

(Provisional translation)

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# Insurance Inspection Rating System

(Inspection Rating System for Insurance Companies)

March 2012

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Inspection Bureau No. 204

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To: Inspection Administrator  
Chief Financial Inspectors  
Senior Financial Inspectors  
Vice-Senior Financial Inspectors  
Special Financial Inspectors  
Financial Inspectors

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### **Inspection Rating System for Insurance Companies**

The Financial Services Agency (FSA) has developed and decided to implement the “Inspection Rating System for Insurance Companies” (hereinafter referred to as the “Insurance Inspection Rating System”) as shown below, and you are asked to fully acquaint yourself with it and internalize it.

## **1. Purpose**

Through rating-based evaluation of the results of inspections of insurance companies, verified pursuant to the Insurance Inspection Manual, the “Insurance Inspection Rating System” aims to promote efforts by insurance companies toward voluntary and sustained improvement in their management, as well as dialogue between inspectors and insurance companies. It also aims to improve the efficiency of inspections and the transparency, etc. of financial administration by linking the rating results to selective regulatory measures.

## **2. Rating Items**

There are eight items subject to rating: “business management (governance) (for basic elements),” “legal compliance,” “insurance sales management,” “customer protection management,” “comprehensive risk management,” “insurance underwriting risk management,” “asset investment risk management,” and “operational risk, etc. management.”

## **3. Rating Method**

A rating scale consisting of four grades (A, B, C and D) shall be applied to each rating item, in accordance with the “Rating Grades/Points of Attention in Rating” (Attachment).

## **4. Insurance Companies Subject to Rating**

- Life insurance companies
- Non-life insurance companies
- Foreign life insurance companies (including specified corporations)
- Foreign non-life insurance companies (including specified corporations)

## **5. Administrative Processes, etc.**

- (1) During an on-site inspection, the inspector shall first have an adequate exchange of views with the insurance company under inspection with regard to the facts relevant to the rating, as well as the evaluation thereof. As part of the procedures for completing the on-site inspection (“exit meeting”), the inspector shall also hear the insurance company’s opinions about the rating results, in order to confirm the points of agreement and disagreement between the chief inspector and the insurance company at that time.
- (2) If there is any disagreement regarding the rating results following completion of the on-site inspection, the inspected insurance company may, pursuant to the opinion submission process, file a statement to that effect with the Director-General of the Inspection Bureau and request a review.
- (3) The final rating results shall be notified to the inspected insurance company as part of the inspection result report.

## **6. Reflection in Selective Regulatory Measures**

The rating results shall be reflected in the frequency, scope and depth of subsequent inspections.

## **7. Implementation Date, etc.**

The Insurance Inspection Rating System shall go through a trial period starting during the program year 2011, and then, based on the circumstances of the trial, etc., shall come into effect as quickly as possible. The specific implementation date etc. shall be as directed separately. During the trial period, the focus shall be placed on the accumulation of data and know-how concerning ratings, and although the rating results per se are to be reported to the insurance companies, they shall not be reflected in selective regulatory measures.

(Attachment)

Rating Grades/Points of Attention in Rating  
(Insurance Inspection Rating System)

March 2012

# Rating Grades

## **1. Business Management (Governance) (for Basic Elements)**

A:

A strong business management (governance) system suited to the scale and nature of the insurance company has been established by the management. Any recognized weakness is minor and has an insignificant effect on the appropriateness and soundness of the insurance company's business operations and on the protection of policyholders, etc.

B:

A sufficient business management (governance) system suited to the scale and nature of the insurance company has been established by the management. Although there are weaknesses in the system, they are not so serious as to have material effects on the appropriateness and soundness of the insurance company's business operations and on the protection of policyholders, etc., and the insurance company has already taken appropriate measures to address them on a voluntary basis, or can be expected to do so in the future.

C:

The business management (governance) system established by the management is insufficient considering the scale and nature of the insurance company. The system needs to be improved because its insufficiency is deemed to be affecting the appropriateness and soundness of the insurance company's business operations as well as the protection of policyholders, etc.

D:

The business management (governance) system established by the management is defective or seriously defective. As a result, the defects are seriously affecting the appropriateness and soundness of the insurance company's business operations as well as the protection of policyholders, etc., and may threaten, or is threatening, the ability of the insurance company to continue operating as such.

## Points of Attention in Rating, etc.

### **[Basic Points of Attention]**

- In giving a rating, the inspector shall pay due consideration to the “Checkpoints” in the “Checklist for Business Management (Governance).”
- With regard to any issues pointed out on the occasion of the last inspection, it is important for the management to make efforts in developing and implementing effective improvement measures. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on identifying the cause and background of the lack of sufficient improvement measures, and give a rating in light of this.

It should be noted that the evaluated improvement in the issues pointed out on the occasion of the last inspection shall be considered as a factor when judging whether the insurance company can be expected to take improvement measures on a voluntary basis with regard to the issues pointed out in the current inspection.

### **[Negative Factors]**

- If the insurance company is deemed to have intentionally avoided subjecting any particular division to audits, this shall be considered as a negative factor in giving a rating.

### **[Other Points of Attention]**

- In evaluating the business management (governance) system, the inspector shall not rely purely on the results of the examination of the “development and establishment of systems by the management” as specified in the checklists included in the sections regarding items other than business management. Rather, the inspector shall examine whether the insurance company is effectively exercising the functions of the five basic elements specified in the checklist for business management (governance) – (1) a system of business management (governance) by the representative directors, non-representative directors and the Board of Directors, (2) a system of internal audits, (3) a system of audits by corporate auditors/a board of auditors, (4) a system of external audits, and (5) a system of confirmation by an actuary – so as to ensure the appropriateness and soundness of its business operations as well as the fairness of its insurance sales.
- In evaluating the business management (governance) system, the inspector shall bear in mind that the key point is whether the insurance company’s policies regarding management and other matters are effective and suited to the actual state of the insurance company’s business operations, considering the scale and nature of the insurance company. It should be noted that the inspector shall take care to avoid making excessive

intervention in matters that concern the management decisions of the insurance company.

- In evaluating the roles and responsibilities of directors and the Board of Directors, the inspector shall bear in mind that the key point is how the representative directors are exercising leadership in establishing systems such as for legal compliance, proper insurance sales, customer protection and risk management, and how other directors are exercising their check-and-balance function. It should be noted that although the inspector shall examine the contents of discussions had at meetings of the Board of Directors, etc. from the viewpoint of judging whether sufficient discussions were had at those meetings, such examination is not intended to judge the appropriateness of management decisions made by the insurance company.
- In evaluating the development of the organizational framework and the establishment of a check-and-balance system by the Board of Directors, the inspector shall bear in mind that the key point is whether, based on appropriate business management (governance), effectiveness is being maintained for systems for ensuring the appropriateness and soundness of business operations, the fairness of insurance sales, and the protection of policyholders, etc., considering the scale and nature of the insurance company.
- It is important for the representative directors and the Board of Directors to recognize that the internal audit division acts as an important agent on their behalf, and it is necessary for the Board of Directors to utilize reports made by this division, based on the recognition that the reports reflect checks conducted from the standpoint of an entity independent from all operational divisions. In evaluating the insurance company's development and establishment of the internal audit system, the inspector shall bear in mind that the key point is whether the management of the insurance company is seeking to establish an effective internal audit system based on said recognition.
- In evaluating the establishment of the system of the internal audit division, the inspector shall bear in mind that the key point is whether the insurance company has established relevant arrangements and procedures, allocated necessary personnel and sought to ensure independence in an effective manner suited to its scale and nature.  
In particular, if the director in charge of internal audits and the personnel allocated to the internal audit division are not adept in the business operations in which the insurance company engages, the inspector shall examine how the management recognizes the current situation and what measures are being taken to deal with it. Moreover, if the personnel allocated to the internal audit division are deemed to lack adequate expert knowledge and skills, it is important for the inspector to check whether measures have been taken to make up for this, through dialogue with the insurance company.  
Regarding the independence of the internal audit division, in cases where an employee



allocated to the division works concurrently for another division, it is important for the inspector to identify the cause and background of this situation and examine whether it is undermining efforts to ensure the effectiveness of internal audits, through dialogue with the insurance company.

# Rating Grades

## **2. Legal Compliance**

A:

A strong legal compliance system has been established by the management of the insurance company. Any recognized weakness is minor and has an insignificant effect on the appropriateness of the insurance company's business operations, etc.

B:

A sufficient legal compliance system has been established by the management of the insurance company, although minor violations of Laws are recognized. Although there are weaknesses in the system, they are not so serious as to have material effects on the appropriateness of the insurance company's business operations, etc., and the insurance company has already taken appropriate measures to address them on a voluntary basis, or can be expected to do so in the future.

C:

The legal compliance system established by the management of the insurance company is insufficient, as non-minor violations of Laws are recognized. The system needs to be improved because efforts for legal compliance made by the management of the insurance company are insufficient, and this insufficiency is deemed to be affecting the appropriateness of the insurance company's business operations, etc.

D:

The legal compliance system established by the management of the insurance company is defective or seriously defective, with serious violations of Laws involving the management itself being recognized, for example. As a result, the defects may lead to, or have led to, the occurrence of a violation of Laws that could threaten the ability of the insurance company to continue operating as such.

## Points of Attention in Rating, etc.

### **[Basic Points of Attention]**

- In giving a rating, the inspector shall pay due consideration to the “Checkpoints” in the “Checklist for Legal Compliance.”
- In giving a rating, the inspector shall put priority on examining whether an effective legal compliance system has been established in light of the checklists contained in “I. Development and Establishment of Legal Compliance System by Management” and “II. Development and Establishment of Legal Compliance System by Manager.”
- In giving a rating, the inspector shall take account of which of the relevant processes involves a problem, namely, the formulation of the policy regarding the legal compliance system, the establishment of the system, and/or the review of the policy and system.
- With regard to any issues pointed out on the occasion of the last inspection (particularly any non-minor issues), it is important for the management to take the initiative in developing and implementing effective improvement measures. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on grasping how the management recognizes the current situation and on identifying the cause and background of the lack of sufficient improvement measures, and give a rating in light of this.

It should be noted that the evaluated improvement in the issues pointed out on the occasion of the last inspection shall be considered as a factor when judging whether the insurance company can be expected to take improvement measures on a voluntary basis with regard to the issues pointed out in the current inspection.

### **[Positive Factors]**

- If the evaluation and improvement activities of the Board of Directors, etc. and the manager in charge of the compliance control division are effective and create a virtuous circle of constant improvement efforts by officers and employees involved in compliance, this shall be considered as a positive factor in giving a rating.

### **[Negative Factors]**

- If either of the following is recognized through the process of inspection, it shall be considered as a negative factor in giving a rating, since it may be taken as evidence that the insurance company has taken insufficient improvement measures despite having a considerable number of weaknesses in its legal compliance system.

(1) A case where the insurance company has concealed or tolerated a violation of Laws, or intentionally neglected to report it to the authorities. However, the inspector shall bear in mind that it is necessary to determine the seriousness of the case by identifying its extent, the roles played by the management and the circumstances regarding how the concealed violation of Laws has come to light, and to take account of the seriousness in giving a rating.

(2) A case where similar inappropriate incidents have occurred at multiple business locations or by insurance sales representatives, etc. or a large number of such incidents have occurred in succession, because measures for preventing the recurrence of inappropriate incidents are ineffective.

### **[Other Points of Attention]**

- In evaluating the insurance company's policy regarding legal compliance, the inspector shall bear in mind that the key point is whether the policy clearly prescribes a strict stance on anti-social forces, the prevention of money laundering, and the dealing with inappropriate incidents, etc. and whether the policies are effective and suited to the actual state of the insurance company's business operations. The inspector shall take care to avoid making excessive intervention in matters that concern the management decisions of the insurance company.
- The inspector shall bear in mind that although the scale and nature of the insurance company need to be taken into consideration when evaluating the establishment of necessary arrangements and procedures at the compliance control division and the improvement of the control environment for legal compliance at individual operational divisions, business locations, etc., these factors cannot constitute an excuse for any violation of Laws. With this in mind, the inspector shall grasp the effects of any detected violation of Laws on the management of the insurance company, as well as the cause and background of the violation, and give a rating in light of this.
- In giving a rating, the inspector shall take into consideration the cause and background of any detected violation of Laws, as well as its impact on the management of the insurance company, even if the violation concerns Laws other than those specified in "III. Specific Issues."
- With regard to response and improvement measures taken in relation to a violation of Laws, it is important for the management to take the initiative in developing and implementing rigorous and effective measures in light of the cause and background of the violation. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on grasping how the management recognizes the current

situation and on identifying the cause and background of the lack of sufficient measures, and give a rating in light of this.

# Rating Grades

## **3. Insurance Sales Management**

A:

A strong insurance sales management system has been established by the management of the insurance company and is functioning properly. Any recognized weakness is minor and has an insignificant effect on the properness of insurance sales, etc.

B:

A sufficient insurance sales management system has been established by the management of the insurance company, although minor violations of Laws are recognized regarding insurance sales. Although there are weaknesses in the system, they are not so serious as to have material effects on the properness of insurance sales, etc., and the insurance company has already taken appropriate measures to address them on a voluntary basis, or can be expected to do so in the future.

C:

The insurance sales management system established by the management of the insurance company is insufficient, as non-minor violations of Laws are recognized. The system needs to be improved because efforts for proper insurance sales made by the management of the insurance company are insufficient, and this insufficiency is deemed to be affecting the properness of insurance sales, etc.

D:

The insurance sales management system established by the management of the insurance company is defective or seriously defective, with serious violations of Laws for insurance sales involving the management itself being recognized, for example. As a result, the defects may lead to, or have led to, the occurrence of a violations of Laws for insurance sales that could threaten the ability of the insurance company to continue operating as such.

## Points of Attention in Rating, etc.

### **[Basic Points of Attention]**

- In giving a rating, the inspector shall pay due consideration to the “Checkpoints” in the “Checklist for Insurance Sales Management.”
- In giving a rating, the inspector shall put priority on examining whether an effective insurance sales management system has been established in light of the checklists contained in “I. Development and Establishment of Insurance Sales Management System by Management” and “II. Development and Establishment of Insurance Sales Management System by Manager.”
- In giving a rating, the inspector shall take account of which of the relevant processes involves a problem, namely, the formulation of the policy regarding the insurance sales management system, the establishment of the system, and/or the review of the policy and system.
- With regard to any issues pointed out on the occasion of the last inspection (particularly any non-minor issues), it is important for the management to take the initiative in developing and implementing effective improvement measures. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on grasping how the management recognizes the current situation and on identifying the cause and background of the lack of sufficient improvement measures, and give a rating in light of this.

It should be noted that the evaluated improvement in the issues pointed out on the occasion of the last inspection shall be considered as a factor when judging whether the insurance company can be expected to take improvement measures on a voluntary basis with regard to the issues pointed out in the current inspection.

### **[Positive Factors]**

- If either of the following is recognized through the process of inspection, it shall be considered as a positive factor in giving a rating.
  - (1) A case where customer support management is linked organically with insurance sales management to produce synergy effects. For example, a case where the insurance company promptly and properly reviews and revises the Insurance Sales Compliance Manual in light of problems identified in the process of customer support management.
  - (2) A case where the assessment and improvement activities conducted by the Board of

Directors, etc. and by the managers in charge of insurance sales management divisions produce effective results, leading to constant improvements in customer evaluations.

**[Negative Factors]**

- If similar customer complaints and problems occur at multiple business locations or as a result of insurance sales representatives, etc., either simultaneously or successively, due to the insurance company's failure to correct inappropriate explanations to customers or inappropriate sales activities, or its failure to consider effective measures to prevent their recurrence, this shall be considered as a negative factor in giving a rating.

**[Other Points of Attention]**

- The inspector shall bear in mind that although the scale and nature of the insurance company need to be taken into consideration when evaluating the establishment of necessary arrangements and procedures at the insurance sales management division and the improvement of insurance sales management systems at individual operational divisions, business locations, etc., these factors cannot constitute an excuse for any violation of Laws. With this in mind, the inspector shall grasp the effects of any detected violation of Laws. on the management of the insurance company, as well as the cause and background of the violation, and give a rating in light of this.

- In evaluating the arrangement of insurance sales representatives with regard to insurance sales management, the inspector shall bear in mind that the key point is whether the insurance company has developed and established a management system suited to the attributes of the insurance sales representatives.

For example, although some large independent agencies have strong power in negotiations with insurance companies, the inspector shall bear in mind whether the insurance company has developed and established an effective management system for making these agencies conduct proper insurance sales.



## **Rating Grades**

### **4. Customer Protection Management**

A:

Systems for managing elements of customer protection, such as the Insurance Contract Management System, the Insurance Claims Payment Management System, the Customer Support Management System, the Customer Information Management System, the Outsourcing Management System and the Conflict of Interest (COI) Management System have been established strongly by the management and are functioning properly. Any recognized weakness is minor and has an insignificant effect on the appropriateness of the insurance company's business operations, etc.

B:

Systems for managing elements of customer protection, such as the Insurance Contract Management System, the Insurance Claims Payment Management System, the Customer Support Management System, the Customer Information Management System, the Outsourcing Management System and the Conflict of Interest (COI) Management System, have been sufficiently established by the management. Although there are weaknesses in the systems, they are not so serious as to have material effects on the appropriateness of the insurance company's business operations, etc., and the insurance company has already taken appropriate measures to address them on a voluntary basis, or can be expected to do so in the future.

C:

The systems established by the management for managing elements of customer protection, such as the Insurance Contract Management System, the Insurance Claims Payment Management System, the Customer Support Management System, the Customer Information Management System, the Outsourcing Management System and the Conflict of Interest (COI) Management System, are insufficient, as non-minor deficiencies of the systems are recognized. The systems need to be improved because efforts for customer protection made by the management of the insurance company are insufficient and this insufficiency is deemed to be affecting the appropriateness of the insurance company's business operations, etc.

D:

The systems established by the management for managing elements of customer protection, such as the Insurance Contract Management System, the Insurance Claims Payment Management System, the Customer Support Management System, the Customer Information Management System, the Outsourcing Management System and the Conflict of Interest (COI)

Management System, are defective or seriously defective, as deficiencies of the systems are recognized, for example. As a result, the defects may threaten, or is threatening, the ability of the insurance company to continue operating as such, with customers defecting from the company.

## Points of Attention in Rating, etc.

### **[Basic Points of Attention]**

- In giving a rating, the inspector shall pay due consideration to the “Checkpoints” in the “Checklist for Customer Protection Management.”
- In giving a rating, the inspector shall put priority on examining whether an effective customer protection management system has been established in light of the checklists contained in “I. Development and Establishment of Customer Protection Management System by Management” and “II. Development and Establishment of Customer Protection Management System by Manager.”
- In giving a rating, the inspector shall take account of which of the relevant processes involves a problem, namely, the formulation of the policy regarding the customer protection management system, the establishment of the system, and/or the review of the policy and system.
- With regard to any issues pointed out on the occasion of the last inspection (particularly any non-minor issues), it is important for the management to take the initiative in developing and implementing effective improvement measures. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on grasping how the management recognizes the current situation and on identifying the cause and background of the lack of sufficient improvement measures, and give a rating in light of this.

It should be noted that the evaluated improvement in the issues pointed out on the occasion of the last inspection shall be considered as a factor when judging whether the insurance company can be expected to take improvement measures on a voluntary basis with regard to the issues pointed out in the current inspection.

### **[Positive Factors]**

- If any of the following is recognized through the process of inspection, it shall be considered as a positive factor in giving a rating.
  - (1) A case where disclosure documents and other materials used by the insurance company for making explanations to customers take account of the customer’s standpoint and provide specific descriptions to facilitate their understanding, rather than providing abstract explanations, and where the insurance company reviews and revises these materials on an ongoing basis in order to make them easy-to-understand and suited to the needs of customers, by reflecting the opinions of customers in the revisions.

- (2) A case where customer support management is linked organically with insurance contract management and insurance claims payment management to produce synergy effects. For example, a case where the insurance company promptly and properly reviews and revises the Insurance Contract Management Manual and the Insurance Claims Payment Management Manual in light of problems identified in the process of customer support management.
- (3) A case where the insurance company not only makes proper efforts to enhance the Insurance Contract Management System, the Insurance Claims Payment Management System, the Customer Support Management System, the Customer Information Management System, the Outsourcing Management System and the Conflict of Interest (COI) Management System, but also ensures the effectiveness of customer protection by properly managing other processes it has determined to be essential to customer protection and improving customer convenience.
- (4) A case where the assessment and improvement activities conducted by the Board of Directors, etc. and by the managers in charge of customer protection produce effective results, leading to constant improvements in customer evaluations.
- (5) A case where, from the perspective of protecting the interests of policyholders, etc., the insurance company voluntarily makes effective efforts, such as encouraging policyholders, etc. to make insurance claims, etc., in order for it to make payments of insurance claims, etc. swiftly and appropriately.

### **[Negative Factors]**

- If similar customer complaints and problems or leakages of customer information, etc. occur at multiple business locations or as a result of insurance sales representatives, etc., either simultaneously or successively, due to the insurance company's failure to correct inappropriate responses to requests and demands from policyholders, etc. or inappropriate management of customer information, or its failure to consider effective measures to prevent their recurrence, this shall be considered as a negative factor in giving a rating.

### **[Other Points of Attention]**

- In evaluating the customer protection management system, the inspector shall bear in mind that the key point is whether the insurance company has developed and established an effective management system suited to its scale and nature, in light of changes, etc. in the insurance market, for example, an increase in insurance sales representatives such as

independent agencies and banks which are very independent from insurance companies, and the spread of impersonal sales forms such as the Internet, etc.

## Rating Grades

### **5. Comprehensive Risk Management**

A:

A strong comprehensive risk management system suited to the scale and nature of the insurance company has been established by the management. All major risks have been consistently identified, kept track of and managed in an effective manner, and any recognized weakness is minor and has an insignificant effect on the soundness of the insurance company's business operations, etc.

B:

A sufficient comprehensive risk management system suited to the scale and nature of the insurance company has been established by the management. Most major risks and problems have been identified, kept track of and managed. Although there are weaknesses in the system, they are not so serious as to have material effects on the soundness of the insurance company's business operations, etc. and the insurance company has already taken appropriate measures to address them on a voluntary basis, or can be expected to do so in the future.

C:

The comprehensive risk management system established by the management is insufficient considering the scale and nature of the insurance company. The system needs to be improved because the management's risk management capability is insufficient and this insufficiency is deemed to be affecting the soundness of the insurance company's business operations, etc.

D:

The comprehensive risk management system established by the management is defective or seriously defective. As a result, the defects may lead to, or have led to, an inappropriate incident or an unexpected loss that could threaten the ability of the insurance company to continue operating as such.

## Points of Attention in Rating, etc.

### **[Basic Points of Attention]**

- In giving a rating, the inspector shall pay due consideration to the “Checkpoints” in the “Checklist for Comprehensive Risk Management.”
- In giving a rating, the inspector shall put priority on examining whether an effective comprehensive risk management system has been established in light of the checklists contained in “I. Development and Establishment of Comprehensive Risk Management System by Management,” “(Attachment) I. Situation of Top Management’s Development and Establishment of a Management System for Financial Soundness and Actuary,” “II. Development and Establishment of Comprehensive Risk Management System by Manager,” and “(Attachment) II. Manager’s Development and Establishment of System for Management of Financial Soundness and Actuary.”
- In giving a rating, the inspector shall take account of which of the relevant processes involves a problem, namely, the formulation of the policy regarding the comprehensive risk management, the establishment of the system, and/or the review of the policy and system.
- With regard to any issues pointed out on the occasion of the last inspection (particularly any non-minor issues), it is important for the management to take the initiative in developing and implementing effective improvement measures. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on grasping how the management recognizes the current situation and on identifying the cause and background of the lack of sufficient improvement measures, and give a rating in light of this.

It should be noted that the evaluated improvement in the issues pointed out on the occasion of the last inspection shall be considered as a factor when judging whether the insurance company can be expected to take improvement measures on a voluntary basis with regard to the issues pointed out in the current inspection.

### **[Positive Factors]**

- If either of the following is recognized through the process of inspection, it shall be considered as a positive factor in giving a rating.
  - (1) A case where the management actively involves itself in efforts to identify the risks that the insurance company is facing and to grasp and analyze weaknesses and problems in the comprehensive risk management system, thereby helping to enhance the system.

(2) A case where the insurance company has a strong level of capital in terms of both quality and quantity in light of its risk profile.

### **[Negative Factors]**

- In evaluating comprehensive risk or the adequacy of equity capital, etc., if the insurance company has intentionally excluded what are deemed to be important risks, or intentionally underestimated such risks, this shall be considered as a negative factor in giving a rating.
  
- If either of the following cases is recognized as a result of examination of the accuracy of the insurance company's solvency margin ratio, this shall be considered as a negative factor in giving a rating.
  - (1) A case where the discrepancy between the solvency margin ratios before and after the inspection is 10% or higher.
  
  - (2) A case where, although the discrepancy between the solvency margin ratios before and after the inspection is less than 10%, a significant defect is recognized in the calculation process. For example, where there are a number of positive and negative incorrect calculations regarding the amounts equivalent to each risk, and where these errors offset each other.

### **[Other Points of Attention]**

- The inspector shall bear in mind that if the solvency margin ratio after the inspection falls below the ratio stipulated in the "Notice Specifying Criteria for whether there is a Proper Status of Sufficient Ability to Pay Insurance Benefits, etc., based on Provisions of the Insurance Business Act, Article 130, etc." (200%), the rating regarding comprehensive risk management should be C or lower.



## Rating Grades

### **6. Insurance Underwriting Risk Management**

A:

A strong insurance underwriting risk management system suited to the scale and nature of the insurance company has been established by the management. Any recognized weakness is minor and has an insignificant effect on the soundness of the insurance company's business operations, etc.

B:

A sufficient insurance underwriting risk management system suited to the scale and nature of the insurance company has been established by the management. Although there are weaknesses in the system, they are not so serious as to have material effects on the soundness of the insurance company's business operations, etc. and the insurance company has already taken appropriate measures to address them on a voluntary basis, or can be expected to do so in the future.

C:

The insurance underwriting risk management system established by the management is insufficient considering the scale and nature of the insurance company. The system needs to be improved because the management's risk management capability is insufficient and, as a result, this insufficiency is deemed to be affecting the soundness of the insurance company's business operations, etc. such as significant changes in incidence rates of insured events, etc. contrary to the forecasts made at the time of setting premium rates.

D:

The insurance underwriting risk management system established by the management is defective or seriously defective. As a result, the defects may lead to, or have led to, an inappropriate incident or an unexpected loss that could threaten the ability of the insurance company to continue operating as such.

## Points of Attention in Rating, etc.

### **[Basic Points of Attention]**

- In giving a rating, the inspector shall pay due consideration to the “Checkpoints” in the “Checklist for Insurance Underwriting Risk Management.”
- In giving a rating, the inspector shall put priority on examining whether an effective insurance underwriting risk management system has been established in light of the checklists contained in “I. Development and Establishment of Insurance Underwriting Risk Management System by Management” and “II. Development and Establishment of Insurance Underwriting Risk Management System by Manager.”
- In giving a rating, the inspector shall take account of which of the relevant processes involves a problem, namely, the formulation of the policy regarding the insurance underwriting risk management, the establishment of the system, and/or the review of the policy and system.
- With regard to any issues pointed out on the occasion of the last inspection (particularly any non-minor issues), it is important for the management to take the initiative in developing and implementing effective improvement measures. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on grasping how the management recognizes the current situation and on identifying the cause and background of the lack of sufficient improvement measures, and give a rating in light of this.

It should be noted that the evaluated improvement in the issues pointed out on the occasion of the last inspection shall be considered as a factor when judging whether the insurance company can be expected to take improvement measures on a voluntary basis with regard to the issues pointed out in the current inspection.

### **[Positive Factors]**

- If the management actively grasps and analyzes weaknesses and problems in the insurance underwriting risk management system, thereby helping to enhance the system, this shall be considered as a positive factor in giving a rating.

### **[Negative Factors]**

- If the insurance company has not sufficiently followed up since commencing sales of products, and if it has not reviewed its sales policies and product details as required, this shall be considered as a negative factor in giving a rating.

## Rating Grades

### **7. Asset Investment Risk Management**

A:

A strong asset investment risk management system suited to the scale and nature of the insurance company has been established by the management. Any recognized weakness is minor and has an insignificant effect on the soundness of the insurance company's business operations, etc.

B:

A sufficient asset investment risk management system suited to the scale and nature of the insurance company has been established by the management. Although there are weaknesses in the system, they are not so serious as to have material effects on the soundness of the insurance company's business operations, etc. and the insurance company has already taken appropriate measures to address them on a voluntary basis, or can be expected to do so in the future.

C:

The asset investment risk management system established by the management is insufficient considering the scale and nature of the insurance company. The system needs to be improved because the management's risk management capability is insufficient and this insufficiency is deemed to be affecting the soundness of the insurance company's business operations, etc.

D:

The asset investment risk management system established by the management is defective or seriously defective. As a result, the defects may lead to, or have led to, an inappropriate incident or an unexpected loss that could threaten the ability of the insurance company to continue operating as such.

## Points of Attention in Rating, etc.

### **[Basic Points of Attention]**

- In giving a rating, the inspector shall pay due consideration to the “Checkpoints” in the “Checklist for Asset Investment Risk Management.” In particular, it is important to examine all items deemed necessary in light of the inspected insurance company’s asset management strategy, investment style, risk profile, risk management method and measurement technique, as well as the amount of transactions it handles.
  
- In giving a rating, the inspector shall put priority on examining whether an effective asset investment risk management system has been established in light of the checklists contained in “I. Development and Establishment of Asset Investment Risk Management System by Management,” “(Attachment 1) I. Development and Establishment of Market Risk Management System by Management,” “(Attachment 2) I. Development and Establishment of Credit Risk Management System by Management,” “II. Development and Establishment of Asset Investment Risk Management System by Manager,” “(Attachment 1) II. Development and Establishment of Market Risk Management System by Manager,” “(Attachment 2) II. Development and Establishment of Credit Risk Management System by Manager.”
  
- In giving a rating, the inspector shall take account of which of the relevant processes involves a problem, namely, the formulation of the policy regarding the asset investment risk management, the establishment of the system, and/or the review of the policy and system.
  
- With regard to any issues pointed out on the occasion of the last inspection (particularly any non-minor issues), it is important for the management to take the initiative in developing and implementing effective improvement measures. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on grasping how the management recognizes the current situation and on identifying the cause and background of the lack of sufficient improvement measures, and give a rating in light of this.

It should be noted that the evaluated improvement in the issues pointed out on the occasion of the last inspection shall be considered as a factor when judging whether the insurance company can be expected to take improvement measures on a voluntary basis with regard to the issues pointed out in the current inspection.

### **[Positive Factors]**

- If the management actively grasps and analyzes weaknesses and problems in the asset

investment risk management system, thereby helping to enhance the system, this shall be considered as a positive factor in giving a rating.

**[Other Points of Attention]**

- In evaluating the asset management strategy, the inspector shall bear in mind that the key point is whether liability characteristics are positioned as important factors for setting strategic goals of the investment division, and whether it maintains sufficient assets which have appropriate characteristics (maturity, liquidity, etc.) to enable performance on its own dept in the future.

## Rating Grades

### **8. Operational Risk, etc. Management**

A:

A strong operational risk, etc. management system suited to the scale and nature of the insurance company has been established by the management. Any recognized weakness is minor and has an insignificant effect on the soundness of the insurance company's business operations, etc.

B:

A sufficient operational risk, etc. management system suited to the scale and nature of the insurance company has been established by the management. Although there are weaknesses in the system, they are not so serious as to have material effects on the soundness of the insurance company's business operations, etc. and the insurance company has already taken appropriate measures to address them on a voluntary basis, or can be expected to do so in the future.

C:

The operational risk, etc. management system established by the management is insufficient considering the scale and nature of the insurance company. The system needs to be improved because the management's risk management capability is insufficient, and this insufficiency is deemed to be affecting the soundness of the insurance company's business operations, etc., as system breakdowns affecting customers, non-minor administrative errors or funds management problems are recognized.

D:

The operational risk, etc. management system established by the management is defective or seriously defective. As a result, the defects may lead to, or have led to, a serious system breakdowns, administrative error or funds management problems, for example, that could threaten the ability of the insurance company to continue operating as such.

## Points of Attention in Rating, etc.

### **[Basic Points of Attention]**

- In giving a rating, the inspector shall pay due consideration to the “Checkpoints” in the “Checklist for Operational Risk, etc. Management.”
- In giving a rating, the inspector shall put priority on examining whether an effective operational risk, etc. management system has been established in light of the checklists contained in “I. Development and Establishment of Operational Risk, etc. Management System by Management” and “II. Development and Establishment of Operational Risk, etc. Management System by Manager.”
- In giving a rating, the inspector shall take account of which of the relevant processes involves a problem, namely, the formulation of the policy regarding the operational risk, etc. management system, the establishment of the system, and/or the review of the policy and system.
- With regard to any issues pointed out on the occasion of the last inspection (particularly any non-minor issues), it is important for the management to take the initiative in developing and implementing effective improvement measures. If only stop-gap measures or insufficient improvement measures have been taken, the inspector shall focus on grasping how the management recognizes the current situation and on identifying the cause and background of the lack of sufficient improvement measures, and give a rating in light of this.

It should be noted that the evaluated improvement in the issues pointed out on the occasion of the last inspection shall be considered as a factor when judging whether the insurance company can be expected to take improvement measures on a voluntary basis with regard to the issues pointed out in the current inspection.

### **[Positive Factors]**

- If either of the following is recognized through the process of inspection, it shall be considered as a positive factor in giving a rating.
  - (1) A case where the management actively involves itself in efforts to identify the operational risk, etc. that the insurance company is facing and to grasp and analyze weaknesses and problems in the operational risk, etc. management system, thereby helping to enhance the system.
  - (2) A case where the insurance company has established a system for promptly detecting errors in administrative processes and taking corrective measures, thereby preventing

accidents and extraordinary incidents.

**[Other Points of Attention]**

- Based on the recognition that management strategies and information technology strategies of insurance companies have become intrinsically related to each other, the inspector shall take care to avoid making excessive intervention in matters that concern the management decisions of the insurance company when examining its policy for setting information technology strategies.