 4 of the Public Notice, the matters to be noted are as follows:

a. Whether or not, as a response to risks that exceed normal expectations, it should be paid attention to that "II-2-1-3-1 Reserves for insurance premiums (2) b. to f.)" can cover approximately 90% of events for the amount of guaranteed minimum risk corresponding to the level together with reserves for insurance premiums.

b. Whether or not the amount equivalent to the minimum guaranteed risk is calculated for variable annuity contracts, etc., concluded before March 31, 2005, which guarantees the minimum amount of insurance benefits, etc.

c. Whether or not, when notifying the Commissioner of the FSA that an alternative method is used to calculate the amount equivalent to the minimum guaranteed risk under the solvency margin standard, the documents explaining that the criteria as specified in Appendix 6-2II2 of the Notification shall be attached. In addition, whether or not it is stipulated,

in cases where the use of alternative methods is suspended or significant changes are made to the risk measurement model.

(3) Treatment of Hedging and Reinsurance

a. Whether or not risk mitigation is handled by hedging in accordance with the provisions in Appendix 6-2II3 of the Notification.

b. Whether or not, in the case of reinsurance, the minimum guaranteed risk is deducted to the extent that it does not exceed the portion transferred by ceding.

III-2-18 Transfer of Insurance Contracts

(1) Notification of Transfer of Insurance Contract and Objection, etc.

a. The reason why Article 138 of the Act obliges the person who concludes the contract to be transferred to notify certain matters during the procedure of transferring the insurance contract is that becoming the policyholder of the company to be transferred when the transfer of the insurance contract is concluded constitutes a material fact for the person who concludes such insurance contract, and therefore, the person should be provided with the necessary information in advance. This is based on the idea that it is necessary to allow the person to decide whether or not to conclude the insurance contract after receiving the necessary information in advance.

It is appropriate that the method of notification and acceptance should be the same as the method of conclusion of the relevant contract, and in addition to the written document, an electromagnetic method may be used.

b. Article 137, paragraph (1) of the Act and Article 88-3, (iv) of the Regulations (Article 137, paragraph (1) of the Act and Article 166-3, (iv) of the Regulations as applied mutatis mutandis pursuant to Article 210, paragraph (1) of the Act with respect to the transfer of insurance contracts in Japan by a foreign insurance company, etc.) and Article 138, paragraph (1), (iii) of the Act and Article 89-3 of the Regulations (Article 138, paragraph (1), (iii) of the Act and Article 167-3 of the Regulations as applied mutatis mutandis pursuant to Article 210, paragraph (1) of the Act with respect to the transfer of insurance contracts in Japan by a foreign insurance company, etc.) require the person who concludes the contract subject to transfer to give notice. The "Service Description for the Agreement to be transferred"

that is required to notify the person who enters the Agreement for Transfer means, for example: After the transfer, there may be complaints and consultations from customers concerning the contract subject to transfer, the methods for responding to various maintenance procedures such as address changes and claims for benefits (such as guidance of the contact desk), and matters related to the supplementary services relating to the contract subject to transfer (such as whether or not the automobile insurance road service, medical advice, and medical information service will continue).

c. Article 137(5) of the Act requires a refund to a transferee who objected to the transfer procedure of an insurance policy and offered to cancel if the policy is to be transferred, and the regulation is based on the idea that it is necessary to ensure that the transferee who does not want to transfer the contract should not be treated disadvantageously by termination. Accordingly, the amount of refund prescribed in this clause shall not be a detriment to such transferee, depending on the characteristics of the insurance product, such as the so-called cancellation deduction. In addition, public notice and notification of matters prescribed in Article 137(1) of the Act and Article 88-3(v) of the Regulation (Article 137(1) of the Act and Article 166-3(v) of the Regulation as applied mutatis mutandis pursuant to Article 210 of the Act for the transfer of insurance contracts of foreign insurance companies in Japan), shall be conducted so that the information of the amount of refunds expected at the time of termination is provided appropriately for the transferee to understand it fully.

(2) Approval of Transfer of Insurance Contracts

The points to be paid attention to when examining the approval of the transfer of insurance cotracts in light of the approval standards set forth in Article 139(2) of the Act and the consideration matters set forth in Article 90-2 of the Regulation are as follows:

a. Criteria Prescribed in Article 139(2)(i) of the Act

(i) Consideration Matter prescribed in Article 90-2(i) of the Regulation

For example, whether the transfer of insurance contracts is not being carried out without sufficient policy reserve allowance by selecting only policy groups with profitability problems.

(ii) Consideration Matter prescribed in Article 90-2(ii) of the Regulation

Whether it is expected that the policy reserves for the insurance contracts of the transferring company and the destination company after

the transfer will be accumulated reasonably and appropriately based on actuarial analysis of future profits and losses.

(iii) Consideration Matter Prescribed in Article 90-2(v) of the Regulation

Whether, in the case where the transferring company is a mutual company and dividend-paying cotracts are transferred, allowance is made for surplus other than dividend reserves for individual insurance contracts to be appropriately distributed to policyholders subject to transfer, while taking into consideration the contribution of employees related to the transferred policies and the soundness of the transferring company, etc.

(iv) Others

Whether, in the calculation of the policy reserve, dividend reserve, solvency in terms of its ability to pay for insurance proceeds, etc. and distribution of surplus prescribed in Article 90-2(ii) to (v) of the Regulation, there has been a confirmation by an actuary or a person who meets requirements prescribed in Article 78 of the Regulation not belonging to the transferring company and transferred company, etc., based on the practical standards of the The Institute of Actuaries of Japan .

b. Criteria prescribed in Article 139(2) (ii) of the Act

For example, whether there is not a significant difference in the content of services related to the contract to be transferred before and after the transfer.

c. Criteria prescribed in Article 139(2) (iii) of the Act

For example, whether only a group of contracts with strong profitability is being transferred, together with significantly excessive assets, in a manner that unfairly harms the interests of creditors.

(3) Company Divestiture

Company divestiture involving the succession of insurance contracts shall also be handled in accordance with (1) and (2) above.

III-3 Points to Pay Attention to When Providing Administrative Guidance, etc.

III-3-1 Points to Pay Attention to When Providing Administrative Guidance, etc.

Administrative guidance, etc. (including the act of providing information, consulting, and advising that is not necessarily clearly differentiated from administrative guidance, in addition to administrative guidance referred to in

Article 2(vi) of the Administrative Procedure Act.) for insurance companies shall be carried out appropriately in accordance with the Administrative Procedure Act and other laws and regulations. In particular, when providing administrative guidance, the following points should be paid attention to:

(1) General Principle (Article 32 of the Administrative Procedure Act)

(i) Whether the content of the administrative guidance is realized only through the voluntary cooperation of the other party.

For example, the following points should be noted:

A. Whether the content and actual operation of the administrative guidance are fully recognized by the other party.

B. Whether the administrative guidance is continued despite the fact that the counterparty clearly expresses its intention not to cooperate with the administrative guidance.

(ii) Whether the other party is treated disadvantageously because the other party did not follow the administrative guidance.

A. It should be noted that publicizing the fact, without any legal basis, that the counterparty did not comply with the administrative guidance may also constitute "disadvantageous treatment" under the circumstances where publicizing the fact would function as a social sanction against the counterparty, such as causing economic loss.

B. Even if it is not clear at the stage of providing administrative guidance by the Administrative party whether or not the authority is imposing a disposition to be exercised, this does not deny the provision of administrative guidance itself, indicating that, depending on the circumstances after the administrative guidance is provided, the requirements for exercising the authority to impose a disposition may be met and the authority concerned may be exercised.

(2) Application-related Administrative Guidance (Article 33 of the Administrative Procedure Act)

Whether the applicant's exercise of rights is hindered by the continuation of the administrative guidance despite the applicant's expressed unwillingness to follow the administrative guidance.

(i) Even in cases where the applicant has not explicitly expressed the intention not to comply with the administrative guidance, it shall be determined whether the other party to the administrative guidance has not expressed the

intention to refuse, taking into consideration the history of the administrative guidance and changes in the surrounding objective circumstances.

(ii) It should be noted that even in cases where the applicant is responding to the administrative guidance, it does not necessarily mean that the applicant has also voluntarily consented to the withholding of judgment and response to the application.

(iii) For example, the following points should be paid attention to:

A. Whether the applicant is forced to follow the administrative guidance and the applicant is prevented from exercising his/her rights.

B. Whether the review and response to the application is not withheld on the grounds that the administrative guidance is being provided in the case where the applicant has not clearly expressed its intention not to comply with the administrative guidance.

C. Whether the supervisor stops the administrative guidance and takes prompt and appropriate action against the application if the applicant expresses its intention not to follow the administrative guidance.

(3) Administrative Guidance for Authority over Permission (Article 34 of the Administrative Procedure Act)

Whether the supervisor engages in conduct such as compelling a counterparty to comply with the Administrative Guidance in question by deliberately suggesting that they are capable of exercising the authority, in the case where the supervisor cannot exercise the authority to grant permission, etc. or to render dispositions pertaining to permission, or where the supervisor has no intent to exercise the authority.

For example, the following points should be paid attention to:

(i) Whether, although the refusal of the license or approval, etc. cannot be imposed, the supervisor requests certain actions or inactions by indicating that it can be done.

(ii) Whether the supervisor compels the counterparty to follow the Administrative guidance, for example, by suggesting that the supervisor will exercise the authority immediately if the administrative guidance is not followed, or by implying that some kind of disadvantageous treatment will be given.

(4) Means of Administrative Guidance (Article 35 of the Administrative Procedure Act)

(i) Whether, when providing administrative guidance, the purpose and content of the administrative guidance and the responsible person are indicated to the other party.

For example, the following points should be paid attention to:

a. Whether the content of the action or inaction required of the other party is made clear.

b. Whether it is indicated which person is responsible for the administrative guidance.

c. Whether, when providing administrative guidance that is based on individual laws, the provision that supports the administrative guidance is indicated.

d. Whether, when providing administrative guidance that is not based on individual laws, the purpose is indicated in order to facilitate understanding of the necessity of the administrative guidance.

(ii) Whether, in principle, the delivery of a document stating the purpose and content and the person in charge are issued with regard to the administrative guidance, when the other party requests, so long as no extraordinary administrative inconvenience arises thereby (however, excluding cases that fall under each item of Article 35(4) of the Administrative Procedure Act).

a. When requested to deliver a document, it is necessary to deliver it as soon as possible.

b. Cases of "extraordinary administrative inconvenience" that that may make it possible to refuse to deliver a written document refer to cases in which it would cause significant inconvenience to the administrative management to indicate in writing the purpose and contents of the administrative guidance and the person in charge, such as the cases in which the administrative purpose cannot be achieved due to the document being used or interpreted in a manner unrelated to the intention of the preparer.

c. Attention should be paid to the fact that cases cannot be considered to fall under the category of "extraordinary administrative inconvenience" merely because the number of cases to be processed is large or because it needs to be done quickly.

III-3-2 Points to Pay Attention to When Conducting Interviews, etc.

When an employee has an interview, etc. (meaning communication through an

interview, telephone, e-mail, fax, etc.; hereinafter the same shall apply) with an officer or employee, etc. of the insurance company, the following points shall be taken into consideration.

(1) Whether the employee participating in the interview, etc. always maintain discipline and dignity, and conduct themselves in a calm and cool manner.

(2) Whether the purpose of the interview, etc., and the name and affiliation of the other party are confirmed.

(3) Whether the method of the interview, the place and time of the interview, the participating employee and the other party are appropriate in light of the purpose and contents of the interview.

(4) Whether the contents and results of the interviews, etc. are checked as necessary to ensure that both parties are aware of the same thing. In particular, whether, when the contents and results of the interview are subject to confidentiality obligations, it is made clear to both parties.

(5) Whether, in cases where the contents of the interview, etc. require a decision by the supervisor, the employee seeks the decision of the supervisor in advance or reports promptly after the interview, depending on the circumstances. In addition, whether, in cases where interviews, etc. are conducted individually with multiple counterparts on similar cases, the FSA takes into consideration the uniformity and transparency of the administrative response.

III-3-3 Contact and Consultation Procedures

When providing administrative guidance, etc. through interviews, etc., if there is any doubt about the appropriateness of the administrative guidance, etc., in light of the Administrative Procedure Act, etc., the relevant section of the FSA should be contacted and discussion about how to respond should be held as necessary.

III-4. Points to Pay Attention to When Carrying Out Administrative Disposition

III-4-1 The Flow of Basic Administrative Affairs Regarding Administrative Disposition (Adverse Disposition)

III-4-1-1. Administrative Disposition

The major methods of adverse disposition by the supervisory authority (i.e., adverse disposition as referred to in Article 2(iv) of the Administrative Procedure Act; the same shall apply hereinafter) are: (i) business improvement orders pursuant to Article 132 of the Act; (ii) business suspension order pursuant to Article 132 of the Act; (iii) business suspension order pursuant to Article 133 of the Act; and (iv) rescission of license pursuant to Article 133 of the Act. The following are examples of the basic flow of administrative work related to these activities.

(1) Report Collection Based on Article 128 of the Act

(i) If it is recognized that there is a problem with the risk management system, compliance system of laws and regulations, business management (governance) system, of the insurance company through on-site inspections and off-site monitoring (hearings, deplorable event notice etc.), the necessary facts, cause analysis, improvements and countermeasures, and other matters shall be asked to be reported.

(ii) In cases where the report has been reviewed and further investigation has been deemed necessary, additional reports shall be requested under Article 128 of the Act.

(2) The Follow-up on Improvements and Countermeasures Reported under Article 128 of the Act

(i) In cases where no serious problems are arising from the viewpoint of business health and appropriateness as the result of the validation of the above reports, and where it is possible to call for insurance companies to take voluntary measures to improve, the following-up shall be conducted through voluntary hearing and other means to follow up the improvements and countermeasures reported in (1) above.

(ii) If necessary, regular follow-up reports shall be requested under Article 128 of the Act.

(3) Business Improvement Orders Pursuant to Article 132 of the Act

In cases where, for example, a serious problem is found as the result of the report (1) above (including additional reports) in terms of the health and appropriateness of the business, or where the voluntary efforts of the insurance company do not lead to business improvement, submitting and executing a business improvement plan shall be considered to be executed under Article 132 of the Act.

(4) The Business Suspension Order under Article 132 of the Act

In the event that it is deemed necessary to take a certain period to improve the business and to concentrate on the improvement of the business, ordering the suspension of all or part of the business for a certain time period and revocation of the license shall be considered, taking into account the improvement period pursuant to Article 132 of the Act.

(5) Business Suspension Order under Article 133 of the Act

In the event of a serious violation of laws, regulations, or other acts that may harm the public, as a result of the verification of the report above (1) (including additional reports), ordering the suspension of all or part of its business shall be considered under Article 133 of the Act. In addition, under Article 132 of the Act, the Government shall consider ordering the establishment of an internal control system for compliance with laws and regulations.

(6) Rescission of the License under Article 133 of the Act

In cases where the continuation of future business is deemed inappropriate, for example, due to serious violations of laws and regulations or numerous acts that may harm the public as the result of the verification of the report above (1) (including additional reports), the revoke of the license shall be considered pursuant to Article 133 of the Act.

When considering administrative actions (3) to (6), the following factors (i) to (iii)shall be taken into account, and whether or not any other factors are to be considered shall be examined.

(i) Severity and Malicious Nature of Such Conduct

a. Severity of the Public Interest Infringement

Whether the insurance company severely infringes on the public interest, for example, compromises the credibility of the financial market by

constituting and providing products that are significantly inappropriate from the viewpoint of properly disclosing the financial contents of its customers.

b. Severity of the Damage to Users

How large the number of users that have been affected extensively is. How severe the damage that individual users have suffered is.

c. The Malicious Nature of the Act Itself

For example, whether the insurance company conducts malicious activity, such as continuing to sell similar products although the insurance company has received numerous complaints from the users.

d. The Period and Repeatability of the Act

Whether the act was carried out for a long period or a short period. Whether it has been repeated continuously or one-off. Whether similar violations have been carried out in the past.

e. Presence of Intentionality

Whether the act was deliberately carried out recognizing that it was illegal or inappropriate, or it was due to negligence.

f. Presence of Organizational Feature

Whether the act was carried out at the discretion of the individual sales representatives in the field, or the management was involved in it or whether there was any further involvement from the management.

g. The presence of Concealment.

Whether there was any concealment after the problem was recognized. Whether the concealment was organizational, if there was any.

h. Whether or not they are involved with anti-social forces.

Whether there was any involvement with anti-social forces. If so, to what extent.

(ii) The Appropriateness of the Management and Business Management Systems behind the Conduct

a. Whether there are sufficient awareness and commitment by the representative director and the board of directors regarding compliance with laws and regulations.

b. Whether the internal audit departments are well-established and functioning properly.

c. Whether the structure of the Compliance and Risk Management departments are sufficient and functioning properly.

d. Whether the business personnel is aware of compliance with laws and regulations, and Whether there is adequate in-house education.

(iii) Reason for Mitigation

In addition to the above, Whether there are any other reasons for mitigation, such as those insurance companies themselves are voluntarily working on necessary measures to protect users prior to the government's response.

(7) Standard Period of Time for Processing

In principle, the administrative disposition referred to in (3) to (6) above shall be conducted approximately within one month from the time the report described in (1) above is accepted. In the case where the disposition is conducted at the FSA via the Local Financial Bureau, where the disposition is to be carried out at a Local Financial Bureau but requires coordination with the FSA, or where the disposition is based on laws and regulations under co-jurisdiction with other ministries and agencies, the disposition shall be conducted within approximately two months from that time.

(Note 1) In the judgment of "the time when the report is accepted," the following points should be noted:

(i) In the case of requesting the report under Article 128 of the Act more than once (only if the report is requested within the above period from the time the most recent report is received), the time shall refer to the time the final report was received.

(ii) In relation to the reports submitted, when corrections to the documents or additional submissions (excluding minor ones) are requested, the time shall refer to the time when the corrections or additional submissions are made.

(Note 2) The period required for the explanation and hearing is not included in the standard period of time for processing.

(Note 3) The standard period of time for processing shall apply to each piece of information on which disposition is to be examined.

(Note 4) In the case of an incident that spans multiple parties, the standard period of time for processing shall be calculated from the time that all necessary reports are received from the parties concerned.

III-4-1-2 Termination of Obligation to Report the Status of Performance of Business Improvement Orders pursuant to Article 132 of the Act

In the event that the order for business improvement is issued under Article 132 of the Act, it is generally necessary to request a report on the performance of the business improvement plan submitted by the insurance company to follow up on the efforts of the insurance company to improve business operations based on the order and to encourage improvement efforts, in which case the following points shall be paid attention to:

(1) If an insurance company to which a business improvement order is issued pursuant to Article 132 of the Act has been asked to report on the performance of the business improvement plan submitted by the insurance company on the set date, the reporting obligation of the insurance company shall be canceled upon the arrival of the deadline.

(2) If an insurance company to which the order for business improvement is issued pursuant to Article 132 of the Act has been asked to continuously report without a deadline on the performance of the business improvement plan submitted by the insurance company, the obligation to report on the performance of the plan shall be terminated when it is deemed that adequate improvement measures have been taken under the business improvement plan concerning the problem that caused the order to be issued. At that time, a decision will be made on whether or not to revoke the decision based on the progress of improvement efforts as determined by the report and the results of the inspection.

III-4-2 Relationship with the Administrative Procedure Act etc.

(1) Relationship with the Administrative Procedure Act

It should be noted that if adverse dispositions have been attempted to be imposed under Article 13(1)(i) of the Administrative Procedure Act, opportunities for hearing must be given, and in the case of attempted adverse dispositions under item 2 of the same clause, an opportunity for explanation must be granted

In all cases, it is important to note that when conducting an adverse disposition, the grounds for the disposition shall be given under Article 14 of the Administrative Procedure Act (when the adverse disposition is in writing, the grounds for the disposition must also be given in writing).

Furthermore, it shall be noted that in the event of a disposition that denies the permission or approval requested by the application, the grounds for the disposition shall be stated under Article 8 of the Administrative Procedure Act (when a disposition that denies permission or approval shall be made in writing, the reason for the disposal must also be stated in writing).

In doing so, it is necessary not only to provide the rationale, but also to clarify what laws, regulations and standards have been applied to the disposition based on what facts.

(2) Relationship with the Administrative Complaint Review Act

It should be noted that, in the event of rendering a disposition for which an administrative complaint may be filed, the fact that an administrative complaint may be filed shall be instructed in writing based on Article 82 of the Administrative Complaint Review Act.

(3) Relationship with the Administrative Case Litigation Act

In the event of any disposition against which an action for the revocation may be filed, it shall be noted that, under Article 46 of the Administrative Case Litigation Act, matters concerning the raising of the actions for the revocation of administrative dispositions shall be instructed in writing.

III-5. Opinion Exchange System

III-5-1 Significance

In the event of an adverse disposition, in addition to the grant for opportunities for hearing and explanation based on the Administrative Procedure Act, responding to a request from an insurance company, specified insurance agent, or insurance broker (in III-5, hereinafter referred to as “insurance company etc.”), it is beneficial to share a common understanding of the facts that lead to the disposition and their severity by exchanging opinions at multiple levels between the supervisory authorities and the insurance company, etc.

III-5-2 Supervision Method and Response

If an insurance company etc. which has recognized that it is highly likely to be receive an adverse disposition in the process of hearing about reporting under Article 128 of the Act regarding insurance companies and Article 305 regarding specified insurance agencies, an insurance broker requests an opportunity to exchange views between the executive of the supervisory authority (Note 1) and the executive of the insurance company, etc. (Note 2), and the supervisory authority attempts to render an adverse disposition against the insurance company, etc. with opportunities for hearing and explanation, excluding cases where such action is urgently necessary, it shall provide the opportunity to exchange views on the facts that lead to the adverse disposition and their significance before giving notice of the opportunity for hearing and explanation.

(Note 1) Examples of an executive of the supervisory authority: The head of the office in charge of the FSA and a Local Financial Bureau.

(Note 2) The request from the insurance company etc. to set up the opportunity for exchange of views shall be made only between the time the supervisory authority receives the report on the facts that cause such disposition based on Article 128 or 305 of the Act, and the time it makes the notification of hearing or explanation.

IV. Points of Attention regarding Examination of Insurance Products

The standard for the examination of insurance products is prescribed under Article 5(1)(iii) and (iv) of the Act and Articles 11 and 12 of the Regulation (referred to as the "Examination Standard" hereinafter in IV), and the points of attention regarding the examination of insurance products have been published and updated as necessary in order to enhance the efficiency, clarity and transparency of the actual examination process. Regarding an application made in accordance with laws by an insurance company or a person who intends to become an insurance company (referred to as the "Insurance Company" hereinafter in IV) for authorization or notification concerning the introduction of a new product or the modification of an existing product related to life or non-life insurance (referred to as the "Product Authorization Application" hereinafter in IV), the examination shall be conducted from the perspective of respecting individual Insurance Companies' ingenuity and enabling them to quickly develop products in response to the changes in policyholders' needs, with attention paid to the following points in particular. The Insurance Act has been in force since April 2010, wherein it has established provisions for protecting policyholders, etc. The examination of insurance products shall be continued in accordance with the provisions of the Insurance Act. It should be noted that the points of attention regarding the examination of insurance products, etc. shall be updated timely in light of the results of the examination of Product Authorization Applications and the needs of policyholders, etc. in order to enhance the efficiency, clarity and transparency of the examination process.

IV-1 General Matters

In the examination of products, particular attention shall be paid to the following points, which are common to the First, Second and Third Sectors.

IV-1-1 Descriptions of General Policy Conditions and Special Provisions

From the viewpoint of the protection of policyholders, etc., attention shall be paid to whether the descriptions of the general policy conditions and special provisions are clear, plain and simple.

IV-1-2 Scope of Coverage and Compensation

(1) Whether the scope of coverage or compensation (hereinafter referred to as the “Coverage, etc.”) conforms to the provisions of Article 3(4) to (6) of the Act.

(2) Whether the scope of Coverage, etc. suits the needs and convenience of policyholders, etc

(3) Whether adequate deliberations have been conducted as to the presence or absence of an insurance-like nature, such as whether the product incorporates an appropriate mortality rate or an appropriate incidence rate of insured events and whether it covers accidental incidents and compensates for losses.

(4) Regarding insurance products for which the amount of insurance claims is excessive relative to the cause for payment, those for which there are extremely few causes for exemption and those for which the amount of insurance claims to be paid is in excess of the amount of actual losses, whether adequate deliberations have been conducted as to whether they are too speculative or liable to moral hazard.

(5) Whether the causes for payment are specified.

IV-1-3 Product Names (Names of general policy conditions and Special Provisions)

Whether the contractual rights and obligations and other contents of the insurance product that are suggested by the product name may cause misunderstanding on the part of insurance policyholders, etc.

IV-1-4. Risk Selection

(1) Whether the Insurance Company has taken measures to appropriately select physical risk related to the health condition, etc. of the insured person and environmental risk related to the occupation, etc. of the insured person.

(2) Whether the Insurance Company has taken measures to prevent moral hazard.

(3) Regarding non-selection type products, whether the Insurance Company has taken appropriate measures regarding the contents of the products, such as the scope of Coverage, etc. and the level of the insurance claims so as to prevent adverse selection.

Non-selection type products: Insurance products which allow enrollment without the notification of the health condition and the job, and health examination by doctors

IV-1-5 Notification Items

Whether the notification items required of policyholders and insured persons are limited to a minimum necessary for the Insurance Company to make risk selection. It should be kept in mind that ambiguous categorization such as “activities of interest” is not appropriate

IV-1-6 Cause for Exemption

Whether the causes for exemption are clear and appropriate from the viewpoint of fairness and reasonableness, such as causes that undermine public order and decency and causes related to the exclusion of huge risk that may affect corporate management

IV-1-7 Period during Which Contract May be Cancelled due to Violation of Notification Obligation

Whether the period during which the contract may be cancelled due to a violation of the notification obligation is unduly long from the viewpoint of the protection of policyholders, etc..

IV-1-8 Insured Amount, Insurance Period and Scope of Eligible Age

(1) Whether the insured amount, the insurance period and the scope of eligible age for insurance contract are set within limits that are appropriate in light of common sense.

(2) Whether the insured claims amount, the loss compensation ratio and the exemption amount are set based on appropriate verification conducted from the viewpoint of preventing moral hazard..

IV-1-9 Items to Be Explained to Policyholders, etc. (including customers)

Regarding low-cancellation-refund-type products, non-selection type products, products that use market value adjustment and arrangements similar to conversion, etc., whether the Insurance Company adequately explains their contents to policyholders, etc. Market value adjustment: Arrangement under which the cancellation refund is determined by the premium reserve (as specified in Article 63 of the Insurance Act) and the adjustment based on the change in market value of the investment asset arising from the difference between the interest rates at the time of the contract and the cancellation.

IV-1-10 Method of Disclosing Cancellation Refunds

Whether the Insurance Company takes measures to disclose the cancellation refund clearly to policyholders, etc., such as indicating the refund amount on the insurance certificate, etc. and describing the calculation method in the terms of the contract, etc.

IV-1-11 Points of Attention regarding designing insurance products for corporations, etc.

Whether the products have contents that may lead to solicitation activities that deviate from the original purpose of the policy, such as a contract for the primary purpose of corporate finance or other financial technology, or a contract, which is

subject to a short-term revoke from the beginning.

IV-1-12 Matters related to Loans Based on Terms of Insurance Contracts

(1) Regarding insurance products that incorporate a system of providing loans to policyholders, whether the upper limit on the amount of loans to policyholders is set at a reasonable level compared with the cancellation refund amount. Whether appropriate measures have been taken to prevent so-called over-loans such as by refraining from providing a new loan for a certain period before the expiry of the insurance period.

(2) Regarding insurance products that incorporate an automatic premium loan system, whether policyholders have an option to use the system. Whether an insurance company takes measures, including giving a notice to policyholders without delay, if an automatic premium loan is provided.
(Note) If an automatic premium loan is provided to policyholders with respect to already-approved products, it is desirable for an insurance company to give a notice to policyholders without delay.

IV-1-13 Treatment of Product Sales via Internet

When conducting examinations in accordance with the provisions of Article 11(ii)-2-of the Regulation, attention shall be paid to the following points..

(1) Whether the Insurance Company makes sure, through a secure means, that an applicant for an insurance contract is a legitimate party to sign a contract. A check on the physical condition of the insured person shall be conducted in cases where the notification of the physical condition of the insured person, health examination thereof or consent thereof is required.

(2) Whether the Insurance Company has taken measures to prevent deficiencies and alterations (referred to as the “Deficiencies, etc. hereinafter in (2)) of information concerning applications for contracts and other information concerning contracts and to ensure the protection of policyholders, etc. even if Deficiencies, etc. occur.

(3) Whether the Insurance Company has taken security measures to prevent the use of the procedures specified under the same article of the Regulation from causing a leak of information concerning contracts and policyholders, etc.

(4) Whether the Insurance Company has taken measures to enable applicants to check the specifics of the procedures concerning applications for contracts and other contract-related matters, the contents and important items of the contract and stores these data through a secure means.

(5) Whether the Insurance Company has taken measures to prevent the use of the above procedures from constituting a constraint on its future interactions with the applicant in relation to the contract.

IV-1-14 Products with Special Account or Accumulation Account

Whether the Insurance Company has established a system for managing risks related to overall asset investments in accordance with a clear and specific strategic objective concerning asset investment that is based on a management policy. Whether the Insurance Company ensures the exercise of the function of checks and balances, such as by keeping a division responsible for managing risks related to overall asset investments independent from the investment and profit management divisions. Whether it has specified the authorities and responsibilities of the board of directors and the division responsible for managing asset investment risk.

IV-1-15 Treatmentof group insurance or group contracts

Regarding examination related to group insurance and group contracts, attention shall be paid to the following points.

(1) Whether the extent of the policyholder group and the insured group is specified.

(2) In light of the product characteristics, solicitation management system,

contract management system, underwriting and risk management status, etc., if it is necessary to set group requirements (e.g., minimum number of insured persons per policy, maximum multiple of insurance amount, minimum participation rate, etc.) for the purpose of eliminating moral risk and stabilizing insurance balance, whether appropriate group requirements are set. If so, wether they are clearly defined according to the category of the insured group (full membership group, voluntary membership group) and the category of the organization.

(3) Regarding group insurance and group contracts based on occupation type, whether the following criteria are met in cases where retirees, their spouses, etc. (referred to as the “Retirees, etc.” hereinafter in this section) are kept in the insured group.

(i) The policyholder group has sufficient administrative work processing capability to properly keep track of the movements of the Retirees, etc. and manage the collection of insurance premiums.

(ii) The level of insurance premiums and the type of the dividend payment method, etc. are commensurate with the insurance underwriting risk in light of the possible effects of the inclusion of Retirees, etc. in the insured group and an ensuing rise in the ratio of Retirees, etc.that is expected to occur in the future.

IV-1-16 Treatment of Group and Collective Insurance

Regarding examination related to insurance contracts for which a group or an association centrally collects premiums and pays them to an Insurance Company, attention shall be paid to the following points.

(1) Whether the scope of policyholders subject to handled is reasonable and appropriate.

(2) Consistency of the system is ensured in the insurance categories where group and collective insurance are introduced.

(3) Regarding the introduction (or modification) of premium increases and discounts related to group and collective insurance, whether the increases and

discounts determined according to the loss ratio take into consideration “IV-5-5 Premium Increase and Discount Systems, etc. (2).”

IV-1-17 Confirmation of Consent of Insured Person Related to Insurance Contract on the Life of Another

Regarding the confirmation of the consent of the insured person related to the insurance contract on the life of another, whether it is specified that the confirmation is made through the following methods, for example.

(1)Confirmation by means of having the insured person himself/herself record the consent in the case of an insurance contract under which an individual or a company is to be the policyholder and beneficiary of insurance claims and persons other than the policyholder, or officers and employees are to be insured.

(2) Confirmation by means of either of the following sets of documents in the case of an insurance contract under which a company is to be the policyholder and the beneficiary of insurance claims and all employees, etc. are to be insured (an insurance contract which does not cover persons who have not consented to be insured), which is not either an individual life insurance or an all-employee-enrollment group term insurance contract and regarding which it is difficult to make confirmation as described in (1).

(i) A. The Accident Compensation Rules, etc. and other documents related to the insurance contract

B. Records of consent by all persons who have consented to be insured.

(ii) A. The Accident Compensation Rules, etc. and other documents related to the insurance contract

B. Record of confirmation stating that the prospective policyholder has notified all persons who are to be insured of the contents of the insurance contract (the record must contain the record of confirmation by the prospective policyholder and the representative of the persons who are to be insured)

C. List of persons who have not consented to be insured

(iii) A. The Accident Compensation Rules, etc. and other documents which describe the contents of the insurance contract under which the company is

to become the beneficiary of death benefits

B. Record of confirmation stating that a relevant administrative agency has been notified of the Accident Compensation Rules, etc. in accordance with the provision of Article 89 of the Labor Standards Act and that all persons who are to be insured have been notified of said rules in accordance with the provision of Article 106(1) of the same act (the record must contain the Record record of confirmation by the prospective policyholder)

C. List of persons who have not consented to be insured.

(3) Confirmation by means of either of the following sets of documents by the prospective policyholder in the case of all-employee-enrollment fixed-term insurance

(i) A. The Survivor Compensation Rules, etc. and other documents related to the insurance contract

B. Records of consent by all persons who have consented to be insured

(ii) A. The Survivor Compensation Rules, etc. and other documents related to the insurance contract

B. Record of confirmation stating that the prospective policyholder has notified all persons who are to be insured of the contents of the insurance contract (the record must contain the record of confirmation by the prospective policyholder and the representative of the persons who are to be insured)

C. List of persons who have not consented to be insured

(4) Confirmation by means of having each person who is to be insured record his/her consent to be insured or through the means described in (3)(i) above in the case of an all-employee-enrollment fixed-term insurance contract to which the human-value special provision is attached.

IV-1-18 Compliance with Insurance Law

As the Insurance Act contains a unilateral forcible provision that provides for the annulment of the terms of contracts that are disadvantageous for insurance policyholders, etc. in order to protect them, the examination shall be conducted with attention paid to the following points to check whether the terms of the contract contravene the said provision.

In the examination, attention should be paid to the possibility that although some causes for the non-payment of insurance claims, such as annulment, cancellation, exemption and lapse, etc., are treated as discretionary provisions under the Insurance Act, they may contravene the said unilateral forcible provision in some cases (e.g., cases where exemption is applied to all causes for the payment of insurance benefits that have arisen after an increase in risk) depending on the terms of the contracts related to the said provision.

(1) Cancellation due to Violation of Notification Obligation

(i) Whether the terms of the contract take into consideration the fact that the obligation for policyholders, etc. to make voluntary notification was replaced by the obligation for them to reply to questions.

(ii) Whether there is a provision that stipulates that in cases where the notification was obstructed by an insurance intermediary or where an insurance intermediary suggested withholding of information that should be disclosed, the Insurance Company cannot cancel the insurance contract.

However, this provision shall not apply in cases where it is deemed that the prospective policyholder or the person who is to be insured would have withheld information that should be disclosed or made false notification even if the insurance intermediary had not made such asuggestion.

(2) Insurance Benefits Payment Period

(i) Whether the Insurance Company has set a basic period of the payment of insurance benefits under the terms of the contract in light of a reasonable period necessary for the procedures related to insurance benefits, such as the loss-assessment procedure, etc. Whether the period is unduly prolonged compared with the basic period set under existing terms of contracts (e.g., a five-day period for life insurance and a 30-day period for non-life insurance and accident and disease insurance with a fixed amount).

(ii) In cases where an exceptional benefits payment period is set, whether the check items necessary for the payment of insurance benefits, including those related to public agencies, medical institutions, etc. are specified with regard to each insurance type and whether the duration of the period is objectively reasonable. In cases where an exceptional benefits payment period is applied, whether the Insurance Company notifies the person requesting the benefits of the check items and the number of days necessary for the payment thereof.

(iii) Whether the Insurance Company has developed a control environment to ensure that when it has received a notification of the occurrence of a cause for the payment of insurance benefits from policyholders, etc., clear explanations about the procedures for requesting the payment of insurance claims, etc. are provided and the forms for making the request are quickly delivered to the insurance policyholders, etc. in light of (2) (v) of “II-4-4-2 Control Environment for Managing the Payment of Insurance Proceeds, etc.”

(3) Cancellation Due To SeriousCause

Whether the provision for the cancellation due to a serious cause stipulates, in order to prevent the abuse of the right to cancellation, that in cases where the Insurance Company intends to adopt incidents other than the occurrence of a cause for the payment of insurance benefits due to a deliberate intent of policyholders, etc. (Article 30(i), Article 57(i) and Article 86(i) of the Insurance Act) and fraudulent requests for the payment of insurance benefits by beneficiaries of insurance claims, etc. (Article 30(ii), Article 57(ii) and Article 86(ii) of the same act) as serious causes, whether those incidents are equal thereto in seriousness.

IV-1-19 Treatment of cases where joint insurance contracts are underwritten

(1) When an insurance company intends to stipulate in its statement of business procedures that it may establish or amend a rider without applying for product approval for a joint insurance contract (hereinafter referred to as a "non-managing contract ") that it accepts as a non-managing contract at the request of the policyholder, the following points shall be considered during the examination

(i) Whether the statement of operation specifies the insurance products for which special clauses can be newly established or modified without applying for product approval.

(ii) With respect to non-managing contracts, whether the company has obtained approval or filed a notification for the same type of insurance as the non-managing contract, and the company has established a system for underwriting review and profit management. In addition, if the managing company is unable to pay claims, whether the company have a system in place to pay claims on behalf of the managing company for non-managing

contracts.

(iii) Wherther the company have a system to prevent the underwriting of special clauses, which are newly established or modified without applying for product approval in order to underwrite non-managing contracts, by attaching them to insurance contracts other than non-managing contracts.

(iv) Whether the following items are described in the statement of business procedures.

a. Only in cases where the managing company underwrites a non-managing contract of a joint insurance contract in which the managing company is an insurance company.

b. At the request of the policyholder, the company shall only accept a non-managing contract with the same contract terms and conditions as the managing company, such as reasons for payment of claims, exclusion of liability, scope of insured persons, and insurance period.

c. With respect to a joint insurance contract, the following items made by the managing company shall be deemed to have been made by all underwriting insurance companies, only in the case of underwriting a non-managing contract provided for in the general insurance clauses or special clauses

(a) Receipt of applications for insurance contracts and issuance and delivery of insurance policies, etc.

(b) Collection and receipt or return of insurance premiums

(c) Approval of changes in the content of the insurance contract or cancellation of the insurance contract

(d) Receipt of documents, etc. pertaining to notice or notification pursuant to the provisions of the insurance contract and approval of such notice or notification

(e) Receipt of documents, etc. pertaining to a notice of assignment of insurance claim rights, etc. and approval of such assignment, or receipt of documents, etc. pertaining to a notice of establishment, assignment or extinction of a pledge on insurance claim rights, etc. and approval of such establishment, assignment or extinction

(f) Issue and delivery of a written approval of change pertaining to an insurance contract or endorsement, etc. of an insurance policy

(g) Investigation of the subject matter of the insurance and other matters pertaining to the insurance contract

(h) Receipt of documents, etc. pertaining to the notification of occurrence

of accident or damage, or receipt of documents, etc. pertaining to insurance claim

(i) Investigation of damage, assessment of damage, payment of insurance money, etc., and preservation of the rights of the insurance company as stated in the insurance policy

(j) Matters incidental to (a) through (i) above.

d. Notices and other acts made by policyholders, etc. to the managing company shall be deemed to have been made to all underwriters only in the case of underwriting a non-managing underwritten contract that is provided for in the general insurance clauses or special clauses.

e. New establishment or modification of special clauses within the scope of the examination criteria of the statement of business procedures, etc. and the purpose and objective of the insurance contract.

(v) In the case that the calculation method for insurance premiums, etc. can be newly established or changed due to the establishment or change of a special contract, whether the statement of calculation procedures corresponds to the following points, is actuarially reasonable and appropriate, and is not unfairly discriminatory.

In addition, if the premium is to be adjusted in accordance with c., whether it is reasonable and appropriate from an actuarial standpoint. In addition, even if the premiums are adjusted in accordance with c., a., b., and c., the calculation method shall not be unreasonably discriminatory. Even if premium adjustment is made in accordance with c. above, it is necessary to fall under a. and b. above. Note that even if the premium adjustment is made in accordance with c. above, it must be in accordance with a. and b. above.

a. The insurance premiums of the insurance company shall be adjusted in accordance with the following conditions. It must correspond to the contents of the special contract in question.

b. It must correspond to the contents of the relevant special agreement. It should not change the standard premium rate stated in the statement of calculation method. In addition, it must be consistent with the calculation method described in the calculation method sheet.

c. In the case of adjusting premiums for each insurance contract to which such rider is attached, the adjustment shall not be differentiated based on the risk status of such insurance contract or the increased or decreased costs due to the establishment or modification of various procedures.

(2) If any problem is found with respect to the system for underwriting examination and profit management, etc. of a joint insurance contract, the status of compliance with the examination standards for statement of business procedures, etc., or the accumulation of policy reserves, etc., a report shall be requested pursuant to Article 128 of the Act, as necessary, and if any serious problem is found, a report shall be submitted pursuant to Article 131 of the Act (in the case of a foreign insurance company, etc.). Article 131 of the Act (Article 203 of the Act in the case of foreign insurance companies, etc.). Article 131 of the Act (Article 203 of the Act in the case of a foreign insurance company, etc.; Article 229 of the Act in the case of a licensed specified corporation).

(3) With respect to a joint handling contract (meaning an insurance contract in which two or more insurance companies each underwrite an insurance contract for the same policyholder, and one of them, as the managing company, is entrusted with the issuance of insurance policies and other administrative matters by a non-secretary company) The same shall apply hereinafter) in the case of a joint insurance contract (meaning an insurance contract in which two or more insurance companies each underwrite an insurance contract for an insurance policyholder, and one of these companies acts as the managing company and is entrusted by a non-managing company with the issuance of insurance policies, etc.), only if the managing company, upon request from the policyholder, underwrites the same contract terms and conditions as those approved or notified by the managing company, such as the grounds for payment of insurance claims, reasons for exemption, scope of insured, insurance period, etc. (1) (excluding (4) (c) and (d)). (1) (excluding (4) c. and d.) and (2)).

IV-2 First-sector

In the examination of products in the First Sector, attention shall be paid to the following points in particular.

IV-2-1 Fixed-Term Insurance with Gradually Increasing Insurance Claims

Whether the cancellation refund amount for each year is set at a level lower than the insured amount for the same year.

IV-2-2 Voluntary Enrollment Group Fixed-Term Insurance

Whether the product design and dividend payment method are such that the effective insurance premium is commensurate with the insurance underwriting risk.

IV-3 Second-sector

In the examination of products in the Second Sector, attention shall be paid to the following points in particular.

IV-3-1 Automobile Insurance Contract Covering 10 or More Vehicles

Regarding an automobile insurance contract which covers 10 or more vehicles as specified under Article 83(iii)(K) of the Regulation, whether the following requirements are met.

(1) The insurance contract must cover vehicles owned by the insurance policyholder (including vehicles purchased by the policyholder under a purchase contract with a provision for the reservation of the ownership right, vehicles leased on a commercial basis from a person who engages in the business of leasing vehicles on a commercial basis (referred to as the Leasing Business Operator hereinafter in IV-3-1 and IV-3-2) under a leasing contract with a period of one year or longer (in cases where the policyholder has transferred vehicles he/she owned to the Leasing Business Operator and leases them back on a commercial basis under a leasing contract, the one-year criteria is applied to the total of the ownership period and leasing period; the same shall apply hereinafter in IV-3-1) or vehicles leased free-of-charge from the government of Japan or other countries or local governments in Japan (including public organizations other than local governments in cases where the insurance policyholder is a public-interest corporation)).

(2) Regarding the coverage of losses other than damage to vehicles, the policyholder must be the insured person under the insurance contract (including an insurance contract under which the insured person is a user of a

vehicle leased from the Leasing Business Operator on a commercial basis under a leasing contract with a period of one year or longer).

(3) The insurance contract must cover 10 or more vehicles (including vehicles related to other insurance contracts that meet the requirements specified in (1) and (2)) regarding which the reference date for the renewal of the insurance premium increase or discount (referred to as the Premium Rate Examination Date hereinafter in (3)) is the same and the period from the starting date to the expiry date of insurance obligation (referred to as the “Obligation Period” hereinafter in (3)) is one year or longer (including cases where the Premium Rate Examination Date falls on the last day of the insurance period and the Obligation Period is shorter than one year or where the Obligation Period is shorter than one year under an insurance contract related to an all-vehicle-inclusive special provision (which covers all vehicles owned and used by the insurance policyholder))

IV-3-2 Insurance Contracts for Vehicles for Sale, etc.

Whether the vehicles notified as the vehicles specified under Article 83(iii)(L)(2) of the Regulation meet the following criteria:

(1) Vehicles transported or managed by automakers, auto dealers, coachbuilders and business operators similar thereto for the purpose of sales, testing and coach building, and vehicles transported or managed by automobile land transporters, automobile auction companies and business operators similar thereto on commission from others.

(2) Vehicles owned by policyholders who are Leasing Business Operators, finance companies, automobile scrap yard operators and business operators similar thereto (including vehicles consigned to an automobile scrap yard operator for scrapping in cases where the automobile scrap yard operator is the insurance policyholder) and which are taken over from customers, transported or managed.

(3) Vehicles consigned to auto maintenance companies, oil suppliers, car park operators, automobile auction companies, automotive electronics servicers,

automobile-washing companies, automobile paint companies, tire replacers, automobile management companies and business operators similar thereto for the purpose of the execution of their businesses

IV-3-3 Treatment of Flexible Provision System, etc.

(1) In cases where an Insurance Company intends to state in the statement of business procedures that special provisions related to business insurance may be established or modified without a notification, attention shall be paid to the following points in the examination.

(i) Insurance contracts other than the ones specified in (ii) and (iii)

A. Whether insurance contracts related to special provisions to be established or modified are subject to the requirement for notification.

B. Whether the policyholders and insured persons are business operators (however, if the insurance contract falls under all of the following cases, insured persons need not be business operators).

(a) An insurance contract which compensates for damage arising to insured persons in connection with business activities of the policyholders

(b) An insurance contract in which insured persons have no option to enter 13

(c) An insurance contract for which it is explicit that insured persons have no obligation to pay insurance premiums or amounts equivalent to insurance premiums

C. Whether the statement of business procedures states that special provisions shall be established or modified in line with the intent and purpose of the Examination Standard prescribed in the statement of business procedures, etc. and the insurance contract.

D. Whether the statement of business procedures states that special provisions related to expenses necessary for the payment of penalty and the implementation of an agreement and expenses similar thereto may be established or modified

E. Whether the special provision is related to a medical liability insurance contract regarding which there is a particular need for examination in light of the characteristics of the insurance and from the social perspective.

(ii) Automobile insurance covering 10 or more vehicles as specified under Article 83(iii)(K) of the Regulation

A. Whether the criteria in B. to D. in (i) are met.

B. In cases where the Insurance Company intends to state in the statement of business procedures that causes for the payment of insurance claims may be modified through the establishment or modification of a special provision, whether it is permitted to alter the function of providing relief to the aggrieved parties related to bodily injury liability insurance in ways that put the said parties or the insured persons at a disadvantage, such as by narrowing the scope of coverage and establishing new causes for exemption.

C. In cases where the Insurance Company intends to state in the statement of business procedures that various procedures, such as the procedures for the conclusion of a contract and the request for the payment of insurance claims, etc., may be established or modified through the establishment or modification of a special provision, whether the following criteria are met.

(a) Regarding a special provision concerning the procedures for the conclusion of a contract, a modification that may cause failure to provide insurance coverage to a vehicle to be covered or failure to collect premiums related to a vehicle covered by insurance is not permitted. In addition, a modification that may impede a check on the provision of protection to the vehicle involved in the insured accident is not permitted.

(b) Regarding a special provision related to the procedures for the notification of an insured accident and the request for the payment of insurance claims, etc., a modification that may put the aggrieved party or the insured person at a disadvantage is not permitted.

D. In cases where the Insurance Company intends to state in the statement of calculation procedures that a calculation method of insurance premiums may be established or modified through the establishment or modification of a special provision, whether the calculation method is reasonable and appropriate from the actuarial viewpoint and is not unduly discriminatory.

It should be kept in mind that even in cases where the premiums are adjusted as described in (c), the criteria in (a) and (b) must be met.

(a) The calculation method must be suited to the contents of the special provision

(b) The standard insurance premium rate indicated in the Statement of the

Calculation Method is not altered because of the calculation method. The calculation method must be consistent with the calculation method described in the Statement of the Calculation Method. It must not entail an alteration of an existing calculation method (including the definition of the scope of relevant policyholders) related to the premium increase/discount system based on the actual loss ratio or the combined conclusion of contracts with multiple policyholders.

(c) In cases where the insurance premium is adjusted with regard to each insurance contract to which the special provision is attached, the calculation method must make discrimination based on the risk level related to the insurance contract in question or an increase or decrease in expenses due to the establishment or modification of procedures. When the risk level is considered, attention should be paid to whether the contract conforms to the matters related to the risk factors specified under Article 12(iii) of the Regulation.

E. Whether a special provision is established or modified within limits that ensure that the contents of the insurance contract after the establishment or modification meet the requirements in IV-3-1.

(iii) Insurance contract for vehicles for sale, etc. as specified under Article 83(iii)L of the Regulation

A. Whether the criteria specified in C. and D. in (i) are met.

B. Whether the criteria specified in B. to D. in (ii) are met.

C. Regarding the establishment or modification of a special provision related to vehicles specified in Article 83(iii)L(2) of the Regulation, whether vehicles other than those regarding which a notification was made based on IV-3-2 are covered

(2) In cases where an Insurance Company intends to establish a special provision that meets the criteria specified in (1) in relation to losses that may arise mainly in business activities in a foreign country or international business activities in accordance with the business practices of the regions, etc. where the relevant business activity is conducted (limited to cases where the statement of business procedures states that a special provision may be established within limits 15 necessary for ensuring harmonization with foreign or international business practices and that in this case, the insurance company may prepare a new written agreement on the contract so that the general policy conditions incorporate the features of the special provision,

instead of establishing the special provision), the insurance company may prepare a new written agreement (including the said agreement as translated into a foreign language) so that the general policy conditions incorporate the features of the special provision and conclude the contract based thereon. In this case, it shall be deemed that a special provision that meets the criteria specified in (1) was established and a notification shall not be required.

(3) In cases where a problem is recognized in a special provision established or modified or a new written agreement on the contract as described in (2) in terms of compliance with the Examination Standard prescribed in the statement of business procedures, etc., the submission of a report shall be required as necessary under Article 128 of the Act. If a serious problem is recognized, they shall take administrative actions under Article 131 of Act (under Article 203 of the Act in the case of a foreign insurance company, etc. and Article 229 of the Act in the case of a licensed specified juridical person) or Article 132 of the Act.

IV-3-4 Treatment of Business Activity Loss Compensation Insurance, etc.

Regarding insurance that provides compensation for losses incurred by business operators as a result of business activity (excluding insurance contracts specified in Article 83(iii)A to J and M to HH of the Regulation and insurance contracts that cover the management and operation of vehicles but including insurance contracts that cover expenditures arising from the physical condition, treatment and death of persons), attention shall be paid to the following points in the examination.

(1) In cases where an insurance product that covers expenditures arising from the physical condition, treatment or death of a person (including expenses related to the implementation of an agreement) and loss of expected profits is to be established or modified, whether an application for authorization has been filed as specified in the provision in the parenthesis of Article 83(iii)(II) of the Regulation (however, it should be kept in mind that an application for authorization is not required in the case of insurance regarding which the loss amount is clear irrespective of the physical condition, treatment and death of persons, such as insurance for losses from the cancellation of events and

insurance for the cost of product recalls, and insurance that provides compensation for the payment of condolence money and expenses similar thereto for death of persons due to accidents or diseases that occur during the business hours and at the sites where business activity is conducted, such as insurance for leisure and service facility　operation costs).

(2) Whether the contents of the product are suited to First- and Third-Sector products.

(3) Regarding insurance that provides compensation for losses due to causes similar to the causes related to casualty and medical insurance, etc. that pays insurance claims directly to the persons concerned or provides them with compensation for losses, whether the insurance premium rate is reasonable and consistent with the premium rate of the casualty and medical insurance, etc.

(4) Regarding insurance that covers the payment of condolence money and funeral expenses, etc. by business operators to the survivors of employees, etc. who died of disease, whether the insured amount is within limits that are appropriate in light of social common sense.

(5) In cases where there is the risk of moral hazard similar to the case of an insurance contract on the life of another, whether the Insurance Company has taken appropriate measures to prevent moral hazard with due consideration of “II-4-2-4 Life Insurance Contracts for Other Persons ” and “IV-1-17 Confirmation of Consent of Insured Person Related to Insurance Contract on the Life of Another.”

IV-3-5 Treatment of Insurance that Covers Expenses Due to Implementation of Agreement

Attention shall be paid in the examination of business activity loss compensation insurance which provides compensation for losses suffered by business operators due to the implementation of an agreement concluded with a third-party person on the performance or exemption of the obligation for the payment of a certain amount of money, etc. due to an accidental cause.

(1) Whether the insurance provides compensation for losses incurred due to the implementation of an agreement that undermines public order and decency.

(2) Whether the rights and obligations under the agreement are evident for the third-party person and the payment of insurance claims generates undue profits to the business operator.

IV-4 Third Sector

In the examination of products in the Third Sector, attention shall be paid to the following points in particular.

IV-4-1 Establishment of Right to Alter Actuarial Assumption Rates

In cases where the examination of the establishment of the right to alter actuarial assumption rates related to Third-Sector insurance is conducted in accordance with the Examination Standard specified under Article 11(1)(vii)A of the Regulation, the attention shall be paid to the following points.

(1) “Other insurance contracts similar thereto” refer to insurance contracts under which benefits are paid for the condition, etc. of persons related to Type 1 infectious diseases, Type 2 infectious diseases, and Type 3 infectious diseases as specified under the Act on Prevention of Infectious Diseases and Medical Care for Patients Suffering Infectious Diseases (Act No. 114, October 2, 1998).

(2) Whether the establishment of the standard for the exercise of the right to alter actuarial assumption rates meets all of the following requirements.

(i) Whether the benchmark for the relationship between the expected incidence rate and the actual incidence rate is the same as or similar to any of the following ratios in accordance with the purpose of altering the premium rate or insurance claims amount through a change in the expected incidence rate.

A. Ratio of the actual incidence rate to the expected incidence rate

B. Ratio of insurance claims paid to insurance premium revenues (total of risk premiums and loading premiums of the current year after adjustments

for the inclusion and reversion of policy reserves).

(ii) The benchmark in (i) is set at an appropriate level in light of the expected profits or losses related to the insurance contract in the case of a rise in the actual incidence rate.

(iii) Whether the procedures for changing the insurance premium or the insurance claims amount after the benchmark in (i) is reached are specified.

(3) Whether the insurance company has developed a control environment for decision-making related to the management of the actual incidence rate and the exercise of the right to alter actuarial assumption rates.

IV-4-2 Treatment of Application for Authorization of Exercise of Right to Alter Actuarial Assumption Rates

In cases where an application for the exercise of the right to alter actuarial assumption rates related to Third-Sector Insurance has been filed, attention shall be paid to the following points in the examination thereof.

(1) Whether the rules concerning the right to alter actuarial assumptions rates prescribed in the terms of the contract (e.g., standard for the exercise of the right to alter actuarial assumption rates, etc.) are observed.

(2) Whether the internally prescribed procedures for the exercise of the right to alter actuarial assumption rates are observed.

(3) Whether adequate explanations were provided to the policyholder at the time of the contract conclusion and whether information disclosure as to whether the standard for the exercise of the right to alter actuarial assumption rates was met was made periodically thereafter.

(4) Whether the expected incidence rate after the alteration is a reasonable and appropriate based on the actuarial standards in light of the actual incidence rate and other factors.

IV-4-3 Measures to Protect Policyholders, etc. at Time of Insurance Claims, etc.

Payment

With respect to products in the Third Sector, attention shall be paid to the following points concerning measures for protecting policyholders, etc. at the time of payment of insurance claims, etc.

(1) Regarding an insurance contract under which the insured person is the beneficiary and which carries a high probability that the insured person cannot physically request the payment of insurance claims when the cause for the payment arises, whether the insurance company has taken adequate measures to enable an agent of the insured person to request the payment quickly.

(2) When determining the scope of benefit payment in the case of sickness, unexpected accident, etc., whether the insurance company has used classification rules, etc. which policyholders, etc. find difficult to refer to.

(3) Regarding the fact that the number of days of payment of insurance benefit, etc. in an insurance contract before renewal will be carried over after renewal of the insurance contract, whether the 19 insurance company has taken measures to explain the fact to policyholders, etc. in a proper manner upon renewal of the insurance contract.

IV-5 Actuarial Standards

When examining Statement of the Calculation Method, attention shall be paid to the following points in particular.

IV-5-1 Insurance premiums

(1) Whether the calculation method of premiums takes into consideration sufficiency, fairness, etc. and is reasonable and appropriate.

(2) Whether the insurance premium is unduly discriminatory between different groups of insured persons and between different insurance types, etc.

(3) Whether the expected incidence rate, loss amount and expected cancellation rate are calculated in a reasonable manner based on basic data and corrected in accordance with the reliability of basic data.

(4) Whether the assumed interest rate is appropriately set from a reasonable and long-term perspective based on the insurance type, insurance period, payment method of insurance premiums, records of past investment performance, expected future investment return, etc.

(5) Whether non-arbitrary and reasonable rules concerning the review of the assumed interest rate of products with a variable assumed interest rate are set from the viewpoint of the protection of insurance policyholders, etc.

(6) Whether the loading premium (including an increase or decrease in business expenses) operating costsoperating costsmeets the following conditions when expressed in qualitative terms, rather than as a co-efficient.

(i) Whether it is specified that the loading premium should be set at an appropriate level; for example, whether the fairness between different insurance types is maintained and whether it is set at a reasonable level relative to the expected amount of business expenses.

(ii) Whether the loading premium is specified by internal rules, etc. in accordance with the intent of II-2-5-2(5)(iv).

(iii) Whether the insurance company submits monitoring materials with regard to each insurance type and each sales channel as classified in accordance with the loading premium rate and in light of the degree of importance based on the viewpoints in (1) and (2). Whether data used as the basis of the monitoring materials are attached thereto.

(7) In cases where the insurance premium rate is not revised on the occasion of a revision of the scope of coverage, etc., whether the insurance company has adequately examined the need to revise the premium rate

IV-5-2 Policy reserves

(1) When examining policy reserves, attention shall be paid to the matters specified in “II-2-1-2 Accumulation Method” in particular.

(2) Whether it is ensured that when the product is designed so as to set the amount of benefits in the early part of the contract period at a high level, when the amount of future benefits is reduced or when the insurance premium payment is deferred, the value of the policy reserve does not become negative. In cases where a negative value is deemed to be zero for the purpose of the calculation of the policy reserve, attention shall be paid to whether an adequate study on maintaining the financial soundness is conducted.

(3) Regarding the policy reserve for insurance products with the arrangement of market value adjustment, whether it is the larger amount of either the premium reserve or the cancellation refunds.

IV-5-3 Policyholder value

Whether the cancellation refund is set at a reasonable and appropriate level in light of the business expenses and investment losses as well as the insurance product design, etc. so as to avoid putting insurance policyholders at an undue disadvantage.

IV-5-4 Application of Premium Increase or Discount Based on Past Loss Ratio, etc.

In cases where an insurance company intends to stipulate in Statement of the Calculation Method that a premium increase or discount may be applied based on the past loss ratio (or the payment ratio) with regard to fixed-amount benefit insurance contracts (including special provisions) related to diseases (e.g., general medical treatment, cancer and nursing care insurance), attention shall be paid to the following points in the examination.

(1) Whether insurance contracts (including special provisions) to which a premium increase or discount is applicable are fixed-amount benefit insurance contracts (including special provisions) related to diseases with an insurance period of one year or shorter under which groups such as companies, etc. are the insurance policyholders.

(2) Whether it is prescribed that regarding the past data used for the application of a premium increase or discount, the insurance performance of insurance contracts that meet all of the following requirements over a period of one year or longer must be checked.

(i) Contracts which cover the group in question

(ii) Fixed-amount benefit group insurance contracts whose main coverage of risks overlap each other (excluding insurance contracts which mainly cover injuries or the condition of being unable to work)

(3) In cases where the underwriting insurance company in (2) is a different insurance company from the insurance company in question, whether it is prescribed that only if all of the following requirements are met, the materials, etc. prepared by the underwriting insurance company, etc. (hereinafter referred to as the “Materials, etc.”) may be used for the calculation of the pure premium amount in the case of insurance underwritten with the pure premium rate of the insurance company in question and the premium amount thus calculated may be applied.

(i) The Materials, etc. are reliable and objective.

(ii) The pure premium amount in the case of the application of the pure premium rate of the insurance company in question is calculated based on the conditions of coverage and the past performance of the contract that constitute the assumptions of the Materials, etc.

(iii) In cases where the conditions of coverage such as the period of exemption, etc. that constitute the assumptions of the Materials, etc. are different from those that constitute the assumptions of the pure premium rate of the insurance company in question, a correction is made in a reasonable manner in accordance with the calculation method of the pure premium rate of the insurance company in question.

IV-5-5 Premium Increase and Discount Systems, etc.

(1) Whether the establishment (or modification) of a premium discount system is reasonable from the actuarial viewpoint and has no problem from the viewpoint of consistency with other premium increase or discount systems, the revenue-expenditure balance after the introduction of the discount system and

fairness, etc. among policyholders.

(2) Whether the premium increase or discount system based on the records of insurance claims payments (including those involving premium adjustments) takes into consideration past data available in a reasonable manner without arbitrary selection. In particular, whether the insurance company uses highly reliable and objective past data available and makes corrections in accordance with the reliability of the past data.

IV-5-6 Adaptation to Revision of Advisory Pure Risk Premium Rate

In cases where an insurance company does not revise the pure risk premium rate of insurance products whose pure risk premium rate is calculated on the basis of the advisory pure risk premium rate in accordance with a revised advisory pure risk premium rate within one year from the date when it was notified of the revision as specified under Article 9-2(3) of the Act on Non-Life Insurance Rating Organization of Japan, the company shall be required under Article 128 of the Act to submit a report or materials concerning the reasonableness and appropriateness of the pure risk premium rate it is continuing to use, as it shall be deemed that the company is applying its own premium rate without using the advisory pure risk premium rate as a basis.

IV-6 Examination procedures

When examining products, attention shall be paid to the following points in particular.

IV-6-1 Treatment of Examination Period related to Authorization and Notification of Insurance Products

While the standard examination period related to the authorization of insurance products as specified under Article 246(1)(xii) of the Regulation is 90 days and that related to the notification of insurance products as specified under

Article 125(1) of the Act is 90 days, efforts shall be made to shorten the examination period from the viewpoint of contributing to the speed-up of product development. In particular, regarding the application for authorization and notification of products that are 23 standardized and simple or products whose contents are effectively the same as the contents of existing products of other companies (limited to products which can be examined efficiently based on the Assessment Statement, etc. specified in IV-6-2), the examination shall be completed within 45 days in principle.

IV-6-2 Procedures for examination of insurance products

In cases where the statement of the assessment of the contents of notification or application for authorization (Handbook for Formats and Reference Materials: Formats for Other Reports, etc.: IV-6-2 Attachment 1, 2 or 3) or the written outline thereof prepared by insurance companies in accordance with the legally prescribed Examination Standard so as to describe the prescribed items is attached to a notification or an application for authorization, the examination shall be conducted with the use of either the said statement or the written outline (hereinafter referred to as the Assessment Statement, etc. in a prompt and efficient manner. In particular, it should be kept in mind that even if the Assessment Statement, etc. is attached, it shall not be deemed that the prescribed items are described as specified above in cases where the descriptions in the Assessment Statement, etc. are deemed to be inadequate and require corrections, where adequate explanations concerning the descriptions thereof cannot be obtained from the insurance company, or where not all materials deemed to be necessary are attached.

IV-6-3 Implementation of Efficient Examination of Insurance Products in View of Product Selling Plans

Examination of insurance products shall be made efficiently with such efforts as exchanging opinions in advance with insurance companies if requested confirming the existence of a concrete product selling schedule, and giving priority to the application with product selling plans.

IV-6-4 Implementation of insurance product examination based on product and customer characteristics, etc.

(1) In the process of product examination, the company shall confirm whether appropriate measures are taken to address the issues of the product, such as risks associated with the product and points to be noted in sales, in accordance with the characteristics of customers and sales methods, based on the examination status of the points to be appealed to customers of the applied product, assumed main customer segments, and the sales promotion system after approval, by using the "Customer Protection Related Information" (Handbook for Formats and Reference Materials: Formats for Other Reports, etc.: IV-6-4 Attachment 1 or 2).

(2) In the event that a company is considering to provide a new service incidental to a specific insurance product due to the expansion of services incidental to insurance products, the company shall confirm in the process of product examination whether the company is taking appropriate measures to ensure that there is no lack of protection for policyholders, etc., based on the content of the service, the contractual relationship between the insurance company, etc., and the liability relationship between the insurance company, etc., using "Customer Protection Related Information" (Handbook for Formats and Reference Materials: Formats for Other Reports, etc.: IV-6-4 Attachment 1 or 2).

(Note) The services referred to here are those that fall under the category of matters that should be referred to in deciding whether to enter into an insurance contract (Article 227-2(3)(ii) of the Regulation).

V. Insurance Broker

V-1 Registration Process

The registration process for insurance brokers shall be carried out in accordance with the following interpretation, operation and procedures of the relevant laws and regulations.

V-1-1 Application form for registration

(1) The scope of offices specified in Article 287(1) ㈡ of the Act shall be all offices related to the insurance solicitation business.

(2) The types of insurance contracts to be handled as prescribed in Article 287(1) ㈢ of the Act shall be as follows

(i) Insurance contracts in which a life insurance company (including foreign life insurance companies, etc. and underwriters of specified corporations licensed under Article 219 (4) of the Act) acts as the insurer (hereinafter referred to as the “life insurance contract”)

(ii) Insurance contracts in which non-life insurance companies (including foreign non-life insurance companies, etc. and underwriters of specified corporations licensed under Article 219 (5) of the Act) act as insurers (including an insurance contract in which a foreign insurer other than these acts as an insurer and which is prescribed in Article 39-2 of the Order; hereinafter referred to as "non-life insurance contracts").

(iii) Insurance contract in which a small-amount and short-term insurance company acts as an insurer (hereinafter referred to as "small-amount and short-term insurance contract")

(3) When an application for registration is filed pursuant to the provision of Article 287 of the Act or notification of changes, etc. is made pursuant to the provision of Article 290 of the Act, the application form for registration and its attached documents or the written notice of changes in registered matters, etc. shall be submitted to the Finance Bureau, etc. having jurisdiction over the location of the principal office of the insurance broker who intends to submit them.

V-1-2 Guidelines for filling out the application form for registration, etc.

The guidelines for filling out the application form for registration, etc. prescribed in Form 20 of the Appendix to the Regulation shall be as follows

(1) The information on the first page of the application form for registration shall be as follows.
  (i) In the case of an individual, the name shall be written in the applicant's own handwriting.
  (ii) In the case of a corporation (including an association or foundation that is not a corporation; hereinafter the same shall apply), the name of the representative or manager shall be entered for the first person. In the case of a corporation incorporated under the laws and regulations of a foreign country (hereinafter referred to as a "foreign corporation"), its representative in Japan shall also be indicated.

(2) The information on the second page and below of the application form for registration shall be as follows
  (i) The date of registration and the registration number shall be entered at the financial bureau, etc. having jurisdiction over the location of the principal office of the insurance broker.
  (ii) In the "Trade Name, Name, or Full Name" column, the full name shall be entered in the case of an individual, and the trade name or name shall be entered in the case of a corporation. In the case of a foreign corporation, the trade name or name in Japan should also be entered.
  (iii) If there is more than one representative, the first person shall be entered in the "Full Name of representative or manager" column, and the other representatives shall be entered in the "Representative or manager" column. If the representative is not engaged in insurance solicitation and is not qualified to pass the insurance brokerage examination as specified in V-1-7, he/she should be listed in the "Remarks" column ("No solicitation" should be written next to the full name of the first representative). In the case of a person who is not qualified to pass the insurance brokerage examination, the relevant information should be entered in the "Remarks" column (for the first author, enter "not recruited" next to his/her name). However, in the case of a foreign corporation, the representative in Japan should also be written in the "Full Name of representative or manager" column.
  (iv) In the "Date of Birth and Gender" column, the applicant's date of birth and

gender should be entered in the case of an individual, and the date of birth and gender of the person indicated in the "Full Name of Representative or Manager" column should be entered in the case of a corporation.

(v) In the "Address" column, in the case of an individual, the applicant's current address on the resident registration card should be entered. In the case of a corporation, the address of the head office in the commercial register should be entered. In the case of a foreign corporation, the address of its principal office in Japan should also be entered.

(vi) In the "Name and Address of Office" column, the office of the insurance broker applying for registration should be entered.

In the case of an individual, if there is no name of the office, it is acceptable to omit the entry in the "Name of Office" column.

(vii) In the case where the applicant is engaged in other business, it shall be sufficient to state the main business of the applicant.

(viii) If there is no representative or manager who conducts insurance solicitation, the full name and title of the person in charge of insurance (which shall be a person qualified to pass the insurance brokerage examination) shall be entered in the "Remarks" column.

(3) The same person shall not apply for more than one registration using more than one trade name or name.

V-1-3 Documents to be attached to the application form for registration

The contents of the documents to be attached to the application form for registration as prescribed in Article 219 of the Regulation shall be as follows

(1) Documents required to be attached to the application form for registration that are certified by government agencies shall be those issued within 3 months prior to the date of application for registration.

(2) Documents proving competence

The "document certifying that the Registration Applicant has a capacity" as prescribed in Article 219(1)(i) of the Regulation shall be a copy of the document certifying that the applicant has sufficient capacity to perform the business of insurance solicitation in a precise manner as prescribed in V-1-7.

(3) Alternative documents

The "any other substitutive document" prescribed in the Article 219(1)(ii) of the regulation and the " any other substitutive document" prescribed in the Article 219(1)(iii)a. of the regulation refer to the following documents. If the applicant is an association or foundation that is not a corporation, documents equivalent thereto shall be included.

(i) The document in lieu of articles of incorporation or certificate of registered matters (hereinafter referred to as "articles of incorporation, etc." in V-1) in the case of a corporation shall be a transcript or extract of the commercial registry, etc.

The articles of incorporation, etc or any other substitutive document shall stipulate that the applicant may engage in the business of an insurance broker.

A copy of the articles of incorporation, etc or any other substitutive document shall be acceptable if it contains a statement to the effect that it is identical to the original.

(Note) When the full name of the representative in the application form for registration is accompanied by the former family name and the first name in parentheses, the "documents certifying the said former family name and first name" prescribed in the Article 219 (1) Item (iii)b. of the Regulation shall be attached (except for the representative who has applied for registration separately).

(ii) The document in lieu of an extract from the certificate of residence in the case of an individual shall mean a certificate of matters stated in the certificate of residence, a residence card or a special permanent resident certificate, or a My Number Card.

(iii) "Documents certifying the said former family name and first name " as prescribed in Article 219 (1) Item (iii)b. of the Regulation shall mean a transcript or extract of the family register, etc.

V-1-4 Guidelines for Description of Attached Documents

The following are the guidelines for description of the documents to be attached to the application form for registration as prescribed in Article 219 of the Regulation.

(1) With regard to the written oath (Form No. 21 attached to the Regulation), in the case of a corporation with multiple representatives, the first person shall swear to this effect on behalf of the said corporation.

(2) With regard to the document specified in Article 287(2)(ii) of the Act, the document stating the full names and addresses of the officers shall be the list of full names and addresses of officers (hereinafter referred to as the "list of officers") specified in attached form No.1 included in the attached collection of reference forms (hereinafter referred to as the " attached form "). The full name and address of each officer of the said corporation (excluding officers listed in the notification form pertaining to officers and employees engaged in insurance solicitation) shall be described in the attached form. In addition, the names and addresses of the officers shall be listed in the "List of Officers". A document stating the full names and addresses of the officers may be substituted for the list of officers.

V-1-5 Handling after registration

(1) A registration number shall be assigned to each director-general of the Finance Bureau, etc. with jurisdiction by a series of numbers.

(2) As a notice of registration pursuant to the provision of Article 288(2) of the Act, the director-general of the Fnancial Bureau, etc. with jurisdiction shall, upon approving registration, notify the applicant for registration without delay by a written notice of registration (Attachment Form No. 2).

(3) After the registration, the applicant for registration shall deposit the guarantee money (including the conclusion of a contract set forth in Article 291(3) of the Act (hereinafter referred to as "Guarantee Entrustment Contract")) without delay and commence a business operation.

V-1-6 Refusal of registration

(1) The extremely inappropriate conduct set forth in Article 289 (1) (vi) of the Act

shall be conduct that falls short of protecting policyholders, etc., such as misappropriation of an amount equivalent to insurance premiums or insurance premiums deposited by customers, or unjustly taking advantage of the ignorance of policyholders.

(2) "Sufficient capacity to appropriately perform business involving insurance solicitation" as prescribed in Article 289(1)(x) of the Act shall be determined in accordance with the provisions of Section V-1-7.

(3) When the director general of the Financial Bureau, etc. with jurisdiction refuses registration as prescribed in Article 289 (1) to (3) inclusive of the Act, the director general of the Financial Bureau, etc. with jurisdiction shall, without delay, give notice as prescribed in Article 289(4) of the Act by means of a written notice of refusal of registration (Attachment Form No. 3).

V-1-7 Establishment of an appropriate insurance solicitation system

The "sufficient capacity to appropriately perform business involving insurance solicitation" as prescribed in Article 289(1)(x) of the Act shall be determined by the passing or failing of an examination on laws and regulations related to insurance solicitation, knowledge of insurance contracts, and ability to perform the business of insurance solicitation, depending on the type of insurance, handled by all officers and employees engaged in solicitation if the applicant for registration is a corporation, or by any such individual or employee engaged in solicitation if the applicant for registration is an individual.

V-1-8 Notification of changes

Notification of changes as prescribed in Article 290(1) of the Act shall be handled as follows

(1) Notification of changes shall be handled in the same manner as V-1-1 to V-1-5.

(2) Change of the name of the address or the location of the office

If the name of the address or the location of the office of the insurance broker is changed in accordance with the Act on Indication of Residential Address (Act No. 119 of 1962), etc., the notification may be omitted.

(3) Changes in the organization of insurance broker that is a corpoation

If an insurance broker that is a corporation undergoes a change in its legal organization, it may submit a written notification of change in registered matters prepared in accordance with Form No. 22 of the Appendix to the Regulation.

(4) In case of a change of trade name, name, or full name and address, an extract from the certificate of residence or a document in lieu thereof in the case of an individual, or the articles of incorporation, etc. or a document in lieu thereof in the case of a corporation, shall be submitted to the director general of the Finance Bureau, etc. of jurisdiction.

V-1-9 Guidelines for description of written notification of change, etc.

The following are the guidelines for description of the written notification of change, etc. as prescribed in Form No. 22 of the Appendix to the Regulation.

(1) "Matters to be changed" shall describe the matters listed in each item of Article 287(1) of the Act pertaining to the change.

If there is an error in the information stated in the application form for registration, the written notification of change shall be changed to a written notification of correction of registered matters, and a correction and the error shall be stated in the notification.

(2) "Details of change" shall describe the matters before and after the change for each change.

(i) In the case of an insurance broker whose address has been changed in accordance with laws and regulations such as the Act on Indication of Residential Address, and who subsequently changes the address or the location of the office, the address before the change shall be the address or the location of the office in the application for registration form, and the address after the change shall be the address or the location of the office

after the change.

(ii) Change of representative or manager (in the case of a corporation)

a. The date of birth and gender of the new representative or manager shall be added in the "After Change" column.

b. For changes in the head of the company, "head of the company" shall be written in the "Changes" column.

c. For changes other than the head of the company, "Those other than the head of the company" shall be written in the "Changes" column. For changes other than those of the first author, "Other than first author" should be indicated in the "Changes" column.

In this case, a separate table of representatives or managers (Appendix Form No. 4) shall be prepared based on the details of the change and attached to the written notification of change.

d. Notification of a change as to whether the representative or manager is engaged in insurance solicitation or not shall also be made.

(iii) In the case where the applicant is engaged in other business and the type of business is changed, only the type of business that has been changed shall be described.

(3) A written notification of change for change in the address (location of the principal office) of an insurance broker to the jurisdiction of the Financial Bureau, etc. with other shall be accompanied by a copy of the current "Written Registration Notice" as described in V-1-5(2).

V-1-10 Notification of discontinuation of business, etc.

The following are the guidelines for filling out the written notification of discontinuation of business, etc., as specified in Form No. 23 attached to the Regulation.

(1) "Relationship with the person related to the notification" shall describe the qualifications of the notifier (e.g., heir, etc.) when the notifier as specified in Article 290 (1) (ii) to (vi) of the Act makes the notification.

(2) When the Director General of Financial Bureau, etc. of jurisdiction receives a written notification of discontinuance of business, etc., he/she shall promptly

cancel the registration of the insurance broker concerned pursuant to the provision of Article 308(1)(ii) of the Act.

V-1-11 Handling of notification of officers or employees engaged in insurance solicitation

The handling of notification of officers or employees prescribed in Article 302 of the Act shall be as follows

(1) Officers or employees who are required to be notified pursuant to the provision of Article 302 of the Act shall mean those who engage in insurance solicitation by receiving appropriate education, management and guidance on insurance solicitation from registered insurance brokers.

(2) It should be noted that, in addition to (1) above, an employee must be a person who works at the office of the said insurance broker in Japan and conducts insurance solicitation under the direction and supervision of the said insurance broker.

(3) It should be noted that an officer or employee engaged in insurance solicitation cannot be an officer or employee engaged in insurance solicitation for another insurance broker.

(4) Notification shall be required in the event of any change in the full name or position of an officer or employee.

(5) In the application of Article 302 of the Act, the date of registration shall be the date of notification if the notification is made at the same time as the registration as an insurance broker, or the date of submission to the Director General of the Financial Bureau, etc. of jurisdiction (or the day following the date of dispatch if the notification is sent by mail) shall be the date of written notification if the date differs from the date of registration.

V-1-12 Guidelines for Description of Written Notification of Officers and Employees

The guidelines for description of the written notification of officers and employees as prescribed in Form No. 25 of the Appendix to the Regulation shall be as follows

(1) "Date"

If the date of notification is the same as the date of registration as an insurance broker, the date of the application form for registration shall be indicated. If the date differs from the date of registration, it shall be the date of submission to the Director General of the Finance Bureau, etc. of jurisdiction. If the notification form is sent by mail, it shall be the day after the date of sending.

(2) "Registration Number"

If the notification is made at the same time as the registration as an insurance broker, it need not be stated.

(3) "Trade name, name or full name"

For a corporation, the trade name or name shall be stated in the "Trade Name or Name" column, and for an individual, the full name shall be stated in the "Full Name" column.

(4) " Full Name"

The full name of the person who gave rise to the reason for notification shall be stated.

(5) "Date of birth"

The date of birth of the person whogave rise to the reason for notification shall be stated.

(6) "Date of occurrence"

If the reason for notification is "new," the date of registration; if the reason for notification is "addition," the date of notification to the Finance Bureau; if the reason for notification is "abolition" or "change of family name," the date of occurrence shall be stated.

(7) "Reason"

The applicable reason shall be marked with a circle.

(8) "Remarks

(i) In the case of a change of family name, the family name before the change shall be stated.

(ii) The name of the office to which the officer/employee belongs and the types of insurance contracts that the officer/employee can handle.

V-1-13 Attachment to the Notification of Officers or Employees

If the reason for notification in the written notification of officers or employees as prescribed in Form No. 25 of the Appendix to the Regulation falls under the category of "new" or "addition," a "Document certifying that the Registration Applicant has a capacity" as prescribed in Article 219(1)(i) of the Regulation shall be attached.

V-2 Security Deposit

The administration of the security deposit of insurance brokers shall be conducted in accordance with the following interpretation, operation and procedures related to the relevant laws and regulations.

V-2-1 Notification of deposit of security deposit, etc.

(1) In case of a notification of deposit pursuant to the provision of Article 221(1)(i) of the Regulation, the insurance broker shall submit to the Director General of the Finance Bureau, etc. with jurisdiction, a written notification of deposit of security deposit prepared in accordance with Attachment Form No. 5, together with the document prescribed in Article 221(2)(i).

(2) In the case of making a notification pertaining to the conclusion of a guarantee consignment contract pursuant to the provision of Article 221(1) (iv) of the Regulation, the insurance broker shall submit a written notification of conclusion of a guarantee consignment contract prepared in accordance with Attachment Form No. 6, with the document prescribed in Article 221(2)(iii) of

the Regulation attached, to the Director General of the Finance Bureau, etc. with jurisdiction.

(3) The certificate of deposit prescribed in Article 221(4), Article 222(3) of the Regulation, and Article 13(5) of the Regulation on Security Deposits by Insurance Brokers (hereinafter referred to as the "Security Deposit Regulation") shall be made in accordance with Attachment Form No. 7.

V-2-2 Recovery of Security Deposit

(1) The designation of the period and amount as prescribed in Article 291(11) of the Act shall be made by taking into consideration the following matters pertaining to the relevant insurance broker.
(i) The status of the offer of the right by public notice as prescribed in Article 12(2) of the Security Deposit Regulation.
(ii) Whether or not there are any debts (including those in dispute, etc.) incurred in relation to the mediation of the conclusion of an insurance contract
(iii) Status of any remaining insurance contracts that the insurance broker has mediated.

(2) The designation of the period prescribed in Article 291(11) of the Act shall, in principle, be made within a period not exceeding five years from the date of such designation, and such designation shall not be made with regard to the application for approval of the recovery of the security deposit pursuant to the provision of Article 291(10) (iii) of the Act. However, this shall not apply in the case where there is a risk of failure to secure the repayment of debts incurred by the said insurance broker with respect to the mediation of the conclusion of insurance contracts.

(3) Any person who intends to apply for the recovery of the security deposit pursuant to the provision of Article 12(1) of the Security Deposit Regulations shall submit the following documents to the Director General of the Finance Bureau, etc. having jurisdiction.
(i) A written application for approval prepared in accordance with Attachment Form No. 3 prescribed in Article 12(1) of the Security Deposit Regulations

(ii) A document certifying that all or a part of the said security deposit can be recovered.

(iii) A document describing the situation in (ii) and (iii) of (1).

(4) When intending to make a notification pursuant to the provision of Article 221 (1) (iii) of the Regulation, the insurance broker shall submit a written notification of recov ery of the security deposit prepared in accordance with attached Form No. 8, together with the document prescribed in paragraph (2) of the said Article, to the Director General of the Finance Bureau, etc. with jurisdiction.

V-2-3 Cancellation or change of contract in lieu of all or part of the security deposit

Cancellation or modification of a guarantee consignment contract pursuant to the provisions of Article 42(ii) of the Order shall be handled as follows

(1) In the case of canceling or changing the contents of a guarantee consignment contract, the insurance broker (including a person who represents the insurance broker in accordance with the provisions of the guarantee consignment contract; the same shall apply in (3) below)shall submit a written application for approval of cancellation (change) of a guarantee consignment contract prepared in accordance with Attachment Form No. 9 to the Director General of the Finance Bureau, etc. with jurisdiction, attaching a document stating whether or not there are any allowances that should be required due to the cancellation of the contract or change of its contents.

(2) When the Director General of the Finance Bureau, etc. with jurisdiction approves the cancellation or change of a guarantee consignment contract pursuant to the provision of Article 42 (ii) of the Order, he/she shall deliver to the applicant a written approval for cancellation of a guarantee consignment contract prepared in accordance with Attachment Form No. 10 or a written approval for change of a guarantee consignment contract prepared in accordance with Attachment Form No. 11.

(3) In the case of cancellation of the guarantee consignment contract or change thereof with the approval pursuant to the provision of Article 42(ii) of the Order, the insurance broker shall submit a written notification of cancellation (change) of the guarantee consignment contract prepared in accordance with Attachment Form No. 12 to the Director General of the Finance Bureau, etc. with the document prescribed in Article 221(2) (iii) of the Regulation attached.

V-2-4 Change of custody of security deposit, etc.

(1) When notifying a change of the nearest depository pursuant to the provisions of Article 13(1) of the Security Deposit Regulation, the depositor shall submit a written notification of change of depository prepared in accordance with Attachment Form No. 13 to the Director General of the Finance Bureau, etc. with jurisdiction.

(2) When receiving an authenticated copy of the certificate for the security deposit pursuant to the provision of Article 13(2) of the Security Deposit Regulation, the depositor shall submit a receipt prepared in accordance with attached Form No. 14 to the Director General of the Finance Bureau, etc. with jurisdiction with a certificate of deposit related to the said authenticated copy of the certificate for the security deposit attached.

V-2-5 Types of securities that can be used as security deposit, etc.

The approval of corporate bonds and other bonds that can be used for security deposit as prescribed in Article 226(1)(iv) of the Regulation, and the designation of the value of such approved bonds and other bonds as prescribed in Article 226(1)(iv) or Article 132(1) (iv) of the Regulation as applied mutatis mutandis pursuant to Article 226(3) of the Regulation, shall be as follows

(1) Corporate bonds and other bonds that may be approved by the Director General of Finance Bureau, etc. having jurisdiction pursuant to the provision of Article 226(1)(iv) of the Regulation shall be, for example, those listed below
a. National Life Bond
b. Development Bank of Japan Bond

c. Road Bond
d. Metropolitan Expressway Bond
e. Housing and Urban Development Bond
f. Hanshin Expressway Bond
g. Water Resources Development Bond
h. Railway Construction Bond
i. Green Resources Bond
j. Small and Medium Enterprise Corporation Bond
k. New Tokyo International Airport Bond
l. Honshu-Shikoku Bridge Bond
m. Public Enterprise Bond
n. Hokkaido Tohoku Development Bond
o. Small and Medium Enterprise Bond
p. Regional Development Bond
q. Petroleum Bond
r. Employment Promotion Bond
s. Airport Area Maintenance Bond
t. Housing Loan Corporation Bond
u. Power Development Bond
v. Kansai International Airport Bond
w. Tokyo Transportation Bond
x. Broadcasting Bond
y. Long-term credit bank bonds issued under the Long-Term Credit Bank Act
z. Bonds of the Deposit Insurance Corporation of Japan
aa. Shoko Chukin Bank Bond
bb. Norinchukin Bank Bond
cc. Shinkin Bank Bond issued under the Shinkin Bank Act
dd. In addition to those listed above, secured corporate bond certificates issued under the Secured Corporate Bond Trust Act (Act No. 52 of 1905), corporate bond certificates for which the right to receive preferential repayment is guaranteed under laws and regulations, and unsecured corporate bond certificates issued under the Companies Act that are offered in Japan (offered under the provisions of the main clause of Article 4(1) of the Financial Instruments and Exchange Act (Act No. 25 of 1948)) (excluding corporate bond certificates issued by itself, corporate bond certificates issued by a company for which the order of commencement of liquidation under the Commercial Code (Act No. 48 of 1899) before the revision has

been made and the order of finalization of liquidation has not been made, corporate bond certificates issued by a company for which an order of commencement of special liquidation under the Companies Act has been made and the order of termination of special liquidation has not been finalized, corporate bond certificates issued by a company for which an order of commencement of bankruptcy proceedings under the Bankruptcy Act (Act No. 75 of 2004) has been made and an order of termination of bankruptcy proceedings or the order of abolition of bankruptcy proceedings has not been finalized, corporate bond certificates issued by a company for which the order of commencement of corporate rehabilitation proceedings under the Corporate Rehabilitation Act (Act No. 225 of 1999) has been made and the order of termination of rehabilitation proceedings or the order of abolition of rehabilitation proceedings has not been finalized or corporate bond certificates issued by a company for which the order of commencement of corporate reorganization proceedings under the Corporate Reorganization Act (Act No. 154 of 2002) has been made and the order of termination of reorganization proceedings or the order of abolition of reorganization proceedings has not been finalized.

(2) In the case where the corporate bond certificates or other bonds mentioned in (1) above are used as security deposit, the value of such bond certificates or other bonds shall be the amount calculated as 80 yen per 100 yen of face value.

(3) In the case where an insurance broker intends to deposit corporate bonds or other bonds as security deposit, the insurance broker shall submit a written application form for approval prepared in accordance with Attachment Form No. 15, together with other documents for reference, to the Director General of the Finance Bureau, etc. having jurisdiction.

(4) When the Director-General of Local Finance Bureau, etc. having jurisdiction approves the application as described in (3) above, he/she shall issue to the applicant a written approval prepared in accordance with Attachment Form No. 16.

V-2-6 Notice of Order for Additional Deposit of Security Deposit

When the Director-General of the Local Finance Bureau, etc. having jurisdiction delivers a copy of a payment consignment form to the insurance broker pertaining to the payment consignment form pursuant to the provision of Article 225 of the Regulation, he/she shall deliver a written notice prepared in accordance with Attachment Form No. 17 with a copy of the payment consignment form attached.

V-3 Insurance Broker’s Liability Insurance Contract

The insurance broker’s liability insurance contract shall be administered as follows

V-3-1 Insurance Broker’s Liability Insurance Contract in Lieu of a Part of the Security Deposit

Replacement of a part of the security deposit by the Insurance Broker’s Liability Insurance Contract prescribed in Article 292(1) of the Act (hereinafter referred to as "liability insurance contract") shall be treated as follows.

(1) When an insurance broker concludes a liability insurance contract prescribed in Article 292 (1) of the Act and submits a notification pertaining to the conclusion of such contract pursuant to the provision of Article 221 (1) (v) of the Regulation, the insurance broker shall submit to the Director-General of the Local Finance Bureau, etc. having jurisdiction a written notification of the conclusion of the liability insurance contract prepared in accordance with Attachment Form No. 18, with the document prescribed in Article 221 (2) (iii) of the Regulation attached. However, in the case where an application for approval of the replacement of a part of the security deposit is filed pursuant to the provision of Article 227(1) of the Regulation at the same time as the said notification, the submission of the said written notification shall not be required.

(2) In the case where an insurance broker intends to obtain approval for the replacement of a part of the security deposit by a liability insurance contract pursuant to Article 292(1) of the Act, the insurance broker shall submit a written application for approval prepared in accordance with Attachment Form

No. 19 to the Director-General of the Local Finance Bureau, etc. having jurisdiction, attaching a document concerning the replacement of a part of the security deposit by the said liability insurance contract.

(3) Contents of Ministry of Finance Notice No. 228 of 1998

(i) The "case where it is deemed that there is no shortage of protection for policyholders, etc." prescribed in Article 2 (2), pillar of the Notice No. 228 of the Ministry of Finance in 1998 means a case where the period for concluding a liability insurance contract after the insurance broker has commenced business does not exceed three years and a prior guarantee clause is attached for such period.

(ii) "Existence or non-existence of liabilities to policyholders, etc." as prescribed in Article 2(2)(vi) of the Notification No. 228 issued by the Ministry of Finance in 1998 shall include the following

a. Obligations to policyholders, etc. due to the unlawful acts of insurance brokers

b. Lawsuits pertaining to the obligations of the insurance brokerage to policyholders, etc. that are pending in a court of law.

c. The number, content, and resolution of complaints, including all complaints received by the Commissioner of the FSA and the Director-General of the Local Finance Bureau with jurisdiction, etc., complaints written in business reports, and complaints received by organizations that have insurance brokers as members.

(4) When the Director-General of the Local Finance Bureau with jurisdiction, etc. approves the substitution of a part of the security deposit by the liability insurance contract pursuant to Article 292 (1) of the Act, he/she shall deliver to the applicant a written approval prepared in accordance with attached Form No. 20.

(5) The amount of the security deposit that may not be deposited by the insurance broker pursuant to the provision of Article 292(1) of the Act shall be limited to the amount specified in the relevant liability insurance contract as the maximum amount of compensation for losses due to certain events arising from the same act, in addition to the amount specified in Article 44 (2) of the Order for Enforcement.

V-3-2 Cancellation or modification of Liability Insurance Contract

The cancellation or modification of a liability insurance contract pursuant to the provision of Article 44, paragraph 1, item 4 of the Regulation shall be handled as follows.

(1) When a person intends to cancel or modify a liability insurance contract, the insurance broker shall submit a written application for approval prepared in accordance with attached Form No. 21 to the Director-General of the Local Finance Bureau with jurisdiction, etc., attaching a document stating whether or not there are any allowances that should be required due to the cancellation or modification of the contract.

(2) The Director-General of the Local Finance Bureau with jurisdiction, etc., upon approving the cancellation or modification of the liability insurance contract, shall deliver to the applicant a written approval of the cancellation of the liability insurance contract prepared in accordance with attached Form No. 22 or a written approval of the modification of the liability insurance contract prepared in accordance with attached Form No. 23.

(3) When a liability insurance contract is cancelled or its contents are modified with the approval of the Director-General of the Local Finance Bureau with jurisdiction, etc., the insurance broker shall submit a notification form prepared in accordance with attached Form No. 24 to the Director-General of the Local Finance Bureau with jurisdiction, etc., attaching the document prescribed in Article 221 (2) (iii) of the Regulation.

V-4 Relationship with other solicitors, etc.

In light of the prohibition of concurrent operation, etc. of insurance brokers and insurance solicitors (meaning "insurance solicitors" as prescribed in Article 2(23), Article 2(25), Article 275(1) (iv), Article 279(1) (vii), (x), and (xi), and Article 289(1) (vii) through (ix) of the Act) and the obligation of good faith of insurance brokers (Article 299 of the Act), and in order to ensure appropriate business operation of insurance brokers, special attention shall be paid to the following matters.

V-4-1 Relationship with other insurance brokers

(1) Entrustment of insurance solicitation

(i) Whether the insurance broker or its officers or employees who conduct the insurance solicitation has not entrusted the insurance solicitation to an insurance company or a small amount and short term insurance company (hereinafter referred to as "insurance company, etc." in V-4 and V-5), or its officers who represent it, an insurance solicitor or other insurance broker, or whether the insurance company, etc. has not paid commissions, remuneration or other consideration for mediation of conclusion of insurance contracts (hereinafter referred to as "commissions, etc.") to them.

(ii) Whether the insurance solicitor has not entrusted insurance solicitation to insurance brokers or their officers or employees who conduct insurance solicitation or whether the insurance solicitor has not paid commissions, etc. for insurance solicitation.

(iii) Whether the insurance company, etc. or its officers who represents it has not entrusted insurance solicitation to the insurance broker, or its officers or employees who conduct the insurance solicitation.

(2) Joint acts

(i) Whether the insurance broker, or its officer or employee who conducts insurance solicitation, has not jointly handled the same contract with the insurance company, etc. or the insurance solicitor.

(ii) Whether the insurance broker, or its officer or employee who conducts insurance solicitation, in principle, has not allowed an insurance company, etc. or an insurance solicitor to take over or act as an agent for any part of the insurance solicitation operations.

(3) Shared use of stores

Whether the office where the insurance broker conducts its insurance solicitation is not located in the same building as the office where the insurance solicitation is conducted by the insurance solicitors or other insurance brokers? However, if sufficient measures are taken to prevent confusion among customers, such as separate exclusive use areas and common use areas from the entrance to each office, it shall be deemed that there is basically no problem.

(4) Provision of information

Whether the insurance broker or its officers or employees has not provided undisclosed information obtained by them from their clients to insurance solicitors or other insurance brokers. In addition, whether the insurance broker or its officers or employees has not been provided with any undisclosed information obtained by the insurance solicitor or other insurance brokers from their clients. However, if the client has given prior individual consent to the provision of such information, it shall be deemed that there is basically no problem.

V-4-2 Relationships with related solicitors

In the case where there is an insurance solicitor who has a certain capital relationship with the insurance broker (i.e., an insurance solicitor who effectively holds or held 25% or more of the voting rights of the insurance broker) whether the system has been designed to prevent access to the information of the other from the terminals of both the insurance broker and the related solicitor with respect to computer sharing?

V-4-3 Relationship with insurance companies, etc.

Because insurance brokers are required to act as an intermediary for the conclusion of insurance contracts in an independent position from insurance companies, etc. according to Article 2(25) and Article 299 of the Act, special attention should be paid to the following points regarding the relationship with insurance companies, etc.

(1) Shared use of stores

Whether the office for soliciting insurance is not located in the same building as the office of the insurance company, etc.? However, if sufficient measures are taken to prevent confusion among customers, such as separate exclusive use areas and common use areas from the entrance to each office, it shall be deemed that there is basically no problem.

(2) Investment

Whether, in principle, insurance brokers whose main business is insurance

solicitation have not received investments from insurance companies, etc.

(3) Benefit provision

Whether the insurance broker has not received a loan from an insurance company, etc. on terms that are significantly different from normal terms, or has not requested or received benefits such as the provision of money, goods, or services, regardless of the name under which such benefits are provided.

(4) Personnel exchange

Whether the insurance broker has not accepted seconded officers or employees from insurance companies, etc. as its officers or employees engaged in solicitation? In addition, whether the insurance company, etc. has not seconded its officers or employees to the insurance broker as officers or employees engaged in solicitation.

V-4-4 Relationship with customers

(1) Commission, etc. for the mediation of the conclusion of insurance contracts

Whether the insurance broker has billed the insurance company, etc. for all commissions, etc. related to the mediation of the conclusion of insurance contracts, instead of billing the customer?

(2) Commissions, etc., other than for the mediation of the conclusion of insurance contracts

Insurance brokers may receive remuneration for services rendered for clients other than the mediation of insurance contracts if the client agrees in advance to the payment of such remuneration. In this case, whether the insurance broker has disclosed the details of such remuneration to the client in writing or by other appropriate means prior to the provision of such services.

V-5 Business relationship

The supervision of the business of insurance brokers shall be conducted in accordance with the following interpretations, practices and procedures related to the relevant laws and regulations

V-5-1 Disclosure of commission, etc. of insurance brokers

(1) The major insurers which has a business relationship with the insurance broker in relation to the mediation of insurance contracts, as prescribed in Article 231(i) of the Regulation, are the top four insurers in terms of the amount of commissions, etc. received among the insurers with which the insurance broker has mediated the conclusion of insurance contracts in the most recent multiple fiscal years.

(2) With respect to the information listed in Article 231(i) of the Regulation, insurance brokers shall disclose the information by insurance company, etc. for each business year.

V-5-2 Conclusion statement

The model of the conclusion statement prescribed in Article 298 of the Act shall be as prescribed in attached Form No. 25.

V-5-3 Obligation of Good Faith

As part of the obligation of good faith of an insurance broker as prescribed in Article 299 of the Act, an insurance broker shall comply with the following items

(1) The insurance broker shall act in good faith in accordance with the purpose of the commission from the client.

(2) In carrying out their duties and selecting insurance companies, insurance brokers shall take into consideration the situation of the client's assets, and shall advise the client on the most appropriate insurance products that they are aware of, with clear reasons.

(3) Insurance brokers shall not change the quality of their services based on the amount of commission, etc. they receive from their duties. They shall not

unfairly discriminate between clients with similar risk requirements.

(4) Insurance brokers shall objectively and sincerely convey to their clients the insurance information they have obtained from insurance companies, etc. for their clients. In particular, when the client is an individual, the brokers shall explain important matters and reasons for recommendations in writing, etc., so as to make the information as easy to understand as possible for the client and avoid any misunderstanding.

Insurance brokers shall objectively and sincerely convey to insurance companies, etc. the requests and information on insurance obtained from clients.

(5) Undisclosed information obtained by an insurance broker from a client shall not be used or disclosed except in the ordinary course of negotiating, maintaining or renewing an insurance contract or processing the client's insurance claim. However, this shall not apply if the consent of the client for such use or disclosure is obtained.

(6) Information obtained by an insurance broker from an insurance company, etc. on behalf of a client shall not be used or disclosed to any third party other than such client. However, this shall not apply if the consent of the insurance company, etc. for such use or disclosure is obtained.

V-5-4 Proprietary Contracts

The handling of proprietary contracts by insurance brokers shall be the same as the handling by non-life insurance agents (II-4-2-2 (2) (i)) (replace "non-life insurance agent" with "insurance broker" in the same paragraph and apply mutatis mutandis).

V-5-5 Specified contracts

The handling of specified contracts by insurance brokers shall be the same as the handling by non-life insurance agents (II-4-2-2(2)(ii)) (replace "non-life insurance agent" with "insurance broker" in the same paragraph and apply mutatis mutandis) and the insurance broker shall properly manage and strictly

enforce the insurance solicitation of specified contracts.

V-5-6 Points to keep in mind when soliciting insurance contracts

Insurance brokers shall, depending on the nature of their business, take appropriate measures for the conclusion of insurance contracts and insurance solicitation in accordance with the handling of insurance solicitors (II-4-2), and in the case of small-amount and short-term insurance contracts, in accordance with the handling of small-amount and short-term insurance solicitors (Supervisory Guidelines for Small Amount and Short Term Insurance Companies II-3-3-2).

V-5-7 Obligation of insurance brokers to maintain a system

With respect to the business related to insurance solicitation, whether insurance brokers have taken measures to ensure the sound and appropriate operation of their business, referring to II-4-2-9.

V-5-8 Response to complaints, etc. (including response to the financial ADR system)

The handling of complaints, etc. by insurance brokers (including responses to the financial ADR system) should be done in accordance with the handling by insurance companies (II-4-3).

V-5-9 Accounting books

Accounting books describing the matters prescribed in Article 237-2(2)(vi) of the Regulation shall be as follows

(1) Questionnaires and answer sheets when used to investigate the purpose of the customer, the status of its property, etc.

(2) Written intermediary agreements in cases where such agreements have been

exchanged with customers

(3) Copies of important documents delivered or presented in the course of soliciting insurance.

V-6 Business Report

The guidelines for description of the business report prescribed in Article 304 of the Act shall be as follows. In the case of a foreign corporation, the business report shall be prepared for the operations in Japan.

(1) Form No. 26 attached to the regulations

(i) Page 1

a. In the "1. Date of commencement of business" column, the date of notification to the Commissioner of the FSA as prescribed in Article 291(5) of the Act shall be entered.

b. In the "3. Summary of Resolutions of General Meeting of Shareholders, etc." column, the date of the General Meeting of Shareholders, etc. for the relevant fiscal year and the summary of the resolutions shall be etered.

c. In the "4. Status of Officers and Employees" column, the status at the end of the fiscal year shall be entered.

d. In the "5. Office Status" column, the status at the end of the fiscal year of the office related to insurance solicitation shall be entered.

(ii) Page 2 to 3

a. In the "6. Status of Insurance Solicitation Business" column, the total number of insurance contracts brokered or concluded during the fiscal year shall be entered. In the case of foreign currencies, the figures should be converted into Japanese yen using the foreign exchange rate at the end of the fiscal year.

b. In the "7. Breakdown of Insurance Contracts Handled" column, the total number of insurance contracts brokered or concluded during the fiscal year shall be entered. In the case of foreign currencies, the figures should be converted into Japanese yen using the foreign exchange rate at the end of the fiscal year.

(iii) Page 4

In the "11. Others" column, the following items should be entered.

a. That the company pledges that it has not experienced any of the events listed in each item of Article 307(1) of the Act during the fiscal year.
b. If it is necessary to increase the security deposit for the following year, that fact.
c. If there is a specific contract as specified in V-5-5, the ratio of the specific contract (including the basis for calculation).
d. The trade name or name of the designated ADR organization that will be the counterparty to the basic agreement for implementation of the procedure (if there is no designated ADR organization, the details of the complaint handling and dispute resolution measures).

(iv) Page 5 to 7

a. In the "II Status of Accounting," column, the details approved at the general meeting of shareholders, etc. for the relevant fiscal year shall be stated.
b. If there is a foreign currency portion, the foreign exchange rate at the time of conversion into Japanese currency shall be stated outside the column.

(2) Form No. 27 attached to the Regulations to be handled in accordance with (1) above.

(3) The business report shall be submitted to the Director-General of the Local Finance Bureau, etc. with jurisdiction.

V-7 Response to written notification form regarding insurance brokers

The Local Finance Bureaus which received the written notification form regarding insurance brokers shall send its copy to the Insurance Division without delay.

(1) Written application form for registration prescribed in Article 287 (1) of the Act

(2) Written notification form prescribed in Article 220 of the Regulation

(3) Breakdown of deposit, etc. prescribed in Article 221 (2) of the Regulation

(4) Business report as prescribed in Article 304 of the Act

VI Relationship with the Institute of Actuaries of Japan

VI-1 Basic Approach to Supervision

(1) Significance

The Institute of Actuaries of Japan (IAJ) is a professional association of actuaries, a general incorporated association different from insurance companies, which are private enterprises, and a designated corporation pursuant to the provisions of Article 122-2,(1) of the Act. In the insurance market, which is undergoing a major transformation, with each insurance company making its own management decisions on product design and strategic business development, actuaries are responsible for assessing policy reserve accumulation to ensure the soundness of management of insurance companies, ensuring fairness and equity in dividends, etc., providing diverse and high-quality products that meet the needs of users, and preparing and analyzing various statistical data. The advanced expertise and skills of actuaries are utilized in various fields, such as the preparation and analysis of various statistical data, and it is essential that actuaries continue to fulfill their functions in the future. From this perspective, we will clarify the supervisory guidelines to ensure that the Society, as a professional association of these personnel and a designated legal entity, properly manages its business as stipulated in the law.

(2) Ensuring sufficient communication with the IAJ

In supervising the IAJ, it is important to accurately grasp and analyze information regarding the business of the IAJ, and to take timely and appropriate supervisory actions as necessary. Therefore, in addition to the reports from the IAJ, supervisory departments need to maintain sufficient communication with the IAJ on a daily basis and proactively collect information under a sound and constructive tension. Specifically, it is necessary to ensure daily communication with the IAJ through regular meetings and exchange of opinions with the IAJ, and to endeavor to understand various information related to the business.

(3) Respect for the voluntary efforts of the IAJ

The supervisory authority is in a position to verify the business operations conducted by the IAJ based on its autonomous decision-making, in accordance with laws and regulations, and to encourage the improvement of problems. In supervising the IAJ, consideration must be given to respecting the IAJ's

autonomous efforts in its business operations, fully taking into account this position.

VI-2 Appropriate operation of the the Institute

(1) In supervision, in addition to what is provided for in laws and regulations and the Administrative Rules for the Supervision of Specially Designated Private Law Corporations, and what is provided for in the Cabinet Decision and the Executive Committee Meeting of the Relevant Ministerial Council on the Guidance and Supervision of Public Interest Corporations, etc. (Administrative Guidelines)

(2) Securing of secretariat, etc.

In order to handle the administrative work of the IAJ, whether a secretariat is established in consideration of the size and content of the business, etc., and the necessary staff (full-time staff in addition to one secretary general, as far as possible) is assigned. In addition, whether the organization has secured the necessary office and other facilities, goods, etc. to carry out these administrative tasks.

(3) Institution

(i) Whether personnel who can independently exercise authority are appointed as auditors. In addition, whether the auditors are conducting the audit in consideration of the fact that the purpose of the audit is not only to uncover illegalities and irregularities but also to broaden the scope to include the public interest relevance of the operations.

(ii) Whether personnel who can independently perform their duties are appointed as councilors. In addition, from the perspective of ensuring fairness and appropriate business operations, whether the trustees actively participate in checks to prevent self-righteous management of the IAJ.

(4) Whether measures are taken to ensure that the business and activities of the IAJ are conducted as a professional organization in which members are independent of their organizations and clients and act only as professionals.

(5) Disclosure of information

(i) Whether the items of information are disclosed by the IAJ on its Internet

website, pamphlets, etc. presented in an appropriate and easy-to-understand manner from the viewpoint of users. In addition, whether the disclosure items are updated to the latest version.

(ii) When disclosure is conducted via the Internet, Whether the IAJ's information are posted on the website promptly and proactively, and the website is operated efficiently and smoothly, for example, by establishing guidelines for website operation. Whether the IAJ have a website.

(iii) It should be noted that there is nothing wrong with voluntary and proactive disclosure of information other than the mandatory disclosure items stipulated in the standards for licensing the establishment and guidance and supervision of public interest corporations.

VI-3 Commissioned work

(1) Coefficients to be used as the basis for the calculation of the policy reserve pursuant to the provision of Article 116(2) of the Act and the matters listed in each item of Article 121(1) of the Act to be confirmed by the Responsible Actuaries in each fiscal period, which are formulated by the IAJ in accordance with the entrustment pursuant to the provision of Article 122-2(2)(iii)of the Act (hereinafter referred to as "Coefficients and Standards"). C shall be treated as follows

(2) Publication of coefficients and standards

Whether the coefficients and criteria are continuously posted on the website so that the public can easily access them. In addition, whether materials related to the coefficients and standards are kept up-to-date at the main office and available for public access in principle?.

(3) Rules on procedures for formulating coefficients and standards

(i) Whether the procedures for formulating coefficients and standards are clearly defined. In particular, from the perspective of ensuring transparency, whether attention are given to, for example, procedures for soliciting opinions from members, publication of the progress of studies and reference materials, and implementation of revisions, abolition, and other reviews of coefficients and criteria. In addition, whether the opinions of academic experts, certified public accountants, and other specialists are taken into account as necessary.

(ii) Whether the coefficients and criteria have been approved by the board of directors.

(4) Review mechanism of coefficients and standards

Whether the coefficients and standards are reviewed in response to changes in the insurance business environment and other circumstances. In addition, whether the coefficients are checked annually for appropriateness of their levels, and are the results made public.

(Note) For the procedures to revise or abolish the coefficients and standards, please refer to the above provisions on formulation procedures.

VI-4 Surveys and research, preparation of statistics, collection of materials, and provision of information

(1) Implementation of surveys and research, etc.

In order to promote the progress of actuarial science and dissemination of advanced actuarial science, whether the organization conducts in-depth research and study, including analysis of the results of advanced research conducted by actuarial societies and related organizations in other countries.

(2) Promotion of research and study activities

Whether the organization takes measures to promote active participation of its members in research and study activities.

VI-5 Improvement of Qualification examination and qualifications of actuaries

(1) High standard code of conduct and measures to ensure its effectiveness

(i) Whether the company has established a code of conduct not only for Responsible Actuaries in performing their legally required duties, but also for actuaries in performing their professional duties, so that they can always fully demonstrate their functions as professional experts, fulfill their responsibilities, and enhance public trust. Whether the code of conduct is more than just a code of ethics, and does it provide specific guidelines and standards of conduct, together with supplementary guidance and case studies.

(ii) In order to ensure the effectiveness of the code of conduct, whether

measures are taken such as the implementation of extensive training and the development of disciplinary rules, including effective, strict and fair procedural rules.

(2) Actuarial qualification examination system

(i) Whether actuarial qualification examinations appropriately measure the existence of specialized knowledge required for actuarial practice, such as probability and statistics, life and non-life insurance actuarial science, and pension actuarial science. In addition, whether the contents of the examination and textbooks are reviewed in a timely and appropriate manner in response to advances in actuarial science.

(ii) Whether the actuarial qualification examinations is administered in a fair and appropriate manner.

(iii) In response to changes in the environment, such as the need to provide advanced insurance functions in response to diversifying user needs, etc., and the fact that actuaries' work is becoming increasingly complex and wide-ranging in its scope of activities, whether the necessary reviews are conducted in a timely and appropriate manner to further enhance the qualification examination system.

(3) Continuous maintenance and improvement of members' qualifications

(i) In order to maintain and improve the ability of actuaries to carry out their professional duties in accordance with the policies established by the board of directors, etc., whether the training system are in place, including the requirement of minimum training to qualify for full membership.

(ii) Whether the organization take measures, such as requiring certain training, to ensure that members maintain and improve their professional knowledge and skills. In addition, whether the organization reviews the contents of education and training in a timely and appropriate manner in response to advances in actuarial science.

VII. Group-wide Supervision, etc.

VII-1 Basic Concept for Supervision

Forming an insurance group while expanding foreign business operations could help to improve management efficiency and enhance the quality of services through risk diversification and mitigation and business synergy within the group, for example. On the other hand, attention should also be paid to the need for a governance suited to deal with the possible materialization of new risks associated with forming a group, including risk transmission and concentration within the group, and the increased complexity of the business and organizational structures. In light of these points, insurance groups: regardless of whether or not they are IAIGs in Japan, should enhance not only individual entities' respective control environments for governance and risk management but also group-wide control environments for governance and risk management.

There is no universal way of enhancing group-wide control environments for governance and risk management. Rather, there are various possible ways, from developing centralized control environments under a management company to developing decentralized control environments that respect group companies' autonomous management suited to the institutional systems and market environments in the jurisdictions where they are located and their respective business activities. Rather than judging the relative merits of the various governance models, it is important to ensure that effective control environments are developed considering how to respond to risks associated with the establishment of an insurance group and the complexity of the business and organizational structures.

VII-2 Group-wide Governance

VII-2-1 Significance

In order to ensure the soundness and appropriateness of an entire insurance group, it is first and foremost important that the management team of each group company fully understands its role, and develops and appropriately operates control environments for effective and responsible governance, including enforcement of management discipline.

Moreover, the management company should play a responsible role in developing and implementing an appropriate group-wide control environment for

governance. To that end, the representative director, directors/the board of directors, the representative executive officer, executive officers, auditors (audit committee members in the case of a company with a nominating committee, etc. and audit and supervisory committee members in the case of a company with audit and supervisory committees), the board of auditors (the audit committee in the case of a company with a nominating committee, etc. and the audit and supervisory committees in the case of a company with audit and supervisory committees), managers and the internal audit division have significant responsibilities to perform.

In case where internal control operations are implemented by the same directors and/or employees within a group, it is necessary that the control environment for such concurrent engagement in multiple positions be functioning in a sound and appropriate manner.

In light of the above points, when monitoring the governance of an insurance group, the supervisory authority should check whether the governance function is appropriately exercised based on the following viewpoints, for example, in addition to the viewpoints listed in II-1-2.

VII-2-2 Major Supervisory Viewpoints

(1) Governance of the management company

(i) Whether the representative director, directors, the representative executive officer, executive officers, auditors and managers have the knowledge and experience necessary for performing their respective roles in light of the scale, complexity, internationality and the risks held by the insurance group.

(ii) Whether directors and the board of directors, etc. of the management company have specified in documentation the group structure and the mutual relationship between group companies in order to help understand the group structure and identify risks and enhance risk management, and whether they have also clarified the line of command and the control environment for reporting between group companies and the management company.

(iii) Whether directors and the board of directors, etc. of the management company have developed an appropriate control environment for governance to enable more effective supervision of the business management of the entire insurance group based on full understanding of the group-wide structure and the businesses and risks of group companies.

(iv) Whether the board of directors, etc. of the management company pays attention to the following points when setting group-wide goals and a business strategy for achieving the goals or when they supervise implementation.

A. Risks attributable to laws, regulations, and the conduct of business in the jurisdictions where foreign subsidiaries, etc. conduct business in the case of insurance groups promoting the foreign business operations.

B. The medium- to long-term financial soundness of the group

C. The relationship between the interests of policy holders and the interests of other interested persons

D. Fair treatment of customers

E. Profits and goals of group companies

(v) Whether the board of directors, etc. of the management company has prescribed the processes for identifying, avoiding and managing potential conflicts of interest between group companies and between business divisions and departments.

(2) Audit functions of the management company (Note)

Whether the following functions appropriately exercise wide-ranging authorities granted to them and implement audit and supervision of business operations, considering the viewpoint of group governance as well.

・Auditors at a company with auditors

・The board of auditors at a company with the board of auditors

・The audit committee at a company with a nominating committee, etc.

・The audit and supervisory committees at a company with audit and supervisory committees

(Note) "Functions" refers to entities to which authorities to conduct specific activities have been granted. The functions may take the form of either individual persons or divisions, and authorities allocated across multiple divisions as a whole may form a function.

(3) Group-wide internal audit functions

The supervisory authority should verify the group-wide control environment for internal audit at insurance groups based on the following viewpoints.

(i) Whether the board of directors of the management company has developed a policy for group-wide internal audit, and whether the internal audit division of the management company evaluates the control environment for internal

audit within the group based on the policy.

(ii) Whether the internal audit division of the management company reports to the representative director and the board of directors, etc. without delay on important matters pointed out in the internal audit process. Regarding matters pointed out in the internal audit process, whether there is a control environment to appropriately identify the status of improvement at audited divisions.

(iii) Whether the internal auditor division of the management company evaluates group-wide policies, processes and governance. Whether the internal audit division has the independence to fully exercise the checks and control function over audited divisions and has a control environment to enable implementation of effective internal audits.

(iv) Whether the internal audit division of the management company has formulated efficient and effective internal audit plans considering the frequency and depth of audit in accordance with the types and levels of risks of audited divisions within the group and implements internal audits based on the plans.

(v) Whether the internal audit division of the management company cooperates with other internal audit divisions within the group.

(4) Group-wide actuarial functions

In order to secure and maintain the financial soundness of an entire insurance group, it is necessary that the control environment secure appropriateness regarding actuarial matters in an effective manner at group companies. Therefore, it is important for the management company to possess the function of supervising group companies and to secure appropriateness regarding actuarial matters on a group-wide basis (group-wide actuarial function). In light of the above, the supervisory authority should conduct checks on the group-wide actuarial function based on the following viewpoints:

(i) Whether the management company has formulated a group-wide policy regarding actuarial matters. Whether the actuarial function conducts evaluation regarding methodology on a group-wide basis and at individual group companies in light of the policy in cooperation with divisions in charge within the group.

(ii) Whether the actuarial function reports to the board of directors, etc. of the management company on matters related to group-wide actuarial matters and potential risks related thereto at least once a year and gives advice

based on an independent standpoint.

(iii) In cases where problems concerning actuarial matters has been recognized at group companies or on a group-wide basis, whether the actuarial function appropriately points it out. Whether the actuarial function is fully involved in considering and implementing measures to correct the problem.

(iv) Whether the actuarial function is appropriately involved in the evaluation of the fulfillment of the regulatory capital requirements applicable to the entire group and group companies, the evaluation of group-wide economic capital, and stress testing.

VII-3 Group-wide Enterprise Risk Management

VII-3-1 Significance

Insurance groups may hold more diverse inherent risks than individual insurance companies. Even if individual group companies conduct appropriate risk management, risks may be concentrated in particular assets or sectors when looked at on a group-wide basis. On the other hand, as a result of risk diversification within the group, group-wide risks may be mitigated. Therefore, it is necessary to manage all important risks at the group level in terms of both business strategy and day-to-day business operations, and it becomes even more important to secure group-wide financial soundness and conduct group-wide risk management.

VII-3-2 Major Supervisory Viewpoints

(1) Whether attention is paid to the possibility that the effects of risks on group companies may change depending on the mutual relationship between those companies. For example, whether consideration is given to such matters as risk transfer, intra-group transactions, risk concentration, entry into new businesses and exit from existing businesses, guarantee and risk transfer, liquidity, and exposures to off-balance sheet transactions. Whether consideration is also given to double- and multiple-gearing of capital.

(2) When using a risk measurement model, whether the insurance group is fully aware that the model can serve as a tool to support and check decision-making concerning important group-wide strategic and business matters and has developed a control environment to accurately measure the quantity of group-wide enterprise risk, for example by using a common internal model within the group. In the case of an insurance group with foreign offices or a foreign insurance group (Note), whether the group has developed an appropriate control environment to quantify risks, for example by adjusting the group's common internal model as necessary in accordance with the characteristics of the regions where the group conducts business.

(Note) An insurance group with foreign offices refers to an insurance group which has foreign branches or subsidiaries. A foreign insurance group refers to a group of companies similar to an insurance group whose headquarters or main office is located abroad and which has an insurance company (companies) as a subsidiary (subsidiaries) in Japan, or a foreign insurance company.

(3) Whether the group-wide framework for enterprise risk management is as consistent as possible throughout the group. In cases where there are important differences based on the viewpoint of enterprise risk management according to the laws and regulations in the jurisdictions where group companies conduct business, whether there is clear awareness concerning the differences.

(4) In cases where there are group-wide risks that arise because an insurance group or an insurance company constitutes part of a larger group, whether those risks are considered.

(5) Whether the management company appropriately conducts enterprise risk management, including the identification of risks, risk profiling, risk measurement, implementation of the risk management policy, and own risk and solvency assessment on a group-wide basis in accordance with the management strategy and the risk profiles.

(6) Whether the management company reviews and revises the group-wide control environment for risk management periodically (at least once a year) or as necessary when strategic goals are revised or on other occasions.

Whether the management company periodically conducts internal evaluation or external independent evaluation of the group-wide control environment for enterprise risk management.

(7) Whether the management company has established and maintained processes for conveying and communicating quantitative or qualitative risk appetites within the group and as necessary, externally.

(8) Whether the management company strives to foster a group-wide risk culture through measures such as developing and communicating group-wide management principles, implementing various training programs, developing an appropriate remuneration system, identifying emerging risks (risks which are at present not recognized or very unlikely to materialize or whose effects are negligible at present but which may become important due to changes in the environment), and developing a control environment for sharing awareness concerning such risks.

(9) Intra-group transactions help to minimize cost and maximize profit, enhance risk management, and manage equity capital and fund procurement in an effective manner by generating synergy effects between group companies. On the other hand, as intra-group transactions involve risk transfer or transmission within groups, they may have material effects on the financial soundness. In addition, if intra-group transactions are not appropriately handled in accordance with laws and regulations, the fairness of transactions may be distorted or the appropriateness of business operations may be undermined within the group.

Therefore, it is important for management companies and group companies to develop an appropriate control environment regarding compliance with laws and regulations and risk management with respect to the following types of intra-group transactions:

- Dividend payments/receipts between group companies
- Capital transactions (including the issuance of letters of credit) between group companies
- Liquidity enhancement transactions, including loans and borrowings between group companies
- Investment transactions between group companies
- Reinsurance between group companies

・Transactions for the provision of services between group companies
・Transactions conducted jointly by multiple group companies
・Outsourcing transactions between group companies

VII-3-3 Group-wide Control Environment for Reporting

VII-3-3-1 Significance

Although group companies are independent legal entities, there is the possibility that risks that have been materialized at a certain group company are transmitted to other group companies, causing group-wide damage. In consideration of this possibility, the management company needs to fully grasp and understand group-wide risk management and solvency positions. In order to appropriately monitor and manage risks and solvency positions, the management company is required to report to the board of directors, etc. concerning the most recent status of risk management on a quarterly basis, for example, in addition to periodically conducting own risk and solvency assessment on a group-wide basis.

VII-3-3-2 Scope of the Group Subject to the Reporting Requirement

(1) Regarding the scope of the group subject to the reporting requirement, not all legal entities within a group should necessarily be subject to the requirement. However, in consideration of the possibility that risks involved in transactions conducted by any of the following: the insurance holding company (including an intermediate holding company), sister companies, subsidiaries, and affiliates, may be transmitted to insurance companies, whether the management company has defined the scope of the group in light of substantial relationship (e.g., capital participation, influence, contractual binding power, mutual relationship, risk exposures, risk concentration, risk transfer and intra-group transactions) between group companies, including non-insurance business entities.

It should be kept in mind that the "group" as referred to here may be different from a group defined for other purposes, such as accounting or taxation.

(2) Whether the management company checks the appropriateness of the scope of the group as necessary in light of such factors as restructuring, entry into new businesses, exit from existing businesses, and changes in the market environment, among other factors.

Vii-3-3-3 Reporting System and Roles

(1) Whether the management company has defined the roles of the division in charge of group-wide enterprise risk management, the chief of the division, and the officer in charge in accordance with the business and risk profiles, and the scale and complexity of businesses and then specified the division of roles among group companies and relevant divisions. Whether the division in charge of enterprise risk management secures the checks and control function over group companies and relevant divisions.

(2) Whether the board of directors, etc. of the management company refers to collected information for the execution of business operations and the development of management systems. For example, whether it makes necessary decisions based on reports on the status of adequacy of necessary economic capital and the status of capital adequacy based on the solvency margin regulation on a group basis.

VII-3-4 Comprehensive Management of Group-wide Assets and Liabilities

It is important for management companies to formulate a policy for comprehensive management of group-wide assets and liabilities, exercise an effective governance function, and appropriately develop a control environment for comprehensive management of assets and liabilities of the group and group companies that is consistent with the above policy.

VII-3-5 Group-wide Control Environment for Managing Underwriting Risk

VII-3-5-1 Significance

It is important for insurance groups with foreign offices to conduct group management in ways that give due consideration to differences in insurance-related laws, regulations and practices between countries. On the other hand, it is important for management companies to appropriately develop a group-wide control environment for managing underwriting risk with respect to such matters as underwriting, setting of premium rates, booking of reserves, and reinsurance processes from the viewpoint of exercising practical and effective governance over group companies. It is also important for group companies to appropriately develop a control environment for managing underwriting risk that is consistent with the group-wide control environment for managing underwriting risk.

VII-3-5-2 Major Supervisory Viewpoints

(1) Whether the management company has developed a group-wide policy for managing underwriting risk from the viewpoint of exercising practical and effective governance over group companies, and whether group companies have developed and apply regulations regarding underwriting that is consistent with the above policy.

(2) Whether the management company has appropriately developed a control environment to monitor the development of a control environment for managing underwriting risk on a group basis and within group companies.

(3) Although laws, regulations, and practices related to actuarial matters differ from country to country, there is the risk that an insurance group could misrecognize the current financial position and make incorrect decisions based on the misrecognition unless group-wide financial information can be grasped based on actuarial standards consistent between group companies. Therefore, the supervisory authority should check whether the management company has developed a group-wide policy concerning actuarial matters and standards concerning actuarial practices, including the following items, for example.
- Assumptions of calculation of insurance liabilities
- Calculation method of insurance liabilities

・The contents of data used for the calculation of insurance liabilities
・The calculation method of insurance liabilities that gives consideration to reinsurance
・Process of checking the validity of the above items and of the models used for the calculation of the above items
・Model risk management concerning actuarial models used for the forecasting of future cash flows necessary for financial solvency evaluation
・A control environment to conduct monitoring as to whether the above policy and the standards concerning actuarial practices are appropriately observed on a group-wide basis

(4)Regarding the analysis of the current and future financial positions based on group-wide actuarial standards, whether information on such matters as the most recent results, underwriting, and reinsurance strategy is appropriately reported to the board of directors, etc. of the management company in order to appropriately identify and analyze the group-wide financial position and secure financial soundness. Whether the validity of the evaluation of insurance liabilities and reinsurance recoverable assets, which are important factors of the above analysis, is checked and whether the results are reported to the board of directors, etc. of the management company at the same time.

VII-3-6　Group-wide Reinsurance Risk Management

VII-3-6-1　Significance

While reinsurance contributes to the optimization of group-wide underwriting risk, reinsurance transactions and risk management are complex in many cases. It is important for management companies to give sufficient consideration to these characteristics of reinsurance and appropriately develop a group-wide control environment for managing reinsurance risk from the viewpoint of exercising practical and effective governance over group companies. It is also important for group companies to appropriately develop a control environment for managing reinsurance risk that is consistent with the group-wide control environment for managing reinsurance risk.

VII-3-6-2 Major Supervisory Viewpoints

(1) Whether the management company has developed a group-wide policy for reinsurance from the viewpoint of exercising practical and effective governance over group companies and whether group companies have developed and apply regulations concerning reinsurance that are consistent with the above policy.

(2) When developing a group-wide control environment for managing reinsurance risk, whether the management company gives consideration to the following points:
- Correlation between the group-wide amount of risk and the risk appetite or capital management strategy
- Groupwide reinsurance strategy and the conduct of practical affairs at group companies
- Laws, regulations and practices applicable to group companies
- Limits on or risk appetites for the credit risk of counterparties involved in reinsurance transactions
- The use of alternative risk transfer methods, including risk transfer products, and the effectiveness of risk transfer through reinsurance under stress situations

(3) Whether the management company has appropriately developed a control environment to monitor the development of a control environment for managing reinsurance risk on a group basis and at group companies.

VII-3-7 Group-wide Control Environment for Managing Asset Investment Risk

VII-3-7-1 Significance

Financial products in which insurance companies may invest include relatively risky products, such as products with high volatility, a complex structure, or low liquidity. Therefore, it may be assumed that as a result of investment in high-risk products by a group company, the soundness of the entire insurance group will decline. From the viewpoint of exercising practical

and effective governance over group companies in order to avoid such a situation, it is important for management companies to appropriately develop a group-wide control environment for managing asset investment risk (including a control environment to avoid excessive dependance on external ratings with respect to credit assets, such as securitized products). It is also important for group companies to develop a control environment for managing asset investment risk that is consistent with the group-wide control environment for managing asset investment risk.

VII-3-7-2 Major Supervisory Viewpoints

(1) Whether the management company has developed a group-wide policy for asset investment from the viewpoint of exercising practical and effective governance over group companies, and whether group companies have developed and apply regulations concerning asset investment that are consistent with the above policy.

(2) When developing a group-wide control environment for managing asset investment risk, whether due consideration is given to legal systems in the jurisdictions where foreign offices are located.

(3) Whether the management company has developed a control environment to appropriately manage the concentration risk of exposures (including those related to off-balance sheet items) by setting risk appetites and limits for individual group companies and on a group-wide basis, for example. In particular, whether due consideration is given to the possibility that exposures to financial institutions could amplify risks at times of financial market turmoil.

(4) Whether the management company has appropriately developed a control environment to monitor the development of a control environment for asset investment risk management on a group basis and at group companies.

VII-3-8 Group-wide Control Environment for Managing Liquidity Risk

VII-3-8-1 Significance

Even if the group-wide solvency margin is sufficient, there is the possibility that the entire insurance group may face a liquidity crisis as a result of the failure of a group company due to insolvency caused by the depletion of fund liquidity or as a result of investments by a group company in products with low market liquidity. Therefore, liquidity risk management is very important. From the viewpoint of exercising practical and effective governance over group companies, it is important for management companies to appropriately develop a group-wide control environment for liquidity risk management. It is also important for group companies to appropriately develop a control environment for managing liquidity risk that is consistent with the group-wide control environment for managing liquidity risk.

VII-3-8-2 Major Supervisory Viewpoints

(1) Whether the management company has developed a group-wide policy for managing liquidity risk from the viewpoint of exercising practical and effective governance over group companies, and whether group companies have developed and apply regulations concerning liquidity risk management that are consistent with the above policy.

(2) Whether the management company has set risk appetites, risk tolerances and risk limits regarding liquidity risk on a group basis and checks the status of compliance therewith. Whether the management company conducts stress tests regarding liquidity.

(3) In the implementation of a stress test regarding liquidity, whether consideration is appropriately given to a situation in which the stress is amplified as a result of multiple entities behaving in the same way when it is necessary to assume such a situation.

(4) In the implementation of stress test regarding liquidity, whether consideration is given to the following matters as necessary.

- Status of ownership of liquid assets and the possibility of using them under stress situations

・Write-down of the value of liquid assets under stress situations (haircut)
・Insurance premium and interest incomes under stress situations
・Massive cancellations and claims for insurance benefits associated with the occurrence of a catastrophe
・Downgrading of the credit rating of the insurance group
・The possibility of fund transfer between the management company and group companies
・Exchange market liquidity related to foreign currencies
・Correlation between owned assets and fund-raising instruments and the status of distribution
・Possibility of additional margins and collateral being required
・The possibility of using credit lines and secured or unsecured short-term funding instruments.

(5) In cases where it has been found as a result of a stress test regarding liquidity that the value of fund outflows under a stress situation exceeds the value of fund inflows and liquid assets, whether liquid assets with a sufficient value are prepared after a feasible and appropriate haircut has been set.

Whether attention is paid to the point that in cases where liquid assets become necessary for a short period of time (e.g., for a period of days or weeks), higher liquidity may become necessary for the assets than in cases where liquid assets become necessary for a long period of time.

(6) Whether the management company has developed countermeasures against a liquidity crisis on a group basis and reviews and revises them in a timely manner.

(7)Whether the management company periodically reports to the board of directors, etc. on the status of group-wide liquidity risk management, for example at the same time as the report on the own risk and solvency assessment.

VII-3-9 Group-wide Control Environment for Managing Operational Risk

From the viewpoint of exercising practical and effective governance over group companies, it is important for management companies to appropriately develop a

group-wide control environment for managing operational risk. It is also important for group companies to develop a control environment for managing operational risk that is consistent with the group-wide control environment for managing operational risk.

VII-4 Appropriateness of Group-wide Business Operations

VII-4-1 Group-wide Control Environment for Compliance

The supervisory authority should conduct checks on the development of a group-wide control environment for compliance from the following viewpoints:

(i) Whether the board of directors, etc. of the management company regards compliance as an important matter concerning group-wide management and exercises leadership in developing a control environment for compliance at the management company and at group companies.

(ii) Whether the board of directors, etc. of the management company has developed a basic policy for compliance and communicated it among group companies. Whether the basic policy prescribes not only a code of ethics but also specific guidelines and standards for behavior.

(iii) Whether a division in charge of overseeing compliance-related matters (hereinafter referred to as the "compliance oversight division") has been established at the management company in accordance with the scale and characteristics of the group and the business activities of group companies in order to ensure that the status of compliance of the group and group companies is appropriately managed.

(iv) Whether the compliance oversight division grasps the status of compliance within the group in a timely and appropriate manner and reports to the board of directors, etc. of the management company at least once every quarter.

(v) Whether the board of directors, etc. of the management company refers to obtained information for improving business operations and developing a control environment for compliance within the group, for example by making necessary decisions based on reports on the status of compliance.

(vi) Whether the compliance oversight division has clarified the conflicts of interest between group companies and between business divisions and departments, communicated them among officers and employees, clarified the risk of potential conflict of interest, and prescribed specific measures to deal

with or avoid the risk.

VII-4-2 Group-wide Control Environment for Outsourcing of Business Operations

When outsourcing business operations, whether the management company gives consideration to the effects of transmission of various potential risks associated with outsourcing and develops a policy for outsourcing that takes into consideration the viewpoints of protecting customers and securing the soundness of management. At the same time, regarding outsourcing of important business operations, for example, whether the management company develops a necessary control environment (including requiring outsourcing contractors to develop the control environment under an outsourcing contract) by establishing the process of approval by the management company from the viewpoint of securing the soundness of management. When doing this, whether the management company pays attention to the following points.

(i) Selection of an outsourcing contractor

Whether the management company selects an outsourcing contractor from the viewpoint of whether or not there is a problem with respect to the rationality of the management of the insurance group and the reputation of the group.

(ii) Specifics of the contract

Whether the contract clearly prescribes the following matters and is otherwise sufficient. Whether the provisions of the outsourcing contract are secured in writing.

A. The specifics and level of services to be provided, and the procedures for cancellation

B. The responsibilities that should be fulfilled by the outsourcing contractor when services are not provided in accordance with the outsourcing contract. Matters related to the bearing of losses that may arise in association with the outsourcing (including: as necessary, ways of ensuring the fulfillment of the responsibility to bear losses, such as the provision of collateral).

C. The specifics of reports to be received by group companies from the outsourcing contractor with respect to the status of the outsourced business operations and the business situation of the outsourcing contractor.

(iii) Control environment for management

Whether the management company has appointed a manager in charge of outsourced business operations and has developed a control environment for

monitoring and conducting checks (including setting a contractual provision to the effect that checks may be conducted on the outsourcing contractor with respect to the appropriateness of business operations).

(iv) Provision of information

Regarding the status of implementation of outsourced administrative processes, whether there is a control environment to ensure the prompt collection of appropriate information as necessary on a group-wide basis, in addition to requiring the submission of periodic reports from the outsourcing contractor to the management company or group companies.

(v) Audit

Whether the management company or group companies subject outsourced business operations to audit.

(vi) Response to emergencies

Whether the management company considers how to prevent major disruptions to the business operations of the entire insurance group in cases where services are not provided in accordance with the outsourcing contract. Whether consideration is given to the possible effect on the reputation of the entire insurance group.

(vii) Outsourcing to group companies

When an outsourcing contract is concluded between the management company and a group company, whether or not the contract violates the arms' length rule by providing support to the outsourcing contractor practically.

VII-5 Others

VII-5-1 Development of Recovery and Resolution Plans

VII-5-1-1 Significance

If an insurance group engaging in large-scale, complex business operations (including international activities) faces a crisis, it may be assumed that the crisis will seriously affect the protection of insurance policyholders. Furthermore, depending on the business structure, the effects could affect not only the insurance group but also the entire financial system. As it is important from the supervisory viewpoint to make every possible effort to prevent a situation like this as part of crisis management, Japan should promote activities

related to recovery and resolution plans in light of the scale and characteristics of insurance groups.

VII-5-1-2 Supervisory Viewpoints, Methods and Actions

(1) A recovery plan is intended to be a normal time preparation of some options and processes for making an effective response when a serious stress has arisen and significantly undermined the soundness of an insurance group. This is expected to make it possible to more accurately understand the potential risks in normal times and make a prompt response when a stress has arisen.

On the other hand, as risks surrounding an insurance group are diverse, it is not necessarily realistic to exhaustively cover all possible stress scenarios. In addition, in an actual stress situation, the stress may not necessarily be consistent with the preconceived assumptions under the recovery plan, so it may become necessary to investigate what optimal options are in that particular situation. When developing a recovery plan, it is important to ensure that the plan is effective while paying attention to this point.

In light of the above supervisory viewpoints, based on Article 128 or Article 271-27 of the Act, the supervisory authority should require the management companies of IAIGs in Japan and, as necessary, of other insurance groups engaging in large-scale, complex business operations (including international activities) to develop and submit recovery plans once a year or when an important change has been made to their business or group structures. While the specifics of a recovery plan may vary across insurance groups according to their business structures and business models, the supervisory authority should check whether the following items, are covered by the plan in light of the discussions at the IAIS, for example.

- Outline of the recovery plan
- Analysis of the structure of the insurance group
- Triggers for the implementation of the recovery plan
- Stress scenario analysis
- Recovery option analysis
- Intra-group and external communication strategy
- Governance related to the recovery plan (including control environments and systems necessary for obtaining and managing information necessary

for the recovery plan)

(2) Regarding IAIG in Japan, the supervisory authority should develop a resolution plan in cooperation with foreign authorities in cases where it is deemed necessary to do so in light of the purpose of ComFrame. The necessity of a recovery plan for an IAIG should be judged comprehensively, with due consideration given to such factors as the number of jurisdictions where the IAIG is active, the complexity of the business and organizational structures of the entire group, and the effects that a failure of the IAIG may have on the financial and economic systems.

In cases where a recovery plan is developed, the supervisory authority should review it and evaluate the feasibility of a resolution once a year or when an important change has been made to the business or group structures of the insurance group.

VII-5-2 Conducting Group-wide Supervision in Cooperation with Foreign Authorities

The supervisory authority should provide to foreign authorities information that contributes to their supervision of insurance groups and proactively promote exchange of opinions with them. Specifically, the supervisory authority should ensure cooperation by taking the following measures:

(1) In the case of insurance groups with foreign offices

With respect to insurance groups with foreign offices, the supervisory authority should promote cooperation with foreign authorities by taking the following measures:

(i) When conducting monitoring in accordance with the provisions of III-1-2 "Specific Methods of Inspection and Supervisory Administrative Processes," the supervisory authority should give special consideration to cooperation with foreign authorities and proactively exchange information with them regarding the financial soundness and appropriateness of business operations of the groups' management companies and the groups.

(ii) Regarding policies for the supervision of insurance groups that may have material effects on the business operations of foreign offices, the supervisory authority should strive to notify the authorities of the host jurisdictions. In

cases where measures that could affect foreign offices are taken, the supervisory authority should strive to hold prior consultations with the authorities of the host jurisdictions.

(iii) In cases where a foreign authority has inquired about an opinion regarding the permission or authorization concerning the establishment of a foreign office or other matters, the supervisory authority should proactively and appropriately respond to the inquiry.

(2) In the case of foreign insurance groups:

With respect to foreign insurance groups, the supervisory authority should promote cooperation with foreign authorities by taking the following measures:

(i) In cases where the supervisory authority grants a permission or authorization concerning the establishment of an office in Japan by a foreign insurance group or other matters, the authority should strive to obtain the consent of the authority of the foreign jurisdiction where the management company of the foreign insurance group is located. In cases where the foreign authority does not proactively or appropriately respond, the supervisory authority should request correction or attach conditions to the permission or authorization as necessary.

(ii) In cases where a supervisory issue that is considered to be subject to reporting to a foreign authority has been found at a Japanese office of a foreign insurance group, or where an inaccurate communication of information from the Japanese office to the management company of the foreign insurance group has been found, the supervisory authority should proactively notify the foreign authority.

(iii) In cases where it is deemed necessary to take a measure against a foreign management company of the above foreign insurance group with respect to the supervisory viewpoints listed in this Guidelines, the supervisory authority should strive to notify the foreign authority in advance and seek cooperation.

(iv) In cases where an administrative action is taken against companies located in Japan that constitute the above foreign insurance group, the supervisory authority should make every possible effort to notify the foreign supervisory authority in advance and strive to strengthen cooperation.