

## Japan's Financial Countermeasures against the Great East Japan Earthquake

### I. Phase 1: Immediate response to the disaster

Right after the earthquake, the Financial Services Agency (FSA) implemented immediate measures to respond to the disaster.

- On March 11<sup>th</sup>, the very day of the Earthquake, the FSA established a “Disaster Management Team.”
- On March 11<sup>th</sup>, the Minister for Financial Services and the Governor of the Bank of Japan jointly released requests for financial institutions to take flexible and appropriate actions for the affected people.
- The financial institutions in the affected area responded to the requests quickly and effectively. Their actions included the following.
  - 1) **Banks** (i) opened on holidays; (ii) allowed, in a flexible manner, depositors who had lost their deposit certifications to make withdrawals; (iii) flexibly responded to deposit claims from parents, children, spouses, and others of deceased depositors; and (iv) suspended the dishonoring of drafts and checks that could not be processed due to the earthquake.
  - 2) **Insurance companies** (i) built a system to search for and identify an insurance policy for those who did not remember whether they were insured or by what insurance company they were insured, and (ii) expedited claim handling by using aerial/satellite photos so as to decide the degree of damage of properties without on-the-spot surveys.
    - The work of checking aerial/satellite photos was done jointly by a team of all major insurers.
    - By the end of July, four months after the earthquake, 97 % of the estimated total payments of insurance benefits (JPY 1,140/1,170 billion) were paid.
- The Japanese earthquake insurance system worked effectively. Under this system, using a reinsurance scheme, the government shares payment liabilities for insurance benefits with private insurance companies. To date, since the earthquake, the government paid JPY 560 billion and the private insurers paid JPY 670 billion.
- Financial institutions implemented measures for the affected on their own initiative.

For instance, the people evacuating away from home were allowed to make withdrawals at over 100 banks other than contracted banks without deposit certifications.

- Announcement was made to ensure financial stability. On Sunday, March 13<sup>th</sup>, one day before the first opening of the markets after the earthquake, the Minister for Financial Services issued a statement announcing that trading in the financial markets would go on as usual from the following day (Monday).

## **II. Phase 2: Support for rehabilitation/reconstruction**

- “The double debt problem” (both of existing debts and new debts owed due to rebuilding lives/businesses) needed to be addressed. The FSA worked on the following.
  - 1) “Individual Debtor Guideline for Out-of-court Workouts” was developed in July 2011 so as to facilitate the debt workout process for individuals who cannot repay existing debts. The guideline intended to enable borrowers to reach an agreement with creditors to reduce or eliminate debt burdens without recourse to bankruptcy procedures. As a result, borrowers can:
    - (i) avoid being blacklisted;
    - (ii) have assets up to JPY 5 million free of attachment by creditors; and
    - (iii) have all legal fees compensated by the national government.
  - 2) “The Support Organization for Companies Damaged by the Great East Japan Earthquake” was established in February 2012 to help revive the companies damaged in disaster areas. This organization provides the following support, in coordination with financial institutions:
    - (i) Giving advice on the business recovery plans based on companies’ own needs
    - (ii) Playing an intermediary role to help reduce existing loans and provide new loans; and
    - (iii) Sending experts supporting business recovery.
- It was essential to strengthen regional financial functions and provide depositors with a sense of security. The Act on Special Measures for Strengthening Financial Functions was revised to lower the hurdle for financial institutions in the affected

areas to request capital injection. (e.g., not requiring profitability or efficiency targets, and not holding management liable for any loss incurred to the bank).

(Note) Amounts of public capital injection

- (Before the earthquake, since 2006) JPY 350 billion injected into 13 banks
- (After the earthquake) JPY 231 billion injection into 12 banks

### **III. Lessons for the future**

It is crucial to reach out to the affected people and quickly disseminate information.

The FSA's actions included:

- disseminating information through radio, newspapers, and leaflets in the areas with no electricity;
- sending staff members from its local offices to the shelters in the areas with no access to the media; and
- cooperating with local governments and the Chambers of Commerce to provide information to the people doing business in the affected areas.

## ANNEX

(Excerpted from the FSA website)

March 13<sup>th</sup>, 2011

### **The Statement of Minister for Financial Services on March 13<sup>th</sup>**

1. I would like to express my deepest condolences to the casualties of the Tohoku District-off the Pacific Ocean Earthquake in 2011 and also would like to express my heartfelt sympathy to those who were hit by the Earthquake.
2. Following the outbreak of the Earthquake, the Financial Services Agency (FSA) established the Disaster Management Team headed by myself (Minister for Financial Services) at 3pm on 11th March. The Japanese Government as a whole is working hard to save lives and support well-being of those who were hit by the Earthquake. The FSA, as part of the Government, will also do its utmost.
3. As part of the efforts, on 11th March, jointly with the Governor of the BOJ, I requested financial institutions to take appropriate measures to accommodate the needs of those hit by the Earthquake, such as withdrawal of deposits upon the verification of depositors' identities in case they have lost certificates of deposits or passbooks. Going forward, the FSA will continue to ensure the functioning of the financial system for the needs of depositors, clients, etc.

4. The systems and other functions of financial and securities markets are working normally; and in order to ensure that economic activities proceed smoothly, the markets will operate as usual on and after 14th March.
5. On this occasion, the FSA will rigidly monitor the markets to prevent any unfair transactions that take advantage of the disaster. Namely, the FSA, in close cooperation with the Securities and Exchange Surveillance Commission, stock exchanges and other related parties, will monitor thoroughly any misconducts such as market manipulations and respond firmly to misconducts. This includes the strict implementation of the ban on naked short selling.
6. I would like to ask all those concerned for appropriate actions, and sincerely wish for the early recovery of the peace of mind of the afflicted people and the early restoration of the stricken areas.

(Excerpted from the FSA website)

## **Examples of Immediate Responses to the Great East Japan Earthquake**

### **For depositors**

- Even for people who have lost their bank deposit book or *hanko*, if the depositors present documents that make it possible to identify them, the depositors will get access to their deposits at their financial institutions.
- Even if one has lost documents which make it possible to identify them, the financial institutions are striving to provide flexible responses: asking the person's name, address, and other personal information, confirming that these match registered details, then providing access to deposits, etc.
- If family members of deceased or missing immediate relatives provide vital documents, family members can get access to deposits.
- The Japanese Bankers Association provides information on deposits of deceased or missing people on request of their families.
- Even if one has been displaced, one can still get access to deposits at financial institutions other than your own.

### **For borrowers**

#### **(Business loans, housing loans, etc.)**

- Financial institutions are working to respond as much as possible when there are requests for grace periods for loan repayments or provisions for stop-gap funds, etc. from borrowers directly and indirectly affected by the disaster.
- Grace periods will be given for non-payment of drafts and cheques which cannot be settled because of the disaster.
- Financial institutions are also working to handle loan applications flexibly and

quickly. For example, financial institutions are considering the situation of disaster victims, and will minimize the required documents for submission for loans.

- Life insurance and non-life insurance companies are working on fast and easy procedures of insurance payouts.
- Even if insurance certificates or documents enabling personal identification are lost, there will be flexible responses to each individual customer's situation. If one does not know which insurance company one has policies with, ask an insurance association or any insurance company.
- A customer who is a disaster victim can receive a grace period for insurance premium payments, if requested.

### For insurance policyholders

#### (As References)

Research Committee for the Guidelines for Individual Debtor Out-of-Court Workouts. 2011.

“Guidelines for Individual Debtor Out-of-Court Workouts”

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Non-Life Insurance Rating Organization of Japan. 2008.

“Earthquake Insurance in Japan”

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