

<Provisional Translation>

# Insurance Inspection Manual

(Inspection Manual for Insurance Companies)

June 2006

(Duplicate Copy)

Notice No. 251, Inspection Bureau, FSA

June 30, 2006

To: Inspection Administrator, Chief Financial Inspectors, Senior Financial Inspectors, Special Financial Inspectors, and Financial Inspectors

From: Masao Nishihara

Director-General of the Inspection Bureau, Financial Services Agency

Concerning Revisions of the “Inspection Manual for Insurance Companies”

The Inspection Bureau has hitherto developed and published inspection manuals from the viewpoint of further enhancing its inspection and supervision functions, encouraging management of financial institutions based on the principle of self-responsibility, and thereby ensuring transparent administration of financial policies. In accordance with the establishment of the “Comprehensive Guideline for Supervision of Insurance Companies” etc., and changes in the socio-economic environment, the Inspection Bureau has decided to revise the “Inspection Manual for Insurance Companies” published June 20, 2000 (Notice No. 121, Inspection Bureau, FSA) as described in the attachment hereto. You are kindly requested to fully understand and observe this new inspection manual.

This notice will be effective as of July 1, 2006 and applied to inspections commencing on or after that same date.

(Attachment)

**Insurance Inspection Manual**  
(Inspection Manual for Insurance Companies)

June 2006

## Structure of Insurance Inspection Manual

Internal control system	
Compliance system	
Operational risk, etc.	
Asset risk	
Insurance underwriting risk	
Product development	
Financial soundness and actuarial matters	
Customer protection, etc.	
Sales management	

# Insurance Inspection Manual

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## Notes on the Use of this Manual for Inspections

- (1) This manual is essentially a handbook to be used by inspectors for the inspection of insurance companies. It is expected that, in accordance with the principle of self-responsibility, individual insurance companies will fully exercise their creativity and ideas to develop voluntarily their own detailed manuals, in accordance with the size and nature of their operations, as part of their efforts to ensure sound and proper operations of insurance companies and to protect customers.
- (2) Each item on the checklists contained in this manual represents reference standards to be used by inspectors in evaluating the systems of internal control, compliance, management of insurance sales, management of customer protection, etc., and risk management, etc., within insurance companies. Insurance companies are not immediately legally bound to achieve these standards. When using this manual, inspectors must take into account the size and nature of the subject insurance company and take care not to rigidly administer this manual by rote.

In cases when checklist requirements are not literally observed by an insurance company, insofar as the measures taken by such insurance company are deemed reasonable and effectively equivalent with checklist requirements, or sufficient given the size and nature of the insurance company concerned from the viewpoint of ensuring sound and proper operations of the insurance company and the protection of customers, the measures will be acceptable.

Accordingly, inspectors need to exchange fully their opinions with insurance companies during on-site inspections.

- (3) This inspection manual shall apply to all insurance companies, including the overseas offices of Japanese insurance companies (overseas branches, locally incorporated entities, representative offices, etc.) provided however, that the determination of whether to include these offices in the inspection subject to this manual shall be judged in view of applicable laws and regulations including the local regulatory framework, as well as Japanese branches of foreign insurance companies and specified corporations.
- (4) When the insurance company is a company with a committee system, inspections shall be conducted from the viewpoint of whether the board of directors, committees (such as the nomination, compensation, and audit committees),

executive officers, and other corporate structures exercise their empowered authority, etc., paying attention to the following points:

- 1) The authority to execute business is bestowed on executive officers, and in principle, directors do not have the authority to execute business.
  - 2) The board of directors may delegate, by resolution, the authority to make business decisions to executive officers.
  - 3) The purpose of the board of directors is to supervise the execution of the respective duties performed by directors and executive officers.
  - 4) Auditing authority is bestowed on the audit committee, and not on individual audit committee members. (Audit committee members nominated by the audit committee may exercise the authority of the audit committee.)
- (5) Furthermore, when due to certain special reasons, it is necessary to conduct an inspection of subsidiaries, etc., of insurance companies or parties conducting business on their behalf, examinations as may be required shall be conducted in accordance with the applicable sections of this inspection manual.

Note 1: Explanation of items to be inspected

- 1) Unless explicitly stated otherwise, items expressed in the form of a question represent the minimum required standards to be observed by all insurance companies. Accordingly, these items are the checkpoints inspectors must go through one by one and fully examine their effectiveness.
- 2) Unless explicitly stated otherwise, items worded in the form of “it is desirable” represent items that are desired for all insurance companies as best practices. Accordingly, inspectors need only to confirm these items.

Note 2: Explanation of terms

- 1) Items that are defined as “roles of the board of directors” are items for which the board of directors itself needs to determine substantial matters related thereto. However, this does not preclude the board of directors from delegating to the executive board, etc., the authority to deliberate drafts.
- 2) The term “the board of directors, etc.” includes the executive board and management committees, etc., in addition to the board of directors. Items that

are defined as “roles of the board of directors, etc.” are desirably to be determined by the board of directors itself, but may be delegated to the executive board, etc., provided however, that it shall be confirmed whether a system of adequate mutual checking is ensured with the proceedings of the executive board, etc., that would allow after the fact confirmation to be maintained, and other appropriate measures including the reporting of results of proceedings to the board of directors and the participation of corporate auditors in the meetings of the executive board, etc. Furthermore, in cases when the board of directors, etc., delegates the authority to establish, amend, or abolish rules to other divisions or officers, it shall be confirmed whether such delegation is reasonable in view of the nature of such divisions or officers, and the nature of the rules concerned.

- 3) The term “business bases” refers to organizations, other than the head office, which includes branches, regional offices, business line headquarters, overseas branches, and overseas corporations. The term “business bases, etc.” refers to business bases and also includes service centers (including loss investigation operations), overseas representative offices and other bases that are not engaged in sales activities, and business bases other than the head office.
- 4) The term “manager” refers to persons in senior managerial positions in management divisions (including directors). Furthermore, the term also refers to the head of a business base, or senior managers thereof (including directors) with levels of responsibility equivalent to or higher than the head of a business base.
- 5) The term “employees, etc.” refers to employees, sales representatives, and insurance agents of insurance companies.
- 6) The term “insurance sales representatives” refers to sales representatives and insurance agents, but does not include insurance brokers.
- 7) The term “policyholders” refers to persons who are party to an insurance contract with insurance companies.
- 8) The term “policyholders, etc.” refers to policyholders, insured persons, and beneficiaries.
- 9) The term “customers” refers to policyholders, etc., prospective customers eligible for sales activities, and other related parties.

Note 3: Explanation of abbreviated terms

- 1) “Law”: Insurance Business Law
- 2) “Enforcement Order”: Cabinet Order for Enforcement of the Insurance Business Law
- 3) “Enforcement Regulations”: Enforcement Regulations of the Insurance Business Law
- 4) “Supervisory Guidelines”: Comprehensive Guidelines for Supervision of Insurance Companies
- 5) “Practical Guidelines”: Practical Guidelines for Actuaries of Life Insurance Companies (The Institute of Actuaries of Japan)

## Internal Control System

### Checklist for Inspection of the Internal Control System

- (1) Compliance with the Insurance Business Law and other applicable laws and regulations (including internal rules) over the entire operations of insurance companies is essential for ensuring the sound and appropriate operations of insurance companies, fairness in the sales of insurance, and protection of customers. In addition, it is essential for insurance companies to properly understand and manage various risks, and ensure sound and appropriate operations based on the principle of self-responsibility in the changing business environment surrounding the insurance business. In view of the fact that effective disciplines over the management of insurance companies and related appropriate internal controls are necessary to achieve these purposes, this checklist has been prepared to examine the internal control system in detail.
- (2) Inspectors shall inspect the internal control system systems using this checklist. It shall be noted that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, other applicable laws and regulations, and the Supervisory Guideline, etc., shall be taken into consideration.

## Internal Control System

### I. Role of Directors and the Board of Directors

#### 1. Overall Business Operations

- (1) Do the individual directors and the board of directors position as a priority task the formulation of corporate ethics based on the social responsibilities, public missions, etc., of insurance companies, and build a structure for ensuring the same in a specific manner?
- (2) Do the individual directors and the board of directors articulate management policies based on the overall targets that the insurance company shall strive to achieve? Do they articulate business plans in accordance with management policies and communicate the same to their officers and employees, etc.? Furthermore, do they regularly review the degree of achievement and update the same as needed?
- (3) Do directors obtain information necessary for business management purposes in a timely manner and share such information with other directors and corporate auditors, etc.? Furthermore, does the board of directors, etc., conduct analyses, verifications, and discussions related to such information, and make decisions accordingly?
- (4) Does the board of directors formulate basic policies, without delegating such tasks to representative directors, etc., that are concerned with the establishment of structures required under laws and regulations for the purpose of ensuring that the execution of the duties of directors are in compliance with laws and regulations as well as the articles of incorporation, and that other operations of the company are appropriately conducted in accordance with the size, and nature, etc., of the business in which the company is engaged? Furthermore, has the board updated such a structure and established new systems from time to time based on an assessment of the functions of the structure?
- (5) Do individual directors, from the viewpoint of checking and restraining arbitrary actions of representative directors in their execution of business and ensuring appropriate business operations, fully discharge their duties to supervise decision making and business operations by the board?
- (6) Do directors fully discharge their fiduciary duties of care and loyalty in their execution of business?

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- (7) Do directors treat the divisions in charge of compliance, risk management, and internal audit on par with the sales division in connection with performance evaluations and personnel appraisals, and conduct appropriate evaluations?
- (8) Does the board of directors have a structure in place to disclose information in full conformity with the purpose and intent of laws and regulations and in an appropriate manner?

### 2. Compliance with laws and regulations

- (1) Do the individual directors and the board of directors treat compliance as one of their top managerial priorities by establishing a compliance system and actively endeavoring to ensure compliance? For example, has the board established a division which centrally manages compliance-related matters (such as, the “compliance management division”), articulated the rules of communication, reporting, consultation, etc., so that compliance-related internal and external information can be obtained and managed in an appropriate manner, or otherwise developed the necessary structures and rules to this end?
- (2) Does the board of directors, etc., assign to the compliance management division an appropriate number of staff with adequate knowledge and experience, and grant them the authority necessary for the execution of operations?
- (3) Does the board of directors discuss various compliance issues in addition to matters related to business promotion? Does it clearly indicate to its officers and employees, etc., the commitment of the company concerning compliance? Does the board of directors accurately recognize the circumstances under which a large number of typical violations are reported, and give appropriate directions to control such circumstances?
- (4) Do directors deal with antisocial parties with a firm stance in cooperation with police and other relevant organizations?

### 3. Risk Management

- (1) Do the individual directors and the board of directors fully recognize that disregard of the risk management division will have serious consequences on earnings, and accordingly give weight to the risk management division? Especially, do directors in charge of the risk management division understand the locus and type of risks,

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and fully appreciate methods to measure, monitor, and manage various risks involved?

- (2) Do the individual directors and the board of directors articulate clear risk management policies in view of the company's strategic goals, and indicate such policies to officers and employees? Are risk management policies reviewed and updated regularly or as needed?

Do the individual directors and the board of directors regularly receive reports on risk status and make decisions as needed, making use of the acquired risk information for business execution and for the development of management structures? For example, do they develop the risk management division to deal with various types of risks and establish a system that enables integrated management of risks involved in these divisions? Do they, for example, separate profit divisions from the risk management division to ensure that the functions of mutual checks and balances are fully realized?

- (3) Do they assign an appropriate number of personnel to the risk management division with adequate knowledge and experience, and grant the authority necessary for the execution of operations? Are organizational structures reviewed and updated whenever necessary, and are improvements implemented according to changes in business goals and progress in risk management methods?
- (4) Does the board of directors discuss, not only matters related to business promotion, but also diverse issues associated with various types of risks inherent in business management? In order to perform appropriate risk management, does it articulate clear personnel management policies aimed at the training of personnel versed in risk management operations, assignment of risk managers exclusively devoted to such operations, and prevention of accidents?
- (5) Has the board of directors, etc., established a system for closely coordinating relevant divisions for the purpose of comprehensive management of assets and liabilities? It is desirable to establish an ALM committee or similar organization as part of efforts for the development of such a system.

## 4. Internal Audits

- (1) From the viewpoint of establishing an appropriate internal control system, do the individual directors and the board of directors recognize the importance of internal

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auditing, appropriately set forth the objectives of internal audits through establishment of internal audit rules, etc., established a system enabling the division in charge of internal audits (the “internal audit division”) to fully perform its functions (including ensuring the independence of the internal audit division), and regularly confirm the effectiveness of such functions?

- (2) Has the board of directors established a system that enables it to perform special audits concerning particular operations, or management systems, etc., which are exposed to significant risks, in addition to normal audits? Does the board of directors continue to be responsible for the content and results of an audit in the event that external professionals are utilized to strengthen and complement the internal audit functions with respect to business operations that cannot be sufficiently performed by the current internal audit system in accordance with the judgment of the board of directors?
- (3) Does the board of directors thoroughly communicate to officers and employees, etc., the extent of operations, authority, and responsibility of the internal audit division?
- (4) Does the board of directors approve the fundamental items related to internal audit policies, internal audit rules, and items of special emphasis in view of the risk management status of audited divisions, etc.? Are internal audit rules, etc., reviewed and updated as needed in accordance with changes in the business environment or otherwise?
- (5) Does the board of directors respond appropriately with respect to the results of internal audits including issues deemed to affect business operations significantly and issues deemed impossible to be dealt with solely within audited divisions?

Note: “Internal audit” refers to the process of verifying the appropriateness and effectiveness of the internal control systems (including the risk management system) of business divisions under audit, etc. (“audited divisions, etc.”) by an internal audit division (the inspection section, the operational audit section, etc.) that is independent of business division headquarters and business bases, etc. This process is not confined to identification and reporting of issues associated with internal business processing, etc., within the audited divisions, but encompasses an evaluation of the internal management system and recommendations for improving such issues; in principle, however, this process does not include self-assessment conducted

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by audited divisions as part of their internal management efforts. Hereinafter, this definition shall apply.

### 5. Minutes of Board of Directors' Meetings

- (1) Are minutes of board of directors' meetings prepared? Are the minutes of board of directors' meetings retained for the period of time as specified by law?
- (2) Are the materials that describe in detail the agenda and the proceedings of the board of directors prepared and retained for the same period together with the minutes of the board of directors' meetings and materials used in proceedings?
- (3) Are the minutes of board of directors' meetings or underlying documents structured so as to confirm the record of compliance and risk-related decisions made by the board of directors, etc., issues related to various risks and their status, as well as reports of irregularities and other problematic matters?
- (4) Are records of the meetings of the executive board, the management committee, etc., which are important in terms of business operations and internal controls prepared in a similar manner as the minutes of the meetings of the board of directors and retained together with materials used in the proceedings?
- (5) Is a structure in place for appropriately keeping and managing information concerning the execution of duties by directors?

## II. Role of Corporate Auditors and the Board of Corporate Auditors

- (1) Do corporate auditors attend the meetings of the board of directors and express their opinions as needed?
- (2) Is the independence of the board of corporate auditors assured?
- (3) Do corporate auditors and the board of corporate auditors appropriately exercise their granted comprehensive authority, and perform legality audits of business operations in addition to accounting audits, thereby ensuring the effectiveness of audits?
- (4) Do corporate auditors and the board of corporate auditors have appropriate supporting staff?

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- (5) Do corporate auditors and the board of corporate auditors use accounting auditors and actuaries to complement their functions? Is legal counsel employed as needed?
- (6) Notwithstanding that a board of corporate auditors has been established, do corporate auditors understand that they are also single-person corporate organs, and actively perform audits exercising their own responsibilities?
- (7) Are there systems in place to enable corporate auditors and the board of corporate auditors to verify whether the results of external audits by accounting auditors are appropriate, and if necessary, to take measures such as replacing accounting auditors?

## III. Roles of Managers

- (1) Do managers fully understand the importance of compliance with laws and regulations, the locus and type of risks to which the company is exposed, techniques for risk management, and monitor various risks in ways to adapt to the type of risks involved or otherwise appropriately manage risks in accordance with risk management policies?
- (2) Do managers implement measures for effecting mutual check and balance functions in accordance with the policies decided by the board of directors, etc.?

## IV. Internal Audits

### 1. Development and Establishment of an Internal Audit System

- (1) Does the company have an independent internal audit system in place to conduct internal audits of audited divisions, in such a manner as to fully put into force mutual check and balance functions in order to ensure that operations are conducted in a sound and appropriate manner?
- (2) Does the scope of internal auditing cover all aspects of operations? Specifically, does it cover examinations not only from the viewpoint of whether clerical processes, etc., have any deficiencies, but also from the viewpoint of whether divisions involved with compliance and the payment of insurance claims are properly performing their functions? In addition, with respect to the operations of consolidated subsidiaries and companies accounted for under the equity method, are audits performed to an extent so as not to be in contravention of laws or

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regulations? With respect to the operations of consolidated subsidiaries and affiliates accounted for under the equity method which cannot be audited internally as well as operations contracted out to third parties, are items such as the status of controls by relevant sections in charge of these operations included within the scope of an audit?

- (3) Is the internal audit division authorized to obtain all materials and interview or ask every officer and employee any questions as deemed necessary for the execution of their duties? Does the head of the internal audit division attend meetings (such as various types of risk management committees) related to issues of internal control (including risk management) as necessary?
- (4) Are personnel who are fully conversant with laws, regulations, and operations pertaining to audited divisions allocated to the internal audit division on an appropriate scale? Have various measures been taken for enhancing the professional competence of internal auditors, such as the utilization of training both inside and outside the company?

### 2. Enhancement of Internal Audit Methods

- (1) Has the internal audit division established implementation manuals, etc., for internal audit operations and have the manuals been approved by the board of directors, etc.? Are such implementation manuals, etc., reviewed and updated whenever necessary?
- (2) Does the head of the internal audit division confirm the appropriateness and effectiveness of standards and manuals for self-assessment by each business base, etc., and each business division?
- (3) Does the internal audit division comprehend the risk management status of audited divisions, etc., and establish efficient and effective internal audit plans, taking into consideration the frequency and depth of audits and in accordance with the type and degree of risks involved?

### 3. Implementation of Internal Audits

- (1) Does the internal audit division implement efficient and effective internal audits (such as surprise inspections) in accordance with internal audit plans, taking the frequency and depth into consideration? When internal audits of insurance sales

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representatives by the internal audit division cannot be performed at certain intervals due to unavoidable reasons, is an internal audit by the division in charge or by business bases, etc., performed at equivalent or shorter intervals? Is such an internal audit given the same importance and assurance of practicality in the effort of ensuring its effectiveness and correcting problems?

- (2) Does the internal audit division make efforts to ensure a fair internal audit, for example, by avoiding the successive assignment of the same internal auditor from engaging in audits of the same operations of the same audited divisions?

### 4. Reporting of Internal Audit Results

- (1) Do internal auditors promptly prepare an internal audit report that accurately reflects the issues identified and pointed out in the course of an internal audit?
- (2) Does the head of the internal audit division report promptly to the board of directors, etc., concerning the important issues identified in internal audit reports after confirming the content thereof and analyzing the frequency of the occurrence of such issues, degree of importance, and causes thereof? Specifically, are issues promptly reported to the board of directors, etc., that are deemed to materially affect business or significantly endanger the interests of customers?

### 5. Correction of Issues

- (1) Does the internal audit division accurately identify issues involved, etc., after analysis of the results obtained from internal audits, and communicate them to the division in charge of compliance and the respective business divisions, etc.?
- (2) Are the issues identified in internal audit reports corrected without delay by audited divisions taking into account the degree of importance of such issues? Do they prepare improvement plans, etc., and monitor and control the progress of such plans in an appropriate manner? Furthermore, does the internal audit division monitor and control the progress of improvement plans of respective business divisions and reflect the results in future internal audit planning?

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### V. Use of external audits

- (1) Is the effectiveness, etc., of the internal control system (including the risk management system) verified at least once a year by an external audit performed by accounting auditors, etc.? Are the results of such an external audit reported directly and accurately to the board of directors or the board of corporate auditors in accordance with the nature of the audit?
- (2) Do the board of directors and the board of corporate auditors regularly verify whether external audits are functioning effectively?
- (3) Do individual directors and the board of directors, etc., receive reports as needed on the results of external audits performed of subsidiaries, etc., in an appropriate manner, understand the issues involved, and monitor whether external audits of subsidiaries, etc., are functioning effectively?
- (4) Does the board of directors pay due attention as needed to the maintenance of a cooperative relationship between the internal audit division and external auditors, including accounting auditors?
- (5) Does the company have a system in place under which the issues identified by external auditors are corrected within a certain period of time? In addition, does the internal audit division appropriately oversee the status of improvements?

Note: "External audits" herein are not necessarily limited to financial statement audits by accounting auditors. However, it shall be noted that it is not currently compulsory to undergo external audits except for statutorily required audits of financial statements and a review of the effectiveness of the internal control system conducted as part of said audit procedures; provided however, that in cases when insurance companies undergo external audits as well as financial statement audits in order to ensure the effectiveness of the internal control system, results of both financial statement audits and such external audits shall be used to assess the overall effectiveness of the internal control system.

### VI. Role of Chief Actuaries

- (1) Is the appointment, resignation, or removal of chief actuaries conducted appropriately in compliance with the provisions of laws and regulations from the viewpoint of ensuring the independence of chief actuaries?

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- (2) Does the board of directors grant chief actuaries the authority necessary to discharge their duties? Is the function of mutual checks and balances ensured, for example, by maintaining the independence of chief actuaries from profit, profit management, and product development divisions?
- (3) Are chief actuaries involved in premium calculation methods and other actuarial matters in compliance with laws and regulations from the viewpoint of ensuring fair treatment of customers and financial soundness? Do they receive reports from relevant divisions concerning information necessary to this end?
- (4) Do chief actuaries verify in compliance with laws and regulations whether liability reserves, etc., are provided for in accordance with sound actuarial standards?
- (5) Do chief actuaries verify in compliance with laws and regulations whether policyholder dividends or distributions of surplus earnings to policyholders are implemented in a just and fair manner?
- (6) Do chief actuaries of life insurance companies conduct projected cash flow analyses in compliance with laws and regulations? In particular, are their analyses of the growth rates of new business, expenses, and asset portfolio in conformity with prior experience and reasonable future expectations?
- (7) Do chief actuaries submit to the board of directors an opinion letter setting forth the matters required under laws and regulations, and after appropriately explaining the content thereof to the board of directors, submit a copy thereof to regulatory authorities?

## VII. Meetings of Policyholder Representatives (in the Case of Mutual Companies)

### 1. Election of Policyholder Representatives

- (1) Is the method of electing policyholder representatives (including screening procedures and standards) shown in explanatory documents in a clear and easily understood manner, and are the policies and rationale explained in meetings of policyholder representatives? Do explanatory documents clearly specify the address to which opinions are to be sent? Is the method of electing policyholder representatives in conformity with the articles of incorporation?
- (2) Is the group of policyholder representatives comprised in such a way as to appropriately reflect the opinions of policyholders in terms of the type of insurance,

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age, gender, occupation, timing of acquiring policyholder status, region, etc.? Is the number of policyholder representatives adequate in terms of appropriately reflecting the opinions of policyholders? Are the rationales for determining the number of policyholder representatives appropriate? Are comparisons of the composition of the group of total policyholders and the composition of the group of policyholder representatives shown in explanatory documents in a clear and easily understood manner, and explained in meetings of policyholder representatives?

- (3) Is the process of screening candidates for policyholder representatives fair and transparent? In view of the purpose of electing representatives of policyholders, are candidates selected from those who are existing policyholders at the screening stage?
- (4) Does the insurance company have rules concerning the maximum number of terms for the re-election of policyholder representatives?
- (5) When a vote of confidence is sought, are policy statements by candidates or explanations of candidates by the screening committee, etc., or other information for making a decision about each candidate adequately provided?

### 2. Administration of Meetings of Policyholder Representatives

- (1) Are the meetings of policyholder representatives administered in compliance with laws and regulations to satisfy the group's purpose and fulfill its management oversight functions properly?
- (2) Are matters contained in the business report disclosed in the meetings of policyholder representatives in a clear and easily understood manner, as well as solvency margin ratio and other matters that will have a material impact on business operations and important matters concerning the interests of customers? Is information concerning business conditions of the company appropriately provided to policyholder representatives at times other than meetings? Furthermore, is a method formulated for gathering opinions from policyholder representatives, and are measures taken for communicating the same to other policyholder representatives?
- (3) Are policyholders desiring to observe the meetings of policyholder representatives afforded the opportunity to do so? Are efforts made to communicate the existence of such an observance system to policyholders? Are opportunities provided for expressing opinions and questions to the company?

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- (4) Are the minutes of meetings of policyholder representatives, etc., disclosed to policyholders?

## Compliance System

### Checklist for Inspection of the Compliance System

- (1) Compliance with the Insurance Business Law and other applicable laws and regulations (including internal rules) over the entire operations of insurance companies is essential for ensuring the sound and appropriate operations of insurance companies, fairness in sales of insurance contracts, and protection of customers. In view of the fact that directors, etc., of insurance companies shall be fully aware of the importance of compliance issues as well as that the companywide compliance system should be developed and established to this end, this checklist has been prepared to examine the development and establishment of the compliance system in detail.
- (2) Inspectors shall inspect the compliance system using this checklist. It shall be noted that in the event any issues are identified within the compliance system by inspectors using this checklist, such issues shall be pointed out individually. In order to identify the causes that have given rise to such issues, whether the internal control system has any flaws also needs to be assessed using the “Checklist for Inspections of the Internal Control System.”
- (3) It shall be noted that when assessing specific cases using this checklist, the provisions as well as the purposes and intent of the Insurance Business Law, other applicable laws, regulations, and supervisory guidelines, etc., shall be taken into consideration.

#### I. Compliance System

##### 1. Development and Establishment of a Compliance System

- (1) Formulation and establishment of basic policies and standards concerning compliance
  - 1) Do directors understand the importance of compliance with laws and regulations, and based on this understanding, accurately recognize the current status of the compliance system, formulate action plans, and implement specific measures aimed at establishing an appropriate compliance system?
  - 2) Does the board of directors, etc., analyze and evaluate the aforementioned action plans and specific measures aimed at establishing an appropriate compliance system, and reach unambiguous decisions? Are the action plans thoroughly understood by officers and employees, etc.?

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- 3) Are the formulation and subsequent reviews of basic policies and standards concerning compliance legally verified and approved by the board of directors?
  - 4) Do the basic policies and compliance standards articulate concrete guidelines and standards of conduct?
  - 5) Are all officers and employees, etc., fully aware of the basic policies and compliance standards?
  - 6) Does the company treat antisocial parties with a firm stance in cooperation with the police and other relevant authorities concerned?
- (2) Development, etc., of organizations for compliance
- 1) Has the board of directors, etc., established a division that centrally manages compliance-related matters (the “compliance control division”)? Does it assign compliance officers to those business divisions and business bases, etc., that are exposed to risks of more than a certain level to ensure compliance, etc., at these sites?
  - 2) Does the company have a system in place to enable the compliance control division and compliance officers to perform appropriate roles independent of the sales promotion division in order to develop and establish a proper compliance system? For example, are measures taken to enable the compliance control division to prepare or assess rules concerning misconduct, independently from the sales promotion division?
  - 3) Does the board of directors, etc., grant the compliance control division the authority necessary for the establishment of an adequate compliance system?
  - 4) Does the board of directors, etc., assign an appropriate number of staff with adequate knowledge and experience necessary for the execution of operations to the compliance control division?
  - 5) Does the company have a system in place for reporting without delay to the compliance control division the information necessary to identify compliance-related issues in a timely and accurate manner (information concerning customer complaints, work performance of sales forces, investigative reports of misconduct, status of insurance contract renewals, status of expenses disbursed, etc.; collectively referred to as “compliance-related information”)?

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- 6) Does the company have a system in place under which the compliance control division can take actions for continual improvement such as requesting related divisions to file a report or to take steps for improvement based on the analysis of compliance-related information?
- (3) Reporting to, and approval of, the board of directors, etc.
    - 1) Has the board of directors, etc., established a system under which all matters are promptly reported to the board of directors by the compliance control division that contain information related to compliance and that may have a material impact on business operations or significantly jeopardize the interests of customers, etc.?
    - 2) Do the standards concerning the submission of matters for discussion by the board of directors, etc., properly set forth the reporting matters and approval matters?

## 2. Roles of the Compliance Control Division and Compliance Personnel

- (1) Does the compliance control division appropriately gather and maintain compliance-related information? Does it immediately conduct appropriate investigations in the event any inappropriate incidents are discovered?
- (2) Does the compliance control division analyze the compliance-related information that it gathers?
- (3) Does the compliance control division, for example, request related divisions to file a report or to take steps for improvement based on analyses of compliance-related information, or otherwise take measures for continual improvement? Furthermore, does the compliance control division make proposals for improvement to the board of directors, etc.?
- (4) Does the compliance control division study and formulate effective measures for the prevention of misconduct and its recurrence?
- (5) Does the compliance control division assign compliance staff to each business division and business bases, etc., to compile compliance-related information related to such divisions, communicate such information to the compliance control division as needed or periodically, and work for compliance in such divisions? Do

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compliance staff members acquire the minimum level of legal knowledge required and adequately fulfill their functions?

### 3. Development and Communication of a Compliance Manual

- (1) Does the company formulate specific handbooks for compliance that explain the laws and regulations to be observed and provide specific means of treatment of any illegal actions discovered (“compliance manuals”)? Are the formulation and any important revisions of compliance manuals legally verified and approved by the board of directors?
- (2) Is the content of compliance manuals appropriate and sufficiently specific in view of the social responsibilities and public missions of insurance companies? For example, is a compliance manual prepared that is specifically customized for insurance sales representatives in accordance with their duties?
- (3) Do compliance manuals clearly set forth the section to which misconduct is to be reported?
- (4) Are officers and employees, etc., fully aware of the existence and content of compliance manuals?
- (5) Is the content of compliance manuals reviewed and revised periodically as needed? Are legal verifications performed when new business operations are initiated or new products are launched, and are compliance manuals reviewed and revised as appropriate?

### 4. Formulation and Implementation of Compliance Programs

- (1) Does the company formulate specific programs for the development of compliance-related rules, and employee training programs, etc., (“compliance programs”) in a timely and reasonable manner?
- (2) Does the board of directors approve compliance programs when they are formulated or important revisions are implemented?
- (3) Is the division responsible for the implementation of compliance programs clearly set forth?

## Compliance System

- (4) Is the progress and achievement of compliance programs verified? Do individual directors and the board of directors regularly and accurately measure and evaluate the progress and achievement of programs?
- (5) Is the implementation of compliance programs fairly reflected in performance evaluations and personnel appraisals, etc.?

### 5. Guidance, Training, and Control, etc.

- (1) Has the compliance control division developed a system for conducting training or regular meetings for the purpose of ensuring companywide compliance from the viewpoint of preventing the occurrence of misconduct and communicate the system to employees, etc.? Are the training programs well developed that are related to compliance?
- (2) Does the company conduct appropriate job rotations so that specific employees are not engaged in the same jobs in the same divisions for prolonged periods? If specific employees are engaged in the same jobs in the same divisions for prolonged periods due to certain unavoidable reasons, are appropriate measures taken to prevent incidents from occurring?
- (3) Does the company have programs in place to require employees, etc., (including managers) to take leave from their regularly assigned tasks for a certain period of time at appropriate intervals for the purpose of preventing incidents, for example, by vacations, training, internal temporary replacements, or other systems?

### 6. Clarification of Responsibility and Disciplinary Actions

- (1) Does the insurance company hold accountable for their actions the directors, etc., and accounting auditors, etc., who have committed illegal acts, if any?
- (2) Are the rules concerning disciplinary actions, etc., developed?
- (3) Are the rules concerning disciplinary actions enforced in a rigorous and fair manner?

## Compliance System

### II. Treatment of Misconduct, etc.

#### 1. System for Treatment of Misconduct, etc.

- (1) Are there rules concerning the procedures for treatment of any misconduct that is in violation of laws and regulations, etc.? Are the rules legally verified and approved by the board of directors, etc.? Are the standards for judgment of misconduct clearly defined in such rules?
- (2) In the event that officers or employees have uncovered any misconduct or suspected misconduct in complying with rules, etc., is a system established that calls for prompt reporting thereof to the compliance control division and the internal audit division, etc.; reporting to the board of directors, etc., in compliance with the rules; and performance of prompt and in-depth investigations by divisions that are independent (the compliance control division or internal audit division, etc.) of the division where the misconduct has occurred? Are incidents handled promptly in compliance with the procedures set forth in the rules? Is misconduct reported to supervisory authorities and handled appropriately in compliance with laws and regulations, etc.?
- (3) Is a structure in place that calls for the investigation and clarification of facts, holding the relevant parties accountable, and clarifying management responsibilities, independently of the divisions where misconduct has occurred?
- (4) Does the compliance control division analyze the causes of misconduct, feedback the results of such analyses to the heads of related divisions and the heads of business bases, etc., from the viewpoint of preventing future incidents, and take measures in a timely manner to prevent recurrence thereof?
- (5) Are the persons who have engaged in misconduct and their supervisors, etc., appropriately held accountable?
- (6) Are any facts that may be in violation of criminal codes promptly reported to police and other relevant agencies?

#### 2. Rewards and Penalties; Personnel Appraisals

- (1) Is compliance adequately taken into consideration for the evaluation of rewards and penalties and personnel appraisals, etc.? Does the award system give enough

## Compliance System

weight to compliance, for example, by disqualifying parties (business bases, etc., and employees, etc.) from such programs who have caused compliance issues?

- (2) Is the importance of compliance fully communicated to employees, etc., at workshops, regular meetings, etc., for the prevention of misconduct?

### III. Scope of Business Operations

#### 1. Restrictions on Engaging in Other Business Operations

- (1) Are the business operations of the insurance company subject to the scope of business operations set forth in Articles 97, 98, and 99 of the Law, and other applicable laws and regulations?
- (2) Is the underwriting of insurance contracts by insurance companies conducted in accordance with the type of insurance licenses granted under Article 3, Paragraph 2 of the Law?
- (3) Is the management of funds and other assets received as insurance premiums conducted in a manner stipulated by laws and regulations, such as for investments in securities?
- (4) Does the insurance company invest assets stipulated by laws and regulations in excess of the amount calculated in accordance with the provisions of laws and regulations? Is the amount of assets invested by the insurance company in a single entity (including parties with special connections therewith) in excess of the amount calculated in accordance with the provisions of laws and regulations?

Note: In cases when the insurance company has subsidiaries, etc., it shall be noted that the combined amount of assets invested in a single entity by the insurance company and its subsidiaries, etc., cannot exceed the amount calculated in accordance with the provisions of laws and regulations.

- (5) Is the insurance company engaged in the purchase and sale of assets or any other transactions with persons in specified relationships, etc., under terms and conditions substantially different from those of normal transactions of the insurance company?
- (6) Have the insurance company and its subsidiaries in aggregate acquired or are they now holding voting rights of domestic companies (other than their own subsidiaries) that are in excess of the limit allowed by laws and regulations?

## Compliance System

### 2. Ancillary Business Operations

- (1) In view of the purpose of the exemption of insurance companies from the regulations under the Law Regarding Regulation of Business Concerning Commodities Investments (Law No. 66 of 1991), are business operations of the insurance company conducted in accordance with the regulations for the protection of investors as set forth in this law, etc.?
- (2) In view of the purpose of the exemption of insurance companies from the regulations under the Law Regarding Regulation of Mortgage Security Business (Law No. 114 of 1987), are business operations of the insurance company conducted in accordance with the regulations for the protection of purchasers as set forth in this law, etc.?
- (3) When determining whether business operations of the insurance company are subject to the scope of the “the following and other business operations ancillary thereto” set forth in Article 98, Paragraph 1 of the Law, is it fully taken into account that engagement in business operations other than those provided for in the Law is banned under Article 100 of the Law, and is due attention paid to the following points?
  - 1) whether the operations in question are similar in nature to the business operations listed in Article 97 and Article 98, Paragraph 1 of the Law;
  - 2) whether the magnitude of the operations in question is not overly excessive in comparison to the proper business operations to which such business operations are ancillary;
  - 3) whether such business operations have functional similarities or homogeneity of risks with the insurance business; and
  - 4) whether such business operations contribute to the utilization of surplus capacity of the insurance company justly resulting from the pursuit of the proper business operations of the insurance company.

### 3. Scope of the Business Operations of Subsidiaries, etc., of Insurance Companies

- (1) Are subsidiaries of the insurance company subject to any item listed in Article 106 of the Law? Are subordinate business operations (Article 106, Paragraph 2, Item 1 of the Law) and financing-related business operations (Item 2 of said Article and Paragraph) conducted by subsidiaries in compliance with statutory requirements

## Compliance System

and the standards concerning subsidiaries set forth in public notices and the Supervisory Guidelines?

Note: Regardless of whether such insurance companies prepare business reports, etc., in accordance with the Securities Exchange Law, the determination of qualifying subsidiary corporations and affiliated corporations, etc., shall duly consider whether the following are observed: “Regulations Concerning Terminology, Forms and Methods of Preparation of Financial Statements,” “Audit Considerations Concerning Determination of the Scope of Subsidiaries and Affiliates in Consolidated Financial Statements” (issued by the Japanese Institute of Certified Public Accountants on December 8, 1998), and other generally accepted accounting principles.

Note: “Corporations” as defined in Articles 106 and 107 of the Law do not include special purpose corporations, associations, investment corporations, partnerships, limited liability companies, or any other business entities equivalent to corporations (hereafter, “business entities equivalent to corporations”). Attention shall be paid to whether the purposes of the regulations of the scope of business operations of subsidiaries, etc., and prohibitions of engaging in other business operations are evaded through business entities equivalent to corporations.

### IV. Identity Verification

#### 1. Formulation of Rules

- (1) Are there rules concerning the procedures for compliance with laws and regulations related to identity verification? Are the rules legally verified and approved by the board of directors, etc.?

#### 2. Development, etc., of Organizations

- (1) Has the board of directors, etc., assigned a person or established a division in charge of identity verification?
- (2) Does the board of directors, etc., have a system in place for promptly reporting matters that may have a significant impact on business operations to the compliance control division and the internal audit division as well as the board of directors, etc.?

## Compliance System

- (3) Does the board of directors have a system in place for enabling identity verification, and preparation and maintenance of identity verification and transaction records to be conducted in an appropriate manner?

### 3. Guidance and Training

Does the division in charge of identity verification thoroughly inform staff, etc., regarding the importance of this matter, for example, by regularly providing guidance and conducting workshops in order to process in a timely and appropriate manner the operations concerning identity verification?

## V. Notification of Dubious Transactions

### 1. Formulation of Rules

Are rules established concerning the procedures for compliance with laws and regulations related to the notification of dubious transactions? Are the rules legally verified and approved by the board of directors, etc.?

### 2. Development, etc., of Organizations

- (1) Has the board of directors, etc., assigned a person or established a division in charge of notification of dubious transactions?
- (2) When dubious transactions require notification, does the board of directors, etc., have a system in place under which appropriate evaluation and judgment can be performed by comprehensively taking into consideration the attributes of the parties involved, circumstances at the time of the transactions, and any other specific information known by the insurance company concerning the transactions?
- (3) Does the board of directors, etc., have a system in place under which a person or a division in charge of notification of dubious transactions can periodically report a summary, etc., of the dubious transactions reported from business bases, etc., to the board of directors, etc.?
- (4) Does the board of directors, etc., have a system in place for promptly reporting matters that may have a significant impact on business operations to the compliance control division and the internal audit division as well as to the board of directors, etc.?

## Compliance System

- (5) Does the division in charge of notification of dubious transactions promptly report any information that may be related to the funding of terrorist activities or money laundering to the authorities?
- (6) Does the board of directors, etc., have a system in place that can verify after the fact that a failure of notification did not occur?

### 3. Guidance and Training

Does the division in charge of notification of dubious transactions communicate the importance of this matter to employees, etc., for example, by regularly providing guidance and conducting workshops in order to process the operations concerning notification of dubious transactions in a timely and appropriate manner?

## Checklist for Inspection of the Sales Management System

- (1) An appropriate management system concerning the sales and concluding of insurance policy contracts needs to be developed and established for the protection of customers. This checklist has been prepared in view of such necessity to verify the sales management system in a specific manner.
- (2) Inspectors shall inspect the sales management system using this checklist. It shall be noted that in the event any issues are identified within the sales management system by inspectors using this checklist, such issues shall be pointed out individually. In order to identify the causes which have given rise to such issues, whether the internal control system and the compliance system have any flaws also needs to be assessed using the “Checklist for Inspection of the Internal Control System” and the “Checklist for Inspection of the Compliance System.”
- (3) It shall be noted that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, other applicable laws and regulations, and the Supervisory Guidelines, etc., shall be taken into consideration.

## Sales Management

### I. Sales Management System

#### 1. Establishment and Development of the Sales Management System

- (1) Formulation and establishment of basic policies concerning insurance sales management
  - 1) Do directors understand the importance of compliance with laws and regulations concerning insurance sales, and based on this understanding, accurately recognize the current status of insurance sales of the company, as well as design and formulate policies and specific measures aimed at building and ensuring an appropriate insurance sales management system?
  - 2) Does the board of directors, etc., analyze and evaluate the policies and specific measures aimed at building and ensuring an appropriate insurance sales management system, and make unambiguous decisions? Are the foregoing policies thoroughly understood by officers and employees, etc.?
- (2) Development, etc., of the organization for insurance sales management
  - 1) Has the board of directors, etc., established a system to enable the division in charge of compliance concerning insurance sales (the “insurance sales compliance division”) to perform appropriate roles independently of the sales promotion division in order to develop and establish a proper insurance sales compliance system? For example, are measures taken to enable the insurance sales compliance division to prepare and assess rules concerning insurance sales independently from the sales promotion division? The insurance sales compliance division may concurrently be engaged in operations other than those related to the sales promotion division as long as independence from sales-related divisions is ensured.
  - 2) Does the board of directors, etc., grant the insurance sales compliance division the authority necessary for the establishment of a compliance system for appropriate insurance sales?
  - 3) Does the board of directors, etc., assign an appropriate number of staff with adequate knowledge and experience regarding laws and regulations concerning insurance sales and compliance thereof to the insurance sales compliance division?

## Sales Management

- 4) Has the board of directors, etc., established a system under which the insurance sales compliance division can promptly receive reports on compliance-related information including customer complaints, job performance of sales forces, investigative reports of misconduct, status of insurance contract renewals, and the status of expense disbursements, which furthermore relates to insurance sales (the “insurance sales compliance information”)?
  - 5) Does the company have a system in place in the business promotion division and business bases under which checks and balances function in such a manner as to ensure appropriate insurance sales? For example, does the board of directors, etc., assign an appropriate number of compliance personnel in accordance with the size and nature of business bases?
- (3) Reporting to, and approval of, the board of directors, etc.
- 1) Has the board of directors, etc., established a system under which all matters are promptly reported to the board of directors by the insurance sales compliance division that are contained in the information related to appropriate management of insurance sales and may have a significant impact on business operations or substantially jeopardize the interests of customers?
  - 2) Do the standards concerning reporting to and submitting matters for discussion by the board of directors, etc., properly set forth reporting matters and approval matters?

## 2. Roles of the Insurance Sales Compliance Division

- (1) Has the insurance sales compliance division established rules concerning insurance sales? Are the rules legally verified and approved by the board of directors, etc.?
- (2) Does the insurance sales compliance division obtain and analyze insurance sales compliance information? Does it immediately conduct an appropriate investigation in the event any incidents that reveal flaws in the compliance system, or inappropriate incidents are discovered?
- (3) Does the insurance sales compliance division have a system in place under which the division can, for example, request related divisions to file a report or take steps for improvement based on the analysis of insurance sales compliance information, or otherwise take measures for continual improvement? Furthermore, does the

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insurance sales compliance division make recommendations for improvement to the board of directors, etc.?

- (4) Does the insurance sales compliance division have a system in place under which the division can promptly verify whether any problems related to insurance sales exist, for example, by confirming contracts in the event of early lapses or surrenders, which are typically likely to give rise to misconduct?
- (5) Does the insurance sales compliance division, etc., provide guidance and training to employees, etc., for the purpose of ensuring compliance in relation to insurance sales from the viewpoint of preventing the occurrence of misconduct?

### 3. Roles of Managers at Business Bases

- (1) Do managers understand the importance of compliance with laws and regulations relating to insurance sales, and based on this understanding, accurately recognize the status of insurance sales at business bases, and implement appropriate measures? For example:
  - 1) Do managers verify the status of compliance at business bases on their own initiative at appropriate intervals?
  - 2) Do managers provide appropriate guidance and training through regular meetings, etc., to personnel in charge for the purpose of enabling recognition of the importance of compliance?
- (2) Do managers at business bases improve without delay the matters identified by the insurance sales compliance division, the compliance control division, or the internal audit division, and thereby facilitate the development and establishment of an appropriate insurance sales system?

Note: It is desirable that managers of nonlife insurance agents respond appropriately in accordance with the foregoing.

### 4. Registrations, Notifications, and Other Management of Sales Representatives

- (1) Communication of policies
  - 1) Does the insurance company indicate sales compliance policies to business bases and sales representatives?

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- 2) Does the insurance company instruct and manage business bases and sales representatives so as to comply with underwriting standards of each insurance product?
- (2) Employment, appointment, and registration of sales representatives
- 1) Does the insurance company have standards in place with regard to knowledge of laws and regulations concerning insurance sales and insurance policies, the ability to perform the duties of insurance sales activities, and business objectives, etc., of the insurance business for the evaluation of qualifications when hiring or appointing insurance sales representatives?
  - 2) Is a system in place under which the appropriateness of intermediary contracts can be confirmed?
  - 3) Is a system in place under which sales activities can be prevented from occurring prior to or without registration?
  - 4) Is a system in place under which appropriate registration journals are prepared, and entries and corrections of necessary items are entered appropriately?
  - 5) Is a system in place under which delays can be prevented in the processing of items that require notification? In particular, are deregistration applications processed immediately upon receipt from insurance sales representatives?
- (3) Appropriate guidance and training
- 1) Are the standards clarified for guidance regarding compliance concerning insurance sales, knowledge about insurance policies, and clerical procedures, etc., and are measures taken for implementing appropriate instruction and training for business bases and insurance sales representatives?
  - 2) Are proper instruction and training provided to business bases and insurance sales representatives concerning the use of materials used for insurance sales and clerical work, etc.?
  - 3) When nonlife insurance companies are engaged in sales of third-sector insurance policies, is adequate guidance provided concerning the sales of personal insurance as well?

## Sales Management

- (4) Formulation of an appropriate sales management system and prevention of inappropriate underwriting, etc.
  - 1) Explanation to customers, etc.
    - a. In consideration of the increasing diversity and complexity of insurance policies and the increasing number of items to be explained, is a system in place under which documents are delivered that describe the outlines of contracts and information about items that call for attention?
    - b. When entering into insurance contracts and explaining to customers in written form the outline of contracts and information about items that call for attention, are measures taken to confirm that customers have understood the content, for example, by obtaining the seal impression, etc., of customers for confirmation purposes?
    - c. Are measures taken to ensure appropriate business operations, for example, by providing explanations to customers suited to their needs, knowledge, experience, and assets?
  - 2) Ensuring appropriateness of sales activities
    - a. Are measures taken to avoid sales activities from becoming subject to the prohibited actions set forth in each item of Article 300, Paragraph 1 of the Law, or the “significantly inappropriate activities concerning insurance sales” stipulated in Article 307, Paragraph 1, Item 3 of the Law?
    - b. Are measures taken to ensure an appropriate insurance sales management system concerning representations by customers? For example, are measures taken to induce customers to declare appropriate representations?
    - c. Are measures taken to prevent sales activities that deviate from the proper purpose of insurance or to prevent inappropriate activities for the sake of obtaining insurance policies? For example, does the insurance company endeavor to avoid capturing policyholders by making excessive barter deposits at financial institutions, or by promoting the inappropriate use of loans for payment of insurance premiums?
    - d. Are measures taken to prevent sales of insurance policies in an unfair manner in relation to other customers, for example, by concluding

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contracts with persons who do not satisfy underwriting standards for the sake of sales promotion?

- 3) Prevention of the occurrence of inappropriate insurance policies
  - a. Is a structure in place for utilizing information that will facilitate the avoidance of inappropriate insurance policies from occurring?
  - b. Are appropriate measures taken to prevent contracts of false insurance policies after an uninsured claim has occurred, insurance contracts for fraudulently obtaining insurance benefits, or any other inappropriate acts conducted by sales representatives?
  - c. Is the “Policy Data Registration System” or the “Policy Data Inquiry System” of the Life Insurance Association of Japan, or the “Policy Data Registration System” of the General Insurance Association of Japan, or any other equivalent confirmation method put to use, and are the results of use appropriately recorded?
- 4) Management of replacement and conversion contracts
  - a. Is a system in place under which appropriate sales are conducted with respect to replacement and conversion of policies in such a manner as not to impair the interests of customers?
  - b. Is a system in place under which appropriateness of insurance sales with respect to replacement and conversion of policies is confirmed, for example, by sampling verification and continual measures undertaken for improvement?
- 5) Restrictions on sales to the employees of insurance sales representatives or their affiliates

Is a system in place for verifying policies contracted by incorporated insurance sales representatives from the viewpoint of restrictions on sales to the employees of insurance sales representatives or their affiliates?
- 6) Own-case solicitation, etc.
  - a. Does the life insurance company provide guidance to life insurance sales representatives, control, or otherwise take measures to prevent own-case

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solicitation, or engaging in other insurance sales for the purpose of obtaining discounts or rebates?

- b. Does the life insurance company provide guidance to incorporated life insurance sales representatives, control or otherwise take measures to prevent engaging in insurance sales for the purpose of obtaining discounts or rebates through the payment of commissions, etc., when contracting insurance policies with themselves or closely affiliated corporations?
- (5) Management of non-face-to-face sales using the telephone or Internet and sales conducted other than in-person
- 1) If other than an in-person sales style is adopted, is a system in place for appropriate sales of insurance policies in consideration of the nature of such a style? Is a system in place for preventing sales activities at call centers by unregistered sales representatives?
  - 2) Particularly in the case of insurance sales using the Internet, is a system in place in consideration of the nature of such a style, including the following:
    - a. all important matters are provided to customers;
    - b. full understanding of important matters by customers is ensured;
    - c. identity verification can be conducted; and
    - d. appropriate measures for the prevention of information leakage and for access controls are ensured.
- (6) Insurance sales by banks, etc., as intermediaries, and management thereof (responsibilities of insurance companies)
- 1) When using banks, etc., as intermediaries for selling insurance contracts, does the insurance company set appropriate sales policies from the standpoint of ensuring sound and appropriate operations and fairness of insurance sales, and determine the content of intermediary contracts?
  - 2) Is the status of selling insurance policies by banks, etc., as intermediaries properly understood? For example, is it possible to request a bank, etc., to conduct an audit or to file a report under the intermediary contract?
  - 3) Is a system in place for the purpose of ensuring the appropriateness of selling insurance policies by banks, etc., as intermediaries by making an arrangement with banks, etc., concerning the materials, etc., used for the sale of insurance

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policies? Are measures taken in order to avoid customer confusion with financial products handled by banks, etc. (deposits, etc.)?

- 4) Are appropriate measures taken in order to prevent a misunderstanding caused by joint calls with a financial institution that are categorized as persons in specified relationships?
- 5) Does the insurance company have appropriate measures in place to ensure the separation of its offices from those of a financial institution that are categorized as persons in specified relationships?
- 6) Are appropriate measures taken in the selling of insurance policies to avoid the use of nonpublic financial information concerning the customers of a financial institution that are categorized as persons in specified relationships?
- 7) Are appropriate measures taken in order to observe the prohibition on a tie-in sale with the extension of credit by persons in specified relationships?
- 8) When insurance sales representatives are to handle new products, are instruction and education provided so that they become adequately knowledgeable about such products?

### 5. Performance Evaluations and Personnel Appraisals

Is compliance adequately taken into consideration for performance evaluations and personnel appraisals, etc.? Does the award system give enough weight to compliance, for example, by disqualifying parties (business bases and employees, etc.) from such programs who have caused compliance issues?

### 6. Appropriateness of representations in insurance sales materials, etc. (including advertisements)

- (1) Are materials for sales, etc., used by business bases and insurance sales representatives legally verified by the insurance sales compliance division or the product development division? Is a system in place under which the descriptions contained in the materials for sales that are originated by business bases and insurance sales representatives to be centrally controlled or otherwise thoroughly reviewed at the headquarters?

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- (2) Are measures taken to ensure the descriptions in materials used for sales are appropriate in accordance with the type of media and the nature of products?
- (3) When descriptions are included of the company's credit rating or solvency level, etc., are appropriate measures taken concerning such descriptions?
- (4) Are the rules for ensuring proper descriptions developed appropriately? Are such rules prepared in order to ensure that the term of insurance, scope of coverage, underwriting conditions, premium rates (insurance premiums), etc., are appropriately described, taking into account the following items?
  - 1) When describing the superiority of the scope of coverage by insurance products, does the description lead to a misunderstanding by customers that the products are significantly superior, for example, by not clearly showing conditions that are inseparably attached thereto?

For example, when certain restrictive conditions are imposed on the scope of coverage by insurance products, as illustrated with the following examples, it shall be noted that it may lead to a misunderstanding that the content of such insurance products is significantly superior than is actually the case if such conditions are not expressly stated, or are stated in exceedingly small characters or for an exceedingly brief period of time, or stated in a section remote from the section where such scope of coverage is emphasized, or otherwise stated in such a manner as customers may fail to notice:

- a. when there is a certain waiting period after the start of policy coverage for all or part of the payment of benefits; or
- b. when the amount of insurance (benefits), etc., will be reduced or eliminated depending upon the age of the insured, number of years elapsed after the start of policy coverage, number of hospital inpatient days, applicable diseases, or any other conditions.

When providing information that is not directly related to the superiority of coverage by insurance products as if such products were superior, it shall be noted that it may lead to a misunderstanding that the content of such insurance products is significantly superior than is actually the case.

- 2) When referring to the superiority of the terms and conditions of insurance products, are such descriptions given in such a way as to cause customers to

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misunderstand that the product is extremely superior, for example, by not clearly showing the restrictive conditions, etc.?

For example, when insurance premiums are described citing rates applicable to younger generations which are not deemed to be the primary target group of policyholders, and the terms and conditions of applicable ages are shown in an exceedingly inconspicuous manner so that customers may fail to notice, it shall be noted that this may lead to the misunderstanding that such insurance premiums may be applicable to customers in other age groups and significantly lower than the actual premiums to be paid.

When providing information not directly related to the terms and conditions of insurance products as if such terms and conditions were superior, it shall be noted that this may lead to a misunderstanding that the content of such insurance products is significantly superior than is actually the case.

- 3) Are the descriptions concerning insurance products and services based on objective facts?

For example, when terms are used with the direct meaning that products are of the highest levels, or other levels available in the industry, or the terms used directly signify exclusivity, are such assertions objectively substantiated?

- (5) Are the outlines of policies and the information about items that call for attention described sufficiently for customers, and are measures taken to ensure easily understood explanations and descriptions?

## II. Appropriateness of insurance sales operations

When any issues are identified with respect to the following items, their causes shall be examined in relation to the insurance sales management system.

### 1. Insurance Sales in General

#### (1) Appropriateness of insurance sales

- 1) Are prohibited activities conducted as set forth in each Item of Article 300, Paragraph 1 of the Law or the “significantly inappropriate activities concerning insurance sales” stipulated in Article 307, Paragraph 1, Item 3 of the Law?

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Particularly, it shall be noted that the following activities are highly likely to be improper activities:

- a. embezzlement or misappropriation of insurance premiums;
  - b. improper use of seals;
  - c. sales activities without interviews (with the exception of sales of policies that do not require face-to-face interviews);
  - d. falsified contracts (fictitious contracts), contracts under assumed names, contracts without consent; and
  - e. falsified reporting of sales performance (sales performance manipulation) and the fabrication or falsification of work records.
- 2) Are the contents of insurance policies and risks involved, etc., appropriately and sufficiently explained to customers? Are appropriate and sufficient explanations provided to customers when selling variable insurance and foreign currency-denominated insurance or other insurance products for which the risk is borne by customers? Are confirmations made, without fail, that customers have received such explanations?
  - 3) Are important matters relating to the content of insurance policies explained in an appropriate manner, for example, by delivering a document describing such matters to customers?
  - 4) When selling insurance policies with premiums calculated using expected surrender ratios and for which no surrender values are paid, is a document delivered to customers describing that surrender value will not be paid?
  - 5) Are documents appropriately delivered, including leaflets concerning contracts or articles, etc., which will facilitate the understanding of the content of policies?
  - 6) When describing insurance policies, are measures taken so that customers fully understand the content thereof? Are such descriptions provided in accordance with the nature of products?
  - 7) When comparisons with other products are performed, are they described in an appropriate and accurate manner?
  - 8) When dividend projections are described, is a document prepared and delivered that satisfies the requirements set forth in the Supervisory Guidelines?

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- 9) In connection with participation in the Insurance Policyholders Protection Corporation of Japan, is the explanation given that is required under Article 53, Paragraph 1, Item 8 of the Enforcement Regulations? Is it explained that financial assistance from the said Corporation is provided under certain conditions and within a certain limit, and that insurance policies are not completely protected?
  - 10) Is the cooling-off system thoroughly indicated to customers and administered in an appropriate manner?
- (2) Appropriate management of sales-related administration
- 1) Is guidance and management of insurance sales representatives provided in an appropriate manner? Specifically, does the insurance company guide and manage nonlife insurance agencies so that they will maintain records, etc., which clearly distinguish received insurance premiums from their own assets and clarify cash receipts and disbursements, remit received insurance premiums to the insurance company without delay, or otherwise deposit them in separate bank accounts or postal savings accounts, which shall be settled at the latest by the month following the month in which the insurance company records insurance policies?
  - 2) Does the insurance company perform internal audits appropriately with sufficient frequency?
  - 3) Does the insurance company properly manage the funds appropriated for the initial payment of insurance premiums throughout the process, including issuance of a receipt, collection, and custody?
  - 4) Does the insurance company properly manage receipts of insurance policy (premium collection) cards, premium collection sheets, other types of receipts, etc., for subsequent premium collections? Does it also properly manage unpaid contracts?
  - 5) Are measures taken to ensure that there are no discrepancies in cash balances?
  - 6) Are advance disbursements, advance payments, and loans to insurance sales representatives managed in an appropriate manner?
  - 7) Are payments for selling expenses appropriate?
  - 8) Are identification cards issued and recovered in an appropriate manner?

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- 9) Is the management of other administrative affairs conducted in an appropriate manner? For example, are efforts made to avoid or correct the following points?
- a. Regarding files of insurance premium receipts, certificates of compulsory automobile liability insurance, receipt stamps for compulsory automobile liability insurance, and certification seals of compulsory automobile liability insurance:
    - differences in the remaining serially numbered documents of the above;
    - incomplete or incorrect entries in a delivery control book;
    - delay or failure to recover deposit receipts and certificates that are required to be recovered; and
    - defective custody methods.
  - b. Regarding policyholder loans:
    - delay or failure to collect application forms for policyholder loans and promissory notes; and
    - defective entries of application forms for policyholder loans, promissory notes, and billing documents.

## 2. Items related to life insurance

### (1) Application of exceptions to the exclusive system

With respect to a life insurance representative acting as the intermediary for more than one insurance company (Article 282, Paragraph 3 of the Law), are measures taken for prevention of improper sales of replacement policies among such insurance companies and control of customer information, etc.?

### (2) Group and collective insurance policies

- 1) Does the organization appropriately conform to the definitions of the group? Is it in conformity with designated group classifications?
- 2) Are the coverage amount, the number of insured persons, and content of the policy (agreement) appropriate?
- 3) Are premium rates and premium collection commissions appropriate?

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- 4) Are any measures taken for preventing non-member coverage?
  - 5) Are premium rates reviewed and revised in accordance with changes in the nature of groups?
- (3) Insurance policies on the life of another
- 1) Does the company endeavor to secure proper contracts in conformity with the purpose and intent of insurance policies from the viewpoint of ensuring the protection of insured persons and the sound and appropriate operations of insurance companies? For example, in the case of individual insurance policies under which employees, etc., are insured, does the insurance company endeavor to secure proper contracts in conformity with the purpose and intent of securing financial resources for the benefit of employees, etc., or their survivors?
  - 2) Is the consent of insured persons confirmed by their signatures entered or names and seals affixed on the approval section of insurance policy application forms, etc., or otherwise in accordance with the methods set forth in the Plan and Scope of Business Operations?
- (4) Variable insurance and annuities
- 1) Are sales activities conducted in an appropriate manner? For example, does the insurance company ensure that there are no occurrences of the following acts:
    - a. providing conclusive judgments on future investment returns;
    - b. forecasting investment performance of separate accounts by insurance sales representatives on the basis of a specific past period that is arbitrarily selected; or
    - c. guaranteeing coverage amounts or a surrender value not set forth in contracts.
  - 2) Are documents describing asset management policies delivered to customers?
- (5) Foreign currency insurance
- Are sales activities for insurance policies with coverage amounts, etc., that are denominated in foreign currencies conducted in an appropriate manner? Is a document delivered to customers mentioning that foreign exchange losses may arise?

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### (6) Replacement and conversion policies

- 1) When concluding replacement or conversion policies, is it explained without exception to customers that such policies may result in disadvantages to customers?
- 2) When concluding conversion policies, is a document delivered to policyholders that compares existing and new policies, and describes that policyholders can revise insurance coverage while continuing existing policies?

### (7) Co-insurance policies, etc.

Are measures taken to prevent misunderstandings as to the type of insurance and insurance companies?

### (8) Restrictions on sales to the employees of insurance sales intermediaries or their affiliates

When the life insurance sales representative is a corporation, does it refrain from soliciting or offering insurance policies underwritten by the life insurance company to its officers and employees, or the officers and employees of a corporation that is closely related to such insurance sales representative in terms of capital affiliation, etc. (excluding those policies listed in Article 2 of Public Notice No. 238, 1998 issued by the Ministry of Finance)?

### (9) Own-case solicitations, etc.

- 1) Do insurance sales representatives refrain from engaging in own-case solicitations or other insurance sales for the purpose of obtaining discounts or rebates, etc., of insurance premiums?
- 2) When the life insurance sales representative is a corporation and concludes insurance policies with itself or a closely related corporation, does it refrain from engaging in insurance sales for the purpose of obtaining discounts or rebates of insurance premiums through the payment of commissions, etc.?

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### 3. Items Related to Non-Life Insurance

#### (1) Group and collective insurance policies

- 1) Does the organization appropriately conform to the definitions of the group? Is it in conformity with designated group classifications? Is each group in conformity with designated group classifications?
- 2) Are the coverage amount, the number of insured persons, and content of the policy (agreement) appropriate?
- 3) Are premium rates and premium collection commissions appropriate?
- 4) Are any measures taken for preventing non-member coverage by policies?
- 5) Are premium rates reviewed and revised in accordance with changes in the nature of groups?

#### (2) Own-case solicitations, etc.

- 1) Are appropriate measures taken to prevent violations of the prohibition on own-case solicitations, etc. (Article 295 of the Law)?
- 2) Does the company fully comprehend the status of own-case solicitations at member insurance agencies, and rigorously supervise and instruct agencies in order to ensure the appropriate calculation of insurance premiums related to own-case solicitations, etc.?
- 3) Are policies transferred to other insurance agencies in order to evade the prohibition on own-case solicitations, etc.? Are measures taken to prevent the transfer of policies?

#### (3) Co-insurance policies, etc.

Are any measures taken to prevent misunderstandings as to the type of insurance and the insurance company providing coverage?

#### (4) Overinsurance (setting coverage amounts in excess of insured value)

Are items to be confirmed, procedures, and structures in place for the prevention of overinsurance?

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### (5) Post-loss policies (policies concluded after the occurrence of insured events)

Are items to be confirmed, procedures, and structures in place for the prevention of post-loss policies?

### (6) Replacement and conversion policies

Are medical life insurance and other long-term insurance policies treated in accordance with the provisions set forth in Section 2.(6) with regard to replacement and conversion policies?

## 4. Appropriateness of Insurance Sales by Banks, etc.

### (1) Formulation, announcement, and implementation of basic policies concerning sales of insurance policies

Do banks, etc., that are engaged in sales of insurance policies determine and announce guidelines concerning insurance sales when they initiate sales of insurance policies? Does the content of such guidelines cover the following matters, and is it otherwise appropriate from the viewpoint of ensuring the fairness of insurance sales? Do banks, etc., take measures necessary for the implementation of such measures, such as:

- a. clearly specifying the trade names or company names of insurance companies, etc., that are underwriting the insurance policies offered for sale by banks, etc., and explain appropriately that it is the insurance companies, etc., that underwrite insurance policies and pay insurance benefits, etc., and otherwise demonstrate where risks exist that are related to insurance policies;
- b. describe respective insurance policies appropriately when multiple insurance policies are handled, or otherwise provide information deemed necessary for customers to make independent decisions when concluding insurance policies;
- c. explicitly state that when banks, etc., have caused damages to customers in connection with insurance sales that are in violation of laws and regulations, etc., such banks, etc., are to be held liable for insurance sales as insurance sales agencies;
- d. explicitly state the contact section for filing complaints or requesting advice, and proactively become involved in handling customer complaints

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- and requests for advice, and otherwise work with customers as needed in an appropriate manner after the conclusion of insurance policies; and
- e. maintain a system for managing the appropriate implementation of responses to customers described above by recording face-to-face conversations, etc., with customers in relation to the explanations and responses to customers, and concurrently retain the records, etc., concerning the explanations provided at the time of insurance sales until the end of the covered term.

### (2) Measures for protection of nonpublic information

When banks, etc., that are engaged in sales of insurance policies make use of the nonpublic financial information of customers that was obtained from operations other than insurance sales as part of their operations related to insurance sales, or conversely, use in the lending of funds or other operations unrelated to insurance sales the nonpublic financial information of customers that was obtained in operations related to insurance sales, are measures taken to obtain either the prior written consent of such customers or some other appropriate manner of consent?

### (3) Assignment of persons in charge of compliance

Do banks, etc., that are engaged in sales of insurance policies assign persons to be in charge of compliance with laws and regulations concerning insurance sales at each sales or business office, and assign supervisors at the head office or principal offices responsible for directing such persons in charge by controlling and managing compliance with laws and regulations concerning insurance sales? Are those persons in charge given adequate authority and information?

### (4) Observance of restrictions on products to be handled

Do banks, etc., that are engaged in sales of insurance policies refrain from handling products other than the following insurance products approved under laws and regulations?

#### 1) Products that can be handled by life insurance sales representatives:

- a. credit life insurance policies related to housing loans; individual annuity insurance policies; other maturity refund (savings-type), pure endowment insurance policies; and workers' asset-formation savings insurance policies;

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- b. single-payment, whole life insurance policies; short-maturity or single-payment, endowment insurance policies; and maturity refund (savings-type), accident insurance policies.
- 2) Products that can be handled by nonlife insurance agencies:
- a. long-term fire insurance policies and debt repayment support insurance policies that are related to housing loans; overseas travelers' personal accident insurance policies; annuity payment, maturity refund (savings-type), accident insurance policies; and workers' asset-formation accident insurance policies;
  - b. non-life insurance policies for individual policyholders (excluding automobile insurance policies, and insurance policies that are not maturity refund (savings-type) insurance policies but are subject to group insurance policies, or, collective or group treatment); maturity refund (savings-type) accident insurance policies.
- (5) Restrictions on insurance sales by banks, etc., to other restricted persons

When banks, etc., conduct sales of insurance policies as set forth in Section 4.(4) 1) b. or 4.(4) 2) b., are measures taken to ensure that such banks, etc., do not act as an agent or intermediary for concluding insurance policies with policyholders or insured persons that are restricted persons for the purpose of obtaining commissions or other remuneration?

Note: Restricted persons refer to the following:

- a corporation or its representatives, when a bank, etc., extends a loan to such corporation or its representatives for financing its business (including billing discounts; hereinafter the same shall apply);
- an individual, when a bank, etc., extends a loan to such individual for financing his or her business;
- a full-time employee or an officer of a small-scale proprietorship or corporation employing less than 50 full-time employees, when a bank, etc., extends a loan to such proprietor, or such corporation or its representatives for financing its business.

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### (6) Segregation of personnel in charge

When banks, etc., conduct sales of insurance policies as set forth in Section 4.(4) 1) b. or 4.(4) 2) b., are any measures taken to ensure the segregation of the bank personnel in charge of loan operations from the personnel in charge of insurance sales?

### (7) Special provisions concerning small- and medium-sized financial institutions

Small- and medium-sized financial institutions that are approved to conduct business in certain limited areas and that have explicitly adopted special provisions contained in the foregoing guidelines set forth in (1) above may engage in sales of insurance contracts described in Section 4.(4) 1) b. or 4.(4) 2) b. under the following circumstance:

- a. insurance sales are to the employees of a business enterprise employing 21 or more but 50 or less full-time employees.
- b. In respect to (6) above, alternative measures (FSA Notice No. 51, 2005) will normally suffice, but in this case, are any measures taken for limiting the total sum of insurance claims and other benefits per policyholder to ¥10.0 million in relation to sales of life insurance and third-sector insurance (excluding accident insurance)?

### (8) Special provisions for cooperative financial institutions

When a cooperative financial institution conducts sales of insurance policies as set forth in Section 4.(4) 1) b. or 4.(4) 2) b. to members or cooperative members to whom loans are extended by such cooperative financial institution under the guidelines described in (1) above, the total sum of insurance claims and other benefits per policyholder shall be limited to ¥10.0 million in relation to sales of life insurance and third-sector insurance (excluding accident insurance) in each category. Are any measures taken to ensure these limits?

### (9) Regulations concerning sales of insurance policies by banks, etc.

#### 1) Explanation to customers

When officers or employees of banks, etc., conduct insurance sales, do they explain to customers by delivering prior to insurance sales a document for the prevention of customer misunderstandings that includes the following:

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- a. the explanation that transactions related to actions as an agent or intermediary for concluding insurance policies do not influence the services provided by banks, etc., to customers;
  - b. when acting as an agent or intermediary for concluding insurance policies that are subject to restrictions on insurance sales to borrowers (per Rule (5) above), explanation of the task of confirming whether policyholders are restricted persons;
  - c. when acting as an agent or intermediary for concluding credit life insurance policies related to housing loans as life insurance sales representatives, explanation about the contact persons with whom policyholders can consult if the policyholder encounters a difficulty in the repayment of such housing loans; and
  - d. when acting as an agent or intermediary for concluding variable insurance policies as life insurance sales representatives, and policyholders make payments of insurance premiums by the extension of credit, explanation that the amount of insurance benefits or surrender value to be received under such variable insurance policies may be lower than the amount necessary for the repayment of such extensions of credit, due to fluctuations in asset values that are dependent upon investment performance, and that policyholders may encounter difficulty in repayment (in this case, confirmation is required by obtaining the policyholder's signature or seal impression that such a document has been received).
- 2) Prohibited acts conducted by officers and other employees of banks, etc.

Officers and employees of banks, etc., must not engage in the following prohibited acts in relation to insurance sales:

- a. acts of insurance sales as a condition for the extension of credit by banks, etc., or other actions related to insurance sales that take advantage of the dominant position of such banks, etc. (so-called "tie-in sales");
- b. actions as an agent or intermediary for concluding insurance policies that are subject to restrictions on insurance sales to borrowers, to customers or persons closely related thereto, with the knowledge that such customers are requesting loan funds from such banks, etc.

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### 3) Prohibition on evasive acts through persons in specified relationships

Are insurance sales representatives who are persons in specified relationships with a bank, etc., or their officers, or employees engaged in any of the following acts:

- a. acts of conducting insurance sales with the knowledge that the bank, etc., extended or promised to extend credit to policyholders or insured persons on the condition that such persons are in specified relationships, or their officers or employees act as an agent or intermediary for concluding insurance policies, or by taking advantage of the bank's dominant position;
- b. acts of conducting insurance sales that are subject to restrictions on insurance sales to borrowers, with the knowledge that the policyholder or insured person is within the scope of other restricted persons in relation to such banks, etc.;
- c. acts of conducting insurance sales that are subject to restrictions on insurance sales to borrowers, or to customers or persons closely related thereto, with the knowledge that such customers are requesting such banks, etc., to extend loans.

Note: "Persons in specified relationships" refers to subsidiaries or other subsidiary corporations, affiliates, etc., and major shareholders of a bank; a bank holding company that holds shares of the bank as one of its subsidiaries; subsidiaries of the bank holding companies; and other persons having a special relationship with the bank.

## Checklist for Inspection of Insurance Brokers

- (1) The checklist below is provided as examples of items specific to insurance brokers for use by inspectors during their inspections of insurance brokers (inspections pursuant to Article 305 of the Insurance Business Law). When performing inspections of insurance brokers, it shall be noted that insurance brokers are not under the direction or supervision of insurance companies.
- (2) It shall also be noted that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, other applicable laws and regulations, and the Supervisory Guidelines, etc., shall be taken into consideration.

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### Examples of Inspection Points for the Operations of Insurance Brokers

#### (1) Appropriateness of operations

- 1) Are insurance brokers engaged in operations other than acting as an intermediary for the conclusion of insurance policies set forth under laws and regulations?
- 2) Do insurance brokers commission the task of acting as an agent or intermediary for the conclusion of insurance policies to insurance companies, their officers, life insurance sales representatives, nonlife insurance sales representatives, or other insurance brokers (life insurance sales representatives, nonlife insurance sales representatives, and other insurance brokers are collectively referred to as “other insurance sales representatives”)?
- 3) Are insurance brokers commissioned by other insurance sales representatives to act as an agent or intermediary for the conclusion of insurance policies?
- 4) Are insurance brokers commissioned by insurance companies or their officers to act as an agent or intermediary for the conclusion of insurance policies?
- 5) Are insurance brokers engaged in concluding own-case solicitations as part of their principle operations?
- 6) Do insurance brokers provide customers’ nonpublic information to other insurance sales representatives? Specifically, in cases of sharing computers with insurance sales representatives closely related in terms of capital affiliation, is such information properly safeguarded?
- 7) Do insurance brokers use an office for acting as an agent or intermediary for the conclusion of insurance policies in the same building with other insurance sales representatives, etc.? When offices are established in the same building, are adequate measures taken to prevent the confusion of customers, for example, by partitioning exclusive quarters and separating the passage from the entrance to the respective offices by shared-use areas?
- 8) Are insurance brokers or their officers or employees engaged in any prohibited acts listed in the items of Article 300, Paragraph 1 of the Law?
- 9) Are insurance brokers engaged in any “significantly inappropriate acts concerning insurance sales” as stipulated in Article 307, Paragraph 1, Item 3 of the Law, or other acts in violation of laws and regulations?

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### (2) Delivery of a closing document

Do insurance brokers prepare and deliver a closing document in an appropriate manner?

### (3) Ensuring that insurance brokers are acting as an agent or intermediary for the conclusion of insurance policies, independently of insurance companies

- 1) Do insurance brokers use an office for acting as an agent or intermediary for the conclusion of insurance policies in the same building where insurance companies maintain offices? Where offices are established in the same building, are adequate measures taken to prevent the confusion of customers, for example, by partitioning exclusive quarters and separating the passage from the entrance to the respective offices by shared-use areas?
- 2) Have insurance brokers received a capital contribution from insurance companies? If they received a capital contribution, are there grounds for justifying such an investment in terms of fulfilling the broker's duty of loyalty to policyholders?
- 3) Do insurance brokers accept the assignment of officers and employees from insurance companies, or assign the broker's officers and employees to insurance companies?

### (4) Discharge of duty of loyalty to customers

- 1) Do insurance brokers confirm the insurance needs of customers and their ability to pay insurance premiums and other costs, and provide advice most appropriate to customers?
- 2) Do insurance brokers properly communicate information concerning insurance? Do they communicate customers' requests to insurance companies in an appropriate manner?
- 3) Do insurance brokers observe confidentiality?
- 4) Do insurance brokers manage insurance premiums received from customers and remit the same to insurance companies in an appropriate manner?

### (5) Disclosure of necessary items

Are disclosures to customers conducted in an appropriate manner? Specifically, are explicit disclosures of the items that insurance brokers are obligated to disclose

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(Article 296 of the Law) and disclosures required as requested (Article 297 of the Law) conducted in an appropriate manner?

Customer Protection, etc.

## Checklist for Inspection of the Customer Protection Management System, etc.

- (1) Surrenders and lapses of insurance contracts and other contract-related matters need to be managed properly and promptly from the viewpoint of ensuring protection of the interests of customers. The payment of insurance claims, benefits, and surrender values, etc., is one of the essential and most important functions underpinning the business operations of insurance companies, and systems for enabling appropriate assessments and swift operations need to be developed. Furthermore, efforts shall be made to settle complaints from customers with the customer's understanding and consent to the utmost extent possible from the viewpoint of protecting the interests of customers. Customer information forms the basis of insurance policies and appropriate handling of such information needs to be ensured from the viewpoint of protecting the interests of customers. Information concerning individual customers needs to be appropriately managed in accordance with the provisions of the Insurance Business Law Enforcement Regulations Act on the Protection of Personal Information (the "Personal Information Protection Law"), the Guidelines on the Protection of Personal Information in the Financial Sector (the "Protection Law Guidelines"), and the Practical Guidelines for Safety Management Measures in the Guidelines on the Protection of Personal Information in the Financial Sector (the "Practical Guidelines"). Accordingly, an appropriate management system concerning the foregoing matters (the "customer protection management system") needs to be established and developed. This checklist has been prepared in view of such necessity to verify the customer protection management system in a specific manner.
- (2) Inspectors shall inspect customer protection management systems using this checklist. It shall be noted that in the event any issues are identified in a customer protection management system using this checklist, such issues shall be pointed out individually, and in order to identify the causes which have given rise to such issues, whether the internal control system and the compliance system have any flaws also needs to be assessed using the "Checklist for Inspections of the Internal Control System" and the "Checklist for Inspections of the Compliance System."
- (3) It shall be noted that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, the Personal Information Protection Law, the Protection Law Guidelines, etc., shall be

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taken into consideration together with other applicable laws and regulations, and the Supervisory Guidelines, etc.

Customer Protection, etc.

## I. Policy Administration System

### 1. Establishment and Development of the Policy Administration System

#### (1) Formulation and establishment of basic guidelines concerning policy administration

- 1) Do directors understand that the administration of surrenders and lapses of insurance policies, and other contract-related matters, are directly linked to the protection of the interests of policyholders, etc., and based on this recognition, accurately recognize the current status of the policy administration system of the company? Do directors formulate and study action plans and specific measures aimed at establishing and building an appropriate policy administration system?
- 2) Does the board of directors, etc., analyze and evaluate the foregoing action plans and specific measures, and reach unambiguous decisions? Are the foregoing policies thoroughly understood by the officers and employees, etc.?

#### (2) Development, etc., of organizations for policy administration

- 1) Has the board of directors, etc., established a contract management division (the “policy administration division”; if some other division, etc., is exclusively or concurrently in charge of contract management operations, it shall be read accordingly where appropriate; hereinafter the same shall apply) that will be in charge of managing the conclusion of insurance policies, processing of receipts of insurance premiums, changes in contract terms, and other contract-related business (“policy administration operations”)? For the avoidance of doubt, such a division may be concurrently engaged in other business operations as long as independence is ensured from business promotion divisions, etc.
- 2) Does the board of directors, etc., assign an appropriate number of personnel with adequate knowledge and experience concerning policy administration operations to the policy administration division?

#### (3) Reporting to, and approval of, the board of directors, etc.

- 1) Has the board of directors, etc., established a system under which all matters are promptly reported to the board of directors by the policy administration division that contain information related to contract management and which may have a

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material impact on business operations or significantly jeopardize the interests of policyholders, etc.?

- 2) Do the standards concerning reporting to and submitting matters for discussion by the board of directors, etc., properly set forth reporting matters and approval matters?

## 2. Role of Policy Administration Division

### (1) Management system by the policy administration division

- 1) Does the policy administration division, etc., develop in a proper and clear manner the rules setting forth items that need to be confirmed with regard to contract administration, and procedures for such confirmation? Are the rules legally verified and approved by the board of directors, etc.?
- 2) Does the policy administration division properly manage affairs through instruction and supervision of related divisions to ensure the timely and prompt execution of policy administration operations?

### (2) Concerted action with other divisions

- 1) Has the policy administration division established a system under which compliance-related issues that are identified during the course of performing policy administration operations are promptly reported to the compliance control division?
- 2) Does the policy administration division review and redress as needed the issues identified through the results of internal audits, misconduct, complaints, and inquiries, etc., in concerted action with the internal audit division and the compliance control division?

## 3. Appropriateness of Policy Administration

### (1) Management of processing contract changes

Is a management system in place under which changes in terms and conditions of a policy are processed in an appropriate manner?

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(2) Early cancellations, etc.

Is a system in place under which the manner in which insurance sales were conducted, the process of insurance sales, and explanations given to policyholders, etc., are reported in a timely manner to the compliance management division with respect to early cancellation and other policies that are questionable in terms of fair insurance sales? In these cases, for example, are the actions of insurance sales representatives confirmed concerning the following points:

- a. factious performance (including name “borrowing”); and
- b. misleading explanations provided to policyholders (including inadequate explanations and false explanations).

(3) Prevention of a delayed response concerning cancellations, etc.

Is a system in place under which prompt and appropriate responses are made to policyholder requests? In particular, is a system in place under which prompt and appropriate procedures can be undertaken for cancellations? For example, is a system in place under which the following activities can be prevented?

- a. prolonged neglect of cancellation procedures or delayed cancellations that are against the expressed will of policyholders;
- b. imposing on sales representatives, etc., excessive requirements or duties to conduct negotiations for the sake of preventing cancellations;
- c. establishing onerous procedures for cancellations; and
- d. postponement of cancellations by utilizing loans for extending insurance policies (appropriating the surrender value for premium payments of extended insurance policies) against the expressed will of policyholders.

(4) Management of lapses and reinstatement of policies

- 1) Is a system in place under which unpaid insurance premiums and lapses of policies, etc., can be discerned in an appropriate manner?
- 2) Is a system in place under which a notice to policyholders is provided prior to the lapse of policies?
- 3) Is a system in place under which the procedures for reinstatement of lapsed policies can be followed in an appropriate manner?
- 4) Are measures taken to fully explain to policyholders the information concerning reinstatement and surrender value of lapsed policies (reinstatement procedures,

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whether surrender value will be payable or not, surrender value amount, when negative prescription takes effect, etc.)?)

- 5) Is a system in place under which a notice is provided to policyholders in an appropriate manner of when negative prescription will take effect?
- 6) Is a system in place under which consistent processing of negative prescription is performed after negative prescription has taken effect? Is a system in place under which a good faith response is provided to inquiries that are received after negative prescription has taken effect?
- 7) Is a system in place under which sales representatives, etc., explain to a client that policies can be reinstated when recommending new policies?

(5) Reporting of investment performance, etc.

Are investment performance and other necessary matters reported periodically to policyholders of variable insurance and other products?

(6) Renewal of policies

- 1) Is the renewal of policies at maturity managed in an appropriate manner? For example, is a system in place for preventing failures to renew policies at maturity by providing adequate advance notice to policyholders concerning renewal?
- 2) Are measures taken to prevent overinsurance (setting a coverage amount in excess of an insured value), for example, by encouraging a revision of the coverage amount at the time of policy renewal?

(7) Insurance certificates

- 1) Are the procedures and the custody methods concerning long-term custody of insurance certificates developed in an appropriate manner?
- 2) Are the procedures developed for prompt and appropriate re-issuance of insurance certificates?

(8) Change of address and contact information

Are company addresses in contracts updated and communicated to policyholders so that policyholders can promptly inform or notify the insurance company of the customer's address or contact information upon change of address, etc.? When the

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contact information of policyholders becomes unknown, is an investigation conducted to the extent possible?

## II. Management system for payment of insurance claims, etc.

### 1. Development and Establishment of the Management System for Payment of Insurance Claims, etc.

#### (1) Formulation and establishment of basic policies concerning the management of payment of insurance claims, etc.

1) Do directors understand that the payment of insurance claims, benefits, and surrender value, etc. (“insurance claims, etc.”) is one of the essential and most important functions underpinning the business operations of insurance companies, and based on this understanding, accurately recognize the current status of the management system for payment of insurance claims, etc.? Do directors design and formulate policies and specific measures aimed at establishing and building an appropriate management system for payment of insurance claims, etc.?

2) Does the board of directors, etc., analyze and evaluate the foregoing policies and specific measures, and make unambiguous decisions? Are the foregoing policies thoroughly informed to officers and employees, etc.?

3) Is a process in place for making appropriate insurance claim payments, taking into account the “Guidelines for Making Appropriate Claim Payments,” “Guidelines for Receiving Appropriate Representations from Policyholders,” and “Points to Consider in Nullifying a Contract due to the Applicant’s Fraud” (The Life Insurance Association of Japan), etc.?

#### (2) Development, etc., of organizations for the management of payment of insurance claims, etc.

1) Has the board of directors, etc., established a division that controls and manages operations related to the payment of insurance claims, etc. (“insurance claims, etc., payment operations”) in general? (The “payment management division”; if other divisions are in charge of insurance claims, etc., payment operations in general, or are concurrently engaged in such operations, it shall be read accordingly where appropriate; hereinafter the same shall apply.) For the avoidance of doubt, such a division may be concurrently engaged in other

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operations as long as independence is ensured from business promotion divisions, etc.

- 2) Does the board of directors, etc., assign an appropriate number of personnel with adequate knowledge and experience concerning insurance claims, etc., payment operations to the payment management division? It is desirable that such assignments take into consideration the training of staff in charge from a long-term perspective of training human resources.
- (3) Reporting to, and approval of, the board of directors, etc.
  - 1) Has the board of directors, etc., established a system under which all matters are promptly reported to the board of directors by the payment management division that are contained in information related to payment of insurance claims, etc., that may have a material impact on business operations or significantly jeopardize the interests of policyholders, etc.,?
  - 2) Do the standards concerning reporting to and submitting matters for discussion by the board of directors, etc., properly set forth reporting matters and approval matters?

## 2. Roles of the Payment Management Division

- (1) System of management by the payment management division
  - 1) Does the payment management division, etc., develop rules in a proper and clear manner setting forth items to be confirmed, procedures, and judgment standards, etc., with regard to payments of insurance claims, etc.? Are the rules legally verified and approved by the board of directors, etc.? Are the rules reviewed and updated as needed?
  - 2) Is a system in place within the payment management division for effecting mutual check and balance functions concerning insurance claims, etc., payment operations in general, so that examinations of payment or nonpayment, etc., can be conducted in an appropriate manner? For example, is a system in place under which examinations are conducted by more than one person?
  - 3) Is a system in place within the payment management division for enabling appropriate management of progress concerning insurance claims, etc., payment

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operations in general, so that examinations concerning payment or nonpayment can be conducted promptly?

- 4) Is a system in place within the payment management division under which the division can instruct and supervise other divisions related to payments, so that insurance claims, etc., payment operations can be conducted in a timely and appropriate manner?
- 5) Is a system in place within the payment management division under which the division can accurately comprehend the current status and issues concerning payments of insurance claims, etc., and report in an appropriate manner to the board of directors, etc.? For example, does the division report in an appropriate manner a summary of litigation related to payments, disputes, and other cases of refusal of insurance claim payments, that may significantly impact the interests of policyholders, etc., and any other issues arising in connection with payments?
- 6) Does the payment management division develop the methods and systems for maintaining and improving the appropriateness of payment examinations?
- 7) Does the payment management division develop procedures for enabling the designated agents, etc., of beneficiaries to request the payment of insurance claims on behalf of a beneficiary when the beneficiaries themselves cannot request payment of insurance claims?
- 8) Does the payment management division review and revise insurance claim application forms, etc., and other forms in a timely and appropriate manner in order to prevent failures of requests for insurance claims, and design them to be easier to understand in view of the increasing diversity of products?
- 9) In cases when multiple payment divisions are involved in payment of an insurance claim, etc., has the payment management division developed a system under which such payment divisions can mutually confirm or otherwise periodically verify such payments?
- 10) Are the records concerning claim examinations and the processing of claim waivers compiled and retained?

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(2) Concerted action with other divisions

- 1) Has the payment management division established a system under which compliance-related issues identified during the course of performing payment control administration operations are promptly reported to the compliance management division?
- 2) Has the payment management division developed a system for examining the insurance sales activities conducted at the time of insurance sales when the payment of an insurance claim is rejected in whole or in part, with the exception of those cases for which there is apparently no need of such an examination?

3. Investigation and Confirmation of Facts Concerning Insured Events and Damages

(1) System for investigation of facts concerning insured events

- 1) Does the payment management division have a system in place for conducting investigations of facts (including examinations after the payment of benefits) in a fair and equitable manner, regardless of whether the facts may be favorable or unfavorable to policyholders, etc.?
- 2) Does the payment management division manage the progress of investigations in an appropriate manner to ensure prompt payment with regard to the investigations of facts concerning individual cases?
- 3) Is a system in place under which adequate and accurate investigations can be conducted to confirm facts concerning insured events after obtaining the consent of the parties concerned? For example, are the following items confirmed:
  - a. confirmation of accurate facts through inquiries with insured persons, inpatient and outpatient hospitals, doctors in charge, etc.; and
  - b. in the case of insured events caused by disasters, etc., confirmation of the accuracy of facts, etc., through inspections of accident sites, inquiries to police stations and witnesses, etc.
- 4) Is a system in place for retaining records of the process employed, results of investigations, and related documents in an appropriate manner to prepare for the possibility of future disputes?

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- 5) When outsourcing investigations, is a system in place for adequately supervising outside contractors to ensure the appropriateness of investigations?

For example:

- a. Are the rules and systems in place for managing the operations of outside contractors?
- b. Are effective control and guidance provided for investigative activities by contractors?
- c. Are matters to be observed by contractors set forth in outsourcing agreements?
- d. Are divisions clearly defined that are responsible for the management and guidance of contractors?
- e. Are contractors and their operations periodically appraised?

(2) Appraisal and determination of damages (in cases of nonlife insurance)

- 1) Is a system in place for the appraisal and determination of damages in an appropriate manner?

For example, are the following management points taken into consideration:

- a. Are appraisals and determinations of damages conducted by assessors, etc., in the case of fire insurance, and by experts such as adjusters in the case of automobile insurance?
- b. Is the basis for calculating insurance claims clarified, and is the validity of such grounds verified?
- c. Are unpaid insurance claims managed in an appropriate manner pending the determination of damages?
- e. Are the payees (beneficiaries, hospitals, maintenance shops, etc.) confirmed?

- 2) Are insurance claims paid without conducting an adequate investigation of damages, in violation of the fair treatment of policyholders?

(3) Settlement negotiations (in cases of nonlife insurance)

Are settlement negotiations, etc., conducted while paying attention to the following points:

- a. Is the application of comparative negligence adequately examined?

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- b. Are consequential damages (costs for temporary use of replacement vehicles, damages due to taking leave of absence from work, etc.) adequately examined?
- c. Are litigation cases managed in an appropriate manner?

(4) Prevention of inappropriate dealings with customers

- 1) Are measures taken to prevent inappropriate dealings with policyholders, etc., aggrieved parties in accidents, and survivors, etc.? For example, are settlements inappropriately recommended to policyholders, etc., aggrieved parties in accidents, and survivors, etc., by causing them to misunderstand terms and conditions?
- 2) Are measures taken to ensure appropriate dealings with policyholders, etc., aggrieved parties in accidents, and survivors, etc.?

4. Appropriateness of Payments of Insurance Claims, etc.

(1) Management of causes for payment

- 1) Is a system in place under which the payment management division examines the causes for payment of insurance claims, etc., in a fair and equitable manner when policyholders, etc., request payment of insurance claims, etc.? If a certain period of time is required for investigations as a result of such an examination, is such notice provided to policyholders, etc.?
- 2) Does the payment management division manage insurance policies in general concerning the occurrence of causes for payment of insurance claims, etc., when the payment is made after persons other than policyholders, etc., have requested payment of insurance claims, etc.? Specifically, is a system in place for preventing failures of payment due to unintentional omissions or mistakes concerning the causes for payment of surrender value or maturity benefits? For example, is an appropriate system developed and in place for preventing failures of payment?
- 3) Is a system in place at nonlife insurance companies for preventing failures of rider-related payments due to unintentional omissions or mistakes? For example, is an appropriate system developed and in place for preventing failures of payment?

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(2) Nonpayment criteria and their applications

- 1) Are appropriate rules established after being legally verified concerning standards for the application of nonpayment decisions or causes for cancellation, such as contract invalidity due to fraud, invalidity due to error, cancellation due to serious causes, cancellation due to nondisclosure, and exemptions under the terms and conditions of the policy (the “nonpayment criteria”)?
- 2) Are all matters concerning nonpayment criteria approved by the board of directors that may have a material impact on business operations or significantly jeopardize the interests of policyholders, etc.? It is desirable that the company management policies concerning the application of nonpayment causes and cancellation causes, and representative cases of these causes, are adequately disclosed for the sake of the interests of policyholders.
- 3) Is a system in place under which verifications of legality or medical judgment, etc., are sought as needed when making determinations not to pay insurance claims, etc., on the basis that payment requests do not satisfy the causes for payment or are subject to a cause for exemption? Are opinions of outside legal counsel obtained as needed and in a timely manner?
- 4) Is a system in place under which facts, both favorable and unfavorable to policyholders, etc., are evaluated in a fair and appropriate manner? Specifically, is a system in place to prevent making a favorable judgment for the company while some facts remain uncertain?
- 5) In cases that a policy was cancelled or a determination was reached not to pay an insurance claim, etc., in whole or in part based on the nonpayment criteria, is a system in place for appropriately recording and retaining the reasons and grounds for evidencing that such a determination was reasonable?

(3) Prevention of unfair payments

Is a system in place for preventing arbitrary payment of insurance claims, etc., despite the fact that there is a cause for nonpayment?

(4) Unfair withholding of payments and delayed payments

- 1) Is a system in place for preventing unfair withholding of payments? For example, are unfair measures practiced such as imposing a limit on the

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aggregate amount of insurance claims, etc., that are payable, or lowering the upper limits on benefit payments without reasonable grounds?

- 2) Is a system in place for preventing unfair delays in payment?
  - 3) Is a system in place for preventing excessive persuasion that is intended to withhold the payment of insurance claims, etc.?
  - 4) Is a system in place under which appropriate interest charges are paid on overdue benefits after a reasonable period of time required for investigation has lapsed?
  - 5) Is a system in place for preventing unfair treatment, such as refusing payment unless requests or complaints are filed repeatedly?
- (5) Explanations concerning nonpayment of insurance claims

Is a system in place under which the reason for nonpayment is accurately explained, clearly showing the specific facts identified by the company and the grounds and reasons for nonpayment based on the terms and conditions of the policy? Is a system in place under which the grounds and reasons for nonpayment are explained adequately and appropriately to policyholders, etc., in response to their inquiries, for example, by conducting a re-examination of the facts as needed?

### III. Complaint Management System

#### 1. Development and Establishment of the Complaint Management System

- (1) Formulation and establishment of basic policies concerning complaint management
  - 1) Do directors understand that establishing and securing a system for handling customer complaints, from the viewpoint of ensuring customer protection and user benefits, is essential for ensuring the sound and appropriate operations of insurance companies? Based on this understanding, do directors accurately recognize the current status of the complaint management system, and then study policies and formulate specific measures aimed at establishing and building an appropriate complaint management system?
  - 2) Does the board of directors, etc., analyze and evaluate the foregoing policies and specific measures, and make unambiguous decisions? Are the foregoing policies thoroughly understood by officers and employees, etc.?

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(2) Development, etc., of organizations for complaint management

- 1) Has the board of directors, etc., established a division that is responsible for collecting customer complaints, centrally controlling the progress of responding to complaints, and giving directions for responsive measures (the “complaint management division”)?
- 2) Does the board of directors, etc., have in place sections that customers may readily access and personnel in charge of handling complaints in an appropriate manner?
- 3) Are any measures taken to strengthen the functions of access to consultation? For example, are complaints or consultation requests accepted through the Internet?
- 4) Does the division in charge of complaints develop rules setting forth the procedures for processing customer complaints (including inquiries that may lead to the discovery of misconduct)? Are the rules legally verified and approved by the board of directors, etc.?
- 5) Are there clear standards for the determination of whether reported matters comprise a complaint, and are they established by rules?

(3) Reporting to, and approval of, the board of directors, etc.

- 1) Has the board of directors, etc., established a system under which all matters are promptly reported to the board of directors that are contained in customer complaints, etc., which may have a material impact on business operations or significantly jeopardize the interests of policyholders, etc.?
- 2) Do the standards concerning the reporting and submitting of matters for discussion by the board of directors, etc., properly set forth reporting matters and approval matters?

2. Appropriateness of responses to customer complaints

(1) Concerted action of related divisions

Are customer complaints (including inquiries that may lead to the discovery of misconduct) promptly processed in a concerted action with relevant divisions in accordance with processing procedures?

Customer Protection, etc.

(2) Recording, retention, and reporting of complaints

- 1) Are the contents of customer complaints, etc. (including inquiries that may lead to the discovery of misconduct, etc.), together with the results of processing, documented and retained in record books, etc., and reported in a timely manner to the compliance control division and the internal audit division, etc.?
- 2) Are all matters that may have a material impact on the business or that may considerably damage the interest of policyholders promptly reported to the compliance control division, the internal audit division, other relevant divisions, and to the board of directors?

(3) Analysis of the causes of complaints (remedial measures)

- 1) Are complaints analyzed and the causes of complaints fully understood?
- 2) For example, does the complaint management division request relevant divisions to file a report or to take steps for improvement based on the analysis of the contents of complaints, or otherwise take measures for continual improvement? Furthermore, does the complaint management division propose improvements to the board of directors, etc.?

#### IV. Customer Information Management System

1. Establishment and Development of the Customer Information Management System

(1) Formulation and establishment of basic policies concerning customer information management

- 1) Do directors understand the importance of compliance with laws and regulations concerning protection of customer information, including the Personal Information Protection Law, for the prevention of leakage of information concerning customers, etc. (“customer information”)? Based on this recognition, do directors accurately recognize the current status of the customer information management system, and design and formulate policies and specific measures aimed at establishing and building an appropriate customer information management system?
- 2) Does the board of directors, etc., analyze and evaluate the foregoing policies and specific measures, and make unambiguous decisions? Are the foregoing policies thoroughly indicated to officers and employees, etc.?

Customer Protection, etc.

(2) Development, etc., of the organization for customer information management

- 1) Has the board of directors, etc., designated a person responsible for controlling the management in general of customer information (the “customer information controller”) and clarify the responsibilities and authority of the position?  
(Alternatively, a full division can be established for controlling and managing customer information). Is the office of the customer information controller assumed by a board member or executive officer, etc., who is responsible for the execution of operations?
- 2) Has the board of directors, etc., designated in each division a customer information manager in charge of customer information management? Has the board clearly articulated this manager’s responsibilities and authority?
- 3) Does the board of directors, etc., assign appropriate personnel with adequate knowledge and experience concerning the respective duties as the customer information controller and as customer information managers of divisions?
- 4) With respect to individual customer information, does the board of directors, etc., take the following measures for maintaining security, supervising employees, and supervising outside service providers when the handling of such information is entrusted to such service providers as necessary, in order to prevent leakage, loss, or damage of such information pursuant to laws and regulations, such as:
  - a. measures pursuant to Articles 10, 11 and 12 of the Protection Law Guidelines; and
  - b. measures pursuant to the provisions of Sections I, II, and III of the Practical Guidelines, and Appendix 2.
- 5) Does the board of directors, etc., take measures for ensuring that the sensitive information set forth in Article 6 of the Protection Law Guidelines is not used except in cases listed in the items of the same Article 6, Paragraph 1?

(3) Reporting to, and approval of, the board of directors, etc.

- 1) Has the board of directors, etc., established a system under which all matters are promptly reported to the board of directors by the customer information controller that contain information related to customer information management and may have a material impact on business operations or significantly jeopardize the interests of policyholders, etc.?

Customer Protection, etc.

- 2) Has the board of directors, etc., established a system under which the customer information controller reports periodically to the board of directors, etc., concerning the status of customer information management?
- 3) Do the standards concerning reporting to and submitting matters for discussion by the board of directors, etc., properly set forth reporting matters and approval matters?

2. Roles, etc., of the Customer Information Controller and Customer Information Manager

- (1) Is a system in place under which the customer information controller can exercise verification functions for ensuring the appropriate handling of customer information by relevant divisions and business bases, etc., over the entire scope of operations through customer information managers?
- (2) Does the customer information controller appropriately manage relevant divisions and business bases, etc., through instructions and supervision, etc., so that customer information management is conducted in a timely and appropriate manner?
- (3) With respect to the approach, etc., to customer information management, does the customer information controller develop rules setting forth the scope of customer information and its management methods, items that need to be confirmed, procedures, and judgment standards in a proper and clear manner? Are the rules legally verified and approved by the board of directors, etc.?
- (4) Are the foregoing rules thoroughly indicated to employees, etc., through periodic training, etc.?
- (5) Has the customer information controller established clear rules for internally controlling vouchers and electronic media, etc., which need to be controlled in an appropriate manner with respect to the storage location and method of disposal, etc., through each customer information manager? Are the vouchers and electronic media, etc., defined that need to be controlled?
- (6) Does the customer information controller clearly define the handling methods for the prevention of customer information leakage, by limiting to the minimum as may be necessary the customer information which can be removed from business premises, and by requiring such information to be hand carried by the responsible person at all times, etc., when customer information is removed from business premises?

Customer Protection, etc.

- (7) Has the customer information controller established clear action plans for measures, etc., for the prevention of secondary damage resulting from information leakage, etc., upon the occurrence of leakage incidents, including: the reporting of such incidents to the customer information controller, the division's customer information manager, and the proper authorities; restricting access to information as needed; and explaining incidents to customers?

### 3. System Management

Does the customer information controller take the following measures by means of the systems manager?

- 1) In relation to printouts or downloading of customer information, are restrictions placed on the content and quantity of data in an appropriate manner, in accordance with the purpose of use of such data?
- 2) Is access to customer information restricted to the extent necessary in accordance with job classifications and titles?
- 3) Is security ensured concerning access to the customer information database stored in personal computers, host computers, etc., for example, by setting passwords or establishing an authentication system?
- 4) Is customer information data that are stored in personal computers or host computers, etc., protected by encryption, etc.?

### 4. Follow-up Management

- (1) Is a system in place under which a division customer information manager immediately reports to the customer information controller upon the occurrence of leakage of customer information?
- (2) Does the customer information controller promptly report to the compliance control division and the board of directors, etc., upon the occurrence of leakage of customer information?
- (3) Upon the occurrence of leakage of customer information, does the customer information controller report to regulatory authorities, restrict access to information as needed, provide an explanation to customers, or otherwise take measures for the prevention of secondary damages resulting from the information leakage? Does the

Customer Protection, etc.

customer information controller also analyze the causes of any customer information leakage, and take measures for prevention of its recurrence?

#### 5. Agencies and Outside Service Providers

- (1) Does the board of directors, etc., clearly set forth rules and responsibilities for handling customer information in accordance with the nature and quantity of the customer information handled by outside service providers under service contracts?
- (2) Does the board of directors, etc., clarify the divisions responsible for the management of agencies and outside service contractors, and assign a customer information manager in such divisions?
- (3) Has the board of directors, etc., developed a system for periodically inspecting customer information management at outside service providers?
- (4) Has the board of directors, etc., established a system for appropriately communicating to outside service providers the measures for customer information protection, and for promptly and accurately reporting to the responsible divisions of the insurance company the occurrence of incidents, etc., at outside service providers?
- (5) Has the board of directors, etc., established a system under which the handling of affairs, etc., concerning customer information protection is thoroughly informed by training or the issuance of notification documents?
- (6) Has the board of directors, etc., established rules concerning the handling of customer information when contracts with agencies or outside service providers are terminated?
- (7) Does the customer information controller and the respective customer information manager grasp whether agencies and outside service providers appropriately manage customer information and appropriately undertake the prescribed measures if an incident occurs?
- (8) Does the customer information controller take measures required for protection of the system as needed with the cooperation of the systems manager?

## Checklist for Inspection of the Management System for Financial Soundness and Actuarial Matters

- (1) Policy reserves, reserves for outstanding claims, and dividend reserves (hereinafter collectively referred to as “policy reserves, etc.”) represent the sources of funds needed for the payment of insurance claims by insurance companies to policyholders, etc. Accordingly, appropriate provisions for such reserves are essential for insurance companies to fulfill their obligations under insurance policies. In addition, appropriate provisions for policy reserves, etc., are a prerequisite for the preparation of accurate financial statements.

Insurance companies are required to have accounting auditors and chief actuaries independently examine the appropriateness of the amount of provisions for policy reserves, etc.

Accordingly, when inspecting the appropriateness of policy reserves, etc., inspectors shall, based on the examinations conducted by accounting auditors and chief actuaries, and using this checklist, examine the appropriateness of the provisions for policy reserves, etc., and the management system for ensuring such appropriateness (so-called “process checking”), and also examine the appropriateness of actual amounts of policy reserves, etc., by the sampling survey method and with an examination of changes in their outstanding balances, etc.

- (2) It is extremely important for insurance companies to strengthen their capital adequacy and build retained earnings, and thereby to hold an adequate risk-adjusted financial base to ensure the confidence of policyholders, etc. Insurance companies in need of improving their financial condition are required to do so based on their own initiatives in accordance with the principle of self-responsibility. The authorities concerned are required to supplement such efforts by encouraging early correction of the operations of insurance companies by issuing necessary correction orders based on the objective standards of the solvency margin ratio in a prompt and appropriate manner in order to ensure the soundness of the operations of insurance companies. Accordingly, it is necessary to examine whether the solvency margin and the amounts corresponding to risks are calculated in conformity with “Standards for Insurance Company Capital, Funds, Reserves, etc., and Methods for Calculating the Amount Equivalent to the Risk Exceeding Normal Estimates” (Ministry of Finance Notice No. 50 of 1996), etc.

- (3) Insurance companies are required to understand the possible effects of future losses on financial soundness and take additional operational or financial measures as needed. Accordingly, insurance companies are required to conduct stress tests (analyses concerning effects upon occurrence of anticipated future losses) in accordance with their financial condition and risk exposure on their own initiatives in addition to the calculation of solvency margin ratios and future cash flow analyses, etc., as required by the authorities.

Use of these business analyses and their reflection on business management are indispensable for reliable payment of insurance claims, which is the basic element for the protection of policyholders, etc.

- (4) In view of the foregoing considerations, inspectors shall inspect the management system concerning financial soundness and actuarial matters, using the “Checklist for Inspection of the Internal Control System,” the “Checklist for Inspection of the Compliance System” and this inspection checklist. It shall be noted also that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, other applicable laws and regulations, and Supervisory Guidelines, etc., shall be taken into consideration.

I. Appropriateness, etc., of the provisions for policy reserves, etc.

1. Development and Establishment of the System for Management of the Provisions for Policy Reserves, etc.

(1) Articulation of policies concerning provisions for policy reserves, etc.

Do directors fully understand that appropriate provisions for policy reserves, etc., are important from the viewpoint of ensuring the soundness of the financial condition of insurance companies and ultimately for the protection of policyholders, etc., and articulate basic policies concerning the methods of provision and the levels of provision, etc., in conformity with laws and regulations, etc. (including the Actuarial Statement and the Practical Guidelines in this checklist) at the board of directors' meetings? Do such policies include the standards for the methods of provision for each type of insurance product, reporting to the board of directors, etc., concerning changes in the levels of provision, and applications for internal approval? When provision policies are changed, is it confirmed that such changes are in compliance with laws and regulations, etc.?

(2) Confirmation of provisions for policy reserves, etc.

1) Does the board of directors confirm policy reserves, etc., are actually provided for in conformity with laws and regulations, etc., and the management policy for provisions?

2) Does the board of directors of life insurance companies examine the validity of the scenarios, etc., used in future cash flow analyses (verification work performed by the chief actuaries of life insurance companies pursuant to Article 121, Paragraph 1, Item 1 of the Law; the "Item 1 Cash Flow Analysis") to confirm whether the valuation methods of policy reserves, etc., are appropriate in relation to actual business conditions? In doing so, does the board of directors confirm whether the past forecast scenarios were correct?

(3) Examination of the opinions of chief actuaries

1) Does the board of directors review the written reports, attachments to reports, and other reference materials submitted by chief actuaries pursuant to Article 82 of the Enforcement Regulations (the "written opinion, etc.") as to whether opinions, etc., are based on reasonable grounds and so forth?

- 2) In cases when the written opinion, etc., contains a statement that policy reserves are not provided for in an appropriate manner, does the board of directors take corrective measures in accordance with such an opinion? If it does not follow the opinion, is there reasonable cause, for example, that such an opinion is not in conformity with the Practical Guidelines?
  - 3) When chief actuaries point out in a written report that part or all of the deficiency in policy reserves, etc. (as defined in the Practical Guidelines; hereinafter the same) need not be provided for due to a change in management policy, and the board of directors decides not to make additional provisions on the basis of such an opinion, does the board of directors actually take measures to effect such a change of management policy?
- (4) Establishment of divisions in charge
- 1) Has the board of directors established the systems under which divisions in charge of the provisions for policy reserves, etc., as well as their responsibilities are clarified, in order to ensure appropriate provisions in conformity with provision policies?
  - 2) Does the coordinating division have the authority to control all divisions related to the provisions for policy reserves, etc., with respect to the calculation of the amount to be provided for policy reserves, etc.?
- (5) Assignment of staff to the divisions in charge
- Does the board of directors, etc., assign staff versed in actuarial matters to the coordinating division and the internal audit division?
- (6) Roles of corporate auditors and the board of corporate auditors
- 1) Auditing of the amount of provisions.  
  
Do corporate auditors audit the provisions for policy reserves, etc., in an appropriate manner on the basis of financial statements and their supplementary schedules, audit reports of accounting auditors, and written opinions of chief actuaries, etc.?

2) Change of provision policy

When the management policy for the provisions of policy reserves, etc., is changed, does the board of auditors audit the grounds on which the board of directors based such decision?

(7) Internal audits, external audits, and correction of issues

- 1) Does the internal audit division properly audit relevant divisions, such as the coordinating division in charge of policy reserves, etc., the division in charge of calculations, the systems division, damage investigation division (applicable only to nonlife insurance companies), etc.? In particular, does the internal audit division adequately conduct a process check when the systems for calculating the amount to be provided for policy reserves, etc., or the provision policy was changed, or verify the status of mutual checking functions?
- 2) Are the provisions for policy reserves, etc., audited by accounting auditors in an appropriate manner? Do chief actuaries submit to accounting auditors a copy of a written opinion and a copy of attached reports concerning the Item 1 Cash Flow Analysis? Do chief actuaries cooperate with corporate auditors and accounting auditors and exchange information necessary for the discharge of respective duties?

2. Roles of Chief Actuaries

- (1) Do chief actuaries verify, in compliance with laws and regulations, etc., whether policy reserves are provided for in accordance with sound actuarial standards?
- (2) Are chief actuaries involved in the calculation of reserves for outstanding claims in conformity with laws and regulations, etc.?
- (3) Do chief actuaries of insurance companies conduct the Item 1 Cash Flow Analysis in conformity with laws and regulations, etc., to confirm whether policy reserves are provided for based on sound actuarial standards? In particular, are the growth rates of new contracts, expenses, and the asset portfolio based on past results and reasonable expectations? Furthermore, is cash flow analysis conducted, in principle, for each category of products that are independently accounted for over a period of, at the shortest, ten years into the future?

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- (4) Are chief actuaries involved in establishing the methods for calculation of insurance premiums and policy reserves and other actuarial matters, and do they work in cooperation with relevant divisions concerning changes in their systems and accurately report issues, etc., to the board of directors, etc., as needed?
- (5) Do chief actuaries submit written opinions to the board of directors? Are all matters required by laws and regulations, etc., stated in the written opinions?

### 3. Roles of the Division in Charge of the Provisions for Policy Reserves, etc.

- (1) Management of operation procedures and schedules
  - 1) Does the coordinating division clearly set forth the operation procedures for calculating the amounts to be provided for policy reserves, etc., and thoroughly indicate such procedures to relevant divisions? Does it manage the schedule in accordance with the operation procedures in an appropriate manner?
  - 2) Does the coordinating division provide appropriate information necessary for the producing scenarios to be used in the Item 1 Cash Flow Analysis?
- (2) Verification of calculation results
  - 1) Does the coordinating division verify whether the amounts to be provided for policy reserves, etc., are calculated in conformity with provision policies, laws and regulations, etc., and whether the results of such calculations are fair? In doing so, does it perform verification by referring to changes in outstanding balances and by means of sampling?
  - 2) When the coordinating division handles part of calculation operations (that is, concurrently assumes the role of the calculation division), are the staff in charge of calculation operations and in charge of other operations clearly segregated to ensure mutual checking functions?

### 4. Policy Reserves, etc., of Life Insurance Companies

- (1) Policy reserves
  - 1) Provisions for policy reserves, etc.

Are policy reserves classified into premium reserves, unearned premiums, refundable provision, and contingency reserves, as set forth in Article 69 of the

Enforcement Regulations, calculated and provided for in accordance with the Actuarial Statement, after appropriately recognizing the insurance policies in force at the end of accounting periods?

2) Premium reserves and unearned premiums

- a. Is it appropriately determined based on when insurance policies were concluded and the type of insurance policies, in conformity with laws and regulations, etc., whether insurance policies are subject to standard policy reserves?
- b. When policy reserves are provided for under the Zillmer method, are the Zillmer percentage and the Zillmer period appropriate, and do their levels exceed surrender values?
- c. When policy reserves are provided for under the Zillmer method, are additional provisions made systematically for the purpose of providing for policy reserves under the net level premium method?
- d. Are calculation items for policy reserves aggregated in an appropriate manner? Are the causes verified for items that were significantly changed from the year earlier?

3) Contingency reserves

- a. Are contingency reserves managed after classifying them into contingency reserve for underwriting risk (Contingency Reserve I), contingency reserve for assumed interest rate risk (Contingency Reserve II), and contingency reserve for minimum guarantee risk (Contingency Reserve III) as set forth in Article 69, Paragraph 6 of the Enforcement Regulations?
- b. Are the provisions for Contingency Reserve I, Contingency Reserve II, and Contingency Reserve III in excess of the standard amounts, respectively, calculated pursuant to Articles 2, 3, and 3-2 of the Ministry of Finance Notice No. 231 of 1998? Conversely, are such amounts in excess of the ceilings of provisions set forth in the Notice?
- c. When contingency reserves are reversed, is such reversal in conformity with the reversal standards set forth in Article 6 of Notice No. 231?
- d. Are contingency reserves provided for risks other than normal death risk, accidental death risk, pure endowment risk, hospitalization due to accident

risk, or hospitalization due to illness risk (for example, three major diseases, etc.), which are set forth in Notice No. 231, based on the Notice and in accordance with the method set forth in the Actuarial Statement in an appropriate manner?

- 4) Policy reserves for insurance policies with which the amount of insurance claims, etc., fluctuates in accordance with the value of assets in separate accounts
  - a. Is the balance of revenues and expenditures of separate accounts provided for as policy reserves for separate accounts?
  - b. In the case of insurance policies for which a minimum amount of insurance claims is guaranteed, is the amount set forth in Paragraph 5, Item 1 of Ministry of Finance Notice No. 48 of 1996 provided for as the policy reserves of general accounts?
  - c. Is Contingency Reserve III provided for variable annuity insurance policies that were concluded on or before March 31, 2005 and with which a minimum amount of insurance claims, etc., is guaranteed as well?

(2) Reserves for outstanding claims

1) Standard reserves for outstanding claims

- a. Is the reserve for insurance claims, etc., for which the occurrence of a reason for payment has been reported and the duty of payment has arisen but the disbursement for payment of such claim has not been made as yet (the “standard reserve for outstanding claims”) provided for in an appropriate manner pursuant to Article 73, Paragraph 1, Item 1 of the Enforcement Regulations? In providing for such reserves, is the information received from policyholders, etc., concerning insured events appropriately managed and are the projected payment amounts reasonably estimated?
- b. Are the standards for calculations of the amount to be provided for as the standard reserve for outstanding claims set appropriately in view of the insurance claim payment standards? In addition, when such calculation standards are changed, are the reason and requirements for such changes valid?

- c. Does the calculation division have the status of the occurrence of the reasons for payment as understood by the company accurately reflected in the period-end estimation process, pending the determination of the amount of insurance claims to be paid?
  - d. With respect to the reserves for outstanding claims concerning inward reinsurance underwritten for overseas insurers (the “estimated reserves for outstanding claims for inward reinsurance for overseas insurers”), in cases when reports concerning insured events cannot be obtained from ceding parties, etc., due to differences in the accounting system of the countries of the ceding parties, etc., or other factors, but if such reserve can be calculated by a reasonable method taking into account recent historical experience, is such calculated amount provided for as the standard reserve for outstanding claims?
- 2) IBNR reserve
- a. Is the reserve for insurance claims, etc., for which the obligation for payment is deemed to have arisen although claim reports of the occurrence and the reason for payment have not been received (reserves for outstanding claims for insured events that have been “incurred but not reported”; the “IBNR reserve”) provided for in conformity with Article 1 of Ministry of Finance Notice No. 234 of 1998 in accordance with the classification of insurance pursuant to Article 73, Paragraph 1, Item 2 of the Enforcement Regulations?
  - b. In cases when Article 73, Paragraph 2 is applied instead of Notice No. 234, is the amount calculated in accordance with the method set forth in the Actuarial Statement provided for as the IBNR reserve?

(3) Dividend reserves

In the case of insurance companies, is the reserve for dividends to policyholders provided for in the liability section in accordance with Article 30-5, Paragraph 2 of the Enforcement Regulations? Furthermore, is the equalized reserve for dividends to policyholders provided for in the net asset section as a voluntary surplus reserve? In addition, in the case of joint-stock companies, is the reserve for dividends to policyholders provided for pursuant to Article 64 of the Enforcement Regulations?

5. Policy Reserves, etc., of Nonlife Insurance Companies

(1) Policy reserves

1) Provisions for policy reserves

Are policy reserves classified into the reserve for standard policies, abnormal contingency reserve, refund provisions, and reserve for dividends to policyholders, etc., as set forth in Article 70 of the Enforcement Regulations, after appropriately recognizing insurance policies in force at the end of accounting periods, and calculated and provided for in accordance with the Actuarial Statement and Ministry of Finance Notice No. 232 of 1998?

2) Standard policy reserves

Is the larger of the sum of the premium reserves and unearned premiums calculated in accordance with Notice No. 232 and the net proceeds in the initial fiscal year (premiums received in such fiscal year, less the insurance claims, surrender values, and reserves for outstanding claims paid in the same fiscal year for the policies for which premiums were received and the operating expenses incurred during the same fiscal year) provided for as standard policy reserves?

3) Policies subject to the standard policy reserve

Are premium reserve or refund reserve appropriately provided for in accordance with Article 70, Paragraph 2, Item 1 of the Enforcement Regulations for insurance policies commencing on or after April 1, 2001 that are the type of insurance policies as set forth in Article 3, Paragraph 5, Item 2 of the Law (third-sector insurance) excluding those with a coverage period of one year or less (in the case of insurance policies with which saving accounts are established, insurance policies with the coverage period of ten years or shorter)?

4) Abnormal contingency reserve

- a. Is the larger of the minimum provision amount set forth in the Actuarial Statement and the maximum provision amount approved under tax laws provided as an abnormal contingency reserve pursuant to Article 2, Item 2 of Notice No. 232? In addition, are filings made as needed pursuant to the Notice?

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- b. When a provision is made in excess of such an upper limit, is the reason for such provision valid?
  - c. If the abnormal contingency reserve is reversed, is such reversal in conformity with Article 2, Item 1 of Notice No. 232?
  - d. When the level and method of provisions are changed, is the reason for that change valid and acceptable?
- 5) Refund provisions
- a. Is the refund provision appropriately provided for based on the Actuarial Statement in conformity with Article 70, Paragraph 2, Item 1 of the Enforcement Regulations?
  - b. With respect to the refund reserve for insurance policies in separate accounts, is the balance of the net proceeds in those separate accounts provided for as refund reserve in conformity with Article 70, Paragraph 2, Item 3 of the Enforcement Regulations?
- 6) Reserve for dividends to policyholders
- a. Are the reserve for dividends to policyholders (restricted) and the reserve for dividends to policyholders (unrestricted) provided for in accordance with the Actuarial Statement? In addition, is the reserve for dividends to policyholders (unrestricted) provided for within the maximum amount and in excess of the required amount?
  - b. When the standards for provision and reversal of the reserve for dividends to policyholders (unrestricted) are changed, are the reasons for such changes valid?
- 7) Policy reserves concerning automobile liability insurance and earthquake insurance

Are the amounts calculated in accordance with the Actuarial Statement provided for in an appropriate manner for the reserves set forth in the ordinances of regulatory ministries (Ordinance No. 1 of 1997 of the Ministry of Finance; the Ministry of Health and Welfare; the Ministry of Agriculture, Forestry and Fisheries; and the Ministry of Transport) under Article 28-3 of the Automobile Liability Insurance Law, and are the policy reserves as set forth in

Article 7 of the Enforcement Regulations of the Law Concerning Earthquake Insurance?

(2) Reserves for outstanding claims

1) Standard reserves for outstanding claims

- a. Is the standard reserve for outstanding claims appropriately provided for in accordance with Article 73, Paragraph 1, Item 1 of the Enforcement Regulations? When making provisions, is information from policyholders, etc., concerning insured events managed in an appropriate manner, and are the expected payment amounts reasonably estimated in making provisions?
- b. Are the standards for calculation of the amounts to be provided as the standard reserve for outstanding claims set appropriately in view of the insurance claim payment standards? In addition, when such calculation standards are changed, are the reason and requirements for such changes valid?
- c. Does the calculation division comprehend the status of the occurrence rate of the reasons for payment by the company, and the rates accurately reflected in the period-end estimation process pending the determination of the amount of insurance claims to be paid?
- d. With respect to the estimated reserve for outstanding claims for inward reinsurance for overseas insurers, in cases when reports concerning insured events cannot be obtained from ceding parties, etc., due to differences in the accounting system of the countries of the ceding parties, etc., or other factors, but if such reserve can be calculated by a reasonable method taking into account recent historical experience, is such calculated amount provided for as the standard reserve for outstanding claims?

2) IBNR reserve

- a. Is the IBNR reserve provided for in conformity with Article 2 of Ministry of Finance Notice No. 234 in accordance with the classification of insurance pursuant to Article 73, Paragraph 1, Item 2 of the Enforcement Regulations?

- b. In cases when Article 73, Paragraph 2 is applied instead of Notice No. 234, is the amount as calculated in accordance with the method set forth in the Actuarial Statement provided for the IBNR reserve?

6. Reinsurance (Including Financial Reinsurance)

(1) Reinsured insurance policies

- 1) In cases when policy reserves, etc., are not provided for because reinsurance has been purchased, does the coordinating division confirm whether the reinsurer satisfies the requirements set forth in the items of Article 71, paragraph 1 of the Enforcement Regulations? Does the division accurately comprehend the financial condition, etc., of the reinsurer when applying Article 71, Paragraph 1, Item 4 of the Enforcement Regulations?
- 2) Does the coordinating division confirm whether the fees received in advance that are related to financial reinsurance that has been purchased as set forth in Article 1 of Ministry of Finance Notice No. 233 of 1998 (fees calculated based on the revenue expected to arise from the portion of the reinsured insurance policy) are provided for as policy reserves in an appropriate manner? In addition, when reinsurance other than financial reinsurance is purchased and the fees calculated based on the revenue expected to arise from the portion of the reinsured insurance are received, does the coordinating division confirm whether such fees are recorded as deposits received in an appropriate manner?
- 3) With respect to the reinsurance with which reinsurance premiums and the amount of reinsured claims are adjusted after the reinsurance contract, does the coordinating division confirm whether the amount equivalent to additional reinsurance premiums or the amount of reinsured claims to be returned is appropriately provided for as policy reserves or other liabilities in the accounting period during which such reinsurance is purchased (excluding those cases in which post-contract adjustment is an insignificant element)?
- 4) When providing for contingency reserve for reinsured policies, does the coordinating division confirm whether the amount deductible from the reserve is not in excess of the risk portion substantially transferred by reinsurance?

Note: If reinsurance is purchased, payment obligations under the original insurance policy naturally remain those of the original insurance company.

Accordingly, the policy reserves and reserves for outstanding claims of the original insurance company are required to be such as not to hinder the performance of future obligations. Accordingly, the foregoing matters shall be verified in view of the intent of exempting the provision for the reinsured portion being limited to cases when reinsurers satisfy the requirements set forth in Article 71, Paragraph 1 of the Enforcement Regulations.

(2) Insurance policies underwritten for reinsurance

When the company underwrites reinsurance for other companies, does the coordinating division confirm whether policy reserves or the reserves for outstanding claims are appropriately provided for by comprehending the risk related to such reinsurance, in view of the fact that it is not necessarily appropriate to treat reinsurance underwriting risk in a similar manner with ordinary underwriting risk, due to the complexity of contracts and actual conditions when reinsurance is underwritten for other insurance companies?

7. Future Cash Flow Analyses, etc.

(1) Future cash flow analysis (Item 1 Cash Flow Analysis)

- 1) Does the coordinating division or the division in charge of calculations provide appropriate information for the verification work conducted by chief actuaries to confirm whether the methods for evaluating policy reserves are appropriate in relation to the actual business conditions of the insurance company?
- 2) Does the coordinating division of a life insurance company confirm whether the prescribed scenarios set forth in the Practical Guidelines are used in the Item 1 Cash Flow Analysis conducted by chief actuaries, and such analysis is conducted in principle by the type of products being accounted for separately?

(2) Measures for treatment of a deficiency of policy reserves

In cases when a deficiency of policy reserves is expected to occur or “it is deemed that there is likelihood that the future performance of obligations will be hindered” (Article 69, Item 5; or, Article 70, Item 3 of the Enforcement Regulations) as a result of confirmation work conducted by chief actuaries using Item 1 Cash Flow Analysis, are appropriate measures taken as set forth below, etc.?

- 1) In cases when a deficiency of policy reserves is expected to occur within the next five years as a result of Item 1 Cash Flow Analysis, while it is permissible that part or all of such policy reserves need not to be provided for if business management policies are changed in accordance with the written opinion of chief actuaries, is the basis (plans, etc.) for holding that such changes can immediately be implemented specifically documented?
- 2) In cases when a deficiency of policy reserves is expected to occur within the next five years as a result of Item 1 Cash Flow Analysis, and such deficiency of policy reserves cannot be overcome even with a change of business management policies, and it is necessary to provide for additional policy reserves pursuant to the provisions of Article 69, Item 5 of the Enforcement Regulations, do insurance companies immediately provide for additional policy reserves or otherwise take necessary measures by formulating reasonable plans for providing policy reserves and by changing the the Actuarial Statement for insurance premiums and policy reserves (the “Actuarial Statement”)? Are the additional provisions in response to deficiencies of policy reserves in this case made in principle by the type of products being accounted for separately?
- 3) In cases when it is deemed a likelihood exists that the future performance of obligations will be hindered at a nonlife insurance company, does the company immediately provide for additional policy reserves or otherwise take necessary measures by formulating reasonable plans for providing policy reserves and by amending the Actuarial Statement?

#### 8. Management of Information Systems

- (1) When developing or altering information systems for calculations of provision amounts, are delegations of responsibility and operation procedures set forth in a clear and specific manner? Is the approval of the coordinating division required?
- (2) Does the coordinating division or the division in charge of calculation operations verify the content of the development and alterations of software programs, and compare the system logic with the calculation method as defined in the Actuarial Statement and verify the system logic? In addition, is a system in place under which the confirmation of the content of development and alterations of software programs is conducted in cooperation with chief actuaries?

- (3) Has the person in charge of the systems division established a system under which unauthorized persons cannot develop or alter the information systems?

## II. Appropriateness of the solvency margin ratio

### 1. Establishment and Development of the System for Calculating Solvency Margin Ratios

Does the board of directors understand that the appropriate calculation of solvency margin ratios is important for ensuring the confidence of policyholders, etc., and does it have a system in place for calculating the ratios in an appropriate manner?

### 2. Appropriateness of Solvency Margin Calculations

#### (1) Financial statement items

- 1) Is the amount corresponding to the tax effect (amount of deferred tax assets) included in the net assets section calculated appropriately based on the “Audit Guideline for Considering Recoverability of Deferred Tax Assets”?

Is the amount corresponding to the tax effect stipulated in Article 1, Paragraph 3, Item 5 of Notice No. 50 reported appropriately in view of the intent of the Notice?

- 2) Is the allowance for employees’ retirement benefits treated appropriately in accordance with the “Accounting Standard for Retirement Benefits” and “Practical Guideline for Accounting of Retirement Benefits”?
- 3) If real estate has been sold, and then repurchased at a price at or near the prior selling price after its market value has fallen, and as a result, large unrealized losses are incurred, is the repurchase price used as the assessed value?

#### (2) Debt capital

- 1) If the insurance company has borrowed through subordinated loans or issued subordinated bonds, does such borrowing, etc., meet the qualifications for strengthening the company’s ability to make payments of insurance claims, etc.?

- 2) If the insurance company has borrowed subordinated loans or issued subordinated bonds subject to special clauses for adding on step-up interest, etc., is such step-up interest, etc., excessive?
- 3) Did an insurance company that has raised capital provide bypass loans, etc., to the lenders, etc., of subordinated loans, etc., for funding such loans, etc.?

(3) Intentional holdings

With regard to the holdings of shares or other capital-raising instruments of other insurance companies or subsidiaries, etc., which are required to be deducted as “deduction items” from the total solvency margin as stipulated in Article 1-2 of Notice No. 50, is it confirmed whether such holdings are deemed as “intentional holdings” in view of the intention of the Supervisory Guidelines?

If such holdings are subject to the rules for “intentional holdings,” the amount of such holdings is required to be deducted from the total solvency margin of lender insurance companies. Is such deduction appropriately performed?

3. Appropriateness of the Amount Equivalent to Risk Exceeding Normal Estimates

(1) Amount equivalent to minimum guarantee risk

- 1) Calculations of the amount equivalent to minimum guarantee risk shall be confirmed as to whether such risk is calculated in accordance with the standard method or alternative method. In addition, in the case of variable insurance policies, etc., concluded on or before March 31, 2005 for which a minimum amount of insurance claims, etc., is guaranteed, it shall be confirmed whether the amount equivalent to minimum guarantee risk has been calculated.
- 2) When hedging is used to mitigate minimum guarantee risk, is such hedging treated in accordance with the provision of Exhibit 6-2, II.3 of Notice No. 50?
- 3) When reinsurance is purchased for minimum guarantee risk, is such risk deducted within the amount of risk transferred by issuing outward reinsurance?

(2) Amount equivalent to credit risk

- 1) Is the credit risk for calculation of solvency margin ratios reduced by intentionally excluding from risk management loans any loans that must be reported as risk management loans?

- 2) If the insurance company holds loans with guarantees extending into the next fiscal year or existing at the end of the fiscal year, is the credit risk for calculation of solvency margin ratios reduced, notwithstanding the fact that such guarantees, etc., expire within one year? Provided, however, that when such guarantees, etc., are reasonable, and if it can be expected that they will continue to reduce credit risk, the foregoing shall not apply.

(3) Amount equivalent to derivative transactions risk

With respect to derivative transactions with a negative risk factor (e.g., long put options on foreign currencies or stocks), it must be confirmed whether the following transactions are subject to the rules for “cases when intentional transactions are conducted” as set forth in Article 2, Paragraph 7, Items 1 and 2 of Notice No. 50, and if so, whether such transactions are deducted appropriately:

- 1) when the outstanding balance of derivative transactions at the end of a fiscal year significantly exceeds the average of the outstanding balances at the end of each month during the same fiscal year; or
- 2) when the ratio of the outstanding balance of derivative transactions to the outstanding balance of underlying assets held at the end of a fiscal year is significantly higher than the average of the ratios calculated at the end of each month during the same fiscal year.

(4) Other matters

- 1) If assets have been liquidated, and although such liquidation constitutes a transfer in legal terms, it shall be confirmed whether the risk of assets was completely transferred to the transferee, etc., or otherwise confirmed that the transfer was completed in substance.
- 2) Otherwise, it shall be confirmed whether solvency-margin padding or any other reductions of risks were conducted that are contrary to the intent of the solvency margin standards.

4. Incorporation of Inspection Results

If the level of write-offs and allowances or the provisions of policy reserves are determined to be insufficient as a result of inspections of write-offs and allowances and provisions of policy reserves, solvency margin ratios shall be calculated based on the assumption that additional write-offs and allowances or provisions of policy

reserves had been recorded in an appropriate manner. In this case, the issues recognized by chief inspectors, the insurance company under inspection, and the accounting auditors shall be in concurrence at each stage.

(1) Examination of the level of write-offs and allowances

With respect to the consideration of the levels of write-offs and allowances, levels shall be determined to be insufficient in the following cases:

- 1) in cases when self-assessment standards are determined to be inappropriate or the self-assessment conclusion is determined to be inaccurate as a result of the inspection of self-assessment standards and the self-assessment, and the amount of write-offs and allowances is expected to be increased as a result of an increase in classification amounts (Category II, Category III, and Category IV) due to a change of debtor classifications; and
- 2) in cases when the amounts of write-offs and allowances are expected to be increased because the standards for write-offs and allowances are determined to be inappropriate or the calculations of the amounts of write-offs and allowances are determined to be inappropriate as a result of an inspection of the standards and actual amounts of write-offs and allowances.

(2) Calculation of the amount of additionally required write-offs and allowances

When calculating the amount of additionally required write-offs and allowances, opinions shall be adequately exchanged with the insurance company under inspection and the accounting auditors, in consideration of the following points:

- 1) In those cases that are classified as 4.(1) 1), above:
  - a. If the write-off and allowance standards of the insurance company under inspection are determined to be appropriate, the amount of additionally required write-offs and allowances shall be calculated based on such write-off and allowance standards.
  - b. If the write-off and allowance standards of the insurance company under inspection are found to be inappropriate, the amount of additionally required write-offs and allowances shall be calculated based on the write-off and allowance standards derived from the method described in 4.(2) 2) a., below.

2) In those cases that are classified as 4.(1) 2), above:

- a. If the write-off and allowance standards of the insurance company under inspection are inappropriate:

Following an adequate exchange of opinions with the insurance company under inspection and the accounting auditors regarding the inappropriate portions of the write-off and allowance standards of the insurance company under inspection, after determining the necessary amendments to the write-off and allowance standards, the amount of additionally required write-offs and allowances shall be calculated based on the amended write-off and allowance standards.

- b. If the write-off and allowance results of the insurance company under inspection are inappropriate:

After calculating the amount of write-offs and allowances by assuming appropriate write-offs and allowances had been provided based on the write-off and allowance standards of the insurance company under inspection, the amount of additionally required write-offs and allowances shall be calculated.

(3) Examination of the level of the amounts provided for as policy reserves, etc., and calculation of additionally required policy reserves, etc., and reserves for outstanding claims

When examining the level of the amounts provided for as policy reserves, etc., they shall be determined to be insufficient if such amounts are expected to be increased after determining that the calculations of policy reserves, etc., were inappropriate as a result of examinations based on this checklist (I. Appropriateness, etc., of the provisions of policy reserves, etc.). The amounts of additionally required policy reserves, etc., shall be calculated after calculating the amounts to be provided for as policy reserves assuming an appropriate calculation of policy reserves, etc., had been conducted.

5. Monitoring countermeasures for declines in solvency margin ratio

When the solvency margin ratio declines, the countermeasures being considered by the insurance company shall be accurately understood by inspectors. Specifically, future countermeasures of the insurance company under inspection concerning earnings

prospects, disposal of assets, plans for capital increases, and measures for reducing various types of risks, etc., shall be accurately comprehended.

Subsequently, after examining the appropriateness of such countermeasures, the levels of solvency ratios which can be expected in the following accounting period and thereafter based upon the calculation results of the solvency margin ratios after applying appropriate countermeasures shall be confirmed, and the understanding of chief inspectors, the insurance company under inspection, and the accounting auditors must be in concurrence.

Furthermore, it shall be examined whether the level of the solvency margin ratios for the fiscal year under review and the following fiscal year have the possibility of reaching the threshold for invoking early corrective measures as set forth in Article 2, etc., of the Ordinance to Define Classifications, etc., pursuant to Article 132, Paragraph 2 of the Insurance Business Law (Ordinance of Cabinet Office and Ministry of Finance).

In so doing, whether the matter is subject to the provisions of Article 3, Paragraphs 2 and 3 of the same Ordinance shall be examined as well.

### III. Business Analyses and Policyholder Dividends

#### 1. Performing Stress Tests

##### (1) Structure for performing stress tests

- 1) Does the board of directors, etc., formulate basic policies concerning the implementation of stress tests and have a system in place for confirming that stress tests are properly designed and performed on a companywide basis? Do the divisions, etc., in charge of performing stress tests develop and use rules concerning the method of performing such tests, testing frequency, and reporting, etc., that are approved by the board of directors, etc.?
- 2) It is desirable that stress tests be conducted regularly in accordance with the risk exposure of insurance companies.

##### (2) Performing appropriate stress tests

- 1) Are staff with requisite professional knowledge and skills involved in performing stress tests?

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- 2) Is the rationale of the designs of stress tests to be preformed clearly defined and appropriate? Do they reflect the worst-case scenarios generally used in the risk management system of the company?
  - 3) Is the reliability of the model used in stress tests regularly examined and appropriately updated as needed?
- (3) Incorporation, etc., of the results of stress tests
- 1) Is a system in place under which the results of stress tests are adequately incorporated into the risk management system of the insurance company?
  - 2) Are summaries of stress tests and their results reported to the board of directors, etc.?
  - 3) When disclosing the risk management system described in Article 59-2, Paragraph 1, Item 4(a) of the Enforcement Regulations, are the outline of the stress tests and the manner of utilizing the results of stress tests disclosed?

### 2. Future Cash Flow Analysis (Item 3 Cash Flow Analysis)

- (1) Does the board of directors, etc., fully understand that accurate projections of future financial conditions are important for the management of the insurance company and that should any issues be identified, early remedial measures are required? Especially, in the case of life insurance companies, does the board of directors, etc., understand the intent of the requirements that chief actuaries perform confirmation work pursuant to the criteria for continuation of the insurance business regarding whether the insurance business is difficult to sustain (confirmation work pursuant to Article 121, Paragraph 1, Item 3 of the Law) and have a system in place for providing cooperation and responses to this confirmation work in a proper manner? Does the board of directors, etc., take measures for treatment of the results of Item 3 Cash Flow Analysis in an appropriate manner?
- (2) Do chief actuaries of the insurance company confirm the criteria for continuation of the insurance business through Item 3 Cash Flow Analysis pursuant to the Practical Guidelines over a future minimum period of ten years? Do they also confirm that the “amount of assets at a future point in time as estimated based on reasonable projections” exceeds the “amount of liabilities at a future point in time as estimated

based on reasonable projections” at the end of the first five fiscal years covered by such analysis?

- (3) When Item 3 Optional Scenarios defined in the Practical Guidelines are used, are such scenarios reasonable and objective? For example:
- 1) Are the changes in the elements of an Item 3 Optional Scenarios over time in the future reasonable, in view of the current status of the business operations of the insurance company?
  - 2) Are the relationships coherent between the elements (e.g., the amount of new policies and operating expenses, fluctuations in bond prices and interest rates, maturity of insurance policies in force and the occurrence rate of insured events, etc.) of Item 3 Optional Scenarios?
  - 3) Is it demonstrated in supporting attachments that each Item 3 Optional Scenario is justifiable?
  - 4) Are Item 3 Optional Scenarios later compared with the actual results that ensued, and if any differences are found, are their causes investigated?
- (4) Are the scenarios used in Item 3 Cash Flow Analysis in conformity with the Practical Guidelines?
- (5) In cases when it was determined by Item 3 Cash Flow Analysis that a deficit as defined in the criteria for continuation of the insurance business is expected to arise during the next five years, but it is stated in the written opinion of chief actuaries that part or all of such deficit can be eliminated if business management policies are changed, is the basis (plans, etc.) for implementing such change demonstrated, and is there a high feasibility of such change?

Is it demonstrated in the written opinions for the following fiscal year and thereafter that such business management policies were implemented? If not, are the causes and remedial measures to be taken in the future demonstrated?

- (6) If the results of Item 3 Cash Flow Analysis differ significantly from the results of analyses conducted in the past, are the causes explained in attached reports?

Note: Item 3 Cash Flow Analysis was introduced based on discussions concerning the legal framework for treatment of the bankruptcy of insurance companies (please refer to “Interim Report on the Development of Risk Management and Legal Framework for Treatment of the Bankruptcy for Insurance

Companies” issued on December 21, 1999 by the second subcommittee of the Financial System Council), and the provision of Article 79-2 of the Enforcement Regulations was adopted as a measure for identifying insurance companies at risk of bankruptcy in order to take responsive measures at an early stage.

Similarly, with respect to the solvency margin ratio that is the benchmark for determining the soundness of insurance companies, the calculation formula and the threshold for invoking early corrective measures are specifically defined by laws and regulations, and disclosed as part of the information related to the closing of accounts. In contrast, in the case of Item 3 Cash Flow Analysis, it is expected that the verification functions of chief actuaries operate inside insurance companies and can be included in business management at an early stage. If a deficit as defined by the criteria for continuation of the insurance business is identified in Item 3 Cash Flow Analysis and the deficit cannot be eliminated within five years after the board of directors, etc., begins to address the underlying managerial issues, such a situation will satisfy the conditions for advising concerned parties that the business may be unsustainable (Article 241 of the Law).

### 3. Profit source analysis

- (1) Is the method adopted by insurance companies for profit source analysis appropriate in relation to the business characteristics of the company (business scale, growth rate, sales channels, etc.) and the product mix?

Note: Insurance premiums are calculated based upon a number of assumptions (actuarial assumption rates), and most of the insurance company’s profits are derived from the difference between these assumptions and actual operational results. Accordingly, in order to comprehend the true state of business and to project both current and future profits, it is important to separate profits for analysis purposes into components corresponding to actuarial assumption rates and into other components (such as the three major sources of profit, and policy reserve related profit and loss, etc.). Among the methods used for such profit source analysis is the standard analysis method (account balance method) with which insurance companies are required to report to regulatory authorities. However, given the current business environment and product lines which include products with low

surrender benefits, variable annuities (with a minimum guarantee), and third-sector products, the appropriateness of this method shall be determined on a case-by-case basis, depending on respective circumstances. In the case of nonlife insurance companies also, the appropriateness of such a method shall be determined on a case-by-case basis from the same perspective.

- (2) Does the board of directors, etc., receive reports concerning the results of profit source analysis and utilize such reports as an aid for decision making concerning overall business management, including annual policyholder dividends, product development, cost reductions, and sales planning, etc.?

Note: Profit source analysis is a business analysis method widely used among life insurance companies. In the case of nonlife insurance companies, insurance policies have a short life and lack a savings function. Accordingly, profit analysis by nonlife insurance companies has been thus far confined to the distinction between operating profit and loss, which is separated and accounted for by type of insurance, and non-operating profit and loss, as well as the quantitative management of loss ratios and expense ratios. However, with the introduction of third-sector products with longer policy terms, the usefulness of profit source analysis has increased.

- (3) When understanding the actual business operations by profit source analysis, the following points need to be considered.
- 1) Mortality gains and losses, which represent the basic component of the profit of insurance companies, normally exhibit stable trends. Accordingly, if any of the following situations are observed regarding mortality gains and losses, it shall be verified whether, for example, revenues and expenditures have been transferred from other profit sources to post false mortality gains and losses:
    - a. when mortality gains and losses have fluctuated widely (excluding cases when the causes are clear, such as the occurrence of large-scale disasters);
    - b. when the calculated value of assumed interest exhibits unnatural movements in comparison to the fluctuations of policy reserves for each category of assumed interest rates (the same shall apply with interest gains or losses);
    - c. when the calculated value of assumed operating expenses exhibits unnatural movements in comparison to the fluctuations of insurance

premium revenues for each type of insurance product (the same shall apply to expense profits or losses.);

- d. when the calculated value of policy reserves corresponding to cancelled or lapsed policies at the time of their termination exhibits unnatural movements in comparison to the amount of surrender values paid, etc. (the same shall apply with policy reserve-related profits or losses);
- e. when the fluctuations of policy reserves exhibit unnatural movements in comparison to the content of policies in force.

Note: Mortality and interest gains and losses are the difference between actual rates and expected rates; expense profits and losses are the positive or negative variances, respectively, between actual and expected expenses; and so on.

Note: As the standard profit source analysis method (account balance method) employs policy reserves as a calculation element, if the calculation of policy reserves exhibits abnormal values, such abnormal values also appear in the results of mortality gains and losses. This mechanism should be utilized for the purpose of confirming the valuation calculations of policy reserves.

2) Interest gains or losses represent an aspect of asset management performance that is significantly influenced by capital markets and other external environments. Accordingly, if any one of the following situations is observed regarding interest gains or losses, it shall be verified whether, for example, revenues and expenditures have been transferred from other profit sources to post unreal interest gains or losses:

- a. when interest gains or losses have fluctuated widely;
- b. when the calculated value of assumed interest exhibits unnatural movements in comparison to fluctuations in policy reserves for each category of assumed interest rates; or
- c. when the distinction between capital gains and income gains is not appropriate.

Note: In view of the occurrence of negative spread issues, etc., it shall be noted that pursuit of investment performance solely based on yield does not necessarily lead to improvement in true investment management efficiency.

3) Expense profits or losses represent the efficiency of an insurance company in various ways. Accordingly, if any one of the following situations is observed

regarding expense profits or losses, it shall be confirmed whether, for example, revenues and expenditures have been transferred from other profit sources to post false expense profits or losses:

- a. when expense profits or losses have fluctuated widely;
  - b. when the calculated value of assumed operating expenses exhibit unnatural movements in comparison to the fluctuations of insurance premium revenues for each type of insurance product;
  - c. when the levels of expense profits are high, although the company is in a stage when the burden of selling expenses should be heavy as in the case of a newly established company or otherwise.
- 4) With respect to policy reserves-related profits or losses, it is necessary to analyze the causes of such profits or losses (for example, profits resulting from the cancellation of product paying low surrender benefits, profits resulting from lapsed policies, and changes in provisions for reserves) to confirm whether there are no issues from the viewpoint of protecting policyholders, etc. Accordingly, if any one of the following situations is observed regarding policy reserves-related profits or losses, it shall be confirmed whether, for example, revenues and expenditures have been transferred from other profit sources to post false policy reserves-related profits or losses:
- a. when policy reserves-related profits or losses have fluctuated widely;
  - b. when the calculated value of policy reserves corresponding to cancelled or lapsed policies at the time of policy termination exhibit unnatural movements in comparison to the amount of surrender values paid.
- 5) With respect to other profits or losses, it shall be verified whether, for example, other ordinary revenues, corporate and inhabitant taxes, and other relevant items are appropriately posted.
- (4) Can it be demonstrated that, as a result of analysis, requisite actuarial matters (for example, provisions and reversals of contingency reserves) are appropriately conducted?

4. Separate Accounting at Life Insurance Companies

(1) Recognition of materiality concerning separate accounting and formulation of management policies

- 1) Do directors recognize the special significance to life insurance companies of using separate accounting of general ledger accounts in accordance with the nature of respective insurance products, etc., under the principle of self-responsibility and from the viewpoint of ensuring the fairness and transparency of the distribution of profits to policyholders, eliminating internal support between and among different types of insurance, efficiency of business operations, creativity and innovation in terms of product development, and pricing, etc.?
- 2) Has the board of directors, etc., established management policies concerning separate accounting in advance based on the following approach, from the viewpoint of ensuring appropriate separate accounting? In addition, are the allocation standards for assets, liabilities, net assets, profit and loss (the "allocation standards"), and the operational procedures for asset management, etc., approved by the board of directors, etc.?

(2) Determination of product classifications

- 1) Are product classifications, which are used for the purpose of managing profit, loss, and liabilities, performed in an appropriate manner as units for measuring profit and loss in view of the nature of products and the status of policies in force?

For example, are the following managed, in principle, using separate accounts: non-refundable, short-term insurance and savings-type, long-term insurance; non-participating insurance and participating insurance; fixed assumed interest rate insurance and variable assumed interest rate insurance; personal insurance and business insurance; and so on?

In principle, are the riders, etc., that are attached to basic policies, classified into the same product category as the related basic policies?

- 2) If increases in particular types of new policies in force due to the release of such products, or an increase in particular types of insurance belonging to certain product classifications, etc., materially influences either the revenues and

expenditures of the entire company or certain product classifications, and if new product classifications or sub-classifications of the same type of insurance are to be established as a result, are such classifications or sub-classifications performed under a reasonable method, taking into account fairness among policyholders, etc.?

- 3) Do pre-existing product classifications remain unchanged (including the integration into other product classifications) without a reasonable basis (in cases when policies in force have decreased or such product classifications have ceased to have meaning, etc.)?

(3) Establishment of a companywide classification

- 1) Is a companywide classification for managing the profits, losses, and liabilities that cannot be allocated to a single product classification established to ensure the smooth management of product classifications?
- 2) Are companywide classifications managed in a way that exceeds the limits of their functions? Specific functions of a companywide classification, in principle, include the following:
  - a. risk buffering functions to cope with death protection risk, price fluctuation risk, business management risk, etc.;
  - b. operational funding functions related to new product development;
  - c. management functions related to the assets collectively owned by the entire company and shared expenses of the entire company; and
  - d. management functions related to cash and deposits, etc.

(4) Establishment of asset classifications

- 1) When establishing asset classifications for the purpose of allocating returns on asset management in a fair and equitable manner, are the nature of insurance policies and the effects on revenues and expenditures of the entire company taken into consideration, and the nature, etc., of respective product classifications taken into account?
- 2) When existing asset classifications are to be further divided due to expansion of their size, etc., are such sub-classifications established under a reasonable method, taking into account fairness among policyholders, etc.?

- 3) If the assets in a certain asset classification decrease and the asset classification ceases to have meaning as a result, is such asset classification eliminated and the assets integrated into some other asset classification? In this case, are the residual assets that do not belong to a specific type of policy integrated into the common asset classification?

(5) Method of allocating assets and liabilities into product classifications

1) Allocation into product classifications

Are policy reserves (excluding contingency reserve), reinsurance liabilities, and other liabilities that are directly linked to insurance products, directly included in their respective product classifications in full, and are income taxes payable, allowance for retirement benefits, and other liabilities that cannot be classified directly, allocated in accordance with the allocation standards?

2) Allocations to the companywide classification

Is the net assets section (excluding earned surplus brought forward, valuation and currency translation adjustments, etc.), and the reserve for price fluctuations, contingency reserve, and any other liabilities which do not belong to a single product classification allocated to the companywide classification?

3) Management of sources of liabilities and net assets belonging to the companywide classification

With respect to the net assets section items belonging to the companywide classification such as reserve for equalized dividends to policyholders, or any other liabilities for the purpose of performing risk buffer functions, are their sources managed so as to identify which product classifications comprise those classifications?

(6) Method of allocating assets into asset classifications and management standards

1) Method of allocating investment assets

When assets are acquired for investment purposes in accordance with the nature of certain products, are such assets allocated, in principle, to the asset classifications corresponding to the product classifications to which such products belong?

2) Management of investment assets

Are investment assets managed under the most suitable method selected from among the following methods for each asset classification, taking into account the characteristics of respective product classifications and asset sizes, etc.?

- Segregated asset management method: Each asset is directly allocated to a relevant asset classification by type of asset and managed.
- Equity interest unit management method based on each asset unit: Percentages of equity are allocated to each asset classification for each transaction unit of asset (for example, in the case of real estate, for each property, and in the case of loans, for each lending transaction), and assets are managed in accordance with such interests.
- Equity interest management method: A major class is established for each group of investment assets, and each major class is managed based on the respective equity allocated by respective asset classifications.

Note: When the equity interest management method is adopted, entire product lines and general account assets (excluding assets that correspond to non-participating insurance) may not be treated as a single major class.

3) Method of allocating assets other than investment assets

- a. Are assets that can be directly allocated to asset classifications, such as reinsurance receivables, directly allocated to the respective asset classifications to which they belong?
- b. Are assets that cannot be directly allocated, such as deferred assets (systems-related) and miscellaneous assets, allocated in accordance with the allocation standards?

4) Assets belonging to the companywide classification

Are operating real estate, investments in subsidiaries and affiliates, cash and deposits (when cash and deposits, etc., are controlled by the company), and other assets that are appropriate for allocation into the companywide classification allocated in whole or in part in accordance with the allocation standards?

When the purpose changes of operating real estate or real estate held for investment, are the assets appropriately reclassified in accordance with the intent of separate accounting?

(7) Allocation of profits and losses

1) Insurance-related profits and losses

Are insurance premium revenues, etc., insurance claim payments, etc., provisions for outstanding claims, and provisions for policy reserves, etc., allocated directly to respective product classifications?

2) Investment asset-related profits and losses

Are profits and losses allocated to the asset classifications to which the investment assets belong, and then further allocated directly, or in proportion to respective equity interests to product classifications or the companywide classification?

When multiple product classifications are managed under one and the same asset classification, are the profits and losses allocated in accordance with the allocation standards?

3) Method for allocating profit and loss, other than the foregoing, that cannot be directly charged to product classifications

Are operating expenses that cannot be allocated directly to product classifications or the companywide classification, such as salaries of officers and employees, and taxes, allocated in accordance with the allocation standards?

(8) Transactions between asset classifications

Are transactions between asset classifications limited to transactions conducted for the purpose of clarifying the accounting of transactions between different asset classifications, such as for the purpose of managing funds transfers (inflows and outflows), ensuring liquidity, or portfolio improvements?

Are such transactions conducted at market prices or other fairly determined prices?

(9) Transactions between product classifications and the companywide classification

Are loans, investments, or other transactions that are conducted for compelling reasons between product classifications and the companywide classification, for the purpose of ensuring liquidity of funds or smooth payment of insurance claims, etc., treated in accordance with the following approaches?

- 1) Loans of cash and deposits, etc.
  - a. Is each loan separated from other product classifications, and managed?
  - b. Are ceilings set on loans, etc., for respective product classifications to prevent net borrowing positions from continuing?
- 2) Loans of items other than cash and deposits, etc.
  - a. In the case of loans from the companywide classification to product classifications, are such loans limited to unavoidable cases when insurance claim payments are concentrated in particular product classifications, losses due to abnormal contingencies have arisen, or a shortage of operating capital for promoting sales of new products has arisen, and so forth?
  - b. In the case of loans from product classifications to the companywide classification, are such loans limited to such cases when the size of the companywide classification is too small to perform its functions adequately?
  - c. In the case of loans set forth in 2) a. and 2) b. above, are the amounts, interest rates (which shall be determined based on market interest rates, etc., in accordance with the loan duration), repayment dates, and other repayment terms and conditions predetermined?
  - d. Are the easing of loan conditions and the discharge of debt obligations limited to unavoidable situations when an unrecoverable loss has occurred, and so forth?

Provided however, when debt obligations have been discharged, it shall be verified whether requisite measures were taken, such as the cessation of new sales of the products or revisions of insurance claims related to applicable product classifications.

In cases when profit has arisen after loan conditions were eased in such a way as not to affect the loan principle by exemption or reduction of

interest or the grant of a grace period for principle repayment, is such profit appropriated to compensate for the easing of loan conditions?

3) Investment

- a. Is the investment from the companywide classification in product classifications limited to such unavoidable cases when insurance claim payments are concentrated in particular product classifications, losses due to abnormal contingencies have arisen, or a shortage of operating capital for promoting sales of new products has arisen, and so forth?
- b. Are investments from product classifications in the companywide classification limited to such cases as when the size of the companywide classification is too small to perform its functions adequately?
- c. In cases when a surplus has arisen in the companywide classification or in product classifications that have received an investment, is the surplus amount that equates to such investment distributed to the companywide classification or product classification that provided the investment?
- d. Is an investment reclassified after its purpose has been completed?

4) Other transactions

Notwithstanding the foregoing provisions of 1) through 3), transactions between product classifications and the companywide classification concerning the provision and reversal of contingency reserve, etc., payment by product classifications of fees and commissions for jointly-owned assets (operating real estate, etc.) belonging to the companywide classification, or joint expenses paid by the companywide classification (general administrative staff wages, etc.), and the transactions described below that are equivalent to the above, shall consequently be conducted on an extremely limited scale from the viewpoint of ensuring fair and transparent distributions of profit to policyholders, eliminating internal support among differing types of insurance, and the appropriate management of separate accounting. Accordingly, is a system in place under which such transactions are appropriately conducted in full recognition of such intents?

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- a. When capital or contingency reserve, etc., are to be increased, are transactions for respective product classifications to share the requisite amounts conducted in an appropriate manner?
- b. When the capital or contingency reserve, etc., that belong to the companywide classification are to be reversed, are transactions conducted in an appropriate manner for the companywide classification to pay the applicable reversed amounts to the respective product classifications?  
  
In this case, if reserve for equalized dividends to shareholders and other voluntary reserves or liabilities that are managed under the equity interest method are reversed for an amount in excess of the equity interest held by such product classifications, are such excess portions appropriately processed and deemed as if loans were provided from the companywide classification to such product classifications?
- c. When insurance plans are changed due to conversion, etc., and as a result the product classifications to which such policies belong are changed, are transactions conducted in an appropriate manner for recording the sum total of principal and interest of policy reserves and accumulated dividends related to such policies from the product classifications to which such policies belonged prior to the foregoing change to the product classifications to which such policies belong after the change?
- d. When the companywide classification advances expenses related to new policies, are the transactions conducted in an appropriate manner for recording the payment of the amount equivalent to new policy expenses out of the premiums received from the respective product classifications to the companywide classification?
- e. Are the transactions by which the companywide classification receives fees, commissions, or other amounts in consideration of managing jointly held assets or common expenses conducted in an appropriate manner and in accordance with the asset management and operations procedures?
- f. When losses are actually incurred in respective product classifications upon the occurrence of certain specified risks, are the transactions for compensation of an amount within the limit of such incurred losses, from the companywide classification to the product classification where such risks and losses have arisen, limited to cases when respective product

classifications have transferred in advance the amount determined under certain actuarial standards as consideration?

- g. In addition to the cases listed in items 4) a. through 4) f. above, when respective product classifications receive funds from another product classification within an extent that will not influence the insurance claims payment ability, etc., of such other product classifications as in the cases described below, are such funds appropriately managed in accordance with the intents of such measures? These cases are:
- (i) when a respective product classification has incurred material losses that are deemed unrecoverable in the future, and has received compensation for such losses from the companywide classification (including cases when the companywide classification receives compensation in return for such losses); provided however, that when compensation is received by such a transaction, it shall be confirmed whether requisite measures were taken, such as the cessation of new sales of the products or revisions of insurance premiums belonging to the product classification for which compensation was accepted; or
  - (ii) when the companywide classification has incurred material losses which are deemed unrecoverable in the future and received compensation for such losses from respective product classifications.
- (10) Allocation of unrealized profits and losses, etc., upon commencement of separate accounting
- Do directors established a method for appropriately allocating various assets and unrealized profit and loss concerning such assets based on asset shares, etc., upon commencement of separate accounting from the viewpoint of ensuring fairness among policyholders?
- (11) Recording and compiling the particulars of various transactions for separate accounting purposes
- Are the particulars of various transactions, etc., required for separate accounting recorded and compiled?
- (12) Inclusion of fund transfers during the course of an accounting period
- When it is difficult to record each time by separate accounting the fund transfers that occur during the course of an accounting period, or when the product

classifications to which such fund transfers belong are not immediately discernable, such fund transfers will be temporarily processed as a suspense payment or receipt; however, it is desirable that account classifications exclusively dedicated to managing these fund transfers is used. Assuming management has taken this step, are such transfers promptly and properly processed at a later date?

(13) Profit source analysis related to separate accounting

Are mortality gains or losses, interest gains or losses, expense profits or losses, policy reserve-related profits or losses, price fluctuation gains or losses, and other profits or losses, etc., analyzed and examined from the viewpoints of managing separate accounting in an appropriate manner and ensuring sound business operations?

(14) Utilization of results obtained from separate accounting

- 1) Are chief actuaries provided with the information concerning separate accounting that is necessary for the execution of actuarial operations, and if any issues are identified, do chief actuaries report such issues to the board of directors, etc., and endeavor at the same time to provide guidance in addressing such issues?
- 2) Does the board of directors, etc., receive reports concerning the results of separate accounting and utilize such reports in decision making for policyholder dividends and other managerial issues?

5. Policyholder dividends

- (1) Does the board of directors determine dividend payments in accordance with laws and regulations, contract clauses, internal rules, and written opinions of chief actuaries, and by taking into account fairness and equality among policyholders?
- (2) Are the sources of funds for dividend payments accurately calculated, and are there any problems with such sources of funds in relation to restrictions by laws or regulations? Are the sources of funds necessary for dividend payments subject to accounting manipulation?
- (3) Is the amount of dividends payable for each insurance policy in accordance with profit source analysis, results of separate accounting (in the case of nonlife insurance companies, yields on accumulation accounts and the results of separate

## Financial Soundness / Actuarial Matters

accounting concerning operating profits or losses) and asset shares, and calculated pursuant to the methods defined in the items of Article 30-2 and Article 62 of the Enforcement Regulations?

- (4) Do chief actuaries conduct confirmations concerning policyholder dividends in an appropriate manner, in conformity with laws and regulations, etc.?

### Checklist for Inspection of the Product Development Management System

- (1) When insurance companies develop products, development of a management system for evaluating products from every viewpoint is required, including risk, finance, marketing, and regulatory aspects in consideration of the Insurance Business Law and other applicable laws and regulations, based on the principle of self-responsibility.

With regard to insurance product lines that are deemed to have a low potential for causing problems in terms of policyholder protection, etc., notification systems and other flexible treatment are being phased in by regulatory authorities. Accordingly, it is becoming increasingly important for an insurance company to strengthen further its product development management system.

- (2) Inspectors shall inspect the product development management system using this checklist as well as the “Checklist for Inspection of the Internal Control System,” “Checklist for Inspection of the Compliance System,” and “Checklist for Inspection of the Insurance Underwriting Risk Management System.” It shall be noted that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, other applicable laws and regulations, and the Supervisory Guidelines, etc., shall be taken into consideration.

## Product Development

### I. Product Development Management System

#### 1. Establishment and Development of the Product Development Management System

##### (1) Articulation of product development policies

Do directors fully understand that a product development management system is important in terms of policyholder protection, etc., and will also have a significant impact on maintaining the soundness and appropriate business operations of the company, and based on this understanding, articulate product development management policies consistent with the business plans and business policies of the company at board of directors' meetings? Do such product development policies cover matters concerning the development and sales of new products as well as matters concerning alternation and elimination of existing products?

##### (2) Development, etc., of organizations for product development management

- 1) Has the board of directors established a system for enabling integrated management of product development? For example, do functions of mutual checks and balances, etc., fully operate between and among divisions involved in product development under such a system? In addition, are organizational structures reviewed and updated whenever necessary, and are improvements implemented to keep pace with changes in product development policies and management methods?
- 2) Is a structure in place under which the board of directors, etc., receives reports from divisions involved in product development concerning information associated with product development, etc., which may have a significant impact on business operations of the company? In addition, does the board of directors give appropriate instructions for treatment of reported matters?
- 3) Is the approval of the board of directors, etc., required concerning the development of new products and the alteration or elimination of existing products that may have a significant impact on business operations of the company?

##### (3) Confirmation of insurance underwriting risk management policies

Does the board of directors, etc., confirm whether the development and sales of new products and the alteration or elimination of existing products do not pose any issues in relation to business policies concerning competition with other companies,

## Product Development

etc., as well as from risk management perspectives in consideration of management policies concerning insurance underwriting risk management?

### (4) Seeking the opinions of chief actuaries

1) Does the board of directors, etc., seek opinions from chief actuaries as needed concerning the actuarial matters associated with the development and sales of new products, and the alteration or the elimination of existing products? If the board of directors, etc., does not follow such opinions, is there a reasonable basis for not doing so?

2) Do chief actuaries properly report issues, etc., to the board of directors, etc., as needed, while maintaining close liaison with relevant divisions?

### (5) Role of product development managers

1) Do directors, etc., in charge of product development and the heads of divisions related to product development (hereinafter collectively referred to as “product development managers”), subject to the approval of the board of directors, etc., develop a set of rules concerning product development for the purpose of maintaining soundness and ensuring appropriate business operations of the company? Are the rules concerning product development reviewed and updated as needed, and are measures taken for enhancing and improving the rules in an appropriate manner?

2) Do product development managers endeavor to understand and recognize product development management matters so that the managers themselves and heads of respective divisions will not impede appropriate management related to product development?

3) When a coordinating division is established for product development purposes, does such division provide to relevant divisions the control and guidance necessary for building an appropriate product development system? In cases when a coordinating division is not established, do directors, etc., perform integrated management of overall product development?

## Product Development

### 2. Roles of Divisions Related to Product Development

#### (1) Appropriateness of product development procedures

- 1) Do divisions related to product development screen product development projects in accordance with product development policies under an appropriate process? For example, do they evaluate new product development projects by taking into consideration customer needs and business promotion requirements, insurance underwriting risk and earnings improvement requirements, compliance requirements, and the need to ensure an appropriate system for insurance claim payments, etc.?
- 2) When determining product contents, do the divisions involved in product development evaluate such issues as projected cash flows, insurance underwriting risk, compliance, sales plans, system development, and moral hazards specific to such insurance products?
- 3) Do the divisions involved in product development evaluate product-related issues such as product risk and sales considerations, without being unduly influenced by the sales promotion division that tends to place emphasis on sales expansion and earnings?
- 4) Do the divisions involved in product development confirm whether a product is in agreement with purposes of existing rules, etc., the product explanations are appropriate, and there are no errors in the data employed, etc.?
- 5) When developing an internal system, do the divisions involved in product development pay attention to whether appropriate dealings with customers can be ensured at all stages, from the point of sale through insurance claim payments?
- 6) When preparing policy clauses, do divisions involved in product development endeavor to make them readily understandable from the standpoint of policyholders, etc., by taking into account that the unrestrained use of professional terms and legal jargon will make policy clauses difficult to understand?
- 7) Do divisions involved in product development formulate in an appropriate manner the operational rules concerning products for sale, preparation and confirmation of sales materials, management of contract-related data, and the necessary systems development, etc.?

## Product Development

### (2) Reporting to the board of directors, etc.

- 1) Do divisions involved in product development report directly to the board of directors, etc., or the coordinating division, etc., as needed concerning their appraisals of product-related issues such as product risk and the important points to note in the marketing of such products?
- 2) Do divisions involved in product development correctly report to the board of directors, etc., or the coordinating division, etc., information concerning the development, alteration, or elimination of products that may have a significant impact on business operations of the company?

## II. Follow-up After Commencement of Product Sales

### 1. Implementation of Follow-Up

Do divisions involved in product development confirm and analyze to what extent actual sales results and incidence rates of insured events, etc., differ from the levels estimated at the time of development, and give adequate consideration to the following points when conducting follow-up activities?

- 1) Is a follow-up process incorporated as part of the product development process to ensure appropriate risk management?
- 2) Are the approaches, divisions in charge, timing, methods, and use of follow-up results clearly defined and implemented?
- 3) Is the validity of cash flow analysis, actuarial assumptions for insurance premiums and policy reserves verified for each type of insurance or any other appropriate unit of insurance?
- 4) Is monitoring regularly conducted to cope with unexpected changes in revenues and expenses, and risk fluctuation, and are standards established for studying measures for changing in a timely manner the sales policies and product contents, etc.?
- 5) Is monitoring regularly conducted to verify whether products are in agreement with socio-economic insurance needs, or if any claims or moral hazards have arisen?

## Product Development

### 2. Utilization of Follow-Up Results

Do divisions involved in product development take into consideration the following points when utilizing follow-up results?

- 1) Are follow-up results after commencement of product sales reported directly to the board of directors, etc., from time to time and as needed? Is the content of such reports accurate?
- 2) Is a system in place for including in future product development the follow-up results obtained by gathering product-related opinions of customers and agencies, etc.?
- 3) Are insurance premiums and products reviewed and updated as needed in consideration of follow-up results, etc.?

## Insurance Underwriting Risk

### Checklist for Inspection of the Insurance Underwriting Risk Management System

- (1) “Insurance underwriting risk” refers to the risk that insurance companies may suffer losses due to changes in economic conditions and incidence rates of insured events, etc., contrary to the forecasts made at the time of setting premium rates.
- (2) Inspectors shall inspect the insurance underwriting risk management system using this checklist as well as the “Checklist for Inspection of the Internal Control System,” “Checklist for Inspection of the Compliance System,” and “Checklist for Inspection of the Product Development Management System.” It shall be noted also that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, other applicable laws and regulations, and the Supervisory Guidelines, etc., shall be taken into consideration.

## Insurance Underwriting Risk

### I. Insurance Underwriting Risk Management System

#### 1. Establishment and Development of the Insurance Underwriting Risk Management System

##### (1) Articulation of insurance underwriting risk management policies

Do directors fully understand that insurance underwriting (including inward reinsurance underwriting) will have a significant and prolonged impact on the business operations of the company, and articulate the management policies concerning insurance underwriting risk at board of directors' meetings?

##### (2) Specific contents of risk management policies

Do the risk management policies cover the following matters:

- a. risk management methods, such as establishment of limits on the amount of insurance policies in force by type of insurance (portfolio management) and additional provisions of policy reserves, etc., in accordance with the status of policy reserves, etc., equity capital, and earnings (surplus);
- b. risk control methods, such as alteration and elimination of insurance products, establishment of underwriting standards, change of insurance products sales policies, etc., and the standards for triggering such measures;
- c. criteria for reporting and approval applications to the board of directors, etc.;
- d. basic policies concerning handling of free-rate, standard-rate, adjustable-rate, and flexible-rate products in nonlife insurance companies; and
- f. policies for calculating insurance premiums deemed reasonable and appropriate in proportion to risks involved and non-discriminatory to any specific group of customers.

##### (3) Development of organizations for risk management purposes, etc.

- 1) Has the board of directors established a division responsible for appropriately managing insurance underwriting risk in accordance with established strategic goals and risk management policies (the "insurance underwriting risk management division") and articulated the authority of such a division? Is the function of mutual checks and balances ensured, for example, by making such

## Insurance Underwriting Risk

division independent of the revenue generating division, revenue management division and product planning division?

- 2) Has the board of directors established a structure under which important information concerning product development, and alternation or elimination of products, etc., by related divisions is reported to the insurance underwriting risk management division? Is the definition of “important information” clearly set forth in relevant rules?
- 3) Does the board of directors, etc., assign personnel well versed in actuarial matters to the underwriting risk management division and the internal audit division?

### (4) Formulation of risk management rules

Do insurance underwriting risk managers formulate, subject to the approval of the board of directors, etc., management rules concerning insurance underwriting risk management methods, specific standards for triggering risk control methods, reporting methods, and approval procedures, etc.? Are procedures to alter or eliminate such rules clearly defined?

### (5) Implementation of appropriate insurance underwriting risk management

Do insurance underwriting risk managers properly manage insurance management risk in accordance with established underwriting risk management policies and management rules? For example, do managers issue appropriate instructions in response to reported inappropriate incidents, including measures for preventing the recurrence of such incidents?

## 2. Roles of the Insurance Underwriting Risk Management Division

### (1) Reporting to the board of directors, etc.

Does the insurance underwriting risk management division have the authority to report to the board of directors, etc., whenever any issues are identified from the perspective of risk management or protection of policyholders, etc., and actually report to the board? Are actuarial matters reported to chief actuaries?

## Insurance Underwriting Risk

### (2) Cooperation with relevant divisions

Does the insurance underwriting risk management division effectively utilize as an aid for examination purposes the transactions in the relevant divisions in charge of the development, alteration, or elimination of products, forecasts of the incidence of insured events, interest rate and exchange rate forecasts, monitoring of risks, conclusion of outward reinsurance, provision of policy reserves, sales of insurance products, and evaluation of applications for underwriting, etc., together with results of analyses, and written opinions, etc., of chief actuaries?

Note: The term “written opinions, etc.” refers to written opinions, attached reports, and other reference materials as stipulated in Article 82 of the Enforcement Regulations.

### 3. Formulation of Standards and Plans for the Acceptance of Underwriting

#### (1) Formulation of appropriate standards and plans for the acceptance of underwriting

Are the standards (sales conditions) and plans for underwriting acceptance approved by the board of directors, etc., after conducting discussions with relevant divisions?

#### (2) Involvement in formulation of underwriting standards

Are measures taken for confirming whether the standards for underwriting acceptance are identical to, or less risky than, the sales conditions assumed at the time of product development?

### 4. Appraisal System for Underwriting Acceptance

#### (1) Establishment of appropriate appraisal system

- 1) Has the insurance underwriting risk management division established an appropriate appraisal system concerning underwriting in order to provide just and fair insurance services to customers?
- 2) Has the insurance underwriting risk management division established a system for self-inspection and self-management of the validity of insurance premium rate plans concerning risk-segmented products (products with determined

## Insurance Underwriting Risk

insurance premiums that reflect the risks segmented in more detail with regard to policyholders and insured persons), etc.?

- (2) Preventive measures against the occurrence of moral hazards
  - 1) Has the insurance underwriting risk management division established a system for disallowing the occurrence of moral hazards, for example by more prudent underwriting decisions, when coverage amounts (including the coverage amount of other policies that came to the company's attention) are excessive when considering standards for underwriting acceptance?
  - 2) Has the insurance underwriting risk management division established a system for properly selecting the physical risks associated with the health conditions of insured persons and the environmental risks associated with their occupations, etc., to disallow the occurrence of moral hazards?

## 5. Monitoring of Insurance Underwriting Risk

- (1) Appropriate monitoring of insurance underwriting risk
  - 1) Does the insurance underwriting risk management division monitor risks regularly (at least on a semi-annual basis) and from time to time as needed by such methods as monitoring and analyzing the current status of revenues and expenditures, and projections of future cash flows, etc.? Are projected cash flows based on a reasonable scenario in consideration of the current interest rate trends and economic conditions, and the incidence of insured events, etc.?
  - 2) Does the insurance underwriting risk management division monitor the risks associated with minimum guarantees concerning the variable insurance and variable annuities for which a minimum amount of insurance claims, etc., are guaranteed?
  - 3) Does the insurance underwriting risk management division quantify and monitor by an appropriate method the aggregated risk arising from earthquakes, typhoons, or other natural disasters, and the massive risk arising from large-scale accidents?
  - 4) Does the insurance underwriting risk management division monitor the risk associated with risk-segmented products as well?

## Insurance Underwriting Risk

- (2) Involvement in product development, and alteration and elimination of existing products

When releasing new insurance products and altering or eliminating existing insurance products, does the division examine whether the premiums for such products are appropriate in consideration of interest rate levels and other asset management environments, the incidence rate of insured events, the actual state of operational expenses, persistence rates, the risk selection method for such insurance products, the state of policy reserves and solvency margin ratios, etc.?

- (3) Involvement in free-rate products, etc., of nonlife insurance companies

- 1) Are measures for confirming that respective insurance premiums are set in accordance with risk management policies, with respect to free-rate, standard-rate, adjustable-rate, and flexible-rate products?
- 2) Is the division appropriately involved when the insurance premiums for standard-rate products are discounted?

- (4) Development of information systems for risk management

It is desirable that information systems equipped with multifaceted analysis methods for comprehensive insurance underwriting risks are developed.

- (5) Integrated management of assets and liabilities

Does the insurance underwriting risk management division work in close cooperation with the asset management risk control division, and monitor requisite information of assets, to ensure integrated management of assets and liabilities?

## 6. Management of Insurance Underwriting Risk

- (1) Analysis of insurance underwriting risk and use of analysis results

- 1) When an analysis of monitored risk indicates that the risk has actually manifested, or there are changes in future risk, etc., do related divisions conduct appropriate risk control in a concerted manner, in accordance with risk management policies by changing underwriting standards and by additional provisions of policy reserves, etc.?

## Insurance Underwriting Risk

- 2) Are the risks measured and analyzed, and the risk control methods reported to the board of directors, etc., regularly or as needed in accordance with management policies?

### (2) Management of the status of sales

Does the insurance company guide and control business bases and insurance sales representatives to comply with standards for underwriting acceptance, etc., for insurance sales? Are measures taken to confirm actual compliance? It is desirable to build a system under which insurance policies cannot be concluded in violation of the standards for underwriting acceptance.

## II. Management of Reinsurance Risk

Note: The following shall not apply when the ratio of outward reinsurance and inward reinsurance to the total risk exposure is minimal.

### 1. Establishment and Development of a Reinsurance Risk Management System

- (1) Does the board of directors, etc., formulate proper policies concerning risk exposure and outward reinsurance for managing the size and degree of concentration of risk exposure by effectively utilizing outward reinsurance? In accordance with the nature of underwriting risk exposure, do such risk exposure and outward reinsurance policies cover the standards concerning the upper limit on risk exposure per risk holding unit and aggregated risk holding units based on each underwriting risk profile, the soundness of the reinsurer, and the management of concentration in one reinsurer?
- (2) Does the board of directors, etc., fully understand that underwriting inward reinsurance may have a significant impact on the business operations of the company and formulate proper policies for inward reinsurance underwriting for appropriately managing the incremental risk which will arise through inward reinsurance underwriting? Do inward reinsurance underwriting policies cover the standards for the types of policies that can be underwritten and the applicable regions, etc.?
- (3) Are risk exposure and outward reinsurance policies and inward reinsurance underwriting policies reasonable in consideration of, for example, the nature of

## Insurance Underwriting Risk

business of the insurance company (size, growth, and the degree of concentration of reinsurance underwriting risk, etc.) and the amount of its equity capital, etc.?

- (4) Do reinsurance risk managers understand such features of the reinsurance market as the limited number of market participants, and confirm whether outward and inward reinsurance operations are properly functioning in conjunction with each other on a companywide basis?
- (5) Is a system in place under which divisions in charge of reinsurance (outward reinsurance or inward reinsurance) autonomously confirm the status of compliance of risk exposure and outward reinsurance policies and inward reinsurance underwriting policies, and furthermore, independently of such divisions, the company confirms the overall status of compliance with risk exposure, outward reinsurance policies, and inward reinsurance underwriting policies?
- (6) Does each division in charge of reinsurance (outward reinsurance or inward reinsurance) confirm the status of compliance with rules concerning reporting methods or approval procedures?

### 2. Management of Outward Reinsurance Risk

- (1) Does the outward reinsurance risk management division confirm when selecting reinsurers whether the financial condition of a reinsurer is in accordance with risk exposure and outward reinsurance policies, etc.? Is the outward reinsurance amount for each type of insurance policy regularly confirmed to be in conformity with risk exposure and outward reinsurance policies?
- (2) Does the outward reinsurance risk management division confirm whether any underwriting risk that exceeds the upper limit of risk exposure of outward reinsurance and risk exposure policies is properly covered by reinsurance contracts?
- (3) Does the outward reinsurance risk management division verify the status of reinsurance claim collections, future collectibility, and the performance of outward reinsurance?
- (4) With respect to the reinsurance with which reinsurance premiums and the amount of reinsured claims are adjusted after the conclusion of a contract, does the outward

## Insurance Underwriting Risk

reinsurance risk management division accurately recognize the risk transferred by such reinsurance in real terms, and conduct risk management?

- (5) Does the outward reinsurance risk management division confirm whether reinsurance premiums are at appropriate levels in consideration of the content of outward reinsurance and the trends of the reinsurance market?

### 3. Management of Inward Reinsurance Risk

- (1) When underwriting inward reinsurance, does the inward reinsurance risk management division obtain information concerning ceding insurers and inward reinsurance contracts, and adequately examine the profitability and risk associated with such inward reinsurance contracts?
- (2) Does the inward reinsurance underwriting risk management division of a nonlife insurance company comprehend the expected maximum amount of loss related to major types of aggregated risk and manage inward reinsurance underwriting so that reinsurance policies in force will not exceed the upper limit?
- (3) Does the inward reinsurance risk management division, after the conclusion of inward reinsurance contracts, for example, obtain information concerning the status of liabilities of outward reinsurers for claim payments arising out of insured events occurring in foreign countries, and manage risks in an appropriate manner?
- (4) Does the inward reinsurance risk management division manage risks by fully taking into account that risks, which should have been transferred by outward reinsurance, sometimes return through inward reinsurance underwriting?
- (5) Does the inward reinsurance risk management division confirm whether inward reinsurance premiums are at appropriate levels in consideration of the content of inward reinsurance and the trends of the reinsurance market?

### III. Management of Separate Accounts

- (1) Does the separate accounts management division in performing its operations properly understand that the investment performance of the assets in special accounts, including related losses, will accrue entirely to policyholders, etc.; treat policyholders, etc., in a just and fair manner; and manage such accounts in a faithful and careful manner to safeguard the interests of policyholders?

## Insurance Underwriting Risk

- (2) Does the separate accounts management division properly segregate and keep accounts of assets in special accounts? Are such assets not transferred to the general account or other separate accounts, except in cases set forth by laws and regulations?
- (3) Has the separate accounts management division established an appropriate management system for assets in separate accounts? Does the department establish rules and appropriately conduct operations, taking into account the following points?
  - 1) Do the rules set forth that investment management policies and investment portfolios, etc., shall be explained to policyholders?
  - 2) Do the rules set forth that investment performance shall be periodically reported to policyholders?
  - 3) Do the rules set forth the principles to be observed in the various markets?
  - 4) Do the rules establish standards for the selection of brokers, discretionary managers, and investment advisors based on an overall assessment of their execution capabilities, compliance, credit risk, and investment performance, etc.?
- (4) Does the separate accounts management division manage the separate accounts related to performance-linked insurance policies (designated separate accounts) in accordance with the provisions of Articles 75-2 and 154-2 of the Enforcement Regulations?

## Checklist for Inspection of the Asset Risk Management System

- (1) “Asset risk” refers to the risk that an insurance company may incur losses primarily due to the following factors:
  - 1) fluctuations in the value of assets held (including off-balance-sheet assets); and
  - 2) failure to manage assets in accordance with the characteristics of related liabilities, resulting in forced disposal of assets under unfavorable conditions in order to gain liquidity, or the failure to earn assumed interest rates.

In connection with the rules referred to as the “solvency margin ratio regulations,” Article 87 of the Enforcement Regulations stipulates that asset risk is the “risk associated with asset investments, etc., that may be generated by fluctuations that are greater than normally expected in the prices of securities or other assets held.” Note that in this checklist, the term “asset risk” is used in a broader sense of this term.

- (2) “Market risk” refers to the risk that an insurance company may incur losses due to fluctuations in the value of assets held (including off-balance-sheet assets) resulting from changes in interest rates, prices of securities, etc., foreign exchange rates, and other market risk factors (collectively referred to as “market-related risk,” including the credit risk, etc., associated with market risk). Market risk consists of the following three risks:
  - 1) Interest rate risk: the risk of incurring losses due to changes in interest rates, or the risk of incurring declining profits or losses due to changes in interest rates when there is a mismatch between assets and liabilities regarding respective interest rates or holding periods.
  - 2) Price fluctuation risk: the risk of a decline in asset prices due to changes in the prices of securities, etc.
  - 3) Foreign exchange risk: the risk of losses when an insurance company has a net asset or net liability position in foreign currency-denominated assets and liabilities, and foreign exchange rates move differently from the rates initially expected.

Insurance companies adopt varied strategies; some companies employ a strategy that limits asset management to investment in government bonds or other “risk-free” assets, while others adopt aggressive strategies, conducting dealings in major financial markets or complex derivative transactions. In application of checkpoints for the market-related risk management system, inspectors shall fully take into account the business strategies and actual forms of transactions to avoid rigidly administering this manual by rote.

- (3) “Credit risk” refers to the risk that an insurance company may incur losses due to deterioration of the financial condition, etc., of debtors and the resultant decrease in or loss of the value of assets (including off-balance-sheet assets). Among credit risks, the risk that an insurance company will incur losses due to the foreign currency reserves or the political or economic conditions of a debtor’s domicile country is referred to as “country risk.”

## Asset Risk

- (4) “Real estate investment risk” refers to the risk that an insurance company may incur losses because of deteriorated earnings from real estate due to fluctuations in rents, etc., or declines in real estate prices themselves due to changes in market conditions, etc.
- (5) Inspectors shall inspect the asset investment risk management system using this checklist as well as the “Checklist for Inspection of the Internal Control System,” “Checklist for Inspection of the Compliance System,” “Checklist for Inspection of Insurance Underwriting Risk Management,” and “Checklist for Inspection of the Operational Risk Management System.” It shall be noted that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, other applicable laws and regulations, and the Supervisory Guidelines, etc., shall be taken into consideration.

## Asset Risk

### I. Asset Risk Management System

#### 1. Establishment and Development of the Asset Risk Management System

- (1) Articulation of business goals of asset management in accordance with business management policies, etc.

Do directors understand the locus and type of risks associated with asset management, related liability characteristics, etc., and based on this understanding, set clear, specific business goals concerning asset management at the board of directors' meetings? Are such goals reviewed and updated from time to time as needed?

- (2) Specific contents of business goals of asset management

Do the business goals of asset management include basic policies for asset management such as asset allocations taking into consideration the related liability characteristics and the maximum allowable level of risk for the company as a whole, and risk management systems for treatment of various risks involved, etc.? Is the maximum allowable level of risk for the company as a whole determined on the basis of its corporate strength, such as equity capital, profitability, risk management ability, and the capacity for paying insurance claims, etc.?

Note: Asset allocation includes setting limits on allocations of assets.

- (3) Establishment of risk management organizations

Has the board of directors established a structure for managing the overall risk associated with asset management in accordance with the established business goals concerning asset management? Are the functions of mutual checks and balances ensured, for example, by keeping the division in charge of managing the overall risk of asset investment independent of the investment management division and profit management division? Are the authority and responsibility of the board of directors and asset investment risk management division clearly defined?

- (4) Reporting on risk status to the board of directors, etc., and use of risk information in decision making for the organization as a whole

Does the board of directors, etc., regularly receive reports on the status of asset investment risk, make the necessary decisions, and make use of measured risk information for business execution and establishment of management structures?

- (5) Introduction of new asset management methods

When introducing a new asset management method, does the board of directors, etc., evaluate the appropriateness of introducing such an investment management method, taking into account the liability characteristics, risk tolerance capacity, and management techniques?

- (6) Establishment of rules for asset investment risk management

Have asset investment risk managers established rules concerning the following matters, etc., in accordance with the business strategies concerning asset

## Asset Risk

management as adopted by the board of directors, etc., and obtain the approval of the board of directors, etc.? Do the rules articulate the division of authority and responsibility between the asset investment risk management division and the asset management division, and a reporting structure? These matters include the following.

- 1) Procedures for determining asset allocations by considering liability characteristics
- 2) Procedures for setting limits on allocations to each asset class  
Note: “Limits” refers to all of the limits and quotas for risk management purposes set by the insurance company, such as risk limits (limits on expected losses arising from value-at-risk (VaR), etc.), limits on asset investment (limits on holdings of assets), and stop-loss rules, etc.
- 3) Risk management methods (measurement, monitoring, and management)
- 4) Policies on medium- and long-term asset holdings and risk management methods
- 5) Policies concerning derivative transactions, etc. (including hedging policies)
- 6) Risk management methods concerning low-liquidity assets not readily disposable and assets with fair value that cannot objectively be determined
- 7) Policies and procedures for reviewing and updating rules concerning asset allocations, etc., and risk management
- 8) Items to be confirmed when introducing a new asset management method and approval procedures
- 9) Risk management methods when asset management is outsourced

### (7) Appropriate asset risk management methods

Do asset risk managers manage risks in accordance with business objectives concerning asset management and the policies and rules for asset risk management?

Do asset risk managers continually conduct analyses so as to cause the changes in market environments, etc., to be properly included in asset allocations and risk management methods, and properly report matters that may influence asset management to the board of directors, etc.?

## 2. Roles of the Asset Risk Management Division

### (1) Monitoring of asset investment risk

Does the asset risk management division comprehend the market-related risk, credit risk, real estate investment risk and liquidity risk of all assets qualitatively or in a verifiable manner and on a consolidated basis (within the limits of laws and regulations)? Does it also adequately examine the risk of assets with risk level and fair value that cannot objectively be calculated?

## Asset Risk

Does it work in close coordination with the insurance underwriting risk management division and comprehend the necessary information concerning related liabilities as well?

In cases of outsourcing asset investment to outside parties, does the division comprehend the risk of asset investment by the outsourcing agents or assignees?

### (2) Market-related risk

- 1) Does the asset risk management division clearly comprehend the assets exposed to market-related risk, and the risk involved?
- 2) With regard to marketable assets, does the division comprehend the risk amount, calculated by a generally accepted method?
- 3) With regard to non-marketable assets or assets with extremely low liquidity, does the division comprehend quantitative values necessary for risk management, such as the fair value calculated using an objective method? Is the method for calculating fair value confirmed for soundness by another party that is not part of the division adopting the calculation method?
- 4) With regard to assets with fair value that cannot be calculated using an objective method, is the risk associated with such assets adequately verified in consideration of the business goals concerning asset investment and relevant rules?

### (3) Credit risk

Does the asset risk management division clearly identify the assets exposed to credit risk, and the risk involved? When evaluating the credit risk of securities, etc., are agency ratings and other external benchmarks as well as the substantial risks involved confirmed?

### (4) Real estate investment risk

Does the asset risk management division clearly identify assets exposed to real estate risk, and the risk involved? Does it comprehend risk based on objective standards for evaluation? Are such standards confirmed for soundness by another party that is not part of the division adopting the calculation method?

### (5) Liquidity risk

Does the asset risk management division comprehend the liquidity of the entire set of assets?

### (6) Management of upper limits on investment

- 1) Does the asset risk management division properly monitor and control on a consolidated basis (within the limits under laws and regulations) whether each management division is in compliance with prescribed rules?
- 2) Are procedures clearly set for determining when investments are in excess of prescribed upper limits? Are investments appropriately conducted in accordance with such procedures?

## Asset Risk

### (7) Risk management of assets with no upper limits on investment

With regard to the asset risk that cannot be managed using an objective quantitative value, does the asset risk management division perform appropriate risk management on a consolidated basis (within the limits under laws and regulations), taking into account the nature of such assets and the ratio of such assets to total assets, in accordance with the business goals concerning asset investment and relevant rules?

### 3. Asset Management in Accordance with the Nature of Products

#### (1) Business goals, etc.

Do the business goals concerning asset management established by the board of directors take into account the liability characteristics?

When an asset-liability management (“ALM”) committee is established by the board of directors, etc., as an organization in charge of integrated asset and liability management and the formulation of business goals concerning asset management, do directors and supervisors from relevant divisions attend meetings and participate in discussions? Are the results of discussions by the ALM committee, etc., reported to the board of directors in a timely manner?

Note: “ALM committee, etc.” refers to an asset and liability management committee and other organizations with equivalent functions. Hereinafter, this definition shall apply.

#### (2) Cooperation between the ALM committee, etc., and other relevant divisions

- 1) When an ALM committee, etc., is established, does such committee effectively utilize the results of analyses and transactions of relevant divisions conducting interest rate and exchange rate forecasts, monitoring of risks, and hedging transactions as an aid for examination purposes?
- 2) Is a system in place under which important information at relevant divisions is reported to the ALM committee? Is the definition of what constitutes “important information” clearly set forth in relevant rules?
- 3) Is it confirmed whether evaluations of liquidity from both asset and liability perspectives conducted by the liquidity management division are adequately functioning from the viewpoint of ensuring the provision of insurance claim payments?

#### (3) Systems development

It is desirable that systems are developed that are equipped with multifaceted analytical methods incorporating the potential fluctuations of asset values due to interest rates, stock prices, and foreign exchange rates, etc., and the potential fluctuations of liability values due to sales and cancellations of policies, etc.

## II. Market-Related Risk Management System

### 1. Establishment and Development of a Market-Related Risk Management System

- (1) Articulation of strategic goals in accordance with management policies, etc., of the insurance company as a whole

While different types of risk management systems will be required in accordance with varied strategies concerning market transactions adopted by insurance companies, does the board of directors, etc., clearly set forth strategies concerning market transactions?

- (2) Construction of portfolios

Do the directors recognize that the construction of proper portfolios, on the basis of the upper limits set on the investment amount of assets by laws and regulations and the liability characteristics, is in itself a form of risk control, and does it articulate basic approaches for portfolios? Does the board confirm portfolios regularly (at least on a quarterly basis) or from time to time as needed? Do directors (directors in charge, in particular) fully recognize and evaluate the nature of the portfolios constructed by the company?

- (3) Development of risk management organizations

Has the board of directors developed an appropriate market-related risk management system in accordance with determined business goals and risk management policies corresponding to such goals, and in agreement with earnings targets, etc.?

- (4) Establishment of basic approaches to establishing upper limits on investments

While it shall be noted that such upper limits may cause a significant effect on the business operations as well as the financial condition of insurance companies, does the board of directors, etc., clearly establish basic approaches concerning, for example, whether the company shall set as a target the reduction of risks to the minimum, or, aggressively assuming and managing certain levels of risk to achieve earnings, etc.?

Note: "Limits" refers to all of the limits and quotas for risk management purposes set by the insurance company, such as position limits (limits on interest rate sensitivity and notional amounts), risk limits (limits on expected losses arising from VaR, etc.), limits on asset investment (limits of holdings of assets), and stop-loss rules, etc.

- (5) Setting appropriate limits

- 1) In accordance with the basic approach adopted at the time of setting limits, does the board of directors, etc., review the content of risk-taking operations of respective divisions, and set limits for market divisions as a whole, taking into consideration such factors as the positioning of each division in the overall business operations of the company as well as the corporate strength of the company, including equity capital, profitability, risk management capabilities, human resources, capacity for insurance claim payments, etc., in such a manner as to avoid simple ratification of the status quo, and establish appropriate limits

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for each type of operation (by purpose for holding), type of products, and risk category?

- 2) Does the board of directors, etc., re-examine the content of risk-taking operations of each division, and update limits regularly (at least on a semi-annual basis)?
- 3) From the viewpoint of comparing the company's corporate strength, such as its equity capital, with the amount of risk assumed and confirming whether the amount of risk is excessive in relation to its corporate strength, is it verified whether equity capital, etc., corresponding to the total quotas of limits for market divisions as a whole is appropriately allocated for overall business operations?

### (6) Setting clear limits on high-risk products

Does the board of directors, etc., set clear limits on high-risk products, such as complex structured bonds and securities exposed to particularly high credit risk?

### (7) Development of rules for risk management

- 1) Do market risk management rules clearly set forth the roles and authority of the market divisions (front office), office management divisions (back office), and risk management divisions (middle office, etc.), particularly with regard to market trading, including derivatives?
- 2) Are appropriate management rules established in accordance with the nature of operations (by purpose for holding), types of products handled, and risk categories, etc., and reviewed based on risk management policies?

### (8) Appropriate management of limits

Do managers have responsibility for providing appropriate management in accordance with the basic approaches used in established limits and when establishing new limits?

## 2. Structure and Roles of the Market-Related Risk Management Division

### (1) Monitoring of interest rate risk

#### 1) Multifaceted risk management using multiple approaches

Is multifaceted management conducted, integrating both on- and off-balance-sheet items and using varied analytical methods (duration analysis, simulation analysis, etc.)?

#### 2) Analysis of interest rate risk and use of results

Is interest rate risk comprehended regularly (at least on a quarterly basis) using appropriate financial methods, and is such information utilized by the risk management division, etc.?

It is desirable that stress tests are conducted regularly (at least on a quarterly basis) and such information is utilized by the risk management division, etc.

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### (2) Monitoring of foreign exchange risk

#### 1) Appropriate monitoring of foreign exchange risk

Are foreign exchange rate risks associated with foreign currency denominated assets and liabilities held by the company appropriately managed in accordance with the risks assumed by the company, using appropriate financial methods?

#### 2) Analysis of foreign exchange risk and use of the analysis results

Is such risk comprehended regularly (at least on a quarterly basis) and are the results utilized by the risk management division, etc.?

It is desirable that stress tests are conducted regularly (at least on a quarterly basis) and such information is utilized by the risk management division, etc.

### (3) Monitoring of price fluctuation risk

#### 1) Appropriate monitoring of price fluctuation risk

Are risk factors relating to price fluctuation risk comprehended, and is such risk appropriately managed?

#### 2) Analysis of price fluctuation risk and use of the analysis results

Are unrealized gains and losses comprehended regularly (at least on a quarterly basis) to analyze risk, and are results of such analyses utilized by the risk management division?

### (4) Review of limits based on liability characteristics

#### 1) Setting and review of appropriate limits

Are limits set concerning the integrated management of market-related risk based on the nature of liabilities that are in accordance with the basic risk management policies determined by the board of directors, and are the insurance company's corporate strength, such as its equity capital and capacity for insurance claim payments, reflected in them? Are such limits reviewed regularly (at least on a semi-annual basis) and from time to time as needed?

#### 2) Review of portfolios

Are portfolios reviewed in a timely and appropriate manner when securities are sold to secure liquidity or funds for dividend payments, or to stop losses?

#### 3) Appropriate risk control practices

Is the control of market-related risks, such as interest rates, foreign exchange rates, and price fluctuation risks, conducted in accordance with the risk management policies set by the board of directors?

#### 4) Use of analysis results by the risk management division, etc., in management strategy

Does the board of directors take into account results of analyses by the risk management division, etc., when formulating business goals and risk management policies?

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Does the risk management division, etc., confirm whether its risk control and other business operations are conducted in accordance with the risk management policies set by the board of directors, and report these results to the board of directors, etc.? When business operations are not conducted in accordance with such policies, are improvement measures implemented immediately?

### (5) Management of market risk

#### 1) Management of business performance

Analysis of profit and loss and investigations of improper actions

Are unsound transactions using derivative transactions, etc., including the purchase of structured bonds, etc., that lack an economic basis, conducted for the purpose of manipulating financial results? If revenue-generating divisions generate earnings beyond expectations, does the risk management division analyze the underlying factors, and whether such earnings resulted from improper actions, such as the violations of rules concerning risk management?

Does the risk management division inspect profit and loss in relation to contract amounts, notional amounts, and trading volumes?

#### 2) Fair value measurement

##### a. Formulation of rules

The methods of measurement of fair values shall be applied consistently from the viewpoint of precluding arbitrary accounting treatment and ensuring transparency. Are clear rules, concerning at least the following points, established subject to the approval of the board of directors, etc.? Are such rules treated as important rules, and are procedures similar to the procedures used for their establishment followed for implementing changes of such rules? These points are:

- (a) Authority and duties of supervisors of the divisions in charge of measuring fair value
- (b) Duties to observe rules and the procedures for changes
- (c) Basic approaches for the measurement of fair values are:
  - (i) conducting fair value measurement by an organization that is independent of organizations engaged in market transactions (including designated transactions);
  - (ii) fair value measurement methods (when to be defined in other documents, provisions to this effect);
  - (iii) conducting internal audits of rule observance concerning fair value measurements; and
  - (iv) when involvement of organizations with front-office functions is necessary for fair value measurement, defining the methods of such involvement.

##### b. Segregation of divisions engaged in market transactions (including designated transactions) from divisions conducting fair value measurement

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Are divisions engaged in market transactions (including designated transactions) segregated from divisions conducting determinations of fair value, from the viewpoint of ensuring the fairness of fair value measurements?

### c. Objective fair value measurements

Is attention paid to the following points in order to ensure objective fair value measurements?

- (a) Are guidelines, etc., for measuring fair value set pursuant to rules, and are such guidelines, etc., consistently applied? When it becomes necessary to change a measurement method due to a revision in regulations or the development of new measurement methods, etc., is the measurement method promptly revised in accordance with rules, etc.? Are the changes in measurement methods clarified?
- (b) Are fair value measurement guidelines, etc., approved in advance by an internal organization (for example, the risk management or internal audit division, etc.) that is independent of operations engaged in market (including designated) transactions (i.e., operations with so-called “front-office” functions) and independent of operations engaged in product development, from the viewpoint of checking the fairness and validity of the content of guidelines?

Is the status of applying such guidelines, etc., periodically verified by higher organizations (for example, risk management or internal audit divisions, provided that divisions conducting actual measurements are excluded)?

- (c) Is fair value appropriately measured in accordance with the “Accounting Standards for Financial Instruments” (Business Accounting Council), etc.?
- (d) Is confirmation of the status of affairs concerning objective fair value measurements included as a major point of internal audits?

### 3) Measurement of fair value and risk amount

#### a. Measurement of accurate fair value

Is the fair value of positions (including fair value measured using models, etc.) measured in a timely and accurate manner? Are the fair values of loans, etc., for which established methods of measuring fair value are not available, comprehended to the extent possible? It is desirable that measurements also be performed on a consolidated basis.

#### b. Monitoring and measurement of risk factors

Using interest rates as an example, is the risk due to rising (or falling) interest rates, as well as the risk due to changes in the shape of yield curves and the spreads between products and between markets measured?

Are transactions that are part of a complex plan, etc., conducted without identifying their risk elements?

When option transactions are conducted in significant volume, or short positions are taken in the market even on a small scale, is the necessity measured for the appropriate ratios needed to adjust for changes in hedging ratios due to price fluctuations and the implied volatility of market prices

c. Measurement of risk amount using uniform indicators

Is the risk amount quantified using indicators uniformly applied across divisions? While it is desirable that every necessary risk element is identified and measured by such uniform indicators, if there are risks that are not adequately identified or cannot be measured by uniform indicators, is information for measuring such risk used as supplemental data to ensure that every necessary risk element is taken into consideration when making business decisions?

When employing a strategy for aggressive market transactions, is the amount of risk measured by adopting, for example, the VaR method based on statistical methods, etc., and other sound, objective, and accurate methods? When such strategy is not employed, it is desirable that the amount of risk is measured by adopting the VaR method based on statistical methods, etc., but as the minimum, for example, is the BPV method or other simplified measurement method used for measurement?d.

Establishment of the system for confirming the validity of models, and model management

Is the appropriateness of pricing models and risk measurement models confirmed by organizations that are independent of the front office and the organizations developing products (for example, confirmed by the risk management division, internal audit division, or outside consultants)? If any defects are found in models, are they corrected in an appropriate manner?

Are structures and rules in place so that models cannot be readily modified, and are models managed appropriately in accordance with prescribed rules, etc.? It is desirable that each model is reviewed regularly (approximately on an annual basis).

e. Verification of the effectiveness of risk measurement functions

Does the risk management division or internal audit division, etc., regularly measure the impact of changes in interest rates and foreign exchange rates, etc., on corporate strength, such as profit, equity capital, and claim-paying ability, etc., and are the results of such measurement compared to actual profit and loss trends to verify the effectiveness of risk measurement functions?

f. Appropriate implementation of stress tests

Given that the VaR method is ultimately a method for measuring the maximum amount of risk under normal market conditions, it is desirable that stress tests are conducted regularly. If sensitivity analysis based on the

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BPV method is employed primarily, are analyses under worst-case scenarios regularly conducted?

With regard to stress tests, is there a clear and appropriate rationale for the structure of such tests?

It is desirable that stress testing is conducted as frequently as possible (for example, on a quarterly basis) in accordance with the magnitude of changes in market conditions, the size of positions held, and the content of portfolios, etc.

- g. Frequency of position monitoring, fair value appraisal, and risk measurement

It is desirable that monitoring of positions, appraisal of fair value, and measurement of risk are performed as frequently as possible (at least on a monthly basis) and on a consolidated basis covering major business bases.

In particular, is measurement conducted at least on a daily basis for major products in specified trade accounts?

#### 4) Management of limits and positions

- a. Formulation of clear rules for limits

Are the structures for reporting to managers and the reporting authority (policies, procedures, etc.) clearly defined for cases in which limits have been exceeded or are likely to be exceeded?

Do such rules prohibit the continued holding of positions in excess of limits?

- b. Delegation of authority to set limits, etc.

Is the authority for setting positions, profit targets, and limits delegated in writing to the directors in charge, managers, and dealers? Whenever limits, etc., are changed, are written confirmations received that are signed by dealers, etc.? Otherwise, are the scopes of responsibility clearly shown to dealers, etc.? Are the established limits for respective divisions, etc., reviewed and updated regularly (at least on a semi-annual basis)?

- c. Compliance with rules for management of limits

Are rules for management of limits strictly enforced? When any issues are identified with regard to the rules or their application, are appropriate measures for improvement taken?

Should any risk management issues arise, is accurate information reported promptly to the risk management division, etc., without attempting to respond to such issues solely within the division in which such issues arise?

- d. Implementation of management of limits and positions

Is a structure in place under which the risk management division can monitor limits and positions on major products at least on a daily basis?

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With regard to companies adopting an aggressive strategy for market transactions, is a structure in place under which the risk management division can monitor limits and positions on major products any time during the day on an as needed basis? Is a system for managing positions and profits by each dealer and portfolio developed and managed in an appropriate manner?

### 5) Market liquidity risk

#### a. Appropriate measurement of market liquidity

Does the risk management division accurately measure the status of market liquidity (or receive reports thereon)?

When necessary, does it report to the representative director and the board of directors, etc., regarding the status of market liquidity?

#### b. Setting and reviewing limits

In consideration of the possibility that market transactions cannot always be executed at a desired time, price, or in desired quantities due to market conditions, does the risk management division set appropriate limits as needed, taking into account market liquidity and with the prior approval of the board of directors, etc.? (The director in charge may make decisions in the case of an emergency and report to the board of directors, etc., afterwards for approval.)

Are the limits reviewed regularly (at least on a semi-annual basis) or from time to time as needed in accordance with types of investment products and changes in market environments?

#### c. Management of assets, taking into account the market liquidity risk

Are investments conducted by taking into account the market size, depth, and liquidity for individual products?

Are investments executed while recognizing that the simultaneous execution of trades in large quantities may itself cause market liquidity risk, and by taking into account such influence?

#### d. Monitoring

Does the risk management division measure the status of positions for each product on a daily basis and monitor changes in market size and credit status?

#### e. Reporting

Does the risk management division report the status of measured positions, etc., accurately to the director in charge (or when necessary to the representative director or board of directors) in accordance with the rules? If there is a likelihood that trades of products themselves may cause liquidity risk, or if limits are exceeded, or at times of crisis or potential crisis, does the risk management division report frequently to the greatest

extent possible to the representative director and the board of directors, and take appropriate measures?

6) Administrative control

a. Administrative process in accordance with rules

Are the rules for processing transactions related to foreign exchange, funds, securities, and derivatives associated with those instruments developed for each type of transaction, and are transactions processed in accordance with applicable rules? For example:

- (a) Does the administrative control division grasp transaction procedures for every type of transaction (for example, final confirmation of information system input, confirmations by stamping of trading tickets, or serially numbered documents, etc.)?
- (b) Are trading details input without delay?
- (c) Do managers approve corrections of errors in trading tickets discovered at the confirmation and adjustment stages?
- (d) Are trading tickets with processing that is suspended pending future processing appropriately managed and recorded?
- (e) Are confirmations sent and received by someone other than the person responsible for the trade?
- (f) Are confirmations and related trading tickets appropriately crosschecked with each other?
- (g) Are trading tickets, trading sheets, and confirmations appropriately retained in custody?

Is documentary evidence, such as records for each transaction by the market division and operation management division, verified by the internal audit division and maintained in custody for the minimum storage period (a minimum of one year) as specified in the rules?

b. Crosschecking of data

Are transaction data held by both the market division and administrative control division crosschecked, and should any differences be located, are the causes promptly identified and corrected in accordance with prescribed methods? For example, in the case of securities trading, are positions based on trading systems in the market division crosschecked regularly (at least on a monthly basis) with the balances of securities holdings provided on accounting system subsidiary account ledgers that have been validated by securities companies or the custody division, etc.?

7) Management of credit risk associated with market trading

a. Measurement of credit risk associated with market trading

Is credit risk amount measured at least using the nominal amount method or original exposure method (nominal or contracted amount multiplied by certain factors corresponding to product type and contract term)?

When employing an aggressive strategy for market transactions, or market transactions are conducted by overseas offices, is the credit risk amount measured by the current exposure method (using the aggregate of replacement cost and potential future exposures)?

b. Integration of on- and off-balance-sheet management of positions, fair value appraisals, and credit risk amount

Is the credit risk amount for each trading partner accurately measured at least monthly and whenever new credit is extended or credit is renewed using both the on- and off-balance sheet basis (or as of the most recent time)?

With regard to companies adopting an aggressive strategy for market transactions, is the status of transactions with each trading partner monitored, and are the fair value and credit risk amounts managed on both the on- and off-balance-sheet basis, and is accurate information concerning the status of exposure and credit limits reported to credit risk managers in a timely manner?

Is the risk amount using both the on- and off-balance sheet basis for each trading party accurately measured at least monthly or whenever new credit is extended or credit is renewed (or as of the most recent time)?

c. Clarification of structure for credit approval, and independence of credit approval functions

Is the credit risk, etc., of trading partners adequately reviewed when selecting trading partners?

With regard to companies adopting an aggressive strategy for market transactions, is the credit risk of trading partners analyzed at least on an annual basis? When transactions are conducted frequently and on a continual basis, are credit limits set in advance?

Are establishment, review, and management of credit limits performed by a division (the credit audit division, etc.) that is independent of market-related divisions? It is desirable that credit limits are set in such a manner as to be consistent with other credit standards.

d. Development of rules concerning credit limits, and appropriate management of credit limits

Are rules clearly defined for management policies when extended credit amounts approach their limits (supplementary measures for credit risk management) and for reporting to managers when extended credit amounts exceed their limits, including structure, authority, and procedures, etc.?

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Are credit limits appropriately managed in accordance with the rules?

With regard to companies adopting an aggressive strategy for market transactions, when a credit risk amount has reached its credit limit, are new transactions suspended that would lead to an extension of new credit, and is the situation reported to managers as set forth in the rules (to the representative director and the board of directors as needed), and are reviews of credit limits and other measures taken with the approval of the manager (or the representative director and the board of directors as needed)? It is also desirable that risk-mitigating measures are taken, such as securing additional collateral, etc.

It will be also effective to set appropriate alarm points at stages before the credit risk amount for a trading partner reaches its limit and to establish rules for commencing negotiations concerning supplementary credit risk measures when the credit risk amount for a trading partner has reached its limit.

e. Use of risk mitigation measures

It is desirable to use netting contracts, receipt of additional collateral, and guarantees to reduce credit risk, after confirming the legal validity of contracts.

f. Setting of investment standards taking into account credit risk

With regard to securities investment, are standards established for selection of issues in order to avoid concentrations of credit extensions, including loans, in specific industries or issuers (including country risk)? Are standards otherwise established in consideration of credit risk? With regard to investment in high-risk products, are standards established for strict management?

(6) Specified trade-related matters (applicable solely to insurance companies establishing specified trade accounts)

1) Formulation of rules

From the viewpoint of eliminating arbitrary treatment and ensuring transparency concerning separate accounting, are rules, etc., at least concerning the following matters in addition to matters set forth in II.2(5) 2)a. clearly set forth with the approval of the board of directors, etc., and consistently enforced? Is compliance with such rules, etc., treated as an important requirement? Are procedures followed for changes of such rules that are similar to the procedures used for their adoption? These matters are:

a. Clear administrative rules concerning separate accounting based on the definition of “specified trade purposes” (Article 53-6-2 of the Enforcement Regulations):

(a) Definition of “specified trade purposes”

## Asset Risk

- (b) Clear organizational segregation (separation of staff by unit) based on trading purposes and independent decision-making authority
  - (c) Restrictions on concurrently serving as dealers for organizations involved in specified trading and other organizations
  - (d) Prohibitions on transfer of transactions between accounts (except in cases within the scope of notification to the authorities based on laws and regulations)
  - (e) Restrictions on negotiated transactions of specified trade securities and recognition of hedging purposes
- b. Authority and duties of supervisors of divisions engaged in specified trades
  - c. Obligation to comply with rules and procedures for rule changes
  - d. Rules concerning internal transactions and management methods:
    - (a) Definition and scope of internal trading
    - (b) Basic policies for internal trading
    - (c) Approval of internal trades by an organization independent of front-office organizations
    - (d) Approval procedures for internal trades, and storage of documents
  - e. Rules for trading via agents:
    - (a) Implementation of internal audits on the status of compliance with rules regarding internal trading

### 2) Separation of organizations and staff

It is desirable that organizations engaged in trading for specified trade accounts (organizations at least equipped with front office functions) are equal in size, or larger, than units (such as office, department, or group, etc.) and are organizationally and personally separated from the organizations which are engaged in similar trading other than trading for specified trade accounts.

Provided however, if specified transactions and assets related to those transactions are objectively and clearly separated from other transactions and assets, and it is deemed that there is no likelihood of accounting manipulation (for example, when the division engaged in specified trading concurrently conducts transactions other than those listed as belonging to specified trading), then organizational separation is not necessarily required.

### 3) Management of accounting records

Do accounting records concerning specified trade accounts clearly separate trades and assets related to those transactions and trades and assets related to other transactions for management purposes?

## Asset Risk

- 4) Prohibition on transactions other than specified trading by organizations engaged in specified trading

Are the organizations engaged in trading for specified trading accounts engaged in transactions other than those for specified trading accounts (or vice versa)? (Provided however, the foregoing will not apply when specified transactions and assets related to such transactions are objectively and clearly separated from other transactions and assets, and it is deemed that there is no likelihood of accounting manipulation.)

- 5) Prohibition on arbitrary selection of accounts

Are the transactions, which should be processed in accounts other than specified trading accounts, treated as transactions in specified transaction accounts, or otherwise processed in arbitrarily selected accounts?

- 6) Appropriateness of internal trading

Internal trading between specified trading accounts and other accounts within the same insurance company has the possibility of being utilized to post profits or losses by taking advantage of differences in accounting systems. Accordingly, is such trading appropriately conducted in such a manner as to prevent arbitrary transactions for such purposes in accordance with the “Documents describing matters related to the handling of internal trading” when the establishment of specified trading accounts was filed (or the rules concerning specified trade accounts), etc.?

- 7) Internal audits

Do the points to note for internal audits include the following matters for the purpose of ensuring the appropriateness of transactions under specified trading accounts?

- a. Are transactions conducted in contravention of the approved scope of transactions as defined by the Cabinet Order (that is, transactions of securities exchanges, securities-related transactions, and the purchase or sale of monetary claims cannot be conducted between accounts)?
- b. Is internal trading conducted at fair value and appropriately in accordance with relevant rules, etc., and do internal verification functions operate in an effective manner?
- c. Is it clearly shown in vouchers whether transactions are internal transactions, and are such vouchers separately maintained in custody?
- d. Is profit and loss intentionally manipulated?

- 8) Disclosure of information

With regard to specified trading, are the following points concerning appropriate separate accounting and the objective measurement and management of fair value disclosed?

## Asset Risk

- a. Framework of specified trading accounts (the definition of “specified trading purposes,” specific investment products for such investment purposes, separation of organizations, etc.);
- b. Methods for ensuring the objectivity of fair value, etc.;
- c. Financial information concerning specified trade accounts.

### 3. Segregation of Responsibilities

#### (1) Establishment of mutual check and balance systems

In cases when the market division and operation division operate under different systems, does the risk management division appropriately perform such functions as: obtaining position information, etc., from both the market division and the operation division confirming that no discrepancies exist; monitoring the observance of limit-management rules; collecting and processing information concerning the development and operation of risk management systems; and reporting to the board of directors, etc.? Is an adequate number of staff necessary for monitoring transactions assigned to the risk management division?

Does the risk management division regularly confirm and analyze whether abnormal profits or losses (including unrealized gains or losses) are reported during the term?

With regard to companies adopting an aggressive strategy for market transactions, is an independent risk management division staffed with experts in market trading and risk management methods? In cases other than the above, while it is desirable that an independent risk management division is established and staffed with experts in market trading and risk management techniques, is a risk management group, etc., established in the accounting and finance planning/budgeting division to address the situation?

#### (2) Points to note concerning mutual checks and balances

- 1) Are dealers in a position to be able to directly manipulate the accounting system or give directions as a result of collusion between chief dealers and persons in charge of the operation division, etc.?
- 2) Are dealers who have a long association with the company overly trusted personally by senior managers (director in charge, etc.) and deemed by other employees as being beyond the reach of criticism, impeachment, or suspicion? Is it recognized that excessive dependence on a limited number of staff may increase the human risk factors, and are such situations carefully managed?
- 3) Is a confirmation group established under the head of the market division, or does the same person concurrently assume the posts as head of both the market division and operation division? Are systems operated in such a manner as to prevent organizational separation or segregation of duties from functioning?
- 4) Is all information communicated quickly and accurately to the risk management division? In the event any risk management issues arise, are such issues speedily and accurately communicated to the risk management division, etc.,

## Asset Risk

without solely being dealt with by someone in charge within the division concerned?

- 5) Is an independent risk management division established with expert staff assigned, or is a system otherwise in place under which risk management information is reported to the directors in charge without being influenced by the market division?
- 6) Are audio recordings of transactions by dealers recorded 24 hours a day, and are the contents of recorded transactions regularly crosschecked with trading records using a sampling method, etc.?

Are recorded tapes maintained in custody for a specific period of time? Are recorded tapes maintained in custody and managed by a section separate from both the market division and the operations division (for example, by the risk management division, etc.) or by a different section of the operation division with segregated responsibilities? It is desirable that telephone conversations of the operation division are also recorded for purposes of later confirmation.

When crosschecking the content of dealer trading recordings with the trading tickets (or other trading records), is it confirmed whether all trading tickets that correspond to the contents of the recordings do indeed exist, rather than merely confirming existing trading tickets with the contents of recordings?

- 7) Is trading from home conducted only under restricted conditions, in order to avoid the risks arising outside business hours, etc.? Are trading volumes and types of trading managed as per specified dealers with documented rules? Are answering machines or similar systems installed so that all trading is recorded?
- 8) Are dealers fully informed that audio recordings of trading are regularly confirmed against trading tickets?

### 4. Communication of Information

#### (1) Access to information by the risk management division

Is a system in place under which the risk management division can obtain trading information and other internal data as well as market data directly from the market division and in an appropriate and comprehensive manner? Is a system in place under which the risk management division can directly instruct and supervise the middle offices of respective divisions?

#### (2) Development of trading support systems, etc.

Are trading support systems in place that are capable of evaluating the fair value of positions by dealer (or by unit) and by business base at least on a daily basis with respect to every major product?

With regard to companies adopting an aggressive strategy for market transactions, is a trading support system in place that is capable of measuring the fair value of positions by dealer (or by unit) or by business base in real time or on a daily basis with respect to all major products that are involved?

#### (3) Development of information systems suitable for operation processing

## Asset Risk

Has the insurance company installed and is currently managing accounting as well as information systems that are capable of sufficiently performing all basic operational processing, settlements, and management of all trading in which the company is involved?

### (4) Communication to the risk management division

Does the market division, etc., communicate all information quickly and accurately to the risk management division? Should any risk management issues arise, are such issues speedily and accurately communicated to the risk management division, etc., rather than being handled solely inside the division in which the issue arose?

## III. Credit Risk Management System

### 1. Establishment and Development of the Credit Risk Management System

#### (1) Articulation of strategic goals in accordance with management policies, etc., of the insurance company as a whole

Has the board of directors, etc., clearly established strategic goals for the loan division, etc., in accordance with management policies, etc., of the insurance company as a whole?

Are the strategic goals for the loan division, etc., appropriate from the viewpoint of credit risk management, for example, by avoiding concentrations of credit risk in specific industries or groups for the purpose of gaining short-term profits?

#### (2) Directors' understanding and recognition, etc., concerning risk management

Do directors understand the necessity of managing the insurance company, consolidated subsidiaries, and affiliated companies accounted for under the equity method as a single unit to the extent permitted under applicable laws and regulations, integrating not only loans that have been extended but also assets with credit risk and off-balance-sheet items (including credit risk related to market transactions)?

Do directors also understand credit risk management methods (including the content of credit ratings and portfolio management) and monitoring techniques, and recognize the importance of credit ratings, portfolio management, and self-assessments? Especially, do the directors in charge have a deep understanding and recognition of these matters?

Does the board of directors confirm whether write-offs and allowances are at levels commensurate with credit risk?

When the board of directors uses the quantification of credit risk in the management of the insurance company, does it properly understand quantification methods, development of data, the relationship between credit risk exposure and corporate strength of the company such as equity capital and claim-paying capacity, etc.?

#### (3) Establishment of credit risk management policies

## Asset Risk

Does the board of directors articulate credit risk management policies in consideration of strategic goals?

Are credit policies established that define which companies are eligible to receive loans, the standards for rating credit, management policies of portfolios (prevention of a concentration of credit extensions to specific industries or groups), and approval authority for credit management purposes?

### (4) Development of risk management organizations

Has the board of directors established an appropriate system for managing credit risk by establishing an appropriate screening system uninfluenced by the loan division, by segregating the loan division and the investment screening division, or by establishing a credit audit division and a risk management division, etc.?

Notes:

- 1) "Loan division" refers to divisions engaged in loan operations at the head office.
  - 2) "Investment screening division" refers to divisions engaged in screening loan applications and managing credit extensions at the head office.
  - 3) "Credit audit division" includes a credit audit office and inspection division, etc., which are independent of the loan division and the investment screening division, and which conducts audits of self-assessments, etc., credit management, and credit management status.
  - 4) "Risk management division" refers to the divisions that manage overall credit risk, including the risk of off-balance-sheet assets.
- (5) Reporting on credit risk status to the board of directors, etc., and use of risk information in decision-making for the organization as a whole

Does the board of directors regularly receive reports on the status of credit risk (including the status of credit concentrations in specific industries or groups), and based on the comprehended credit risk information, confirm whether credit risk management policies are being observed?

Does the representative director receive reports on the status of credit risk from time to time as needed in addition to regular reports, make the necessary decisions in accordance with the policies established by the board of directors, and give instructions for reducing the credit risk amount by risk diversification or utilize the credit risk information for the purpose of credit risk management?

### (6) Development of rules for credit risk management

Do managers develop rules for credit risk management in accordance with asset investment risk management and credit risk management policies with the approval of the board of directors, etc., and review these rules as needed?

Do the rules for credit risk management include the scope of eligible borrowers, credit ratings, portfolio management, approval authority, screening policies, credit audit methods, and other relevant matters?

### (7) Appropriate risk management practice

## Asset Risk

Do managers practice proper credit risk management at individual divisions in accordance with risk management policies and risk management rules, and bear the responsibility for risk management?

It is desirable for credit risk management purposes that internal models, etc., based on credit ratings are used to quantify credit risk, and to set credit risk limits commensurate with ensuring appropriate earnings, allocations of management resources, and corporate strength such as equity capital and claim-paying ability.

In this case, it is also desirable that such systems are adequately supported by information systems.

### (8) Reporting on credit risk status to the asset risk management division

Do managers report credit risk status to the asset risk management division in accordance with prescribed reporting rules?

## 2. Structure and Roles of the Credit Risk Management Division

### (1) Recognition and evaluation of risk

#### 1) Establishment of an integrated risk management system

With regard to credit risk management, is a system in place for managing the insurance company, consolidated subsidiaries, and affiliated companies accounted for under the equity method as a unit to the extent permitted under applicable laws and regulations?

Is a system in place under which credit risk is managed by integrating not only loans extended but also assets with credit risk and off-balance-sheet items (including credit risk related to market transactions)?

#### 2) Evaluation of new products and business operations

When introducing new products or business operations, does the risk management division evaluate the presence of credit risk, etc., and based on the opinions of the legal affairs division and the internal audit division, etc., when necessary, report to the board of directors and the risk management division, and seek the approval of the board of directors, etc., for the introduction of new products and business operations, in accordance with relevant rules?

### (2) Screening management

#### 1) Development of an investment screening system

Is the investment screening division insulated from the influence of the loan division, for example, by being independent of the loan division and by not permitting a director in charge of the investment screening division to serve concurrently as the director of the loan division?

If the investment screening division is not independent of the loan division or if the director in charge of the investment screening division concurrently serves as the director of the loan division, are check and balance functions in place for enabling appropriate appraisals?

2) Roles of the investment screening division

Does the investment screening division properly comprehend the financial position of borrowers, their uses of funds, and their sources of funds for repayment of loans, etc., and confirm the accuracy of credit ratings or otherwise conduct appropriate screening?

Does the investment screening division, etc., confirm whether instructions from the investment screening division are appropriately followed by the loan division, a sound financing posture is maintained (including smooth funding for borrowers engaged in sound businesses, and the rejection of financing for the purpose of gaining insurance contracts, speculative real estate financing, or financing for excessively speculative financial schemes, and the refusal to supply funds to antisocial organizations), and whether inappropriate collections of loaned funds is conducted?

(3) Credit management

1) Development of the credit management system

Do the loan division and the investment screening division have a system in place for conducting integrated management as a whole of credit extended by the insurance company, its consolidated subsidiaries, and affiliates accounted for under the equity method to the extent permitted under applicable laws and regulations, with regard to the status, etc., of borrowers' business performance trends, etc.? Especially with respect to large borrowers, is the amount of credit extended by the insurance company combined with the amount of credit extended by consolidated subsidiaries and affiliates accounted for by the equity method, and is credit managed in an appropriate manner?

Is a division established for the purpose of confirming the levels of write-offs and allowances? Does this division confirm whether the levels of write-offs and allowances are commensurate with credit risk, and report the amount of write-offs and allowances accurately to the board of directors?

Is a division established for the purpose of managing the status of portfolios (including the concentration of credit extended to specific industries or groups)? Does this division manage portfolios in an appropriate manner and report regularly on the status of portfolios to the board of directors, etc.?

2) Roles of the credit audit division

Is a credit audit division established for the purpose of confirming the accuracy of credit ratings and the status of credit management, including the management of borrowers? Does this division verify the appropriateness of credit management and report the results to the board of directors, etc.? If either the loan division or the investment screening division is engaged in portfolio management, does the credit audit division audit the appropriateness of portfolio management as well?

## Asset Risk

Is the credit audit division exclusively devoted to credit audits (including a structure under which the risk management division performs credit audits)?

### 3) Roles of the risk management division

Is a risk management division established for the purpose of integrated management of assets exposed to credit risk and off-balance-sheet items, and is integrated credit risk management practiced by this division?

Is the risk management division exclusively devoted to risk management (including a structure under which the risk management division performs credit audits)?

### (4) Management of problem credit

#### 1) Development of a problem credit management system

Is the scope specified of credit that needs to be managed as problem credit?  
Is a division established for the purpose of managing and collecting problem credit, and is problem credit managed in an appropriate manner?

It is desirable that the division in charge of managing and collecting problem credit is exclusively devoted to this function.

#### 2) Roles of the problem credit management division

Does the division responsible for managing and collecting problem credit articulate policies for handling problem borrowers and manage the business conditions, etc., of problem borrowers in accordance with such rules?

Does the division provide guidance concerning appropriate measures for restructuring, or are such borrowers liquidated for collection of outstanding loans in accordance with such policies concerning problem borrowers?

### (5) Self-assessments and provision of allowances

See the Appendix, Credit Risk Inspection Manual.

## IV. Real Estate Investment Risk Management System

### 1. Establishment and development of the real estate investment management system

#### (1) Understanding risk

1) Do directors fully recognize, when making real estate investments, that there is the risk that earnings related to real estate may decrease due to fluctuations in rents, etc., and real estate prices themselves may decline due to changes in market conditions, etc.?

2) Does the board of directors recognize, when formulating risk management policies, that investment in real estate (particularly new investment) generally requires a large amount of funding, has very low liquidity, and that the investment return is uncertain and cannot be readily substituted.

#### (2) Appropriate asset allocation

## Asset Risk

- 1) When determining asset allocations for real estate investment, does the board of directors compare the real estate risks with the risks associated with investments in securities, and loans, etc., in consideration of the nature of liabilities?
- 2) When determining asset allocations, does the board of directors pay attention to the need for diversifying investment to avoid regional concentrations in consideration of land price trends, or disasters, etc.?
- 3) Does the board of directors, etc., regularly receive reports on risk status and examine the reports from the perspective of real estate investment risks?

### (3) Development of risk management organizations

Has the board of directors established the investment screening division responsible for appropriate management of screening, monitoring, and analysis, etc., of investment projects in connection with the real estate investment risks held by the company?

Is the authority and responsibility of the investment screening division clearly defined?

Is a system in place under which, for example, the director in charge of the investment screening division does not concurrently serve as the director in charge of the investment division, so that the investment screening division is separated from the investment division and shielded from interference from the investment division?

When the investment screening division is not independent of the investment division or if the director in charge of the investment screening division concurrently serves as the director in charge of the investment division, are control functions ensured for conducting appropriate investment appraisals?

### (4) Establishment of alarm points (alarm zone)

Has the board of directors, etc., established alarm points (or an alarm zone) concerning unrealized losses on real estate investment in consideration of the company's corporate strength, such as equity capital, profitability, and claim-paying ability, etc.?

Are alarm points regularly reviewed and updated?

### (5) Setting minimum investment yields

When investing in real estate (particularly new investments), does the board of directors, etc., set the minimum investment yield taking into account assumed interest rates, etc., of insurance products?

Are minimum investment yields regularly reviewed and updated?

### (6) Development of rules for risk management

## Asset Risk

- 1) Does the manager in charge of the investment screening division clearly articulate real estate investment risk management rules for appropriate management of real estate investment risks in consideration of strategic goals with the approval of the board of directors, etc., and review them regularly?

Do the rules cover investment standards and appraisal procedures taking into account the profitability of the investment (investment yields, etc.) and eligibility of the investment (compliance issues, etc.)?

Note: "Compliance issues, etc." includes matters that need to be noted when eligibility is evaluated, such as whether the investment is antisocial or speculative in nature.

- 2) Is the scope of real estate eligible for investment clearly defined by rules?

Is it regularly confirmed whether classifications of investment real estate are performed in accordance with the rules?

### (7) Monitoring and measurement of risk factors

Does the manager in charge of the investment screening division appropriately monitor and measure risk factors (factors that cause fluctuations of earnings or real estate prices) to which the company is exposed, and manage them in an appropriate manner?

## 2. Roles of the Real Estate Risk Management Division

### (1) Management of real estate investment risk (information gathering and screening)

#### 1) Gathering information about real estate investments

Does the investment division properly gather, analyze, and appraise information concerning market rents, supply and demand for tenant spaces, land price trends, changes in regulations of land use and taxation, geographical conditions of real estate, status of the competition, and environmental issues (soil pollution, liquefaction, ground subsidence, etc.) as data used for investment decisions?

Does the division also collect information on real estate that the company is considering disposing of or selling?

#### 2) Screening of real estate investment

Does the investment screening division take into account conformity with investment standards, soundness of business plans, portfolios (attention to diversified investment), etc.?

### (2) Management of real estate investment (post-investment management)

#### 1) Management of investment real estate

Does the investment division appropriately manage matters related to investment real estate such as finding tenants, capacity utilization such as vacancy rates, service providers, maintenance, ongoing projects, foreign exchange risks related to overseas real estate, etc.? Does it report to the asset risk management division in a

## Asset Risk

timely manner the properties for which returns have fallen below the minimum investment yield?

Are confirmations on the status of management, etc., conducted regularly (at least on an annual basis) by a division that is independent of the real estate division (such as the inspection division)?

### 2) Measurement of unrealized profit or loss on real estate

Does the investment division regularly calculate unrealized profit or loss on real estate? Is the valuation of real estate calculated appropriately using reasonable methods?

Does a division (credit audit division, etc.) which is independent of the real estate division confirm the evaluation of real estate?

When an unrealized loss on real estate has exceeded the alarm point, is it reported to the asset risk management division?

### 3) Management of real estate in need of control, and review of business plans

With regard to real estate with a yield that has fallen below the minimum investment yield or with an unrealized loss that has exceeded the alarm point ("real estate in need of control," hereinafter the same), are measures considered for ensuring earnings from such real estate, or is such real estate placed under particularly stringent management?

When business plans for real estate in need of control are revised and reinvestment, etc., is to be conducted, is such reinvestment conducted after a review by the investment screening division?

Are the management and review of the real estate in need of control (including its sale or disposal) confirmed by the asset risk management division?

### (3) Real estate management (sale or disposal)

Does the insurance company study the potential for selling or disposing of real estate with an unrealized loss that has exceeded the alarm point, that has not been in use for a specified period of time, or for which there are no utilization plans ("idle real estate," hereinafter the same)?

Is management and review of idle real estate verified by the asset risk management division?

## 3. Communication

### (1) Reporting to the asset risk management division

Does the investment screening division, etc., regularly report the status of real estate investment risk to the asset risk management division and other relevant divisions?

### (2) Appropriate reporting to the board of directors, etc.

## Asset Risk

Does the investment screening division report regularly and from time to time as needed report the status of real estate in need of control and idle real estate to the board of directors, etc.?

When changing the classification of a real estate investment exceeding a certain size from “real estate held for investment” to “real estate held for business use,” is such a change reported to the board of directors, etc.?

### (3) Development of the real estate investment risk management system

It is desirable that the insurance company has a system in place for the management of real estate investment risk.

Operational Risk, etc.

### **Checklist for Inspection of the Management System for Operational Risk, etc.**

- (1) “Administrative risk” refers to the risk that insurance companies may suffer losses due to the failure of its officers and employees, etc., to perform their administrative tasks correctly, or due to an accident or improper action, etc., they caused or committed.
- (2) “Information system risk” refers to the risk that insurance companies may incur losses due to an information system failure or malfunction, etc., or deficiencies, etc., as well as the risk that insurance companies may incur losses due to an unauthorized use of a computer.
- (3) “Liquidity risk” consists of the risk of incurring losses due to being forced to sell assets at a price considerably lower than normal in order to maintain funds, owing to deteriorating cash flows as a result of: 1) decreasing insurance premium revenue as a result of a decline in new policy sales due to factors such as the deteriorating financial condition of the insurance company; 2) increased cash surrender benefit payments due to voluntary terminations of a large number of policies or large-lot policies; or 3) an outflow of funds in the aftermath of a large-scale disaster (cash flow risk), and also the risk of incurring losses due to the inability to trade on a market or being forced to trade at a price considerably less advantageous than normal owing to a market disruption, etc. (market liquidity risk).
- (4) “Crisis” as used in the crisis management system, refers to, for example: 1) a circumstance, such as the bankruptcy of major credit borrowers, that if left unresolved, may cause the financial condition to deteriorate to an unrecoverable degree; 2) a circumstance that might lead to impaired liquidity to the extent that it becomes difficult to overcome, owing to factors such as a sharp rise in insurance policy terminations due to a circulating rumor, etc.; 3) a circumstance that might considerably damage credibility due to a system failure or incident of misconduct, etc.; or 4) a circumstance that would make the uninterrupted execution of operations difficult as a result of damage inflicted by disasters or accidents, etc., including a large-scale natural disaster or a major act of terrorism.
- (5) Inspectors shall inspect the management system for operational risk, etc., by using this checklist as well as the “Checklist for Inspection of the Internal Control System,” “Checklist for Inspection of the Compliance System,” “Checklist for Inspection of the Insurance Sales Management System,” and “Checklist for Inspection of the Customer Protection Management System, etc.” This checklist shall be used to conduct an inspection regarding cash flow risk, and the “Checklist for Inspection of the Asset Risk Management System” shall be used to conduct an inspection regarding market liquidity risk. It shall be noted that when assessing specific cases using this checklist, the provisions as well as the purpose and intent of the Insurance Business Law, other applicable laws and regulations, and the Supervisory Guidelines, etc., shall be taken into consideration.

Operational Risk, etc.

- (6) Information systems risk shall be examined by using this checklist, and in the event that it is deemed necessary to examine a specific operation in further depth as a result of a problem being revealed in the management system for system failures, inspectors shall do so in accordance with the “FISC Security Guidelines on Information Systems for Financial Institutions” (compiled by the Center for Financial Industry Information Systems) or equivalent. Inspectors shall also use this checklist to examine risk of falsification, deletion, or divulgence to external parties by officers and employees, or outsiders, etc., of information to be protected that is in the custody of the company. Additionally, if inspecting an insurance company, etc., that has a plan to integrate its information systems with another company, such an inspection shall be conducted by using the “Checklist for Inspection of the Information Systems Integration Risk Management System.”
- (7) In inspecting the management system for system failures, inspectors shall pay adequate attention to the degree of importance and characteristics of an individual information system. In this context, the “degree of importance” of an information system indicates the magnitude of the impact of the said information system on customer transactions or management decisions. Similarly, the “characteristics” of an information system indicate the different types of systems, such as a centralized, general-purpose system in the computer center, distributed system such as a client-server system, or a stand-alone system located in user divisions for each of which there is an appropriate, distinctly separate management approach.

Operational Risk, etc.

## **I. Operational Risk Management System**

### 1. Establishment and Development of an Operational Risk Management System

#### (1) Basic policies for operational risk management

Do directors understand that operational risk is present in all operations, recognize the importance of mitigating operational risk, and, in the capacity of the board of directors, set basic policies for operational risk management?

#### (2) Roles of managers

Are the managers aware of the importance of mitigating operational risk, and do they ensure that personnel responsible in the respective divisions recognize the importance of mitigating operational risk and the steps for mitigating these risks, and take the appropriate steps?

It is desirable that in comprehending operational risk, an analysis is conducted in consideration of the potential scale as well as the probability of losses in the conduct of operations among other factors, and risks should be assessed appropriately, for example, by measuring the expected amount of losses.

#### (3) Organizational development of administrative divisions

- 1) Is it clear which division is responsible for developing operational rules?
- 2) Is it clear which division is responsible for providing operational guidance and training, and is there a structure developed that enables that division to perform its functions fully?
- 3) Have the administrative divisions developed a structure that enables them to respond promptly and accurately to inquiries, etc., from business bases, etc., and insurance sales representatives, etc., concerning administrative handling procedures?
- 4) Is there a structure developed under which check and balance functions can be fully exerted, for example, by ensuring the independence of administrative divisions from sales promotion divisions?

#### (4) Development of operational rules

- 1) Are the operational rules comprehensive and in accordance with laws and regulations, etc.?  
Are there adequately articulated procedures to be applied in the case of handling matters that are outside the scope of the rules, or, in the case of any disagreement on the interpretation of the rules?
- 2) Have the administrative divisions analyzed the content of operations, correctly discerned the locus of operational risks, and developed rules under which to prevent such risks from arising, subject to approval of the board of directors, etc.?

## Operational Risk, etc.

- 3) If the company applies non-face-to-face forms of selling, such as mail order, are there adequate operational rules that take into consideration the nature of such a form of selling?
- 4) Are the operational rules reviewed and improved as needed, taking into consideration any issues obtained from internal audit results, incidents of misconduct, and complaints or inquiries, etc.? Furthermore, are the rules reviewed and improved as needed, for example, when there has been a change in the external environment, including laws and regulations?
- 5) Do the operational rules have clear provisions for the following operations in particular?
  - a. Insurance sales (prohibited acts, etc.)
  - b. Cash, benefits in kind, significant documents (such as insurance premium receipts), and exceptional treatment, including expedited handling

## 2. Roles of the Operational Risk Management Division

- (1) Does an operational risk management division take steps by which to confirm continually the operational management system of business bases, etc.?
- (2) Has the division developed a structure under which to deter heads of business bases, etc., from concealing any wrongdoing?
- (3) Does the division work on improving the level of operations in business bases, etc., in cooperation with the internal audit division and insurance sales management division, etc.?
- (4) When another party acts as an agent or proxy for an administrative task of the company, is that agent or proxy managed from an operational risk standpoint?

## 3. Management of Outsourcing

When the insurance company outsources an operation, are the following measures taken according to the content of the said operation?

- 1) Planning and implementation of outsourcing operations  
In planning and implementing outsourcing operations, is the scope determined of the work to be outsourced, and are specific risk management measures formulated?
- 2) Selection of an outsourcer  
In selecting an outsourcer, has the company established criteria for outsourcer selection, and does it confirm a prospective outsourcer for matters including soundness of management, trustworthiness as judged from its outsourcing record, and structure of operations for outsourced work?
- 3) Risk management structure for outsourced operations
  - a. Has the company designated a manager responsible for appropriately managing operations being outsourced?
  - b. Has the company built a structure in the form of a contract, etc., that enables adequate risk management for operations being outsourced (including a

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structure under which to recognize and assess risk, implement corrections, etc.)?)

- c. Has a confidentiality agreement been entered into with the outsourcer?
- d. In the event that an outsourcer re-outsources an operation, does the outsourcing agreement with the outsourcer contain provisions for contractual obligations and responsibilities, etc., in relation to a re-outsourcer?
- e. Are there certain restrictions established, as needed, on the company data accessible by the employees, etc., of the outsourcer?
- f. Are the operations being outsourced and the outsourcers being utilized regularly evaluated? Additionally, it is desirable that the operations being outsourced are assessed and evaluated by a third-party organization, according to the content, etc., of the operations.

#### 4) Reporting and Correction of Issues

Are issues that were recognized promptly corrected in cooperation with the outsourcer?

(Note) “Outsourcing” refers to an act by an insurance company of contracting with any party outside the said insurance company (referring to any party that is not a life insurance sales representative, nonlife insurance agency, or insurance broker of the company) an operation, in whole or in part, necessary to operate its business.

## **II. Management System for System Failures Risks**

### 1. Development and Establishment of a Management System for System Failures Risks

#### (1) Development of a risk management structure

Has the board of directors developed a risk management structure, adequately taking into consideration the fact that any risk that materializes may have a serious impact on corporate management due to the fact that, given the further progress in information systems, networking, etc., the impact tends to spread in a chain reaction and have increasingly broader and deeper ramifications?

#### (2) Articulation of strategic goals in accordance with the management policies of the insurance company as a whole

Has the board of directors, taking into account the innovations in information technology, established adequate policies for information systems strategy from the perspective that information systems are part of management strategy?

Do the policies for information systems strategy contain matters such as: 1) order of priority for system development; 2) plans to promote further computerization; and 3) system investment plans?

#### (3) Establishment of risk management policies

Has the board of directors established basic policies for risk management? Do the basic risk management policies contain a security policy (a basic policy designed to protect the information assets of an organization appropriately) and outsourcing policy?

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Does the security policy specify matters such as: 1) information assets to be protected; 2) the basis for protection; and 3) the locus of the responsibility for information assets?

Is the outsourcing policy established with an adequate awareness of the fact that, in the event of an accident concerning an outsourced operation, the company would not be exempt from liability to customers?

[Reference]

“FISC Security Policy Planning Manual”

(Compiled by the Center for Financial Industry Information Systems)

#### (4) Recognition and assessment of risk

##### 1) Identification of the locus and type of risk to be managed

- a. Are the risks concerning the information systems as a whole recognized and assessed, including assessment of risks in systems each dedicated to a specific function such as accounting, information, external network connections, securities transactions, and international operations?
- b. When an information system is developed independently by a division other than the information systems division, are risks concerning the said system also recognized and assessed?
- c. Does the company recognize and assess the fact that risks are growing in diversity and number due to such factors as network expansion (Internet, e-mails) and increased personal computer use?

##### 2) Recognition and assessment of risk concerning transactions using the Internet

Does the company understand the locus of risk in transactions via the Internet, recognize, and assess the importance of managing the said risks? For example, the possibilities of confronting issues associated with transactions of a non-face-to-face nature, difficulties in problem solving, third-party involvement, and insurance sales by non-registered parties, etc., are particularly notable in transactions using the Internet.

#### (5) Development of a mutual check and balance structure

Is the systems development division segregated from the systems administration division and assigned separate functions, so as to eliminate possible personal mistakes and malicious acts? However, when it is difficult to clearly segregate operations into a systems development division from the systems administration division due to limited staff size, are practices of mutual checks and balances ensured, for example, by regularly rotating personnel in charge of development and those in charge of administration?

Additionally, notwithstanding the foregoing, are practices of checks and balances ensured by the internal audit division, etc., for any systems in which separation into development and administration organizations is difficult, such as those for end user computing (“EUC”)?

#### (6) Internal audits

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1) Development of the internal audit division

Does the internal audit division regularly conduct system audits independent of the information systems division?

Is the internal audit division staffed with personnel that are well-versed in information systems?

Furthermore, is the current structure such that system audits and non-system audits can be conducted in conjunction, as needed?

Are system audit results appropriately reported to the board of directors, etc.?

2) Method and content of audits by the internal audit division

a. Does the scope of internal audits cover the entire operations concerning information systems risk?

b. Are internal audits conducted regularly according to the type and degree of risk, after comprehending the state of risk management by the information systems division and any other divisions using an independently developed system?

c. Are the procedures for the use of computer equipment (terminals and automated teller machines, etc.) in locations other than the information systems division, such as business bases, verified from a standpoint of information systems risk?

d. It is desirable that in conducting an internal audit, the details of system operations are substantiated through such means as confirming audit trails (utilizing automated records, such as event logs that enable tracking of the processing history).

(7) External audits

Are information system risks regularly subjected to external audits by certified public accountants and information systems auditors, etc.?

2. Information Security Management System

(1) Security management structure

1) Has the company assigned a security manager who is responsible for properly managing whether security is ensured pursuant to prescribed policies, standards, and procedures?

For example, is security ensured in consideration of the following matters?

a. Physical security, including:

- Measures to prevent physical intrusion
- Security equipment
- Arrangements of computer operation environments
- Device maintenance
- Inspection structures

b. Logical security, including:

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- Mutual check and balance structures between and within the systems development and systems administration organizations
  - Development management structure
  - Measures to prevent electronic intrusion
  - Program management
  - Damage control measures in the event of system failure
  - Assessment and management when an external software package is introduced
  - Security management in the area of systems operation
- 2) Does the security manager oversee the systems, data, and network management structures?

### (2) Systems Management Structure

- 1) For the purposes of safe and smooth administration and prevention of improper use of systems, has the company established system management procedures and assigned a systems manager who is responsible for properly managing systems?
- 2) It is desirable that multiple systems managers are assigned, one per system or per type of operation.
- 3) Are the assets of each system assessed on a regular basis, and then subjected to an appropriate scrap-and-rebuild process?
- 4) Is there a structure developed to appropriately and adequately manage the respective equipment and devices of headquarters and each business base, etc.?
- 5) Is there an appropriate and adequate management structure developed for computers that are removed from company premises?
- 6) Is a systems manager also assigned for each system that has been built independently by any division other than the information systems division?

### (3) Data management system

- 1) Has the company assigned a data manager in order to ensure the confidentiality, completeness, and usability of data?
- 2) Are data administered safely and smoothly by establishing data management procedures and use approval procedures, etc., in the form of rules or a manual, and thoroughly known and adhered to by all related personnel?
- 3) Is there an appropriate and adequate management system for data protection, prevention of improper data use, and measures for protection against malicious programs?

### (4) Network management structure

- 1) Has the company assigned a network manager in order to manage appropriately the network operation status, access control, and monitoring, etc.?
- 2) Is the network administered appropriately, efficiently, and safely by establishing network management procedures and use approval procedures, etc., in the form of rules or a manual, and thoroughly known and adhered to by all related personnel?

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- 3) Has the company considered alternative procedures in the event of a network breakdown?

(5) Management structure for operations using the Internet

- 1) Is there a structure developed under which to receive complaints and inquiries, etc.?
- 2) Is there a structure established to augment any process not properly performed due to a system breakdown or failure? Furthermore, does the company make clear how responsibility is delegated in the event of a system breakdown, etc.?
- 3) Are adequate steps taken to prevent any misunderstandings concerning the service provider that may be caused by site links?
- 4) Does the company disclose information concerning the company's financial conditions and operation details, as well as the content of services offered in transactions using the Internet, for example, by posting such information on the company website?
- 5) Is there a structure built into the system by which personal identification is performed, for example, in consideration of avoiding moral hazards and preventing money laundering?
- 6) Is there a structure established that prevents the divulgence of customer information and customer data falsification or editing, etc., by external intruders or through improper internal use?
- 7) Are adequate steps taken, in consideration of the fact that transactions using the Internet are not of a face-to-face nature, so that the history of transactions with customers cannot be falsified or deleted, and is such a history retained for the specified period of time, as needed?

3. Information Systems Planning and Development System

(1) Planning and development structure, etc.

- 1) Planning and development structure
  - a. Are there adequate rules established for planning and development to ensure the introduction of a highly reliable and efficient information system?
  - b. It is desirable that a cross-sectional review body be established, such as a process automation committee.
  - c. Has the company formulated a mid- to long-term development plan?
  - d. Are the effects of information systems investment examined and, taking into account the importance and characteristics of the system, reported to the board of directors as needed (or without fail with respect to the effects of investment in the entire information systems division)?
  - e. Are rules clearly defined for examining and approving development projects?
  - f. Are any projects to provide products and services implemented only upon approval?

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- g. Is the current structure such that cooperation between user divisions and the information systems division is adequately ensured for the purpose of preventing any program errors from occurring at the time of insurance product development or revisions? In particular, is the system structured so that user divisions are involved proactively in the process of verifying system functions regarding calculation results in areas of importance, including insurance premiums and dividends?
- 2) Development management
    - a. Are the forms standardized for development-related documents and programs?
    - b. Does the company assign a leader for each development project, and does the board of directors, etc., confirm the progress, taking into account the importance and characteristics of the information system?
    - c. Do the information systems division and user divisions cooperate to manage progress appropriately?
  - 3) Development of rules and manuals
    - a. Are there adequate rules and manuals for information system design, development, and administration?
    - b. Does the company review such rules and manuals in accordance with the actual status of operations?
    - c. It is desirable that the company establishes rules for development-related document preparation standards, based on which system design specifications, etc., are prepared.
    - d. It is desirable that in developing an information system, the completed system should be equipped with the function of recording audit trails utilizing automated records, such as event logs that enable tracking of the processing history.
    - e. Are manuals and development-related documents, etc., easy to understand for third parties with technical expertise?
  - 4) Testing, etc.
    - a. Are system tests conducted appropriately and adequately?
    - b. Is there an adequate testing structure developed which ensures that no tests or reviews are missing for operations that might otherwise cause a system failure that may affect customers for an extended period of time, or any serious miscalculation in risk management materials, etc., used in making business decisions?
    - c. Does the company develop testing plans?
    - d. Do user divisions also participate in comprehensive testing as needed? In particular, do user divisions participate in and confirm the results of tests concerning matters of importance, including insurance premiums and dividends?
    - e. Is information system verification performed by someone with an adequate ability to conduct such verification?
  - 5) Verification following the installation of an information system
    - After new products or programs are introduced, do user divisions conduct sample testing, etc., as needed?

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6) Personnel training

- a. In training personnel, does the company focus on not only fostering development technology, but also training personnel to become proficient in the operations for which the development is intended?
- b. It is desirable that the company trains personnel to become proficient as development staff versed in an area of highly specialized operations or new technology, such as derivatives operations, electronic settlement, or electronic commerce.

(2) Advances into new areas

It is desirable that information gathering and research, etc., are performed with respect to any new area or new technology, and consideration should be given as to how to position new areas or technology within the overall management strategies.

#### 4. Information Systems Administration System

(1) Clear segregation of duties

- 1) Are the respective duties of data reception, system operation, verification of tasks performed, and data and program storage clearly segregated?
- 2) Is administrative staff prohibited from accessing data and programs that are not within the scope of their own duties?

(2) Systems operation management

- 1) Is each operation of a given task implemented in accordance with a schedule and an instruction sheet, etc.?
- 2) Are operations implemented in accordance with an approved task schedule and instruction sheet?
- 3) Are all operations recorded, and does a manager define the set of items to be confirmed, and then verify the records?
- 4) It is desirable that any important operations require implementation by more than one person, and that the implementation should be automated as much as possible.
- 5) Is the system equipped with a report generating function for a manager to confirm the processing results of operations, as well as the function of acquiring and retaining the history of tasks performed?
- 6) Is development staff in principle prohibited from accessing operations? When development staff must inevitably access the system in the event of system failure, etc., does the manager of the said operation confirm the identity of the development staff and conduct a follow-up investigation of all access details?

(3) System failure management

## Operational Risk, etc.

- 1) Is there a structure developed under which any system failure that occurs is recorded in a registry or event log, etc., and is reported to headquarters as needed?
- 2) Are the details of each system failure regularly analyzed, and are steps taken to address them?
- 3) In the event of a significant system failure that may have a serious effect on corporate management, is cooperation with headquarters promptly sought to solve the problem, and is the system failure reported to the board of directors as well?
- 4) Is a system in place under which if the system administration is outsourced, any system failure arising at the outsourcer is reported?

### (4) Protection of customer data, etc.

- 1) Is customer data handling appropriately managed by appointing a supervisor and establishing both a management method and handling method?
- 2) Are appropriate security measures taken against risks of improper access to customer data, or customer data loss, destruction, falsification, or divulgence, etc.?
- 3) Is important information other than customer data also appropriately managed by appointing a supervisor and establishing management methods, etc.?

### [Reference]

“FISC Security Policy Planning Manual”

(Compiled by the Center for Financial Industry Information Systems)

### (5) Prevention of improper use

- 1) In order to prevent improper use, is there a structure developed to ensure that each connection is directed to the intended person or terminal, according to the content of the operation and the method of connection?
- 2) In order to manage the status of improper access, are the system operation histories obtained as audit trails to enable follow-up audits, and verified regularly?
- 3) Regarding the authority to use a terminal or to access data and files, are authorization and management methods clearly defined in accordance with the degree of importance of the authority being granted?
- 4) For any system used by sales agencies, is access authorization cancelled properly so that no access is possible after the agency discontinues business?

### (6) Computer viruses, etc.

Are adequate steps taken to prevent any malicious programs, such as computer viruses, from invading the systems, and is there a structure developed to promptly detect and delete any such program that has invaded? For example:

- 1) Computer virus infections
- 2) Registration of programs that have not undergone formal procedures

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- 3) Intentional falsification of authorized programs

## 5. Management of Outsourcing

- (1) Planning and implementation of outsourcing operations

In planning and implementation of a system-related operation to be outsourced, is the scope of outsourcing determined and are specific risk management measures formulated?

- (2) Outsourcer selection

In selecting an outsourcer, has the company established criteria for outsourcer selection, and does it confirm each prospective outsourcer for matters including soundness of management, trustworthiness as judged from its outsourcing record, and structure of operations for outsourced work received?

- (3) Risk management structure for outsourced operations

- 1) Has the company designated a manager responsible for appropriately managing the systems and operations being outsourced?
- 2) Has the company built a structure in the form of a contract, etc., that enables adequate risk management for operations being outsourced (including a structure under which to recognize and assess risk, and implement corrections, etc.)?
- 3) Has a confidentiality agreement been entered into with the outsourcer?
- 4) In the event that an outsourcer re-outsources an operation, does the outsourcing agreement with the outsourcer contain provisions for contractual obligations and responsibilities, etc., in relation to a re-outsourcer?
- 5) Are there certain restrictions established as needed on the company data accessible by the employees, etc., of the outsourcer?
- 6) Are the operations being outsourced and the outsourcers being utilized regularly evaluated? Additionally, it is desirable that the operations being outsourced are assessed by a third-party organization, according to the content, etc., of the operations.

- (4) Reporting and correction of issues

Are recognized issues corrected promptly in cooperation with the outsourcer?

## 6. Emergency Countermeasures, etc.

- (1) Crime prevention measures

- 1) In order to prevent crime, is there a crime prevention unit established with a clearly designated leader?
- 2) In order to prevent any acts that would threaten information system security, are appropriate and adequate management practices in place, such as entry and exit controls and control of important keys?

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(2) Computer crime and accidents, etc.

Is there a structure developed that pays adequate attention to possible computer crimes and computer accidents (for example, intrusion of malicious programs such as viruses, cash dispensing and automated teller machine vandalism and cash theft, credit card crime, information theft by outsiders, information divulgence by insiders, hardware problems, software problems, operation errors, communication line failures, power outages, and external computer crashes), and is there a follow-up confirmation structure developed for inspections, etc.?

(3) Disaster countermeasures

- 1) In preparation for disasters, is there a disaster prevention unit established for the purposes of mitigating damages and providing uninterrupted operations, with a clearly designated leader?
- 2) In establishing a disaster prevention unit, is the structure suitably arranged for the business units that it serves, with a clearly designated leader for each assigned function?
- 3) Are adequate measures secured to prevent fire, and to protect against damage from earthquakes and floods?
- 4) Is there an evacuation site secured in advance for important data, etc.?

(4) Backups

- 1) In order to protect against the possible destruction or failure, etc., of important data files and programs, are backups obtained, and is a method of management thereof articulated?
- 2) In obtaining backups, is attention paid to their storage locations, including storage in multiple and remote locations?
- 3) Is an offsite backup system maintained for important systems?
- 4) Are the intervals of backup operations documented?
- 5) Are there procedures developed that are to be followed for restoring data using backup data?

(5) Contingency plan development

- 1) Is there a contingency plan developed and prepared in the event that the information systems stop functioning correctly due to a disaster, etc.?
- 2) In formulating a contingency plan or amending it for significant revisions, is approval obtained from the board of directors? In the case of other types of revisions, is approval obtained from the board of directors, etc.?
- 3) In developing a contingency plan, is the "FISC Contingency Planning Manual" (compiled by the Center for Financial Industry Information Systems) utilized as a reference?

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- 4) In developing a contingency plan, is consideration given to not only possible emergencies caused by disasters, but also those resulting from any internal or external factors of the insurance company?
- 5) In establishing a contingency plan, are factors analyzed such as damage to customers?
- 6) Are drills practiced regularly using a contingency plan? Furthermore, are the drills practiced at a companywide level, including participation by outsourcers, etc., as needed?

### **III. Liquidity Risk Management System**

#### **1. Establishment and Development of a Liquidity Risk Management System**

- (1) Strategic goals taking cash flow risk into consideration

Do directors understand that any cash flow problem that arises, depending on the circumstances, may directly lead to business failures, and do they, in their capacity as the board of directors, consider cash flow risk in setting strategic goals?

- (2) Development of organizations for risk management purposes

Has the board of directors developed a structure under which check and balance functions fully operate for the purpose of appropriate cash flow risk management, for example, by segregating the cash flow management division from the risk management division, for the management of cash flow risk?

Additionally, is the current structure such that the cash flow management division can propose directly to the representative director the needed measures for maintaining liquidity, according to the risk status?

(Note) “Cash flow management division” refers to a division that manages and administers daily cash flows, and “risk management division” refers to a division that monitors the status of compliance, etc., with internal rules, etc., regarding cash flows; hereinafter the same.

- (3) Setting limits and reviews

In order to manage cash flows appropriately, does the representative director set and review limits as needed, depending on the specifics of asset investment, such as the maximum holding limit for non-marketable assets or assets with extremely low liquidity, and report the status to the board of directors?

Furthermore, does the board of directors verify that the matters so reported comply with the liquidity risk management policy?

- (4) Development of rules regarding cash flows

Do the managers of the cash flow management division and the risk management division classify cash flow status according to the degree of tightness in cash flow (for

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example: normal, alarming, crisis, large-scale disaster emergency, etc.), and have they developed, upon obtaining approval from the board of directors, etc., separate rules for each classification of the management method, reporting method, and settlement method, etc.?

(5) Appropriate cash flow management practices

Does the manager of the cash flow management division appropriately manage cash flows pursuant to the liquidity risk management policy and risk management rules?

## 2. Roles of the Cash Flow Management Division and Risk Management Division

(1) Risk recognition and assessment

1) Analysis of cash flow risk factors and development of countermeasures

Does the cash flow management division collect and analyze information, such as the company's stock price and circulating rumors, that is deemed to affect new policy sales, policy terminations, or novations upon maturity of accumulation-type insurance, etc., and formulate countermeasures?

Furthermore, if there are separate cash flow management divisions for yen transactions and foreign currency transactions, or for domestic offices and overseas offices, are the respective cash flow risks managed as a combined whole?

2) Comprehension of liquidity status in consolidated subsidiaries

In managing cash flow risks, are steps taken upon comprehending and taking into consideration the liquidity status of consolidated subsidiaries, in view of the fact that the business failure of a consolidated subsidiary resulting from deteriorating cash flows is very likely to affect the insurance company being inspected?

3) Management of ceded reinsurance

In managing cash flow risks, is adequate consideration given to the fact that reinsurance claims might not be paid, depending on the financial condition of the reinsuring company?

(2) Cash flow risk management

1) Liquidity assessment and risk management from both asset and liability perspectives

Does the cash flow management division assess liquidity from both asset and liability perspectives, and comprehend the status of liquidity maintenance, including the timing of when the company is prepared to pay insurance claims, etc., and the amount of payments?

2) Appropriateness of cash flow management

a. Does the cash flow management division prepare daily cash flow statements, in addition to weekly, monthly, and quarterly cash flow projections for yen transactions and foreign currency transactions, upon

## Operational Risk, etc.

managing the following items as needed and understanding any impact on cash flows at an early stage?

- Centralized management of insurance premiums and insurance claims, etc.
  - Investment portfolio management by product and by period of time
  - Cash management (including ATMs, etc.)
  - Management of cash flows by currency
  - Management of cash flows, etc., taking into account the relative ease (or lack thereof) of currency exchanges between various foreign currencies
- b. Does the risk management division provide the board of directors, etc., and the cash flow management division with information, and maintain checks and balances upon the cash flow management division, managing the following items as needed and comprehending any impact on cash flows at an early stage?
- Management and analysis of plans and actual results of new policy sales and terminations
  - Management of funding gaps
  - Management and analysis of the remaining balances of borrowing and credit facilities under contractual agreements
- 3) Appropriateness of the cash flow risk management method
- Does the cash flow management division comprehend the amount of scheduled investment (in securities and loans, etc.) on the basis of reports, etc., from the respective business divisions, etc.?
- In comprehending the amount of scheduled investment, is consideration given to the following matters?
- a. Off-balance-sheet transactions (including currency swaps, etc.)
  - b. Comprehension of the duration of investment as judged from the substance of a transaction (for example, any investment that is formally a short-term investment but is substantially of a long-term nature)

(Note) “Business divisions, etc.” refers to business divisions and business bases; hereinafter the same.

- 4) Business administration, etc., considering liquidity risk
- Does each business division administer its operations by considering liquidity risk, according to the cash flow status as comprehended by the cash flow management division?

### 3. Establishment of a Crisis Management Structure

- (1) Development of countermeasures in the event of a liquidity crisis

Do both the cash flow management division and the risk management division obtain approval from the board of directors in formulating or making a significant revision to countermeasures in the event of a liquidity crisis (and obtain approval from the board of directors, etc., in the case of other types of revisions)?

Do such countermeasures cover matters such as a communication and reporting structure (for example, a structure under which reports are submitted directly to the

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representative director), actions to be performed (securing means of raising funds), the decision-making authority, and chain of command?

Furthermore, are such countermeasures reviewed whenever necessary so as to maintain applicability at any given time?

(2) Securing means of raising funds

Does the cash flow management division constantly pay attention to transaction environments, etc., so that in the event of a crisis or large-scale disaster, etc., asset liquidation, such as disposal of securities, can be implemented smoothly for the purpose of raising funds?

4. Communication

(1) Reports from the respective business divisions, etc., to the cash flow management division and the risk management division

Do the respective business divisions, etc., keep in close contact with the cash flow management division and the risk management division, and report promptly and accurately on fund transfers, etc., including insurance premiums and insurance claims?

Additionally, it is desirable that the risk management division is equipped with the authority and systems, etc., that enable directly obtaining information whenever necessary.

(2) Reports from the risk management division to the board of directors, etc.

Does the risk management division report the information obtained under Item 2.(2) 2) b. to the representative directors and other directors in charge regularly and whenever necessary as circumstances require, and also report to the board of directors, etc., regularly and whenever necessary as circumstances require?

(3) Reports from the cash flow management division to the board of directors, etc.

Does the cash flow management division report to the representative director and other relevant directors in charge regarding the current status and forecasts of cash flows regularly and whenever necessary according to the degree of tightness, and also report to the board of directors, etc., regularly (and whenever necessary as circumstances require)?

(4) Installation of a system for cash flow risk management

It is desirable that the cash flow management division and the risk management division have systems installed that serve the purposes of appropriate cash flow status comprehension and risk management.

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#### **IV. Crisis Management System**

##### Development and Establishment of a Crisis Management System

(1) Actions in non-crisis situations

- 1) Does the company routinely make efforts for crisis prevention in non-crisis situations, for example, by regularly conducting testing or providing training so that staff can recognize what meets the criteria of a crisis, and attempt to prevent crisis occurrence as much as possible, in addition to taking remedial measures for unavoidable crises?
- 2) Has the company formulated a crisis management manual? Furthermore, is the crisis management manual revised continually in accordance with the current status of operations and risk management circumstances, etc.? Additionally, it is desirable that the formulation of a crisis management manual is designed based on objective standards.

[Reference] Examples of conceivable crises

- a. Natural disasters (earthquakes, wind and flood damage, abnormal weather conditions, etc.)
  - b. Accidents (major power outages, computer accidents, etc.)
  - c. Rumors (those circulating by word of mouth, over the Internet and via e-mails, etc.)
  - d. Crime that victimizes companies (blackmail, intervention by antisocial elements, data theft, etc.)
  - e. Business-related problems (handling of complaints and consultation requests, data entry errors, etc.)
  - f. Personnel-related problems (internal disputes, sexual harassment, etc.)
  - g. Responding to labor-related problems (issues identified by whistle-blowing, causes for deaths by overworking, causes for the outflow of human resources, etc.)
- 3) Does the crisis management manual address the importance of initial responses, such as the importance of developing an accurate understanding or making an objective judgment at an early stage of crisis occurrence, and the importance of disseminating information?
  - 4) Is the responsibility structure articulated in the event of a crisis, and is there a communication structure, etc., in place for communication within the organization and to relevant parties (including the applicable authorities) in the event of a crisis? It is desirable that in developing a structure to be established in the event of a crisis, consideration is given separately to the respective divisions or business bases such as branches, according to the level and type of crisis, that are placed under the command of the task force overseeing the whole organization.
  - 5) Upon explicitly positioning the insurance claims payment service as a function that should be maintained and recovered in the occurrence of a crisis such as a large-scale natural disaster, is there a system in place to ensure the preparedness

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for routine continuation and recovery of payment services in the event of disaster? Furthermore, is there a system in place under which expedited handling is available for policyholders, etc., with respect to payments, etc., of insurance claims, etc. (refer to “III.1.6 Steps Regarding Financial Services in the Event of Disaster” in the Supervisory Guidelines)?

- 6) Does the company make efforts to scrupulously communicate and collect information on a daily basis? Furthermore, in the event of a crisis, are both the information communication structure and the information collection structure adequate in accordance with the level and type of crisis?

### (2) Actions in the event of crisis

When an actual, critical situation arises, or the possibility of such an event is recognized, are the status of various crisis management actions (for example, status of development of a crisis management structure, status of communications with relevant parties, status of disseminating information) adequate in accordance with the level and type of crisis?

### (3) Post-crisis actions

When the critical situation subsides, does the company make adequate efforts to analyze the causes and prevent a recurrence?

### (4) Crisis management system for rumor circulation

- 1) Is there a system developed that addresses the risk caused by circulating rumors? Furthermore, are there adequate rules established, for both the respective departments in headquarters and at business bases such as branches, as to how to behave in the event of rumor circulation? Additionally, it is desirable that actions to be taken in the case of circulation of a rumor about another insurance company or client, etc., also are examined.
- 2) Are all media through which rumors can be circulated (for example, the Internet and published articles of a speculative nature) searched regularly for the emergence of rumors?
- 3) Are there adequate rules established as to what initial actions, including status comprehension, customer relations, and public explanations, that business bases such as branches should undertake in the event that a rumor results in termination of insurance policies?
- 4) Is the current structure such that in the event of a situation under Item 3) above, the relevant section of the Financial Services Agency, business partners, and security companies, etc., are promptly contacted?

## Credit Risk Inspection Manual

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## Appendix

### **Checklist for Field Inspections**

(1) This checklist presents sample reference points for inspectors to use in conducting field inspections of business bases, etc., of insurance companies, life insurance sales representatives, and nonlife insurance agencies. It shall be noted that when using this checklist, the purpose of the inspector shall be not merely to point out simple, minor deficiencies or administrative errors, but rather to confirm whether a proper compliance system, insurance sales management system, and customer protection management system, etc., have been established.

(2) In conducting an inspection, it shall be noted that it is primarily the responsibility of the internal audit division of the insurance company to actually verify the administrative management system. Therefore, a field inspection does not need to cover all the items illustrated herein, as long as the inspector can verify that the respective divisions, including the internal audit division, are functioning effectively; if, on the other hand, the respective divisions are found not to be functioning effectively, a more in-depth audit must be conducted.

(3) It shall be noted that the items on this checklist are for illustrative purposes only, and any matters that are not set forth herein may also be subject to a field inspection.

## 1. Common Items

### (1) Appropriateness of Insurance Sales

- 1) Are prohibited activities conducted as set forth in each item of Article 300, Paragraph 1 of the Law, or the “significantly inappropriate activities concerning insurance sales” stipulated in Article 307, Paragraph 1, Item 3 of the Law? Particularly, it shall be noted that the following activities are highly likely to meet the definition of inappropriate activities:
  - a. Embezzlement or misappropriation of insurance premiums
  - b. Improper use of seals
  - c. Sales activities without interviews (with the exception of sales of policies that do not require face-to-face interviews)
  - d. Falsified contracts (fictitious contracts), contracts under assumed names, contracts without consent
  - e. Falsified reporting of sales performance (sales performance manipulation) and illegal fabrication of work records
- 2) Are the contents of insurance contracts and risks involved, etc., appropriately and sufficiently explained to customers? Are appropriate and sufficient explanations provided to customers when selling variable insurance and foreign currency-denominated insurance or other insurance products for which the risk is borne by customers? Are confirmations made, without fail, that customers have received such explanations?
- 3) Are important matters relating to the content of insurance contracts explained in an appropriate manner, for example, by delivering a document describing such matters to customers?
- 4) When selling insurance policies with premiums calculated using expected surrender ratios and for which no surrender values are paid, is a document delivered to customers describing that surrender value will not be paid?
- 5) Are documents appropriately delivered, including leaflets concerning contracts or covenants, etc., which will facilitate the understanding of the content of contracts?
- 6) When describing insurance contracts, are measures taken so that customers fully understand the content thereof? Are such descriptions provided in accordance with the nature of products?
- 7) When comparisons with other products are performed, are they described in an appropriate and accurate manner?
- 8) When dividend projections are described, is a document prepared and delivered that satisfies the requirements set forth in the Supervisory Guidelines?

- 9) In connection with participation in the Insurance Policyholders Protection Corporation of Japan, is the explanation given that is required under Article 53, Paragraph 1, Item 8 of the Enforcement Regulations? Is it explained that financial assistance from the said Corporation is provided under certain conditions and within a certain limit, and that insurance policies are not completely protected?
  - 10) Is the cooling-off system thoroughly indicated to customers and administered in an appropriate manner?
- (2) Appropriate management of sales-related administrative affairs
- 1) Is guidance and management of insurance sales representatives provided in an appropriate manner? Specifically, does the insurance company guide and manage nonlife insurance agencies so that they will maintain records, etc., which clearly distinguish received insurance premiums from their own assets and clarify cash receipts and disbursements, remit received insurance premiums to the insurance company without delay, or otherwise deposit them in separate bank accounts or postal savings accounts, which shall be settled at the latest by the month following the month in which the insurance company records insurance policies?
  - 2) Does the insurance company perform internal audits appropriately with sufficient frequency?
  - 3) Does the insurance company properly manage the money appropriated for the initial payment of insurance premiums throughout the process, including issuance of a receipt, collection, and custody?
  - 4) Does the insurance company properly manage receipts of insurance policy (premium collection) cards, premium collection sheets, other types of receipts, etc., for subsequent premium collections? Does it also properly manage unpaid contracts?
  - 5) Are measures taken to ensure that there are no discrepancies in cash balances?
  - 6) Are advance disbursements, advance payments, and loans to insurance sales representatives managed in an appropriate manner?
  - 7) Are payments for selling expenses appropriate?
  - 8) Are identification cards issued and recovered in an appropriate manner?
  - 9) Is the management of other administrative affairs conducted in an appropriate manner? For example, are efforts made to avoid, and to correct the following points?
    - a. Files of insurance premium receipts, certificates of compulsory automobile liability insurance, receipt stamps for compulsory automobile liability insurance, certification seals of compulsory automobile liability insurance:
      - Differences in the remaining serially numbered items for the above documents

- Incomplete or incorrect entries in any delivery control register
  - Delay or failure to recover deposit receipts and certificates that are required to be recovered
  - Defective custody methods
- b. Policyholder loans:
- Delay or failure to collect application forms for policyholder loans and promissory notes
  - Defective entries of application forms for policyholder loans, promissory notes, and billing documents
- (3) Employment, Appointment, and Registration of Sales Representatives
- 1) Does the insurance company have standards in place with regard to knowledge of laws and ordinances concerning insurance sales and insurance policies, the ability to perform duties of insurance sales activities, and business objectives, etc., of the insurance business for conducting the evaluation of qualifications when hiring and appointing insurance sales representatives?
  - 2) Is a system in place under which sales activities can be prevented from occurring prior to or without registration?
  - 3) Is a system in place under which delays can be prevented in the processing of items that require notification? In particular, are deregistration applications processed immediately upon receipt from insurance sales representatives?
- (4) Responses to complaints, etc.
- 1) Are the content of complaints, etc., from customers (including inquiries, etc., that might emerge as misconduct) recorded and maintained in the form of a journal record book, etc., together with handling results?
  - 2) Are there any complaints, etc., from customers that should be reported to the headquarters but have not been? Furthermore, are appropriate recurrence prevention measures taken?
  - 3) Have there been any occurrences of inappropriate treatment of policyholders, etc., accident victims, or survivors, etc.?
- (5) Customer information management  
Is customer information managed properly so that it is not maintained in an unlocked area or left on a desk, etc.?
- (6) Co-Insurance policies, etc.  
Are any steps taken so as not to cause any misunderstanding as to the type of insurance and the insuring companies?
2. Items Related to Life Insurance
- (1) Application of exceptions to the exclusive system
- With respect to a life insurance representative acting as the intermediary for more than one insurance company (Article 282, Paragraph 3 of the Law), are measures taken for prevention of improper sales of replacement policies among such insurance companies and control of customer information, etc.?
- (2) Insurance policies on the life of another

- 1) Does the company endeavor to secure proper contracts in conformity with the purpose and intent of insurance policies from the viewpoint of ensuring the protection of insured persons and the sound and appropriate operations of the insurance company? For example, in the case of individual insurance policies under which employees, etc., are insured, does the insurance company endeavor to secure proper contracts in conformity with the purpose and intent of securing financial resources for the benefit of employees, etc., or their survivors?
  - 3) Is the consent of insured persons confirmed by their signatures entered or names and seals affixed on the approval section of insurance policy application forms, etc., or otherwise in accordance with the methods set forth in the Plan and Scope of Business Operations?
- (3) Variable insurance and annuities
- 1) Are sales activities conducted in an appropriate manner? For example, does the insurance company ensure that there are no occurrences of the following acts?
    - a. Providing conclusive judgments on future investment returns
    - b. Forecasting investment performance of separate accounts on the basis of a specific past period that is arbitrarily selected by insurance sales representatives
    - c. Guaranteeing coverage amounts or a surrender value not set forth in contracts
  - 2) Are documents describing asset management policies delivered to customers?
- (4) Foreign currency denominated insurance
- Are sales activities for insurance policies with coverage amounts, etc., that are denominated in foreign currencies conducted in an appropriate manner? Is a document delivered to customers mentioning that foreign exchange losses may arise?
- (5) Replacement and conversion policies
- 1) When concluding replacement or conversion policies, is it explained without exception to customers that such policies may result in disadvantages to customers?
  - 2) When concluding conversion policies, is a document delivered to policyholders that compares existing and new policies, and describes that policyholders can revise insurance coverage while continuing existing policies?
- (6) Restrictions on sales to the employees of insurance sales intermediaries or their affiliates
- When the life insurance sales representative is a corporation, does it refrain from soliciting or offering insurance policies underwritten by the life insurance company to its officers or employees, and the officers or employees of a corporation that is closely related to such insurance sales representative in terms of capital affiliation, etc.

(excluding those policies listed in Article 2 of Public Notice No. 238, 1998 issued by the Ministry of Finance)?

(7) Own-case solicitations, etc.

- 1) Do insurance sales representatives refrain from engaging in own-case contracts or other insurance sales for the purpose of obtaining discounts or rebates, etc., of insurance premiums?
- 2) When the life insurance sales representative is a corporation and concludes insurance policies with itself or a closely related corporation, does it refrain from engaging in insurance sales for the purpose of obtaining discounts or rebates of insurance premiums through the payment of commissions, etc.?

3. Items Related to Nonlife Insurance

(1) Own-case solicitations, etc.

- 1) Are appropriate measures taken to prevent violations of the prohibition on self-contracts, etc. (Article 295 of the Law)?
- 2) Does the company fully comprehend the status of own-case situations at member insurance agencies, and rigorously supervise and instruct agencies in order to ensure the appropriate calculation of insurance premiums related to self-contracts, etc.?
- 3) Are policies transferred to other insurance agencies in order to evade the prohibition on own-case contracts, etc.? Are measures taken to prevent the transfer of policies?

(2) Overinsurance (setting coverage amounts in excess of insured value)

Are items to be confirmed, procedures, and structures in place for the prevention of overinsurance?

(3) Post-loss policies (policies concluded after the occurrence of insured events)

Are items to be confirmed, procedures, and structures in place for the prevention of post-loss policies?

(4) Replacement and conversion policies

Are medical life insurance and other long-term insurance policies treated in accordance with the provisions set forth in 2.(5)?

## INSPECTIONS OF CREDIT RISK

Solvency-margin ratios that form the basis of application of the system of early correction measures need to be calculated primarily based on accurate financial statement data. For the preparation of accurate financial statements, write-offs and allowances need to be appropriately provided for, and self-assessments need to be appropriately conducted as preparatory work.

- 1) Accordingly, in inspections of credit risk, inspectors need to examine the appropriateness of self-assessment standards and the accuracy of self-assessment results as well as the appropriateness of the total amount and the level of write-offs and allowances, with a special emphasis on whether the total amount of write-offs and allowances is provided for at an appropriate level commensurate with credit risk exposure.

### Inspections of self-assessments

#### I. Purpose of Inspections of Self-Assessments

Asset assessment entails the process of reviewing the individual assets held by insurance companies and classifying them according to the degree of collection risk and value impairment risk involved, for the purpose of determining to what extent the policy reserves, etc., that provide for future payments to policyholders are supported by safe and secure assets, or in other words, determining what magnitude of risk insurance companies are exposed to due to the erosion of asset values. Asset assessments conducted internally by insurance companies are referred to as “self-assessments.”

Self-assessments are a tool used by insurance companies to manage their credit risk, and represent the preparatory work for appropriate write-offs and allowances. For the same reason, accounting auditors are required to evaluate the effectiveness of self-assessments and other internal controls of insurance companies when performing a financial statement audit.

Accordingly, when conducting inspections concerning self-assessments, inspectors shall examine the status of the establishment of a system for conducting self-assessments, with their examination based on the results of self-assessments conducted by insurance companies and audits performed by accounting auditors. Inspectors shall then examine the appropriateness of self-assessment standards and the accuracy of self-assessment results, and further examine whether the self-assessments are reasonable as preparatory work for write-offs and allowances, and whether self-assessment results appropriately reflect the true state of the assets of the insurance company under inspection.

## II. Method of Inspection of Self-Assessments

Inspectors shall adequately examine the status of the established system for conducting self-assessments and the appropriateness of self-assessment standards, or perform so-called process checks, and then examine the accuracy of actual self-assessment results, primarily by the sampling survey method.

Should any issues, etc., be identified during inspections, inspectors shall notify regulatory authorities and the insurance company under inspection of their opinion, fully confirm the views of the insurance company concerning those opinions, and directly confirm the views of the accounting auditors in the presence of insurance company management representatives, or otherwise exchange opinions.

## III. Examination of the Self-Assessment System

Inspectors shall examine the status of the development of the self-assessment system, etc., used by an insurance company by applying the following checkpoints.

### 1. Formulation of self-assessment standards

Do self-assessment standards conform to all applicable laws and regulations and to the framework set forth in this inspection manual?

Are the self-assessment standards that are approved by the board of directors in conformity with official internal procedures, and stated in written form?

Do self-assessment standards specify: the scope of assets subject to self-assessment; the divisions responsible for performing self-assessments (the division in charge of each asset, and the asset assessment division or head office loan approval division, such as the loan management division or the loan screening division, etc.); the internal audit division (the credit auditing office, the inspection division, etc.); and the lines of responsibility for self-assessment standards and their application?

Are the opinions of the internal audit division and the compliance control division sought in the formulation and revision of self-assessment standards, in addition to the opinions of the divisions performing self-assessment by those standards?

Are self-assessment manuals formulated and stated in written form to enable the divisions in charge of self-assessment to perform self-assessment appropriately?

### 2. Status of development, etc., of the self-assessment system

Is the system for conducting self-assessments sufficient for checks and balances on each division in charge of assets and for performance of accurate self-assessments? Some of the examples of such systems are: (1) each division in charge of assets performs the initial assessment, the head office loan approval division performs the second assessment, and the internal asset audit division that is independent of each division in charge of assets performs an audit; and (2) the asset assessment division that is independent of each division in charge of assets performs the self-assessment in cooperation with each division in charge of assets.

Are both the division responsible for performing self-assessments and the internal audit division staffed with qualified personnel with sufficient knowledge of self-assessment practices?

Do the internal asset audit division and the asset assessment division provide each division in charge of assets with necessary training and instructions?

Is the internal audit division independent of each division in charge of assets? Is the director in charge of the internal audit division concurrently not the director in charge of each division in charge of assets? If the director in charge of the internal audit division is concurrently the director in charge of a division in charge of assets, is a system in place to perform checks and balances sufficiently of any conflicting interests to ensure appropriate audits?

Does the internal audit division examine whether the series of self-assessments are performed adequately according to the self-assessment standards and the self-assessment manuals?

It is desirable that the internal audit division examines not only the accuracy of self-assessment results, but in principle, also the accuracy of credit ratings, the status of follow-up management of credit, etc.

Does the insurance company keep sufficient records, including materials maintained by each division, to enable regulatory authorities, accounting auditors, etc., to examine the status of performance of self-assessments in conducting inspections or audits after the performance of self-assessments?

### 3. Report on self-assessment results to the board of directors

Are self-assessment results reported to the board of directors periodically and in a timely and appropriate manner?

Is the status of the development of the self-assessment system (including any changes, etc., of the divisions responsible for performing self-assessments or the internal audit division) also reported to the board of directors in a timely and appropriate manner?

4. Status of audits by corporate auditors and accounting auditors of the status, etc., of development, etc., of the self-assessment system

Is the status, etc., of development, etc., of the self-assessment system stated above in 1., 2., and 3., appropriately audited by independent corporate auditors and accounting auditors who will not be influenced by directors?

#### IV. Examination of Appropriateness of Self-Assessment Standards

Inspectors shall assess, among other things, whether the standards formulated by insurance companies are clear and reasonable and whether their framework complies with the framework stated in the Schedule, and if the framework of self-assessment standards of insurance companies is unique, inspectors shall clearly understand the relationship between such framework and the framework in the Schedule, and examine whether each of the individual rules (for example, collateral assessment rules and simplified assessment rules for securities) provided for in the self-assessment standards of the insurance companies are rational.

##### 1. Definitions of terms

- (1) “Credit ratings” refers to ratings based on the level of credit risk of borrowers, which is essential for credit risk management and is a basis for accurate self-assessment and appropriate write-offs and allowances. Credit ratings shall be consistent with borrower classifications.
- (2) “Borrower classification” refers to a classification under which each borrower is classified into “normal,” “needs attention,” “in danger of bankruptcy,” “de facto bankrupt,” or “bankrupt,” depending upon the status of the borrower determined by the borrower’s repayment capacity based on its financial condition, cash flow, profit-earning capacity, etc.
- (3) In self-assessments, classifications into Class II, III, or IV shall be referred to as “classification” and assets classified under Class II, III, or IV are referred to as “classified assets.” Not being classified into Class II, III, or IV

shall be referred to as “non-classification” and assets other than classified assets (that is, “Class I” assets) shall be referred to as “non-classified assets.”

- (4) “Loan classification” refers to the classification of loans into “normal loans,” “needs special attention loans,” “at risk loans,” “loans in bankruptcy or rehabilitation” and their equivalents based on the financial position, operating results, etc., of the borrower, in accordance with the standards provided for by Article 59-2, Paragraph 1, Item 5(d) of the Insurance Business Law as provided by Article 111, Paragraph 1 of the Insurance Business Law (including the cases when it is applied *mutatis mutandis* pursuant to Article 199 of the Law; hereinafter the same).

## 2. Classifications used in self-assessment

In self-assessments, assets are classified into the following four classes according to the degree of collection risk and value impairment risk involved.

- (1) Class I assets are “assets not belonging to any of Class II, Class III or Class VI assets” which have neither collection risk nor value impairment risk.
- (2) Class II assets are “assets such as loans that are deemed to have a collection risk at a degree higher than normal due to non-fulfillment of requirements for securing loans or due to some doubt about credit standings.” Class II assets include both assets that are secured by general collateral or guarantees, and unsecured assets.
- (3) Class III assets are “assets that are highly likely to cause a loss due to serious concerns about final collection or the value of the assets, and a reasonable estimate of such loss is difficult to determine.” However, to be classified as Class III assets, the estimation of loss by an insurance company shall not be considered as completely impossible, and the appropriate amount of estimated loss is to be calculated by the internal rules and judgment of each insurance company with sufficient knowledge of each individual situation.
- (4) Class IV assets are “assets that are deemed to be uncollectible or of no value.” However, to be classified as Class IV assets, assets shall not be absolutely uncollectible or of no value. Assets shall be, in principle, deemed uncollectible or of no value on the assessment reference date, even if they might be partially collectible in the future.

## V. Examination of the Accuracy of Self-Assessment Results

Inspectors shall examine by the method stated in the Schedule whether actual self-assessments are appropriately performed in accordance with the self-assessment standards, and in the examination process, inspectors shall accurately understand the status of development, etc., of the self-assessment system, the status of reports on self-assessment results to the board of directors, and the status of audits by corporate auditors and accounting auditors of the status, etc., of development, etc., of the self-assessment system.

The results of loan classifications shall be made available for public inspection under Article 111, Paragraph 1 of the Insurance Business Law.

Therefore, if self-assessment results are deemed inaccurate, the cause thereof (for example, such inaccuracy is caused by improper self-assessment standards or by improper methods of performing the self-assessment) and future improvement measures to be taken by the insurance company under inspection shall be thoroughly examined and accurately understood.

### 1. Reference date

The base date for the examination of the accuracy of self-assessment results (hereinafter referred to as “reference date”) shall be, in principle, the last day of the financial term immediately prior to the financial term which includes the date of inspection (in the case of pre-announced inspections, the announcement date; hereinafter the same), provided, however, that if the inspection date is prior to the date on which a board meeting is held for the approval of financial statements for the last financial term, the reference date shall be the last day of the second previous financial term.

- (1) The reference date shall be determined from a comprehensive viewpoint in consideration of the state of assets, inspection period, etc., of the insurance company under inspection. More specifically, when a board meeting for the approval of financial statements is expected to be held during the inspection period, and further, it is deemed necessary in view of the state of assets, etc., of the insurance company under inspection to examine the accuracy of the results of self-assessment performed for the last financial term, the reference date shall be the last day of the last financial term.

- (2) Each insurance company is required to perform self-assessments on the last day of each financial term. However, in practice, if self-assessments are performed based on the preliminary reference date, confirmation shall be made as to whether the preliminary reference date is set, in principle, within three months prior to the last day of each financial term.

In consideration of credit risk management, it is desirable to conduct credit management through continual monitoring of the status of borrowers, such as financial conditions and the status of collateral and guarantees, and to review credit ratings, borrower classification, and asset classification in a timely manner if deemed necessary due to any changes in the status of borrowers. If the insurance company under inspection conducts such review without setting a preliminary reference date, such insurance company shall be examined as to whether credit ratings, etc., have been properly reviewed in a timely and appropriate manner.

## 2. Sampling standards

The chief inspector shall determine the sampling standards from a comprehensive viewpoint in consideration of the scale and state of assets of the insurance company under inspection, previous inspection results, the number of inspectors assigned, the period of inspection, etc. If the chief inspector deems that the state of assets of the insurance company under inspection does not raise any concern and that the previous inspection results are satisfactory, in consideration of the efficiency of inspections, the examination of accuracy of self-assessment results, in principle, may be omitted for borrowers with a loan smaller than a credit limit of less than either 50 million yen or 1 percent of total net assets of the insurance company under inspection, whichever is smaller. Furthermore, the sampling ratio may be lowered if deemed necessary.

The chief inspector may change the sampling standards after the commencement of an on-site inspection, if deemed necessary, in consideration of the assurance of an effective inspection.

## 3. Specific method of examination, etc.

The examination of accuracy of self-assessment results shall be conducted by the following method.

### (1) Scope of examination

The accuracy of self-assessment results shall be examined with regard to assets as of the reference date extracted based on the sampling standards explained in 2., above, with a particular focus on the accuracy of loans to borrowers classified as those other than normal under the borrower classifications by self-assessment of the insurance company under inspection. If, as a result of examination of self-assessment standards of the insurance company under inspection, some borrowers who were to be classified as other than normal are likely to have been classified as normal due to some defect in the sampling standards of the insurance company under inspection, the focus of examination shall be placed also on the accuracy of self-assessment results relating to the loans granted to the borrowers who have been classified under the normal borrower classification.

(2) Specific method of examination

For the loans granted to borrowers who have been classified by the self-assessment of the insurance company under inspection as those other than the normal borrower classification, the examination shall be conducted as to whether self-assessments are accurately performed according to the self-assessment standards by referring to the materials (worksheets, etc.) used by the insurance company under inspection in self-assessments. More specifically, the accuracy of borrower classification, asset classification, and classification amounts shall be examined.

- 1) If self-assessments are performed on the preliminary reference date, the accuracy of borrower classification, asset classification, and classification amounts on the preliminary reference date shall be examined by referring to the materials as of the preliminary reference date. Subsequently, whether the standards for the corrections to be made between the preliminary reference date and the reference date are clearly formulated, whether such standards are reasonable, and whether necessary corrections to the self-assessment results have been made according to such standards between the preliminary reference date and the reference date shall be examined.

If the preliminary reference date is not within three months prior to the last day of the financial term, whether necessary corrections due to any changes in the situations between the preliminary reference date and the last day of the financial term have been appropriately made shall be examined.

Whether the standards for the corrections to be made between the preliminary reference date and the reference date are reasonable shall be determined from a comprehensive viewpoint in consideration of the scale of assets and business contents of the insurance company under inspection and the impact of the corrections on write-offs and allowances, etc.

- 2) For subsequent events after the balance sheet date, items that meet certain standards based on the sampling standards explained in 2., above shall be requested for extraction and, upon thorough examination of the content thereof, examined as to whether they are reflected in the financial statements for the relevant financial term. In examining post-balance sheet date subsequent events, as in the case of 1) above, attention shall be paid to the point that it is necessary to examine whether the standards are reasonable for a review of the post-balance sheet date subsequent events.

Given that material post-balance sheet date subsequent events (primary events) are required to be reflected in the relevant financial term, if any material post-balance sheet date subsequent events have occurred that are not reflected in the relevant financial term, in consideration of the scale of assets, etc., of the insurance company under inspection, the opinion of accounting auditors shall be sought.

#### 4. Criteria for judgment of self-assessment accuracy

If, as a result of an examination of self-assessment accuracy, the self-assessment results of the insurance company under inspection meet any of the following criteria, the self-assessment results shall be regarded as inaccurate, and the same shall be indicated to the insurance company under inspection.

Attention shall be paid to the point that the judgment of self-assessment accuracy shall be made based on the financial conditions, etc., of the borrowers as of the preliminary reference date or the reference date, not as of the time of inspection.

These criteria are:

- (1) The appropriateness of self-assessment standards is questionable, and as a result, the borrower classification, asset classification, or classification amounts as of the preliminary reference date or the reference date are deemed incorrect.
- (2) As for the data extracted according to the sampling standards for self-assessment and examined and classified by the self-assessment performed by the insurance company under inspection:

- 1) the self-assessment as performed on the reference date, and the borrower classifications, asset classification, or classification amounts as of the reference date are deemed incorrect;
  - 2) the self-assessment as of the preliminary reference date is regarded as self-assessment on the reference date, and the borrower classification, asset classification and classification amounts as of the preliminary reference date are deemed incorrect; or
  - 3) although the self-assessment as of the preliminary reference date is accurate, a review that is required to be performed as of the reference date according to the self-assessment standards has not been performed due to material changes in the status of borrowers, repayment status of loans, appraised collateral value, amounts of loans or any other situations that occurred after the preliminary reference date, and the borrower classification, asset classification or classification amounts as of the reference date are deemed incorrect.
- (3) For those matters other than stated in (2) above that are instructed to be extracted at the particular direction of the chief inspector, those deemed to be the subject of classifications, excluding cases when the insurance company under inspection has formulated standards under which loans below a certain amount are excluded from the sampling survey and such standards are deemed reasonable from a comprehensive viewpoint in consideration of the scale and state of assets of the insurance company under inspection and the impact on write-offs and allowances.

(Schedule)

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>1. Loan classification method</p> <p>(1) Basic concepts</p>	<p>“Loans” refers to loan receivables and other similar receivables (such as loaned securities, interest receivable, accounts receivable, suspense payments that are similar to loans, customers’ liabilities for acceptance and guarantee). Loans shall be classified by the following method.</p> <p>In managing credit risk, self-assessments shall be performed, in principle, in addition to the loans listed above, for all assets and off-balance-sheet items that involve a credit risk. In such a case, the scope of such assets, etc., shall be clearly defined.</p> <p>In performing self-assessments, in principle, after credit ratings are assigned and borrowers are classified based on such credit ratings, the use of</p>	<p>Self-assessments shall be, in principle, performed for off-balance-sheet items. However, if deemed unnecessary based on the scale, etc., of the insurance company under inspection, self-assessments for off-balance-sheet items may be omitted. In such a case, whether there is a reasonable basis for not performing self-assessments shall be examined.</p> <p>Credit rating shall be, in principle, performed in the examination of loans. However, if deemed unnecessary based on the scale, etc., of the</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(2) Credit ratings	<p>loaned funds and other content of loans shall be examined individually. Loans then shall be classified according to the degree of collection risk or value impairment risk in consideration of the status of collateral, guarantees, etc.</p> <p>Loans provided to the national government, local governments, and financial institutions under management shall be regarded as loans that involve neither collection risk nor value impairment risk, and thus these loans are not required to be classified under a borrower classification and shall be treated as non-classified loans.</p> <p>Credit rating shall be performed according to the degree of credit risk of borrowers based on their financial condition, ratings by rating agencies, information obtained from credit agencies, etc.</p> <p>Credit ratings shall be consistent with borrower</p>	<p>insurance company under inspection, credit rating may be omitted. In such a case, whether there is a reasonable basis for not performing credit rating shall be examined.</p> <p>In the examination of the loan classification method, the following matters shall be examined:</p> <ul style="list-style-type: none"> <li>- whether credit ratings are reasonable and consistent with borrower classification (if credit rating is performed);</li> <li>- whether borrower classification is accurate;</li> <li>- whether the use of loans funds and other content of loans are examined individually;</li> <li>- whether adjustments of collateral, guarantees, etc., are performed accurately.</li> </ul> <p>If credit rating is performed, the following matters shall be examined:</p> <ul style="list-style-type: none"> <li>- whether credit ratings are reasonable in consideration of the financial condition of borrowers, ratings by rating agencies,</li> </ul>	<p>Note: “Financial institutions under management” refers to the financial institutions that are designated as such under Article 16, Paragraph 2 of the Supplementary Provisions of the Deposit Insurance Law. Hereinafter the same.</p> <p>Note: “Rating agencies” refers to the rating agencies designated as such pursuant to Article 1, Paragraph 13-2 of the</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>classification as stated below.</p>	<p>information obtained from credit agencies, etc.;</p> <ul style="list-style-type: none"> <li>- whether the concept of credit ratings and that of borrower classification are consistent.</li> </ul> <p>If credit rating is performed based on the internal data of the insurance company under inspection, the reliability of the data and whether the number of samples is sufficient shall be examined. If such data is deemed insufficient, whether data obtained from external sources such as credit agencies is used to supplement the internal data shall be examined.</p> <p>Furthermore, whether a necessary review is conducted periodically and whenever necessary based on the current status and future prospects of a borrower's business, a review of ratings of the borrower by rating agencies, evaluation of the borrower in the market, etc., and whether the accuracy of credit ratings is examined by the</p>	<p>“Cabinet Office Ordinance Concerning Disclosure of the Business of Companies.” Hereinafter the same.</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(3) Borrower classification	<p>Borrowers shall be classified, in principle, based on credit rating and according to the status of borrowers, etc., as follows:</p> <p>(The following classifications may not apply to loans for project financing.)</p>	<p>Internal Audit Division shall be examined.</p> <p>Whether borrower classification is performed accurately, in principle, based on credit rating and according to the status of borrowers, etc., shall be examined. Attention shall be paid to the point that classification may be performed according to the degree of collection risk for loans for project financing.</p> <p>The accuracy of borrower classification shall be judged from a comprehensive perspective in consideration of characteristics by type of business, etc., prospects for continuity and profitability of operations, loan repayment capacity judged by cash flow, appropriateness of business improvement plans, etc., status of support by financial institutions (including insurance companies; hereinafter the same), etc., upon examination of repayment capacity based on</p>	<p>Note: "Project financing" refers to financing for a specific project (business) such as non-recourse loans. This method of financing, in principle, limits the source of payment of interest and repayment of principal to cash flow (proceeds) generated by the project, and the loans are secured by the assets of the project. Hereinafter the same.</p> <p>Note: "Cash flow" refers</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>the actual financial condition, cash flow, profitability, etc., of borrowers, and upon confirmation of terms and conditions of loans to borrowers and the performance status of borrowers.</p> <p>In particular, the accuracy of borrower classification for medium, small, and micro-sized companies shall be judged from a comprehensive viewpoint in consideration of not only the financial condition of such companies but also technical and sales capabilities, growth potential, compensation payment status for the representative director and other officers, income and asset status of the representative director, etc., capacity and status of guarantees, as well as the actual business performance of such companies.</p> <p>If the conditions of the borrower's parent company, etc., are to be taken into consideration,</p>	<p>to the amount of net income adjusted by non-cash expenses such as depreciation, etc., Hereinafter the same.</p> <p>Note: In applying the standards, refer to the "Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises.' "</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>it is not appropriate to determine borrower classification solely based on the fact that the financial condition of the parent company is sound. If support by the parent company, etc., is taken into consideration, the support hitherto provided by the parent company, etc., and the future prospects for support, etc., from the parent company, etc., shall be thoroughly examined.</p> <p>Furthermore, if borrowers use policy-based financing pursuant to laws and regulations, with interest subsidies and other support provided by the national government or local governments for loans from private financial institutions, etc., (hereinafter referred to as “system funds”), the accuracy of borrower classification shall be examined in consideration of the content of such system funds in addition to the financial condition, etc., of borrowers.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
1) Normal	Borrowers classified as “normal” borrowers are those with good business performance and financial conditions that do not raise any particular concerns.	Whether borrowers are classified as “normal” borrowers per the definition shall be examined.	
2) Needs attention	Borrowers classified as “needs attention” borrowers are those in need of careful future attention such as those for which concerns are raised about loan terms with interest payments reduced, waived, or suspended, or the performance of obligations as loan repayment or interest payments that are effectively in arrears, or those with stagnant or unstable business performance, or poor financial condition. It is desirable to divide borrowers that are classified as “needs attention” borrowers into those that need special control and others, and manage each sub-classification accordingly.	<p>Whether borrowers are classified as “needs attention” borrowers per the definition shall be examined.</p> <p>In the case when borrowers that are classified as “needs attention” borrowers are divided into those that need special control and others, and managed separately, whether such sub-classification is appropriate shall be examined.</p> <p>Whether particular borrowers who should qualify for classification as “in danger of bankruptcy” borrowers based on their financial condition are actually classified as “needs attention” borrowers simply on the basis that the financial condition of</p>	<p>Note: “Borrowers that need special control” refers to borrowers who are classified as “needs attention” borrowers and all or part of their loans need special control. Hereinafter the same.</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>the parent company, etc., is sound shall be examined.</p> <p>a. Borrowers that are start-up companies suffering operating losses, but with performance that does not indicate any significant deviations from the initial business plans may be classified as “normal” borrowers.</p> <p>“Borrowers that are start-up companies suffering operating losses, but with performance that does not indicate any significant deviations from the initial business plans” refers to companies with initial business plans that are deemed reasonable and the result of comparing actual business progress with initial business plans demonstrates that actual business performance is nearly in accordance with the initial business plans, and that the business</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>plans are highly likely to be achieved. More specifically, it refers to borrowers that will turn profitable within approximately five years and with sales and net income that are both approximately 70% or more of amounts stated in their business plans.</p> <p>These standards are merely approximate standards for the examination of reasonableness and feasibility of business plans. In examining the borrower classification of companies that are start-up companies and suffering operating losses, these standards shall not be applied in a mechanical and uniform fashion.</p> <p>Borrower classification shall be examined from a comprehensive perspective in consideration of not only characteristics by type of business, etc., content and scale of</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>business, and loan repayment capacity by cash flow, etc., of borrowers, but also technical and sales capacities, and growth potential. Borrowers should not be classified as “needs attention” borrowers simply because they do not formally satisfy these standards.</p> <p>b. Borrowers in a deficit condition and that qualify as any of the following may be classified as “normal” borrowers. These standards are merely approximate standards to be referred to in examining borrower classification of companies in a deficit condition. These standards shall not be applied in a mechanical and uniform fashion. Borrower classification shall be examined from a comprehensive perspective in consideration of characteristics by type of business, etc., business performance of</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>borrowers, causes of deficits, status of retained earnings (or accumulated deficit), future prospects for account settlement, etc., Borrowers should not be classified as “needs attention” borrowers simply because they do not formally satisfy these standards.</p> <p>(a) The causes of deficits are of a temporary nature, such as a loss on the sale of fixed assets, and it is deemed certain that borrowers will turn profitable within a short period of time.</p> <p>(b) Medium, small, or micro-sized companies that are in a deficit condition but there is no concern over their repayment capacity.</p> <p>Borrowers who do not qualify as either a. or b. above shall not automatically be classified as</p>	<p>Note: In applying the standards, refer to the “Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
3) In danger of bankruptcy	<p>Borrowers classified as “in danger of bankruptcy” borrowers are those that are not currently facing bankruptcy but are in financial difficulties and having difficulty with making good progress in implementing business improvement plans, etc., and thus are highly likely to become bankrupt in the future (including borrowers receiving continual support from financial institutions, etc.). More specifically, they are borrowers that, although still in operation, are substantially insolvent with extremely poor business performance, and loan payments are in arrears. Therefore, they are in great danger of bankruptcy and there is a serious concern about the final collection of the principal and interest of loans,</p>	<p>“needs attention” borrowers without being first examined as to whether, in consideration of the standards, they shall be classified as “needs attention” borrowers.</p> <p>Whether borrowers are being classified as “in danger of bankruptcy” borrowers per the definition shall be examined.</p> <p>However, borrowers that have formulated business improvement plans, etc., based on support from financial institutions, etc., may be judged as those with reasonable business improvement plans, etc., that are likely to be achieved, and thus may be classified as “needs attention” borrowers provided that all of the following requirements are met.</p> <p>These standards are merely approximate standards for the examination of reasonableness and</p>	Small and Medium-Sized Enterprises.’ ”

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>and a bad debt loss is highly likely to occur.</p>	<p>feasibility of business improvement plans, etc. In examining the borrower classification of companies who have formulated business improvement plans, etc., these standards shall not be applied in a mechanical and uniform fashion.</p> <p>Borrower classification shall be examined from a comprehensive viewpoint in consideration of characteristics by type of business, etc., prospects for continuity and profitability of operations, loan repayment capacity by cash flow, reasonableness of business improvement plans, etc., the status of support from financial institutions, etc. Borrowers should not be classified as “in danger of bankruptcy” borrowers simply because they do not formally satisfy these standards.</p> <p>In particular, since medium, small, and micro-sized companies, etc., do not necessarily have business improvement plans, etc., in place,</p>	<p>Note: In applying the standards, refer to the “Supplement to the</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>the accuracy of borrower classification for such medium, small, and micro-sized companies shall be judged from a comprehensive perspective in consideration of not only the financial condition of such companies, but also technical and sales capabilities, growth potential, compensation payment status for the representative director and other officers, income and asset status of the representative director, etc., capacity and status of guarantees, as well as the business performance of such companies. Borrowers should not be classified as “in danger of bankruptcy” borrowers simply because they have not formulated business improvement plans, etc.</p> <p>Furthermore, if borrowers have formulated business improvement plans, etc., by using system funds and such business improvement plans, etc., have been reviewed by a national or prefectural government as part of the formulation of such</p>	<p>Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises.’ ”</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>plans, borrower classification shall be examined from a comprehensive perspective in consideration of the condition of the borrower, the status of involvement by a national or prefectural government, etc.</p> <p>a. The planned period for achieving business improvement plans, etc., in principle, is approximately five years or less, and the plans are highly feasible, or the planned period for achieving business improvement plans, etc., is over five years but less than approximately ten years and the progress of such improvement plans, etc., after formulation has been nearly in accordance with the plans (sales, etc., and net income are approximately 80% or more of amounts stated in the business plans) and the business improvement measures are deemed in the future to continue to be implemented in accordance with the</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>plans.</p> <p>b. The borrowers, in principle, are expected to be classified as “normal” borrowers at the end of the term of such plans, provided however, if the borrowers are expected to become able to ensure business continuity by performing self-help efforts without any reconstruction aid from financial institutions, the borrowers may be classified as “needs attention” borrowers at the end of the term of such plans.</p> <p>c. It can be confirmed by written documents, etc., that all financial institutions involved, etc. (including the insurance company under inspection), through their internal procedures, have formally agreed to provide support based on the business improvement plans, etc.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>However, if the borrowers are able to reconstruct their business by obtaining support only from the insurance company under inspection or from some but not all financial institutions involved, etc. (including the insurance company under inspection), it is sufficient if it can be confirmed by written documents, etc., that such financial institutions, etc., through their internal procedures, have formally agreed to provide support based on the business improvement plans, etc.</p> <p>d. The support from such financial institutions, etc., is limited to a reduction or waiver of interest, maintaining outstanding loans, etc., and does not include funding to such borrowers including debt waivers or cash donations.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>However, the above support should include the following cases:</p> <ul style="list-style-type: none"> <li>- such financial institutions, etc., have already funded such borrowers by debt waivers, cash donations, etc., after the initiation of business improvement plans, etc., but are expected to discontinue such funding in the future;</li> <li>- such financial institutions, etc., will have to systematically provide such borrowers with funds by debt waivers, cash donations, etc., based on the business improvement plans, etc., but the entire amount of estimated loss arising from such support has fully been accounted for by providing an allowance and no further loss is expected to arise in the future.</li> </ul> <p>Attention shall be paid to the point that if the borrowers are using system funds, interest</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
4) De facto bankrupt	<p>Borrowers classified as “de facto bankrupt” borrowers are those that are not yet legally or formally bankrupt, but are actually bankrupt, such as those in serious financial difficulties and are deemed to have no prospects for reconstruction.</p> <p>More specifically, they are borrowers with payments of principal or interest that are substantially in arrears for a long period of time due to the situation when, although formally continuing in business, they have a large amount of doubtful assets or clearly have excessive amount of debt compared with the borrower’s repayment capacity, thus are substantially in the condition of insolvency with</p>	<p>subsidies, etc., provided by prefectural governments through financial support from the national government based on such system funds, shall not be included as debt waivers, etc.</p> <p>Whether borrowers are being classified as “de facto bankrupt” borrowers per the definition shall be examined.</p> <p>Whether borrowers are being classified as “de facto bankrupt” borrowers that are not yet legally or formally bankrupt but are not in business operations in actuality, such as the case when the field offices have been closed due to voluntary business closure, shall be examined.</p> <p>a. Of “borrowers that have formulated business improvement plans, etc., based on support from financial institutions, etc.,” those</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>significantly excessive liabilities for a long period of time, and have no prospects for business upturn; or, the situation when the borrower suffered a significant loss due to natural disaster, accident, a rapid change in economic conditions, etc. (or those in a similar situation) and have no prospects for reconstruction.</p>	<p>deemed to become bankrupt with a great certainty in the future due to the fact that the progress of business improvement plans, etc., is significantly below the planned level, a rapid recovery of business performance is not expected in the future, and the plans, etc., for business improvement have not been reviewed, or the fact that some financial institutions involved have not reached an agreement to provide support based on the business improvement plans, etc., may be deemed as “those in serious financial difficulties and are deemed to have no prospects for reconstruction” and thus may be classified as “de facto bankrupt” borrowers.</p> <p>b. “Substantially in arrears for a long period of time” refers to the situation that payments are substantially in arrears for six months or longer and such payment delay is not deemed</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
5) Bankrupt	<p>Borrowers classified as “bankrupt” borrowers are those who are legally and formally bankrupt, including those who are the subject of legal bankruptcy, liquidation, corporate consolidation, corporate reorganization, civil rehabilitation, suspension of transactions by a clearinghouse, etc.</p>	<p>temporary.</p> <p>Whether borrowers are being classified as “bankrupt” borrowers per the definition shall be examined.</p> <p>Borrowers with rehabilitation plans, etc., that have been approved pursuant to the provisions of the Corporate Reorganization Law, Civil Rehabilitation Law, etc., may be classified as “in danger of bankruptcy” borrowers. Borrowers with officially approved reorganization plans, etc., may be judged as those with reasonable reorganization plans, etc., that are likely to be achieved, and thus may be classified as “needs attention” borrowers only if the following requirements are met.</p> <p>The borrowers are expected to become classified as “normal” borrowers (or, as “needs attention” borrowers, if the borrowers are expected to</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>become able to ensure the continuity of business by performing self-help efforts without any reconstruction aid from financial institutions, etc.) within approximately five years after the approval of reorganization plans, etc., and the reorganization plans, etc., are expected to be implemented mostly in accordance with the plans, including the cases when the borrowers are expected to become classified as “normal” borrowers (or, as “needs attention” borrowers, if the borrowers are expected to become able to ensure the continuity of business by performing self-help efforts without any reconstruction aid from financial institutions, etc.) after five years but within approximately ten years, and, after a lapse of a certain period of time from the approval of reorganization plans, etc., the reorganization plans, etc., are proven to have been implemented at the same level or higher than the planned level and reorganization is expected to continue to be</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(4) Adjustment by collateral</p> <p>1) Secured</p>	<p>Loans that are secured by collateral shall be classified as follows. Loans that are secured by the estimated disposal value of secured collateral shall be classified as “non-classified” loans, and loans that are secured by the estimated disposal value of general collateral shall be classified as Class II loans. The appraised collateral value and estimated disposal value shall be calculated as follows.</p> <p>Securities with a high credit rating such as</p>	<p>implemented mostly in accordance with the plans.</p> <p>Borrowers that have become the subject of a petition for special conciliation pursuant to the provisions of the Special Conciliation Law shall not be classified as “bankrupt” borrowers merely because of such fact. Classification of such borrowers shall be judged in consideration of the business performance of such borrowers.</p> <p>Whether secured loans are classified depending upon the type of collateral as stated in the definition, and whether the calculation of appraised collateral value and estimated disposal value are reasonable, shall be examined.</p> <p>Whether collateral listed in the definition are</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
collateral	government bonds, insurance with lump-sum payouts at maturity (insurance, mutual aid, bank deposits, postal savings, premiums and cash in trust with a guarantee of principal with lump-sum payouts at maturity; hereinafter the same), and commercial bills that are certainly expected to be settled, etc.	<p>being classified as “secure collateral” shall be examined.</p> <p>a. “Securities with a high credit rating such as government bonds” refers to the following bonds, stocks, and foreign securities that raise no particular concerns in terms of their security.</p> <p>(Bonds)</p> <p>(a) Government bonds, local government bonds</p> <p>(b) Bonds with a national government guarantee (public corporation bonds, etc.)</p> <p>(c) Special bonds (bonds issued by special corporations including public corporations, public finance corporations, and corporations with government subscriptions, excluding bonds with a national government guarantee)</p> <p>(d) Bank debentures</p>	<p>Note: “Securities with a high credit rating such as government bonds,” “insurance with lump-sum payouts at maturity,” and “commercial bills that are certainly expected to be settled” shall not be deemed to be secure collateral if any difficulty in collection will be caused by the disposition of the collateral.</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>(e) All bonds issued by companies that are rated “BBB” (triple B) or higher according to the most recent rating of rating agencies</p> <p>(f) All industrial bonds issued by companies listed on a stock exchange and industrial bonds covered by the Over-the-Counter Standard Bond Quotations</p> <p>(Stocks)</p> <p>(a) Stocks listed on a stock exchange, over-the-counter stocks and non-listed stocks issued by companies listed on a stock exchange</p> <p>(b) Stocks issued by companies with government subscriptions (excluding companies in liquidation)</p> <p>(c) Stocks issued by companies issuing bonds that are rated “BBB” (triple B) or higher according to the most recent rating of rating agencies</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>(Foreign securities)</p> <p>(a) All stocks issued by companies listed on a foreign or domestic stock exchange and all bonds issued by companies issuing listed bonds</p> <p>(b) Bonds covered by the Over-the-Counter Standard Bond Quotations in Japan or abroad</p> <p>(c) Bonds issued by international organizations under the auspices of an international treaty to which Japan is a party, by the government of a nation that has diplomatic relations with Japan or by any agency similar thereto (state government, etc.), and by their local governments</p> <p>(d) Stocks and bonds issued by financial institutions to which a business license, etc., is granted by the government of a nation that has diplomatic relations with Japan</p>	<p>Note: “International organizations under the auspices of an international treaty to which Japan is a party” refers to the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC),</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>(e) All bonds issued by companies issuing bonds that are rated “BBB” (triple B) or higher according to the rating of rating agencies and stocks of the companies issuing such bonds</p> <p>If securities other than those with a high credit rating, such as government bonds, are used as collateral, requirements for marketability and liquidity (for example, easy disposition, cashability, etc.) must be met.</p> <p>b. Attention shall be paid to the point that the estimated disposition value of “insurance, mutual aid with a guarantee of principal with lump-sum payouts at maturity” is the cash surrender value as of the reference date.</p> <p>c. “Commercial bills that are certainly expected to be settled” refers to bills that are issued by drawers having no problems with their financial</p>	<p>Inter-American Development Bank (IDB), European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB) and Asian Development Bank (ADB).</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
2) General collateral	Collateral other than secured collateral that is disposable from an objective standpoint, such as real estate collateral and factory foundation collateral	<p>condition or cash flow, and are certainly expected to be settled on the due date, except accommodation bills issued for the purpose of managing cash flow or otherwise providing financial aid without any substantive reason for the issuance of such bills as there would be in the case of the sale of goods.</p> <p>Whether such collateral is classified as “general collateral” per the definition shall be examined.</p> <p>Any real estate collateral, etc., for which registration of a mortgage is not formally filed, in principle, shall not be treated as general collateral. However, if there is a reasonable basis for not formally filing the registration, all documents necessary for the registration are prepared, and the filing registration can be immediately performed if so required, then such collateral may be treated as general collateral.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
3) Appraised collateral value	Appraised value (market value) of collateral calculated by an objective and rational appraisal method	<p>In such a case, in order for the collateral to be effectively enjoined against a third party, it is better to ensure that the mortgage is registered and the status of the real estate collateral mortgage is properly managed.</p> <p>Whether the appraised collateral value is calculated by an objective and rational appraisal method shall be examined.</p> <p>a. Since the necessary amount for each individual allowance for doubtful accounts is required to be calculated at the close of each financial term, a review (revaluation or timing correction; hereinafter the same) of the appraised value of real estate collateral for loans to borrowers who are classified as “in danger of bankruptcy,” “de facto bankrupt,” or “bankrupt” borrowers shall be performed at</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>least once annually, preferably for every semi-annual period closing, based on the most recent data available on the last day of the financial term or the preliminary reference date, such as the official land value, standard land value, and roadside value for inheritance tax purposes.</p> <p>It is also desirable to review the appraisal value once annually of real estate collateral for loans to borrowers who are classified as “needs attention” borrowers.</p> <p>If the appraised value of collateral exceeds a specified amount, it is desirable to have such collateral evaluated by a real estate appraiser when deemed necessary.</p> <p>For rental buildings, etc., in addition to the appraisal based on comparable sales and</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>official land value, it is desirable to perform an appraisal using the income approach.</p> <p>b. If the collateral appraisal method has been changed (such as the case when the appraisal standard has been changed from the public land value to the roadside value for inheritance tax purposes), whether there is a reasonable basis for such change shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
4) Estimated disposition value	<p>The amount that is certainly expected to be collected by the disposition of collateral based on the appraised value (market value) calculated in accordance with 3) above. In calculating the estimated disposition value, the nature of collateral as security for a loan shall be fully taken into consideration. If the accuracy of the appraised value is sufficiently high, the appraised value and estimated disposition value shall be equal.</p>	<p>Whether the estimated disposition value is calculated based on the appraised collateral value by an objective and rational method shall be examined.</p> <p>a. Whether the loan-to-value ratio used in the calculation of estimated disposition value is reasonable shall be examined.</p> <p>If the estimated disposition value is below the amount of appraised collateral value multiplied by the applicable loan-to-value ratio listed as follows, the estimated disposition value may be regarded as appropriate.</p> <p>(Real estate collateral)</p> <p style="padding-left: 40px;">Land 70% of appraised value</p> <p style="padding-left: 40px;">Buildings 70% of appraised value</p> <p>(Security collateral)</p>	<p>Note: "Other bonds"</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>Government bonds 95% of appraised value</p> <p>Bonds with a national government guarantee 90% of appraised value</p> <p>Listed stocks 70% of appraised value</p> <p>Other bonds 85% of appraised value</p> <p>b. If the appraised value is used for the estimated disposition value, whether there is a reasonable basis to assume that the level of accuracy is high of the appraised collateral value shall be examined. More specifically, if there are sufficient materials by which actual disposition value of collateral that was disposed of can be compared with its appraised collateral value for a relatively large number of collateral assets in order to confirm</p>	<p>refers to local government bonds (public offering bonds and private placement bonds) and public corporation bonds with no government guarantee, bank debentures, industrial bonds issued by companies listed on a stock exchange and investment trust beneficiary securities.</p> <p>Note: It is desirable that the “materials” are classified by the type of collateral.</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>that the disposition value is higher than the appraised value, there is deemed to be a reasonable basis to assume a high level of accuracy.</p> <p>c. If an appraisal value recently calculated by a real estate appraiser (including an assistant real estate appraiser) or a purchasable value calculated by a court is available, the accuracy of appraised collateral value may be deemed sufficiently high, and thus the appraised collateral value may be regarded as the estimated disposition value. However, in due consideration of the nature of collateral as security for a loan, whether necessary corrections are made to the appraised collateral value when deemed necessary shall be examined by examining the assumptions for appraisal, actual real estate transactions, etc.</p>	<p>Note: "Appraisal value" refers to the amount of appraisal based on the Real Estate Appraisal Standards (Vice-Minister of Land, Infrastructure and Transport Notification), excluding any valuation amount calculated by a simplified method.</p> <p>Note: "Purchasable value" refers to the purchasable value under Article 60, Paragraph 3 of the Civil Execution Law.</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(5) Adjustment by guarantee, etc.</p>	<p>Loans that are secured by guarantee, etc., shall be classified as follows. Loans secured by a secured guarantee, etc., shall be classified as “non-classified” loans and loans secured by a general guarantee shall be classified as Class II loans.</p>	<p>Attention shall be paid to the point that the appraised collateral value may be regarded as the estimated disposition value if there is a reasonable basis to assume a high level of accuracy of collateral appraisal value based on certain values other than an appraisal amount calculated by a real estate appraiser (including an assistant real estate appraiser) or a purchasable value calculated by a court.</p> <p>Any guarantee by a general business corporation shall not be regarded as a guarantee if there is any procedural defect such as a lack of an internal approval process by the board of directors of the company.</p> <p>Loans secured by guarantee, etc., with a term shorter than the period from the reference date until the last date of the following financial term</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>1) Secured guarantee, etc.</p>	<p>a. Guarantee by public credit guarantee institutions, guarantee by financial institutions, etc., guarantee by guarantee institutions established jointly by several financial institutions, guarantee by guarantee institutions established jointly by local governments and financial institutions, etc., damage compensation contracts by local governments, and other guarantees that have a high degree of certainty for the performance of the guarantee obligation; provided however, that if subrogated performance is deemed questionable in view of the status of the guarantor institution, etc.,</p>	<p>that was provided to intentionally reduce credit risk based on the solvency-margin ratio or to intentionally reduce the amount of non-performing debt on the last day of the financial term shall not be regarded as loans secured by guarantee, etc.</p> <p>Whether a guarantee is classified as a “secured guarantee” per the definition shall be examined.</p> <p>a. “Public credit guarantee institutions” refers to institutions that were established in accordance with the law and are licensed to perform guarantee business, such as credit guarantee corporations.</p> <p>Attention shall be paid to the point that the scope of performance obligation for certain guarantees by such public credit guarantee institutions may not be 100%.</p>	<p>Note: A guarantee by the Industrial Revitalization Corporation of Japan may be regarded as a secured guarantee.</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>procedural defects, etc., or if the company has no intention to request the performance of the obligation, such guarantee shall not be regarded as a secured guarantee.</p>	<p>The following shall be deemed to be the cases when “subrogated performance is deemed questionable in view of the status of the guarantor institution, etc., procedural defects, etc., or if the company has no intention to request the performance of the obligation” and thus guarantees in such cases shall not be regarded as a secured guarantee:</p> <p>(a) Due to deterioration of the financial condition of the guarantor institution, etc. (excluding public credit guarantee institutions stated in a., above), subrogated performance has not been requested or subrogated performance has been requested but is not expected to be performed.</p> <p>(b) Due to some procedural defect relating to</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>b. Guarantee by general business corporations shall be regarded as a secured guarantee, in principle, if such business corporations are dividend-paying companies that are listed on a stock exchange or traded over-the-counter and the guarantor has sufficient guarantee capacity, and further, there exists a formal guarantee contract.</p>	<p>the performance of the guarantee obligation, such as the omission of or delay in subrogated performance procedures by the insurance company that received the guarantee, subrogated performance is refused by the guarantor institution, etc.</p> <p>(c) The insurance company that received the guarantee has no intention to request the performance of the guarantee obligation.</p> <p>b. Secured guarantees by general business corporations that are non-dividend-paying companies listed on a stock exchange or traded over-the-counter may be regarded as secured guarantees, if: the cause of nonpayment of dividends is temporary, in view of business performance and the financial condition of the company; dividends</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>2) General guarantee</p> <p>3) Contingent guarantee and management</p>	<p>c. Public insurance, including “housing loan insurance” by the Government Housing Loan Corporation, “housing loan guarantee insurance” by private insurance companies, and other similar insurance</p> <p>Guarantee that is not a secured guarantee, etc., such as a guarantee by general business corporations (excluding those under 1) b. above) and private persons, with sufficient guarantee capacity</p>	<p>are certainly expected to be resumed at the next account settlement; the guarantor has sufficient guarantee capacity; and, there exists a formal guarantee contract.</p> <p>c. Public insurance other than housing loan insurance includes “export bill insurance” and “foreign investment insurance” under the International Trade Insurance System.</p> <p>Whether a guarantee is classified as “general guarantee” per the definition shall be examined.</p> <p>A contingent guarantee, management guidance pledge, etc., issued by general business corporations may be regarded as equivalent to a</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>guidance pledge</p> <p>(6) Loans exempt from classification</p>	<p>Loans exempt from classification are as follows:</p> <p>1) Loans that are certainly expected to be collected within a short period of time from a specific source of repayment funds and loans that are</p>	<p>formal guarantee, if such contingent guarantee, etc., for the borrower is identified in the footnote of financial statements of the company providing such guarantee as a guarantee of a loan or as a similar act, or if it is apparent that such contingent guarantee, etc., is as legally effective as a guarantee, provided however, that such contingent guarantee, etc., has been formally accepted by ratification through formal internal procedures of the company as substantiated by written documents, etc., and that the company has sufficient guarantee capacity.</p> <p>Whether loans are being classified as loans exempt from classification per the definition shall be examined.</p> <p>1) Loans that are “certainly expected to be collected within a short period of time from a specific source of repayment funds” refers to</p>	<p>Note: “Specific source of repayment funds” refers to proceeds from a</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>deemed to be used as normal working capital</p> <p>2) Loans that reflect their estimated disposition value if such loans are secured by secured collateral, such as securities with high credit ratings including government bonds and insurance with a guarantee of principal with lump-sum payouts at maturity, etc.</p>	<p>loans that are expected to be collected within approximately one month as substantiated by relevant documents.</p> <p>2) Working capital for borrowers classified as “in danger of bankruptcy,” “de facto bankrupt,” and “bankrupt” borrowers shall not be treated as normal working capital for the purpose of self-assessments. Attention shall be paid to the point that working capital to be loaned to borrowers classified as “needs attention” borrowers is not always recognized as normal working capital for the purpose of self-assessments. Whether working capital for borrowers classified as “needs attention” borrowers is normal working capital shall be judged individually, depending upon the status of the borrower, etc.</p>	<p>capital increase or corporate bonds issued, proceeds from sale of real property, proceeds under agency contract for receipt of payments that are certain to be received in the near future, or borrowings from other financial institutions that are certain to be used for the repayment of the loan, etc., provided however, that the certainty of receipt of such funds can be substantiated by relevant documents such as a capital increase prospectus, corporate</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>Loans for working capital to borrowers classified as “in danger of bankruptcy” borrowers, if repayment funds from a specific source are certain to be collected by such borrowers and thus such loans are deemed collectible, such loans shall be individually judged according to the degree of collection risk.</p> <p>In general, the calculation formula for normal working capital for wholesale and retail industries and manufacturing industry is as follows. In such calculation, loans for uncollectible amounts in trade receivables or notes receivable and for non-performing inventory amounts shall be subtracted, since such amounts are not recognized as normal working capital.</p> <p>Normal working capital  = Receivables [trade receivables + notes receivable (excluding notes discounted)]  + Inventories (normal inventory only,</p>	<p>bond prospectus, sales agreement, or a power of attorney concerning receipt of payments and request for designation of transfer.</p> <p>Note: “Normal working capital” refers to working capital that is deemed continuously necessary for normal operations of the business.</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>i. Loans secured by a secured guarantee and loans secured by insurance or mutual aid for which payment of insurance funds or mutual aid funds is deemed certain</p> <p>ii. Loans to corporations with government</p>	<p>excluding non-performing inventory) - Payables [trade accounts payable + notes payable (excluding notes payable for equipment purchases)</p> <p>If multiple financial institutions provide funding for working capital, the calculation result shall be multiplied by the share of the loan provided by the insurance company under inspection.</p> <p>iv. If loans secured by a secured guarantee are to be used as working capital and the total amount of such working capital and other working capital exceeds the amount of normal working capital, loans exempt from classification shall be limited to the amount of normal working capital.</p> <p>v. Loans to borrowers that received a capital</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>subscriptions</p>	<p>investment or financing by corporations with government subscriptions or by local governments shall not be treated as loans exempt from classification. In principle, whether such loans are being classified by the same method as the method used for general business corporations shall be examined.</p> <p>More specifically, if there is a reasonable basis to assume that a borrower will certainly receive support from corporations with government subscriptions or from local governments, such borrowers shall be classified according to the content of such support. Whether loans to such borrowers are being classified as non-classified loans simply on the basis that corporations with government subscriptions or local governments have contributed a capital investment or financing to such borrowers</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(7) Loan classification criteria</p>	<p>iii. Insurance policy loans</p> <p>Loans shall be classified according to borrower classification as follows. Loans for project financing may be classified according to the degree of collection risk, not according to the borrower classification.</p> <p>Standard loans such as housing loans to individuals and industrial standard loans to small or small-lot medium-sized businesses may be classified based on simplified criteria, such as the status of payments in arrears.</p>	<p>shall be examined.</p> <p>vi. Whether insurance policy loans in the amount exceeding the surrender value of the policy are being classified as non-classified loans shall be examined.</p> <p>Whether loan classification is accurately performed according to borrower classification after being adjusted by collateral, guarantees, etc., and whether there exist any loans exempt from classification, shall be examined. As for project financing loans, if such loans are not classified according to borrower classification, whether such loans are being classified according to the degree of collection risk shall be examined.</p> <p>If simplified criteria are used for classification, the reasonableness of such criteria and the loans for which such criteria are used shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>1) Loans to borrowers classified as “normal”</p> <p>2) Loans to borrowers classified as “needs attention”</p>	<p>Loans to borrowers classified as “normal” borrowers shall be classified as “non-classified” loans.</p> <p>Loans to borrowers classified as “needs attention” borrowers shall be classified, in principle, as Class II, if such loans qualify as any of the loans stated in the following items a. through d., and only for the portion that is not secured by estimated disposition value of secured collateral or a secured guarantee, etc.</p> <p>1. Funds to cover deficits, non-performing debt, etc.; funds to provide support to subsidiaries and affiliates with poor performance; funds for the assumption of original debt, etc.</p> <p>Note: Loans to borrowers who have any loss</p>	<p>Whether loans to borrowers classified as “normal” borrowers are classified as non-classified loans shall be examined.</p> <p>Whether loans to borrowers classified as “needs attention” borrowers are classified as stated per the definition shall be examined.</p> <p>Loans that are to be classified as stated in the definition shall be interpreted as follows.</p> <p>a. The “amount of loan used to cover loss carryforwards, etc.,” provided by the insurance company, and “share of the loan provided by the insurance company” shall be calculated according to the following formula.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>carried forward, doubtful or impaired assets, etc., shall be classified, in principle, as if such loans are actually used to cover such loss carried forward, etc., even if such loans were extended for different purposes. In calculating the amount for the classification, if the loan used to cover such loss carried forward, etc., cannot be clearly identified, the amount of loan used to cover loss carried forward, etc., may be calculated, as an exceptional treatment, in consideration of the amount of loss carried forward and doubtful or impaired assets, and the share of the loan provided by the insurance company of all financial institutions that have provided loans to the said company.</p> <p>b. Loans with interest that is reduced, waived, or suspended; or, deferral of repayment of principal is granted or the terms of the loan are significantly softened; or, a loan with a</p>	<p>The amount of loan used to cover loss carryforwards, etc., provided by the insurance company</p> <p>= Amount of loss carryforwards, etc. × Share of the loans from the insurance company</p> <p>Share of loans from the insurance company</p> <p>= Total amount of loans provided by the insurance company ÷ Total amount of loans received by the borrower (excluding notes discounted)</p> <p>2. A loan qualifying as “terms of the loan are significantly softened” refers to loans for which interest is reduced, waived, or suspended; repayment of the principal is</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>significantly long repayment period set under the contract; or, terms and conditions of the loan are otherwise questionable</p>	<p>deferred in order to support a borrower with deteriorated business performance and thus repayment under the contract became difficult; or, loans for equipment funding, etc., that are generally supposed to be repaid as the related assets produce earnings but yet are allowed to be repaid lump-sum at the end of the loan term without logical reasons for such special treatment.</p> <p>A “significantly long repayment period set under the contract” refers to the case of a loan provided as equipment funding and the repayment period exceeds the useful life of the equipment, and also the case of, despite the fact that such loans should be repaid within a certain period of time based on the usage of the funds, the repayment period of such loans is set to be a period longer than a normal repayment period due to problems</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>3. Loans that raise concerns in terms of the status of performance, such as those for which repayment of principal or payment of interest actually is delayed and those for which</p>	<p>with the borrower's profit earning capacity, financial condition, etc.</p> <p>If borrowers are using system funds, whether terms of a loan are significantly softened or the repayment period is set for a significantly long period shall be examined from a comprehensive perspective in consideration of the content of the system funds, and the factors that led to the use of system funds, etc. System funds loans shall not be immediately judged as loans for which the terms of the loan are significantly softened or as loans under contract with a significantly long repayment period.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>3) Loans to borrowers classified as “in danger of bankruptcy”</p>	<p>problems will most likely arise in the future</p> <p>4. Loans that are deemed to have collection risk that is higher than the normal level based on the financial condition and other conditions of the borrower</p> <p>All loans to borrowers classified as “in danger of bankruptcy” borrowers, except those that are secured by estimated disposition value of secured collateral or a secured guarantee, etc., shall be classified. The portion of such loans that is deemed collectible by the estimated disposition value of general collateral or by a general guarantee, and if the borrower becomes bankrupt, the portion that is deemed collectible by distributions from liquidation, etc., shall be classified as Class II, and the remaining portion shall be classified as Class III.</p> <p>If the accuracy of the appraised value of general</p>	<p>Whether loans to borrowers classified as “in danger of bankruptcy” borrowers are classified as stated per the definition shall be examined.</p> <p>Estimated disposition value referred to in the definition shall be interpreted as follows.</p> <p>a. The “portion that is deemed collectible by guarantee” refers to the portion that is deemed certainly collectible in consideration of the assets or guarantee capacity of the guarantor. If collection by guarantee is not certain due to</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>collateral is sufficiently high, the loans for the appraised value may be classified as Class II.</p>	<p>the fact that confirmation of the assets or guarantee capacity of the guarantor is not completed, whether such portion is deemed as being not secured by guarantee and is classified as Class III shall be examined.</p> <p>b. The “portion that is deemed collectible by distributions from liquidation, etc.” refers to the portion that is deemed certainly collectible, provided however, that the insurance company under inspection is clearly able to perceive the borrower’s status of provisions of collateral to other creditors, or otherwise, the financial condition of the borrower can be accurately understood and the liquidation balance sheet of the borrower can be created, and further, the estimated amount of liquidating dividends is reasonable.</p> <p>If the portion that is collectible by distributions</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>4) Loans to borrowers classified as “de facto bankrupt” and “bankrupt”</p>	<p>All loans to borrowers classified as “de facto bankrupt” and “bankrupt” borrowers, except those that are secured by estimated collectible value of secured collateral or a secured guarantee, etc., shall be classified. The portion of such loans that is deemed collectible by the estimated disposition value of general collateral or by a general guarantee and the portion that is deemed collectible by distributions from liquidation, etc., shall be classified as Class II; the difference between the appraised collateral value of secured and general collateral, and the estimated disposition value thereof, shall be classified as Class III; and the remaining portion that is deemed non-collectible shall be classified as Class IV.</p>	<p>from liquidation, etc., is classified as Class II, whether the estimated amount of such distributions from liquidation, etc., is reasonable shall be examined.</p> <p>Whether loans to borrowers classified as “de facto bankrupt” and “bankrupt” borrowers are classified as stated per the definition shall be examined.</p> <p>Attention shall be paid to the point that loans to “de facto bankrupt” and “bankrupt” borrowers shall be classified as Class II (the portion that is deemed collectible by collateral, etc.) and Class IV (the portion that is deemed not collectible) as much as possible, and no portion other than the “difference between the appraised collateral value of secured and general collateral, and the estimated disposition value thereof” shall be classified as Class III.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>If the accuracy of the appraised value of general collateral is sufficiently high, the appraised value may be classified as Class II. If any portion that is collectible by guarantee is in doubt regarding collection, that portion shall be classified as Class IV, and shall be reclassified as Class II when it becomes collectible by the guarantee.</p>	<p>The estimated collectible value, etc., referred to in the definition shall be interpreted as follows.</p> <ul style="list-style-type: none"> <li>a. The “portion that is deemed collectible by guarantee” refers to the part that is deemed certainly collectible in consideration of the assets or guarantee capacity of the guarantor. If collection by guarantee is not certain due to the fact that the assets or guarantee capacity of the guarantor are not known, whether such portion is deemed as being not secured by guarantee and is classified as Class IV shall be examined.</li> <li>b. The “portion that is deemed collectible by distributions from liquidation, etc.” of the loans to borrowers classified as “de facto bankrupt” borrowers refers to the portion that is deemed certainly collectible, provided however, that the insurance company under</li> </ul>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p data-bbox="1205 373 1715 738">inspection is clearly able to perceive the borrower's status of provision of collateral to other creditors, or, the financial condition of the borrower otherwise can be accurately understood and the liquidation balance sheet of the borrower can be created, and further, the estimated amount of distributions from liquidation is reasonable.</p> <p data-bbox="1205 807 1715 1315">The "portion that is deemed collectible by distributions from liquidation, etc." of the loans to borrowers classified as "bankrupt" borrowers refers to: (1) the portion that is expected to be repaid within five years from the date of notice of distributions from liquidation, etc., if such notice is given by the liquidator; or (2) the portion that is deemed certainly collectible, provided however, that the insurance company under inspection is clearly able to perceive the borrower's status</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>of provision of collateral to other creditors, or, the financial condition of the borrower otherwise can be accurately understood and the liquidation balance sheet of the borrower can be created, and further, the estimated amount of distributions from liquidation is reasonable. If the portion that is collectible by distributions from liquidation, etc., is classified as Class II, whether the estimated amount of such distributions from liquidation, etc., is reasonable shall be examined.</p> <p>c. For borrowers that a petition is filed, either against them or by them, for: the initiation of corporate rehabilitation procedures under the Corporate Rehabilitation Law, etc.; the initiation of civil rehabilitation procedures under the Civil Rehabilitation Law; the initiation of bankruptcy procedures under the Bankruptcy Law; or, the initiation of corporate</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>liquidation procedures or special liquidation procedures under the Commercial Code, whether loans to such borrowers are classified, in principle, as follows shall be examined.</p> <p>(a) Whether the reorganization security right is classified, in principle, as Class II;</p> <p>(b) Whether the portion of general loans in rehabilitation that is expected to be repaid within five years after the approval, etc., of a rehabilitation plan is classified, in principle, as Class II, and the portion that is expected to be paid after five years is classified as Class IV;</p> <p>(c) Whether cut-off loans are classified as Class IV.</p> <p>If the borrower classification and asset</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(8) Loans to foreign governments, etc.	Loans to foreign governments, central banks, government-affiliated agencies or state-run corporations shall be classified, not by the criteria	<p>classification of the relevant borrower have been reviewed after the approval, etc., of a reorganization plan, etc., whether such loans are classified according to the degree of collection risk shall be examined.</p> <p>d. Whether the administrative claim against a borrower against or by whom a petition is filed for: the initiation of corporate reorganization procedures under the Corporate Reorganization Law, etc., or, the initiation of civil rehabilitation procedures under the Civil Rehabilitation Law, etc., is classified, in principle, as non-classified or Class II according to the degree of collection risk, shall be examined.</p> <p>For loans to foreign governments, etc., in principle, whether such loans are classified according to the degree of collection risk in</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>stated in (7) above, but by focusing on the occurrence of objective facts in consideration of their unique characteristics.</p> <p>For example, in the following cases, the insurance company under inspection shall consider the classification of such loans according to the degree of collection risk in consideration of the political and economic situation of the relevant country:</p> <ol style="list-style-type: none"> <li>1) Payments of principal and/or interest are in arrears for one month or longer;</li> <li>2) An agreement concerning the deferral of loan repayment, refinancing by major banks providing loans under uniform conditions, or any other measures similar thereto (hereinafter referred to as “deferral of loan repayment, etc.”) has been entered into within five years prior to the end of the financial year;</li> </ol>	<p>consideration of the financial, economic, and foreign currency management conditions, etc., of the country shall be examined. If not, whether the insurance company under inspection is at least considering the classification of loans as stated per the definition shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(9)Loans to foreign private companies and overseas Japanese affiliates, etc.</p>	<p>3) A request of deferral of loan repayment, etc., was submitted and more than one month has lapsed without entering into such an agreement;</p> <p>4) Any event stated above in 1) through 3) is expected to occur in the near future.</p> <p>Loans to foreign private companies and overseas Japanese affiliates, etc., shall be classified by the method stated in (7) above, provided however, if it is apparent that the payment delay, etc., is due to foreign currency situation of the domicile country, such loans shall be classified according to the method stated in (8) above.</p> <p>In performing self-assessments relating to such loans, forms of transactions, market conditions, collateral conditions, etc., of the domicile country shall be taken into consideration.</p>	<p>Whether loans to private companies located in the countries where the foreign governments, etc., are classified according to (8) above, and overseas Japanese affiliates, etc., are considered to be classified according to the (8) above, the following shall be examined in addition to (7) above.</p> <p>The understanding of the forms of transactions, the market conditions, collateral conditions, etc., of the domicile country shall be also examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(10)Accrued interest		<p>Whether, in principle, accrued interest receivable from “in danger of bankruptcy,” “de facto bankrupt,” or “bankrupt” borrowers, and particularly accrued interest from “de facto bankrupt” and “bankrupt” borrowers, is not recognized as an asset shall be examined.</p> <p>If accrued interest is recognized as an asset in consideration of the collectibility thereof based on the state of preservation, etc., of loans to the “in danger of bankruptcy” borrowers, whether classification of such accrued interest is performed according to the degree of collection risk of such accrued interest shall be examined.</p> <p>If accrued interest is recognized as an asset for the loans to “needs attention” borrowers and such interest has not been received for six months or longer after an interest payment due date under</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(11) Relationship with loan classifications under the Insurance Business Law</p>	<p>The relationship between loan classification under Article 59-2, Paragraph 1, Item 5 d. of the Insurance Business Law Enforcement Regulations and borrower classification under this inspection manual shall be as follows.</p>	<p>the contract, whether such treatment is reasonable shall be examined.</p> <p>If accrued interest is recognized as an asset for the loans to “in danger of bankruptcy” borrowers, whether accrued interest that is not to be recognized as an asset is, in fact, not recognized as an asset, and loans related to such accrued interest are not exempted from disclosure as risk management loans, shall be confirmed.</p> <p>Whether loans are classified as stated in the definition pursuant to the criteria set forth in Article 59-2, Paragraph 1, Item 5 d. of the Insurance Business Law Enforcement Regulations according to borrower classification, etc., based on the financial condition and business performance of borrowers shall be examined.</p> <p>Attention shall be paid to the point that if an</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
1) "Normal" loans	"Normal" loans refers to "loans to borrowers with no particular concerns about their financial	<p>insurance company fails to make required information available for public inspection or makes false information available for public inspection under Article 111, Paragraph 1 of the Insurance Business Law, such company is subject to punishment pursuant to Article 317, Item 1-2 and Article 321, Paragraph 1, Item 2 of the Law.</p> <p>Therefore, if the result of loan classification under Article 59-2, Paragraph 1, Item 5 d. is deemed inaccurate, the cause (whether such inaccuracy is due to improper self-assessment standards, due to improper methods of performing the self-assessment, or any other reason) and future improvement measures to be taken by the insurance company under inspection shall be thoroughly confirmed and accurately understood.</p> <p>Whether loans listed in the definition are classified as "normal" loans shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
2) “Needs special attention” loans	<p>condition and business performance, that do not qualify as loans classified as ‘needs special attention’ loans, ‘at risk’ loans, or ‘loans in bankruptcy’ and their respective equivalents.” Such loans include loans to the government, local governments, managed financial institutions, loans to “normal” borrowers, and loans to “needs attention” borrowers that do not qualify as “needs special attention” loans.</p> <p>“Needs special attention” loans refers to the loans to “needs attention” borrowers, that are in delinquency for three months or longer (loans for which payment of principal or interest is in arrears for three months or longer from the date following the payment due date under the contract) and/or for which loan terms are eased (loans for which interest is reduced or waived, payment of interest is deferred, repayment of principal is deferred, loans that are waived, or loans for which any other arrangements have been</p>	<p>Whether loans listed in the left side column are classified as “needs special attention” loans shall be examined. In examining this point, reference shall be made to the definition of loans with eased loan terms relating to the risk management loans set forth in Article 59-2, Paragraph 1, Item 5 b. (4) of the Insurance Business Law Enforcement Regulations and points to note concerning loans with eased loan terms in III-2-17-3, (2) 3) of the “Comprehensive Guidelines for Supervision of</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
3)“At risk” loans	<p>made in a manner advantageous to the borrower for the purpose of aiding reconstruction of the borrower’s business or providing support).</p> <p>In managing loans to “needs attention” borrowers, such loans shall be divided into “needs special attention” loans, and other loans.</p> <p>“At risk” loans refers to the loans to “in danger of bankruptcy” borrowers that are not currently facing bankruptcy, but their financial condition and business performance have deteriorated and thus the</p>	<p>Insurance Companies” issued by the Financial Services Agency.</p> <p>Whether loans that are not formally delinquent but are actually delinquent for three months or longer are being classified as “needs special attention” loans shall be examined.</p> <p>Note: Whether a specific loan is actually delinquent shall be confirmed by verifying whether a loan provided on a date close to the repayment date of such loan is used to repay or pay the principal or interest of such loan, by way of verifying the request for approval, tracing the use of such loan funds, etc.</p> <p>Whether loans listed in the definition are classified as “at risk” loans shall be examined.</p>	



Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>using the same method as the self-assessment method of the insurance company under inspection. Upon accurate understanding of the financial condition, etc., of the consolidated subsidiaries through such asset assessment, borrowers shall be classified, and subsequently, loans shall be classified accordingly, provided however, if it is difficult to perform asset assessment by the same method as the self-assessment method of the insurance company under inspection due to the type of business of the consolidated subsidiaries and the legal system of the country where such subsidiaries are located, then borrower classification and loan classification may be performed based on the asset assessment results obtained by a method similar to the self-assessment method of the insurance company under inspection.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>2. Securities classification method</p> <p>(1) Basic concepts</p>	<p>Securities shall be appropriately valued according to the classification of the purpose for holding such securities (whether trading securities, held-to-maturity bonds, policy-reserve-matching bonds, stocks of subsidiaries and affiliates, or other securities) and classified in consideration of their marketability and safety.</p> <p>If the market value or substantive value of securities</p>	<p>2) <u>Loans to consolidated subsidiaries of other financial institutions:</u></p> <p>Loans to such consolidated subsidiaries shall be classified by the same method as that for the classification of loans to general business corporations.</p> <p>Whether the classification of purpose for holding securities and valuation of securities are being appropriately performed based on the “Accounting Standards for Financial Instruments” (Business Accounting Council), etc., shall be examined.</p>	<p>“Accounting Standards for Financial Instruments,” etc., shall include “Practical Guidelines for Accounting for Financial Instruments” and “Q&amp;A Concerning Accounting for</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(2) Securities subject to mark-to-market valuation (trading securities, and</p>	<p>cannot be measured, the safety of such securities shall be judged, in principle, based on the financial condition of the issuers under the same policy as that concerning loans.</p> <p>The book value of the security shall be classified as “non-classified.”</p>	<p>Whether the book value of the security is determined based on the appropriate market value shall be examined.</p>	<p>Financial Instruments.”</p> <p>Note: “Substantive value” refers to the substantive value under Paragraph 92 (Accounting for impairment of stocks with no market value) of the “Practical Guidelines on Financial Instruments Accounting.”</p> <p>Hereinafter the same.</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>other securities with market value that can be determined)</p> <p>(3) Securities not subject to mark-to-market valuation (held-to-maturity bonds, policy-reserve-matching bonds, stocks of subsidiaries and affiliates, and other securities with market value that cannot be</p>			

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>determined)</p> <p>1) Bonds</p>	<p>Bonds shall be classified, in principle, according to the classification stated in the following criteria, a., b., and c.</p> <p>a. Non-classified bonds</p> <p>The book value of the following types of bonds shall be classified as “non-classified.”</p> <p>(a) Government bonds and local government bonds</p> <p>(b) Bonds with a government guarantee (public corporation bonds, public finance corporation bonds, etc.)</p> <p>(c) Special bonds (bonds issued by special corporations including public corporations, and public finance corporations, etc., and government-funded corporations, excluding government-guaranteed bonds)</p> <p>(d) Bank debentures</p>	<p>Whether bonds are being classified as stated in the definition shall be examined.</p> <p>Whether the appropriate market value is being determined and whether there are any bonds that are subject to accounting for impairment according to (4) below shall be examined.</p> <p>Whether appropriate risk management, etc., is being performed for policy-reserve-matching bonds shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>(e) All bonds issued by companies issuing bonds that are rated “BBB” (triple B) or higher according to the most recent rating of rating agencies</p> <p>b. Held-to-maturity bonds and policy-reserve-matching bonds (excluding bonds that qualify as bonds stated in a., above)</p> <p>(a) <u>Bonds with market value that can be determined:</u></p> <p>1) If the market value is above the book value, the book value of the bond shall be classified as “non-classified.”</p> <p>2) If the market value is below the book value, the amount equivalent to the market value shall be classified as “non-classified” and the amount of</p>	<p>Whether the appropriate market value is measured shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
2) Stocks	<p>difference between the book value and the market value shall be classified, in principle, as Class II.</p>		
	<p>(b) <u>Bonds with market price that cannot be determined:</u> In principle, such bonds shall be classified according to the degree of value impairment risk by the same method as that used for loans.</p>	<p>Whether the classification is performed by the same method as that used for loans shall be examined.</p>	
	<p>c. <u>Bonds belonging to other securities (excluding bonds that qualify as bonds stated in a., above):</u> In principle, such bonds shall be classified according to the degree of value impairment risk by the same method as that used for loans.</p>	<p>Whether the classification is performed by the same method as that used for loans shall be examined.</p>	
	<p>Stocks shall be classified, in principle, according to the classification stated in the following criteria, a., b., and c.</p>	<p>Whether stocks are classified as stated in the definition shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>a. <u>Non-classified stocks:</u> The book value of the following stocks shall be classified as “non-classified.”</p> <p>(a) Stocks issued by government-funded corporations (excluding companies in liquidation)</p> <p>(b) Stocks issued by companies issuing bonds that are rated “BBB” (triple B) or higher according to the most recent rating of rating agencies.</p> <p>b. <u>Stocks of subsidiaries and affiliates (excluding the stocks that qualify as stocks stated in a., above):</u></p> <p>1) If the market value or substantive value is above the book value, the book value shall be classified as “non-classified.”</p> <p>2) If the market value or substantive value is</p>	<p>Whether the appropriate market value or substantive value is being determined and whether there are any stocks that need to be accounted for impairment according to (4) below shall be examined.</p> <p>Whether the substantive value is being calculated in consideration of the valuation variance based on the mark-to-market valuation of assets, etc., of the issuer of the stock shall be examined.</p> <p>Whether the book value of stocks acquired by a debt-equity swap is appropriately calculated according to “Practical Solution on Accounting of Creditors for the Execution of Debt-Equity Swaps” (published October 9, 2002 by the Accounting Standards Board of Japan) shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>below the book value, the market value or the amount equivalent to the substantive value shall be classified as “non-classified” and the amount of difference between the book value and the market value or the amount equivalent to substantive value shall be classified, in principle, as Class II. In such a case, based on the length of the declining period of the market value or the downturn situation of the substantive value of the stock, it is also acceptable to classify the amount equivalent to the substantive value of the stock as non-classified and the amount of difference between the book value and the market value or the amount equivalent to substantive value as Class III.</p> <p>c. <u>Other stocks belonging to other securities (excluding the stocks that qualify as stocks stated in a., above):</u></p>	<p>Whether fiscal year end valuation of classified stocks including stocks acquired by debt-equity swaps is being appropriately valued according to the “Practical Solution on Accounting for Class Shares at the Balance Sheet Date” (issued March 13, 2003 by the Accounting Standards Board of Japan) shall be examined.</p>	<p>Note: In cases when the amount of difference between the book value and the market value or the amount equivalent to the substantive value is classified as Class III, refer to the “Audit Treatment of Valuation Allowances for Investments in Stocks and Other Securities of Subsidiaries” (issued April 17, 2001 by the Japanese Institute of Certified Public Accountants).</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>1) If the market value is above the book value, the book value shall be classified as “non-classified.”</p> <p>2) If the substantive value is below the book value, the amount equivalent to the substantive value shall be classified as “non-classified” and the amount of difference between the book value and the amount equivalent to the substantive value shall be classified as Class II.</p> <p>In such a case, based on the downturn situation, etc., of the substantive value of the stock, it is also acceptable to classify the amount equivalent to the substantive value as non-classified and the amount of difference between the book value and the amount equivalent to the substantive value as Class III.</p>		

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
3) Foreign securities	<p>Foreign securities shall be classified, in principle, according to the classification stated in the following criteria, a. and b.</p> <p>a. <u>Non-classified foreign securities:</u> The book value of the following foreign securities shall be classified as “non-classified.”</p> <p>(a.) Bonds issued by international organizations under the auspices of an international treaty to which Japan is a party, by the government of a country that has diplomatic relations with Japan or by any agency similar thereto (state governments, etc.) and by their local authorities</p> <p>(b.) Stocks and bonds issued by financial institutions to which a business license, etc., is granted by the government of a</p>	<p>Whether foreign securities are being classified as stated in the definition shall be examined.</p> <p>Whether the appropriate market value or substantive value is being measured and whether there are any foreign securities that are subject to accounting for impairment according to (4) below shall be examined.</p>	<p>Note: “International organizations under the auspices of an international treaty to which Japan is a party” refers to the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC),</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
4) Other securities	<p>country that has diplomatic relations with Japan</p> <p>(c.) All bonds issued by companies issuing bonds that are rated “BBB” (triple B) or higher according to the rating of rating agencies, and stocks of the companies issuing such bonds</p> <p>b. <u>Foreign securities other than those stated in a., above:</u> Such securities shall be classified according to the classification method for bonds as stated above in 1) b. and c., and for stocks, the method as stated above in 2) b. and c.</p> <p>Other securities shall be classified according to (1), (2), and (3) above, and (4) below. However, beneficiary certificates of loan trusts, investment trusts, etc., that are of the same nature as that of bank deposits shall be classified as “non-classified.”</p>		Inter-American Development Bank (IDB), European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB), and the Asian Development Bank (ADB).

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(4) Accounting for impairments</p> <p>1) Securities with market value that can be determined</p>	<p>If the market value of securities other than trading securities that can be marked to market has decreased significantly, the amount of difference between such market value and acquisition cost or amortized cost shall be classified as Class IV, unless the market value of such securities is deemed recoverable.</p>	<ol style="list-style-type: none"> <li>1. If the market value of such securities has decreased significantly, whether recoverability of market value of such securities is being examined, shall be examined.</li> <li>2. Unless recoverability is confirmed as a result of the above-mentioned examination, whether such securities are treated as those subject to accounting for impairments shall be examined.</li> <li>3. Based on the results of examinations stated in the above a. and b., if accounting for impairments is deemed necessary, whether the amount of difference between the market value and acquisition cost or</li> </ol>	<p>Note: For specific methods of accounting for impairments, refer to Paragraphs 91, 92, 283-2, 284, and 285 of “Practical Guidelines for Accounting for Financial Instruments.”</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
2) Stocks with no market value	<p>If the substantive value of stocks with no market value has decreased significantly due to deterioration of the financial condition of the issuer, the amount of difference between such substantive value and acquisition cost shall be classified as Class IV, provided however, that if such substantive value is recoverable as substantiated by sufficient evidence, it is acceptable not to classify the amount of difference as Class IV.</p>	<p>amortized cost is classified as Class IV shall be examined.</p> <p>If the substantive value of stocks at the fiscal year end has become significantly lower than the substantive value at the time of acquisition and the substantive value has become 50% or below of the acquisition cost due to deterioration of the financial condition of the issuer, whether the amount of difference is being classified as Class IV shall be examined.</p> <p>If such stocks are not classified as Class IV, whether there is sufficient evidence that supports the recoverability of value shall be examined.</p>	
3. Classification method of derivatives	<p>Derivatives shall be classified according to the classification stated in the following criteria, a. and b.</p>		

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>4. Classification method of other assets (assets other than loans, securities, and derivatives)</p>	<p>a. <u>Derivatives that are subject to mark-to-market valuation:</u> The book value shall be classified as “non-classified.”</p> <p>b. <u>Derivatives that are not subject to mark-to-market valuation:</u> In principle, such derivatives shall be classified according to the degree of value impairment risk by the same method as that used for loans.</p> <p>Other assets shall be classified based on the appropriate valuation of such assets, as follows.</p> <p>If self-assessments are performed for assets involving credit risk and for off-balance-sheet items, such items shall be classified by the same method as that used for loans.</p> <p>In particular, if items were changed to</p>	<p>Whether the book value is being valued based on the appropriate market value shall be examined.</p> <p>Whether the valuation of financial products that qualify as other assets is properly performed according to the “Accounting Standards for Financial Instruments” (Business Accounting Council), etc., shall be examined.</p> <p>Furthermore, whether other assets are classified as stated in the definition shall be examined.</p>	<p>“Accounting Standards for Financial Instruments,” etc., shall include “Practical Guidelines for Accounting for Financial Instruments” and “Q&amp;A Concerning Accounting for</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(1) Suspense payments	<p>off-balance-sheet status by way of liquidation of loans, etc., and the credit risk of such an item was not completely transferred to a third party, and thus credit risk remains in whole or in part in the insurance company under inspection, after classifying the original loan that was the subject of liquidation by the same method as that used for loans, the portion involving credit risk that is remaining in the insurance company under inspection shall be classified according to the degree of value impairment risk.</p> <p>Suspense payments other than those that are similar to loans (suspense payments relating to the right to obtain reimbursement arising from subrogated performance based on acceptance and guarantee, and relating to loans) shall be classified according to the degree of collection risk and value impairment risk.</p>	<p>Whether assets involving credit risk, and off-balance-sheet items are classified by the same method as that used for loans shall be examined.</p> <p>In particular, if items were changed to off-balance-sheet status by way of liquidation of loans, etc., and credit risk remains in whole or in part in the insurance company under inspection, whether such portion is being classified according to the degree of value impairment risk shall be examined.</p> <p>Whether suspense payments other than those that are similar to loans are being classified according to the degree of collection risk and value impairment risk shall be examined.</p>	Financial Instruments.”

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(2) Personal property and real estate</p> <p>1) Operating Personal property and real estate</p>	<p>1) Operating personal property and real estate that are not used for business purposes shall be classified as Class II, provided however, that if it is deemed necessary to reduce the book value according to a decrease of estimated disposition value, the estimated disposition value shall be classified as Class II and the difference between the estimated disposition value and the book value shall be classified as Class IV, unless the estimated disposition value of such unused personal property or real estate that is significantly lower than its book value is deemed to be recoverable within a certain period of time.</p>	<p>Whether personal property and real estate are classified as stated in the definition shall be examined.</p> <p>Whether personal property and operating real estate for business use that are not used for business purposes are classified shall be examined.</p> <p>At minimum, when the estimated disposition value of said unused personal property and real estate is significantly lower than book value (if the estimated disposition value is approximately 50% or less of book value) and the estimated disposition value is not expected to recover, whether the amount equivalent to the difference between the book value and the estimated disposition value is being classified as Class IV shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
2) Investment real estate	2) Investment real estate that has not been used for a certain period of time and has no future utilization plan shall be classified as Class II, provided, however, that if it is deemed necessary to reduce the book value according to a decrease of estimated disposition value, the estimated disposition value shall be classified as Class II and the difference between the estimated disposition value and the book value shall be classified as Class IV, unless the real estate is scheduled to be sold and the estimated disposition value of such real estate that is significantly lower than book value is deemed to recover within a certain period of time.	<p>Whether investment real estate that has not been used for a certain period of time and has no future utilization plan is being classified shall be examined.</p> <p>At least, when the real estate is scheduled to be sold and its estimated disposition value is significantly lower than its book value (if the estimated disposition value is 50% or less of book value) and the estimated disposition value is not expected to recover, whether the amount equivalent to the difference between the book value and the estimated disposition value is being classified as Class IV shall be examined.</p> <p>In such a case, attention shall be paid to the point that “scheduled to be sold” shall include the case when the sale of real estate has been internally decided as well as the cases when the sale is</p>	<p>Note: “Certain period of time” refers to approximately two years.</p> <p>“Have not been used” refers to, in principle, the case when no rental income has occurred, provided however, that even if there is rental income from the real estate, if the real estate is used as a parking lot, etc., as a temporary measure as a result of suspension of an original business plan, such case shall be</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(3) Golf association	a. Golf association memberships shall be classified according to accounting for impairment of	<p>deemed to have been scheduled from an objective point of view. More specifically, when the company has already initiated negotiations for the sale of the real estate with a real estate agent as of the reference date of inspection, even if a prospective buyer and sale price have not yet been determined, such case shall be considered to be the case when the sale is deemed to have been scheduled.</p> <p>Whether golf association memberships are classified as stated in the definition shall be</p>	<p>considered as “not being used” since such usage is not the intended usage.</p> <p>“No future utilization plan” refers to the case when no utilization plan can be confirmed by documentary evidence such as an internal budget indicating the fact that the plan has been budgeted, even if the plan is highly detailed and is highly likely to materialize.</p> <p>Note: For specific methods of accounting</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
memberships	<p>securities.</p> <p>b. In principle, the book value shall be classified as Class II, except memberships held for employee benefit purposes, provided however, if there is any concern about the financial condition of the issuers of the memberships, the borrower classification shall be performed based on the same policy as that for loans regardless of the purpose of holding such memberships, and the book value of the memberships issued by “needs attention” or “in danger of bankruptcy” borrowers shall be classified as Class II, the book value of memberships issued by “de facto bankrupt” or “bankrupt” borrowers shall be classified as Class II if their facility can be used, or Class IV if their facility cannot be used.</p> <p>Golf association memberships that are held under the “securities” account, and not under the</p>	<p>examined.</p> <p>If memberships are held under the “securities” account, whether such memberships are being</p>	<p>for impairments of golf association memberships, etc., refer to Paragraphs 135 and 311 of “Practical Guidelines for Accounting for Financial Instruments.”</p>

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(4) Insurance premiums receivable	<p>“other assets” account, shall also be classified by the above method.</p> <p>Golf association memberships may be classified by simplified criteria, if there are no loans outstanding to the issuer of the membership.</p> <p>Insurance premiums receivable refers to receivables of insurance premiums under insurance policies that are directly handled by officers or employees of insurance companies; such receivables are claims against policyholders.</p> <p>Insurance premiums receivable shall be classified in consideration of the following.</p> <p>a. In principle, insurance premiums receivable shall be classified according to the degree of collection risk or value impairment risk. If the actual condition of a policyholder is unknown,</p>	<p>classified as stated in the definition shall be examined.</p> <p>Whether insurance premiums receivable are classified as stated in the definition shall be examined. If simplified criteria are used for classification, the reasonableness of such criteria and insurance premiums receivable for which such criteria are used shall be examined.</p> <p><u>Other points to consider:</u></p> <p>a. Whether insurance premiums receivable occurred due to the management system of the insurance company, etc., including the</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>etc., insurance premiums receivable may be classified by simplified criteria, such as the status of payments in arrears.</p> <p>b. If employees, etc., have embezzled or diverted received insurance premiums, insurance premiums receivable shall be classified according to the credit status, etc., of the employees, etc., without regard to the duration of payments in arrears.</p> <p>c. Earned insurance premiums receivable for terminated policies shall be classified based on the judgment of the actual situation, and not according to simplified criteria, such as the status of payments in arrears.</p>	<p>following, shall be examined.</p> <p>(a) Embezzlement or diversion of insurance premiums by employees, etc.</p> <p>(b) A shortage of insurance premiums collected from policyholders due to insurance premium calculation errors</p> <p>(c) System trouble (automatic withdrawal errors, etc.)</p> <p>(d) Inappropriate sales, etc. (advance disbursements, fictitious policies)</p> <p>(e) A delay in collection of premiums from policyholders</p> <p>b. If there is a substantial amount of insurance premiums receivable that are classified as Classes III and IV, whether there are any problems with policy management shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(5) Receivables from agencies	<p>Receivables from agencies refers to receivables of insurance premiums under new and existing policies that are handled by agencies; such receivables are claims against such agencies.</p> <p>Receivables from agencies shall be classified according to the classification criteria for insurance premiums receivable.</p> <p>If agencies are bankrupt or similar events have occurred to an agency, such receivables shall be classified according to the financial situation of such agencies.</p>	<p>Whether receivables from agencies are being classified as stated in the definition shall be examined.</p> <p><u>Other points to consider:</u></p> <p>Receivables from agencies shall be examined according to the points to consider for insurance premiums receivable. Furthermore, whether receivables from agencies occurred due to defective management systems, etc., of the insurance company, such as requests for the return of fees already paid, shall be examined.</p>	
(6) Receivables from foreign agencies	<p>Receivables from foreign agencies refers to receivables of insurance premiums under policies, etc., that are handled by foreign agencies; such receivables are claims against such foreign agencies.</p>	<p>Whether receivables from foreign agencies are being classified as stated in the definition shall be examined.</p> <p><u>Other points to consider:</u></p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>Receivables from foreign agencies shall be classified according to the classification criteria for receivables from agencies. In classifying receivables from foreign agencies, the following points shall also be taken into consideration.</p> <p>a. The status of assets relating to the business commissioned to the foreign agency and financial conditions of their individual customers, etc.</p> <p>b. If the foreign agency is actually a broker, etc., the receivables from such foreign agency shall be classified according to the financial condition, credit status, etc., of the broker, etc.</p>	<p>Receivables from foreign agencies shall be examined according to the points to consider for receivables from agencies and the following points shall also be taken into consideration.</p> <p>a. Whether receivables from foreign agencies occurred due to a defective management system of the insurance company, etc., including the following, shall be examined.</p> <p>(a) Currency exchange controls</p> <p>(b) Litigation concerning the content of agency contracts</p> <p>b. Whether there are any cases that are not sufficiently examined because they occurred abroad shall be examined.</p> <p>c. Whether the cause of delay is due to the broker shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(7) Receivables from reinsurers</p>	<p>Receivables from reinsurers refers to receivables of reinsurance premiums and reinsurance claims payable to or receivable from domestic reinsurers under reinsurance contracts; such receivables are claims against reinsurers.</p> <p>Receivables from reinsurers shall be classified in consideration of the following.</p> <p>a. In principle, receivables from reinsurers shall be classified according to the degree of collection risk or value impairment risk based on the financial condition, etc., of reinsurers.</p> <p>b. If there is litigation concerning the content of reinsurance contracts, etc., or similar events have occurred, such receivables shall be classified with an understanding of the actual situation of prospects for collection.</p>	<p>Whether receivables from reinsurers are being classified as stated in the definition shall be examined.</p> <p><u>Other points to consider:</u></p> <p>a. Whether receivables from reinsurers occurred due to litigation concerning the content of reinsurance contracts shall be examined.</p> <p>b. If such receivables from reinsurers have been reported for a long period of time, whether such delay is caused by contractual defects shall be examined. Furthermore, whether such receivables from reinsurers have been reported for a long period of time without due cause shall be examined.</p> <p>c. If payables and receivables were recorded for the same reinsurer and the payables to</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>c. If reinsurers are bankrupt or similar events have occurred to a reinsurer, such receivables shall be classified according to the financial condition of such reinsurers.</p>	<p>such a reinsurer were deducted from the receivables from such a reinsurer, whether such setoff is permissible shall be examined. If setoff is permissible, the examination shall not focus solely on the classification of remaining loans. The timing of the occurrence of such remaining loans shall also be examined.</p> <p>d. Whether reinsurance transactions were used for a transfer of profits shall be examined.</p> <p>e. If reinsurance premiums are to be adjusted at a later date under reinsurance contracts, whether such adjusted amounts were recorded at the time of determination of additional reinsurance premiums, etc., shall be examined.</p> <p>In assessing receivables from reinsurers, the</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
<p>(8) Receivables from foreign reinsurers</p>	<p>Receivables from foreign reinsurers refers to receivables of reinsurance premiums, reinsurance claims, etc., payable or receivable from foreign reinsurers under reinsurance contracts; such receivables are claims against foreign reinsurers.</p> <p>Receivables from foreign reinsurers shall be classified according to the classification criteria for receivables from reinsurers. In classifying receivables from foreign reinsurers, the following points shall also be taken into consideration.</p> <p>a. Receivables such as insurance premiums arising from reinsurance transactions with foreign insurance companies shall be classified</p>	<p>examination shall be conducted in consideration of the “Checklist for Inspection of the Insurance Underwriting Risk Management System II, Reinsurance Risk Management.”</p> <p>Whether receivables from foreign reinsurers are being classified as stated in the definition shall be examined.</p> <p><u>Other points to consider:</u></p> <p>Receivables from foreign reinsurers shall be examined according to the points to consider for receivables from reinsurers and the following points shall also be taken into consideration.</p> <p>a. Whether any cases are not sufficiently examined because they occurred abroad shall be examined.</p> <p>b. Whether the cause of delay is due to the</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(9) Receivables from co-insurers	<p>according to the financial condition, etc., of the respective reinsurers.</p> <p>b. If the foreign reinsurer is actually a broker, etc., the receivables from such foreign reinsurer shall be classified according to the financial condition, credit status, etc., of the broker, etc.</p> <p>Receivables from co-insurers refers to receivables recorded by the lead insurers and non-lead insurers under co-insurance contracts for several insurance companies to assume risks jointly for the same insurable interest.</p> <p>Receivables from co-insurers shall be classified according to the classification criteria for receivables from reinsurers. If co-insurers are bankrupt or similar events have occurred to a co-insurer, such receivables shall be classified according to their financial condition, etc.</p>	<p>broker shall be examined.</p> <p>Whether receivables from co-insurers are classified as stated in the definition shall be examined.</p> <p><u>Other points to consider</u></p> <p>Receivables from co-insurers shall be examined according to the points to consider for receivables from reinsurers.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
(10) Receivables for agent services	<p>Receivables for agent services refers to claims against companies commissioning agent services arising from the provision of such services to other insurance companies under agency contracts.</p> <p>Receivables for agent services shall be classified according to the classification of receivables from reinsurers. If a company commissioning such services is a foreign insurance company, receivables for agent services shall be classified according to the classification of receivables from foreign reinsurers.</p>	<p>Whether receivables for agent services are being classified as stated in the definition shall be examined. For receivables arising from agent services for other insurance companies, whether such receivables are being classified based on the financial condition, etc., of the companies commissioning such services shall be examined.</p> <p><u>Other points to consider</u></p> <p>Receivables for agent services shall be examined according to the points to consider for receivables from reinsurers and receivables from foreign reinsurers. In the examination, the nature and type of agency services for which compensation is due shall also be taken into consideration.</p>	
(11) Other assets	Assets other than those stated above shall be	Whether other assets are being classified as stated	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
	<p>classified according to the degree of collection risk and value impairment risk in consideration of the qualification of such other asset as an asset.</p> <p>Other assets that qualify as securities as per the Securities and Exchange Law and assets that are to be treated as securities for accounting purposes shall be valuated and classified according to the classification method for securities.</p>	<p>in the definition shall be examined.</p> <p>a. If a certain amount of purchased monetary receivables that were issued by general business corporations has been continuously purchased and it is deemed that credit has been granted for a long period of time, whether such purchased monetary receivables are being classified by the same method as that used for loans shall be examined.</p> <p>b. If loans of the financial institution under inspection were liquidated by means of a trust and the beneficial interest in trust of such loans is being held by the insurance company under inspection, whether such beneficial interest in trust of such loans is being classified by the same method as that used for the loans shall be examined.</p>	

Item	Examination of appropriateness of self-assessment standards	Examination of accuracy of self-assessment results	Remarks
		<p>c. As the right to obtain reimbursement and remaining assets that are not recorded under an asset account but rather are deducted from the reserves for outstanding claims, involves credit risk, whether proper accounting is performed according to the degree of collection risk or value impairment risk, shall be examined.</p>	

## Inspection of write-offs and allowances

### I. Purposes of the Inspection of Write-Offs and Allowances

“Write-offs” and “allowances” refer to appropriately estimating the future losses, etc., of loans, etc., in an appropriate and a timely manner, based on self-assessments in consideration of the actual situation of defaulted loans, etc. For insurance companies to fulfill a public and social role properly, insurance companies are strongly expected to ensure their financial soundness. To ensure such financial soundness, it is extremely important for insurance companies to write off receivables and provide for allowances according to the degree of credit risk. Therefore, insurance companies must write off and provide allowances at a sufficient level according to the degree of credit risk they hold.

Furthermore, write-offs and allowances of insurance companies are required to be performed in compliance with the Commercial Code and the Accounting Principles for Business Enterprises, etc. When performing an audit of financial statements, accounting auditors are required to evaluate the effectiveness of internal controls over write-offs and allowances.

Therefore, inspectors shall examine the status of the development, etc., of a system for proper write-offs and allowances based on a financial statement audit conducted by accounting auditors, and upon examination of the appropriateness of write-off and allowance criteria and the reasonableness of calculations of write-offs and allowances, shall also examine whether the level of the total amount of write-offs and allowances is sufficient in consideration of the degree of credit risk held by the insurance company under inspection.

Note: In valuating loans by the discounted cash flow method, necessary reviews will be performed in the future, in consideration of discussions conducted by the Business Accounting Council, etc., the status of introduction of the method by insurance companies, etc.

## II. Method of Inspection of Write-Offs and Allowances

Inspectors shall examine the appropriateness of actual write-offs and allowances through sufficient, so-called process checking, such as examination of the status of development, etc., of a write-off and allowance system, and examination of the appropriateness of write-off and allowance criteria.

Should any issues, etc., be identified during inspections, inspectors shall notify the insurance company under inspection of their views as regulatory authorities, fully confirm the views of the insurance company concerning those opinions, and directly confirm the views of the accounting auditors in the presence of insurance company representatives, or otherwise exchange opinions.

## III. Examination of Status, etc., of the Development, etc., of a Write-Off and Allowance System

Inspectors shall examine the status of the development, etc., of the write-off and allowance system, etc., used by the insurance company under inspection in accordance with the following points.

### 1. Establishment of write-off and allowance criteria

Do write-off and allowance criteria conform to all applicable laws and regulations, the Accounting Principles for Business Enterprises, and the framework set forth in this inspection manual?

Are the write-off and allowance criteria approved by the board of directors in conformity with official internal procedures, and stated in written form?

Do the write-off and allowance criteria specify the scope of assets subject to write-offs and allowances, the divisions responsible for performing write-offs and allowances, and the internal audit procedures of the internal audit division, as well as the lines of responsibility for write-off and allowance criteria and their application?

Are the opinions of the internal audit division (the credit auditing office, the asset assessment division, etc.) and the compliance control division sought in the formulation and revision of write-off and allowance criteria, in addition to the opinions of the divisions responsible for performing self-assessments (the division in charge of each asset and the asset assessment division) by those criteria?

Are write-off and allowance manuals formulated and stated in written form to determine write-offs and allowances appropriately?

For ensuring confidence in the financial soundness of insurance companies, it is desirable that specifics of write-off and allowance criteria are disclosed in a positive manner along with the disclosure of loan classification results pursuant to Article 59-2, Paragraph 1, Item 5(d) of the Enforcement Regulations of the Insurance Business Law and under Article 111, Paragraph 1 of the Insurance Business Law.

## 2. Status of development, etc., of the write-off and allowance system

Is the write-off and allowance system sufficient to provide checks and balances on the division responsible for performing self-assessments, the divisions involved in account settlement, and to calculate write-offs and allowances accurately? Some examples of such a system follow.

- 1) The division responsible for performing self-assessments calculates individual allowances for doubtful accounts, the internal audit division performs an audit, and the internal audit division calculates the general provisions for doubtful accounts.
- 2) The asset assessment division, independently of the division in charge of each asset and the divisions involved in account settlement, calculates individual allowances for doubtful accounts in cooperation with the division in charge of each asset, and the asset assessment division calculates the general provisions for doubtful accounts.

- 3) The division responsible for performing self-assessments calculates individual allowances for doubtful accounts, the divisions involved in account settlement calculate the general provisions for doubtful accounts, and the internal audit division audits the results of such calculations.

Are the responsible divisions and the internal audit division staffed with qualified personnel with sufficient knowledge of write-off and allowance practices?

Is the internal audit division, etc., providing the division in charge of performing self-assessments, etc., with the necessary training and instructions?

Is the director in charge of the internal audit division not concurrently the director in charge of the division responsible for performing self-assessments and/or the divisions involved in account settlement, since the internal audit division is required to be independent of the division responsible for performing self-assessments and the divisions involved in account settlement (such as, the budget office, etc.)? If the director in charge of the internal audit division is concurrently the director in charge of the division responsible for performing self-assessments and/or the divisions involved in account settlement, is a system established to sufficiently provide checks and balances on the conflicting interests that may exist, in order to ensure an appropriate audit without being influenced by the business performance of the insurance company, etc.?

Does the internal audit division examine whether the series of determinations and calculations of write-offs and allowances are made adequately according to the write-off and allowance criteria and write-off and allowance manuals?

It is desirable that the internal audit division examines not only the appropriateness of write-off and allowance results, but also the appropriateness of allowance percentages and the total amount of allowances, etc., and the appropriateness of the amounts of allowances for the previous financial term, etc.

Do insurance companies keep sufficient records, including materials maintained by each division, to enable inspectors, accounting auditors, etc., to examine the status of determinations and calculations of write-offs and allowances in conducting inspections and audits, after the determination and calculation of write-offs and allowances?

3. Reports on write-off and allowance results to the board of directors

Are write-off and allowance results reported to the board of directors periodically and in a timely and appropriate manner?

Is the status of development of the write-off and allowance system (including any changes, etc., of the divisions responsible for determining and calculating write-offs and allowances and in the internal audit division) also reported to the board of directors in a timely and appropriate manner?

4. Status of audits by corporate auditors and accounting auditors of the status, etc., of the development, etc., of the write-off and allowance system

Is the status, etc., of the development, etc., of the write-off and allowance system stated above in Sections 1, 2, and 3 appropriately audited by independent corporate auditors and accounting auditors who will not be influenced by directors?

IV. Examination of the appropriateness of write-off and allowance criteria

Inspectors shall assess, among other matters, whether the criteria formulated by insurance companies are clear and reasonable, and whether such framework complies with the Commercial Code and with the Accounting Principles for Business Enterprises, etc., and whether the criteria are based on self-assessment results, and if the framework for write-off and allowance criteria of the insurance company is unique, clearly understand the relationship between such framework and the framework provided for by the Commercial Code and the Accounting Principles for Business Enterprises, etc., and examine whether each individual rule for write-offs and allowances (for example, the allowance percentage calculation rule based on credit ratings, and the allowance

percentage calculation rule for each type of business and each area) of the insurance company can be explained rationally, and whether specific costs or losses that are highly likely to occur are rationally estimated.

Inspectors shall also examine whether the basic policy for write-off and allowance criteria is coherent and consistent, and if any change is made to the basic policy of write-off and allowance criteria, whether the reason for such change is justifiable.

#### V. Examination of the appropriateness of write-off and allowance results

Inspectors shall examine whether actual calculations of write-offs and allowances are appropriately performed according to the write-off and allowance criteria by the method stated in the Schedule below, and in such examination process, inspectors shall accurately understand the actual status of development, etc., of the write-off and allowance system; reporting of write-off and allowance results to the board of directors; and audits by corporate auditors and accounting auditors of the status, etc., of the development, etc., of the write-off and allowance system.

Write-off and allowance results influence the solvency-margin ratios, and thus, if the results of calculations of write-offs and allowances are deemed inappropriate, the cause(s) thereof (for example, caused by inappropriate write-off and allowance criteria, by inappropriate calculations of write-offs and allowances, or by poor business performance, etc.) and future improvement measures to be taken by the insurance company under inspection shall be thoroughly examined and accurately understood.

##### 1. Reference date

The reference date shall be determined in the same manner as the reference date stated in V-1 under the section, Self-Assessments.

##### 2. Specific method of examination, etc.

###### (1) Scope of examination

The appropriateness shall be examined for calculations of write-offs and allowances for all assets, etc., as of the reference date, with a particular focus on the appropriateness of write-offs and allowances for loans to “in danger of bankruptcy,” “de facto bankrupt,” and “bankrupt” borrowers. In performing self-assessments, if borrowers that are to be classified as “in danger of bankruptcy,” “de facto bankrupt,” or “bankrupt” borrowers are in fact classified as “normal” or “needs attention” borrowers, the examination shall be conducted with a particular focus on the appropriateness of the calculations of necessary write-offs and allowances for such loans.

## (2) Specific method of examination

Whether write-offs and provision of allowances are appropriately performed according to borrower classification as determined from self-assessments by the insurance company under inspection based on the materials used for the calculations of write-offs and allowances in compliance with the write-off and allowance criteria, shall be examined.

If a borrower classification was changed as a result of an inspection by regulatory authorities, the amounts of additional write-offs and allowances that will become necessary when write-offs and allowances are performed according to the write-off and allowance criteria of the insurance company under inspection based on the amended borrower classification, shall be accurately understood. In this case, attention shall be paid to the point that it is necessary to examine whether the write-off and allowance criteria of the insurance company under inspection are reasonable.

## 3. Criteria for judgment of the appropriateness of write-offs and allowances

As a result of an examination of the appropriateness of write-offs and allowances, if the write-off and allowance results of the insurance company under inspection are determined to fall under any of the following cases, the write-offs and allowances shall be regarded as inappropriate.

- (1) The appropriateness of write-off and allowance criteria is questionable, and thus, the amounts of write-offs and allowances as of the reference date are deemed inappropriate.
- (2) Write-off and allowance criteria are deemed to be applied inappropriately for specific borrower classifications and asset classifications based on self-assessment results.
- (3) Write-offs and allowances are deemed inappropriate due to errors in self-assessment results.

**(Schedule)**

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
<p>1. Allowance for doubtful accounts</p>	<p>An allowance for doubtful accounts shall be provided based on reasonable estimates of future losses that are likely to occur with regard to, as a minimum, loans (loans and other receivables similar thereto), provided however, that loans extended to the national government, local governments, and managed financial institutions shall be regarded as loans that involve neither collection risk nor value impairment risk, and thus these loans shall be exempt from loans requiring an allowance for doubtful accounts.</p> <p>The basic principle of calculating the amount of allowance for doubtful accounts is to determine write-offs and allowances in conjunction with self-assessments that are performed based on credit ratings in a coherent manner. For example, the company</p>	<p>In examining the calculation of the allowance for doubtful accounts, whether write-offs and allowances are determined in conjunction with self-assessments in a coherent manner, in principle, based on credit ratings, and whether write-offs and allowances are calculated in conformity with write-off and allowance criteria, shall be examined.</p> <p>Subsequently, whether the aggregate amount of allowance for doubtful accounts is at a sufficient level in consideration of the degree of credit risk held by the insurance company under inspection shall be examined. If credit risk is quantified by a rational and appropriate internal model, whether the aggregate amount of allowance for doubtful accounts is at a sufficient level</p>	<p>Note: “Managed financial institutions” in the criteria refers to financial institutions that are designated as such under Article 16, Paragraph 2 of the Supplementary Provisions of the Deposit Insurance Law.</p>

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
(1) General provisions for doubtful accounts	<p>first performs self-assessments based on credit ratings in consideration of the degree of credit risk of borrowers, etc., and then calculates the amounts of write-offs and allowances based on the self-assessment results.</p> <p>If credit risk is quantified by a rational and appropriate internal model, the aggregate amount of allowance for doubtful accounts shall be sufficient to provide for the estimated loan losses of the entire portfolio derived from the quantification of credit risk.</p> <p>The basic principle of calculating general provisions for doubtful accounts is as follows: calculate a percentage of future loss (projected loss percentage) that is expected to occur from loans to “normal” and “needs attention” borrowers, in principle, for each credit rating classification, or, at a minimum,</p>	<p>to provide for the estimated loan losses determined by the quantification of credit risk shall be examined.</p> <p>For a general provision for doubtful accounts, whether the amount of estimated loss from loans to “normal” and “needs attention” borrowers is reasonably estimated based on the write-off and allowance criteria for each credit rating classification or for each borrower</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>for each borrower classification, based on the actual bad debts percentage or the probability of bankruptcy in the past as calculated by the method stated below; calculate the amount of estimated loss that is the amount of loans, in principle, for each credit rating classification or, at a minimum, for each borrower classification multiplied by the corresponding projected loss percentage; and record the amount equivalent to the amount of estimated loss as a general provision for doubtful accounts.</p> <p>The basic method to be applied in calculating the general provision for doubtful accounts is to calculate the amount of estimated loss by using migration analysis for each credit rating classification or borrower classification.</p> <p>In addition, it is desirable to calculate the</p>	<p>classification shall be examined.</p> <p>More specifically, the following points shall be examined.</p> <p>1) <u>Examination of average duration, etc.</u> If the amount of estimated loss for a certain period of time in the future corresponding to the average duration is calculated, whether such average duration is reasonable shall be examined.</p> <p>More specifically, whether the average duration is reasonable shall be examined by confirming how loans that are short-term under contract terms, but are actually fixed for a long-term, is included in the calculation of average duration.</p> <p>If loans to “needs attention” borrowers</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>general provision for doubtful accounts by the following method, for example, in consideration of the actual status of credit risk of loans held by the insurance company under inspection: divide loans held by the insurance company under inspection into certain groups according to the different factors of portfolios (for example, type of business of borrower, location of borrower, the amount of loan, the scale of borrower, individual or corporation, and the status of preservation of loans); and calculate the amount of estimated loss for each such group.</p> <p>In determining the projected loss percentage, necessary corrections shall be made to the actual bad debts percentage and the probability of bankruptcy in the past, in consideration of projected changes in economic conditions, lending policies, and</p>	<p>are classified according to the degree of credit risk and the amount of estimated loss is calculated for a certain period of time in the future for each such classification, whether the future period for each classification based on the degree of credit risk is reasonable shall be examined.</p> <p>2) <u>Examination of actual bad debts percentage or probability of bankruptcy</u>  If a method using the actual bad debts percentage is applied, whether all losses including the amounts of direct write-offs, indirect write-offs, debt waivers, and loss on sale of loans are included in the estimated loan losses shall be examined.</p> <p>If a method using the probability of bankruptcy is applied, whether all</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>portfolio structures (for example, type of business of borrower, location of borrower, the amount of loan, the scale of borrower, individual or corporation, and the status of preservation of the loan).</p> <p>In particular, if economic conditions are rapidly deteriorating, due consideration should be given to the calculation periods to be applied by such methods, such as placing greater weight on the most recent calculation period, or, adjusting the projected loss percentage in consideration of an increase of actual bad debts percentage or probability of bankruptcy during the most recent period.</p> <p>(Calculation method of general provision for doubtful accounts)</p> <p>Method of calculation of the amount of estimated loss</p>	<p>borrowers that are classified as, at a minimum, “de facto bankrupt” or “bankrupt” borrowers are included in the number of bankruptcy cases shall be examined.</p> <p>It is appropriate to include the number of “in danger of bankruptcy” borrowers in the number of cases of bankruptcy in some manner, and thus, whether the method used to include the number of “in danger of bankruptcy” borrowers in the number of bankruptcy cases (for example, the number of cases of “in danger of bankruptcy” multiplied by the probability of bankruptcy is included in the number of bankruptcies) shall be examined. If no “in danger of bankruptcy” borrowers are included in the number of cases of bankruptcy, whether the aggregate amount of the</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>Amount of estimated loss = loan amount × projected loss percentage</p> <p>Example of formula for the calculation of projected loss percentage:</p> <p>1) Method using actual bad debts percentage</p> <p style="padding-left: 40px;">Amount of impaired loans, such as bad debt write-off ÷ loan amount</p> <p>2) Method using probability of bankruptcy (based on number of bankruptcy cases)</p> <p style="padding-left: 40px;">Probability of bankruptcy × (1 - estimated collection percentage)</p> <p>Note: There is also a method that</p>	<p>general provision for doubtful accounts is at a sufficient level to cover the credit risk held by the insurance company under inspection, whether the amount of estimated loss for the previous term and prior terms were at a sufficient level, and whether the amount of estimated loss calculated by the probability of bankruptcy is compared with that calculated by the actual bad debts percentage, shall be thoroughly examined.</p> <p>If a migration analysis for each credit rating classification or borrower classification is used in the calculation of probability of bankruptcy, whether the transition analysis is rational shall be examined.</p> <p>In cases when a method using the</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>replaces “1 - estimated collection percentage” with percentage of unsecured loans, or average percentage of impaired loans.</p>	<p>probability of bankruptcy is applied, if the amount of estimated loss calculated by a method using the actual bad debts percentage is deemed to exceed the amount of estimated loss calculated by a method using the probability of bankruptcy due to the occurrence of major losses, it is desirable to record the amount of estimated loss calculated by the method using the actual bad debts percentage as the allowance for doubtful accounts.</p> <p>3) <u>Examination of deduction of abnormal value</u>  If the amount of loss relating to certain borrowers or the number of cases of bankruptcy of certain borrowers is deducted as an abnormal value in the calculation of actual bad debts percentage or probability of</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p>bankruptcy, whether such deduction is rational shall be examined.</p> <p>More specifically, if the amount of related cases or the number of cases of bankruptcy of certain borrowers is deducted as an abnormal value on the basis that such borrowers were classified as “normal” or “needs attention” borrowers at the time of the calculation of actual bad debts percentage or probability of bankruptcy despite the fact that they should have been originally classified as “in danger of bankruptcy” borrowers, whether the amount of loss or the number of cases of bankruptcy is included in the calculation of the allowance for doubtful accounts in some manner (for example, the amount of loss or the number of cases of bankruptcy is</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p>included in the calculation of the amount of estimated loss from loans to “in danger of bankruptcy” borrowers) shall be examined.</p> <p>Furthermore, whether the amount of loss or the number of cases of bankruptcy relating to a certain type of business or in a certain area is deducted as an abnormal value on the basis that the amount of loss or the number of cases of bankruptcy relating to such type of business or in such area is significantly different from those relating to other types of business or in other areas shall be examined. It is not appropriate to deduct the amount of loss or the number of cases of bankruptcy relating to a certain type of business or in a certain area on such basis. In such a case, it is desirable to</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p>perform groupings for each type of business or area, calculate the actual bad debts percentage or probability of bankruptcy for each group, calculate the projected loss percentage based thereon, and calculate the amount of estimated loss, which shall be the amount of loans for each group multiplied by the corresponding projected loss percentage.</p> <p>4) <u>Examination of calculation period of actual bad debts percentage or probability of bankruptcy</u>            In calculating the amount of estimated loss, whether the actual bad debts percentage or probability of bankruptcy is calculated for a minimum of the three most recent calculation periods shall be examined.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p data-bbox="1182 339 1697 1094">If the calculation period does not include the three most recent calculation periods, whether there is a reasonable basis to do so (for example, there is an insufficient accumulation of data, etc.) shall be examined. In such a case, the timing of when the calculation period for the actual bad debts percentage or probability of bankruptcy will become sufficient to include three calculation periods in the past by accumulation of sufficient data, etc., shall be identified, and whether the method of calculation of the amount of estimated loss for such shorter period is reasonable shall be examined.</p> <p data-bbox="1137 1161 1576 1241">5) <u>Examination of projected loss percentage</u></p> <p data-bbox="1182 1257 1637 1337">In calculating the projected loss percentage, how well the insurance</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p>company under inspection understands changes in the economic conditions surrounding its business environment, changes in loan policies, changes in portfolio factors, etc., shall be examined. If the necessary changes are made based on changes in economic conditions, etc., whether there is a reasonable basis for implementing such changes shall be examined in consideration of the status of the understanding of such changes in economic conditions, etc., by the insurance company under inspection. If the insurance company under inspection has a proper understanding of drastic changes in economic conditions, etc., and yet it is not implementing such necessary changes, whether there is a reasonable basis for the insurance company under</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p>inspection not to implement such changes shall be examined.</p> <p>6) <u>Examination of amount of estimated loss for the previous term and prior terms</u>  Whether the amount of estimated loss for the previous term and prior terms was at a sufficient level compared with actual bad debts or the number of cases of bankruptcy that occurred subsequent to these terms shall be examined. If the level of amount of estimated loss is determined to have been insufficient as a result of examination, the cause thereof (for example, in calculating the amount of estimated loss in the previous term and prior terms, whether corrections in the previous term and prior terms based on future projections were appropriate) shall be examined,</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
<p>1) Allowance for doubtful accounts of borrowers classified as “normal”</p>	<p>For the allowance for doubtful accounts of borrowers classified as “normal,” in principle, the amount of estimated loss that is expected to arise for a certain period of time in the future corresponding to the average duration of loans shall be estimated, provided however, that the amount of estimated loss shall be considered as appropriate if is estimated for the following year.</p> <p>The amount of estimated loss shall be calculated as follows: calculate the actual loss percentage in the past based on the period-average of actual bad debts percentage or probability of bankruptcy for a</p>	<p>and whether a correction of the projected loss percentage as of the reference date is appropriate shall be examined.</p> <p>Whether an allowance for doubtful accounts of borrowers classified as “normal” in the amount equivalent to the amount of estimated loss for a certain period of time in the future corresponding to the average duration of loans to “normal” borrowers or the amount for the following year is reasonably estimated according to the write-off and allowance criteria shall be examined.</p> <p>If the amount of estimated loss for the following year is estimated, the examination of reasonableness of the certain period of time in the future</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>minimum of three calculation periods in the past (the average value of aggregated actual bad debt percentages or probability of bankruptcy for three calculation periods in the past, each of which corresponds to a certain period of time in the future); calculate the projected loss percentage by making necessary corrections to the calculated previous loss percentages to include the occurrence of projected future loss; calculate the amount of estimated loss, which shall be the amount of loans to “normal” borrowers multiplied by the projected loss percentage (for example, to calculate the amount of estimated loss for the following year, such amount shall be calculated based on the one-year average of actual bad debt percentage or probability of bankruptcy for three calculation periods in the past, each of which consists of one year).</p>	<p>corresponding to the average duration may be omitted.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
<p>2) Allowance for doubtful accounts of borrowers classified as “needs attention”</p>	<p>For the allowance for doubtful accounts of borrowers classified as “needs attention,” in principle, the amount of estimated loss that is expected to arise for a certain period of time in the future corresponding to the average duration of loans shall be estimated, provided however, that the amount of estimated loss shall be considered appropriate if loans to “needs attention” borrowers are classified according to the degree of credit risk and such amount is estimated for a certain period of time in the future that is considered reasonable for each such classification.</p> <p>For example, if the amount of estimated loss for the average duration or for the following three years is estimated for loans to “needs special attention” borrowers, and the amount of estimated loss for loans to other borrowers is estimated for the average duration or for the following year, the amount of estimated</p>	<p>Whether the allowance for doubtful accounts of borrowers classified as “needs attention” borrowers in the amount equivalent to the amount of estimated loss, either for a certain period of time in the future corresponding to the average duration of loans to “needs attention” borrowers or for a certain period of time in the future that is deemed reasonable for each classification of loans to “needs attention” borrowers according to the degree of credit risk, is reasonably estimated according to the write-off and allowance criteria shall be examined.</p> <p>If the amount of estimated loss is calculated for a certain period of time in the future for each classification of loans to “needs attention” borrowers according to the degree of credit risk, whether the calculation of the amount of estimated loss</p>	<p>Note: “Loans to ‘needs special attention’ borrowers” refers to the loans to “needs attention” borrowers with loans, in whole or in part, that qualify as “needs special attention” loans. Hereinafter the same.</p>

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>loss shall be deemed appropriate.</p> <p>The amount of estimated loss shall be calculated as follows: calculate the actual loss percentage in the past based on the period-average of actual bad debt percentage or probability of bankruptcy for a minimum of three calculation periods in the past (the average value of aggregated actual bad debt percentages or probability of bankruptcy for three calculation periods in the past, each of which corresponds to a certain period of time in the future); calculate the projected loss percentage by making necessary corrections to the calculated previous loss percentage to include the occurrence of projected future loss; and calculate the amount of estimated loss, which shall be the amount of loans to “needs attention” borrowers multiplied by the projected loss percentage.</p>	<p>is reasonably calculated shall be examined.</p> <p>If the amount of estimated loss arising from loans to “needs special attention” borrowers is estimated for the following three years and the amount of estimated loss arising from other loans is estimated for the following year, the examination of reasonableness for a certain period of time in the future corresponding to the average duration may be omitted.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
(2) Specific allowances for doubtful accounts and direct write-offs of bad debts	<p>Specific allowances for doubtful accounts and direct write-offs of bad debts shall be calculated or performed as follows: the amount of estimated loss arising from loans to “in danger of bankruptcy,” “de facto bankrupt,” and “bankrupt” borrowers shall be calculated, in principle, for each borrower; record the amount equivalent to the amount of estimated loss as the allowance for doubtful accounts, or, write off the amount as bad debt.</p> <p>The necessary amount of specific allowances for doubtful accounts shall be calculated each term.</p>	<p>For specific allowances for doubtful accounts and direct write-offs of bad debts, whether the amount of estimated loss arising from loans to “in danger of bankruptcy,” “de facto bankrupt,” and “bankrupt” borrowers is calculated, in principle, for each borrower based on the write-off and allowance criteria, and the amount equivalent to the amount of estimated loss is recorded as an allowance for doubtful accounts or directly written off as bad debt, shall be examined.</p>	
1) Allowance for doubtful accounts of borrowers classified as	<p>The allowance for doubtful accounts of borrowers classified as “in danger of bankruptcy” shall be calculated as follows: the amount of estimated loss arising from loans to “in danger of bankruptcy” borrowers</p>	<p>For the allowance for doubtful accounts of borrowers classified as “in danger of bankruptcy,” whether the amount of estimated loss arising from loans to “in danger of bankruptcy” borrowers for a</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
<p>“in danger of bankruptcy”</p>	<p>for a certain period of time in the future that is deemed reasonable shall be estimated, in principle, for each borrower; record the amount equivalent to the amount of estimated loss as an allowance for doubtful accounts, provided however, that the amount of estimated loss shall be considered appropriate if such amount is estimated for the following three years.</p> <p>Examples of formulas for the calculation of the amount of estimated loss arising from loans to “in danger of bankruptcy” borrowers follow.</p> <p>a. Methods under which the amount of loans classified as Class III multiplied by the projected loss percentage is regarded as the amount of estimated loss (including a method under which the amount of estimated loss is the balance of</p>	<p>certain period of time in the future is reasonably estimated shall be examined.</p> <p>More specifically, the following points and whether the entire amount of loans that are classified as Class III (including the difference between the appraised collateral value of general collateral and the estimated disposition value) is provided for, shall be examined.</p> <p>a. When a method under which the amount of loans classified as Class III multiplied by the projected loss percentage is regarded as the amount of estimated loss and such amount of estimated loss is recorded as the allowance for doubtful</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>the loan amount after subtracting the collectible portion by cash flows)</p> <p>If a method under a., above is applied for the calculation of the amount of estimated loss arising from loans to “in danger of bankruptcy” borrowers, the calculation shall be made as follows: calculate a percentage of future loss that is expected to occur (projected loss percentage), in principle, for each credit rating classification, or, at a minimum for each borrower classification of borrowers classified as “in danger of bankruptcy,” based on the actual bad debts percentage or the probability of bankruptcy in the past; calculate the amount of estimated loss that is, in principle, the portion of loans to each individual borrower that is classified as Class III multiplied by the corresponding projected loss percentage;</p>	<p>accounts:</p> <p>(a) <u>Examination of certain period of time in the future</u> Whether a certain period of time in the future for which the amount of estimated loss is calculated is reasonable shall be examined, provided however, that if the amount of estimated loss is estimated for the following three years, such examination may be omitted.</p> <p>(b) <u>Examination of actual bad debts percentage or probability of bankruptcy</u> If a method that uses the actual bad debts percentage is applied, whether the aggregate amount of all losses including the amounts of direct write-offs, indirect write-offs, debt</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>and record the amount equivalent to the amount of estimated loss as an allowance for doubtful accounts.</p> <p>The projected loss percentage shall be determined, in principle, for each borrower, and in determining such projected loss percentage, necessary corrections shall be made to the actual bad debts percentage or the probability of bankruptcy in the past in consideration of projected changes in economic conditions and projected performance of the borrower, including the type of business of the borrower, economic conditions of the area where the borrower operates its business, etc.</p> <p>The amount of estimated loss shall be calculated as follows: calculate the actual loss percentage in the past based on the</p>	<p>waivers, and losses on sale of loans (excluding losses arising from loans to “in danger of bankruptcy” borrowers) is included in the estimated loan losses shall be examined.</p> <p>If a method that uses the probability of bankruptcy is applied, whether all borrowers that are classified as “de facto bankrupt” or “bankrupt” borrowers are included in the number of bankruptcy cases shall be examined.</p> <p>(c) <u>Examination of deduction of abnormal values</u></p> <p>If the amount of loss arising from specific borrowers or the number of cases of bankruptcy of specific borrowers is deducted as an abnormal</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>period-average of actual bad debts percentage or probability of bankruptcy for a minimum of three calculation periods in the past (the average value of aggregated actual bad debt percentages or probability of bankruptcy for three calculation periods in the past, each of which corresponds to a certain period of time in the future); calculate the projected loss percentage by making necessary corrections to the calculated previous loss percentages to include the occurrence of projected future loss; calculate the amount of estimated loss, which shall be the amount of loans that are classified as Class III multiplied by the projected loss percentage.</p> <p>For insurance companies that are deemed to have difficulties in calculating the amounts of write-offs and allowances in</p>	<p>value in the calculation of actual bad debts percentage or probability of bankruptcy, whether such deduction is fundamentally valid shall be examined.</p> <p>(d) <u>Examination of calculation period of actual bad debts percentage or probability of bankruptcy</u>  In calculating the amount of estimated loss, whether such calculation is performed based on the actual bad debts percentage or probability of bankruptcy for a minimum of the prior three calculation periods shall be examined.</p> <p>If the calculation period does not include the prior three periods, whether there is a reasonable basis to</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>consideration of the status of loans secured by collateral, etc., for each individual borrower due to a large number of borrowers classified as “in danger of bankruptcy” borrowers, such insurance companies may apply the same projected loss percentage for each group of loans to “in danger of bankruptcy” borrowers under a certain amount, and calculate the estimated amount of loss that is to be recorded as an allowance for doubtful accounts. In such a case, the scope of loans to “in danger of bankruptcy” borrowers under a certain amount for which the same projected loss percentage may be applied to each group shall be limited to a reasonable scope according to the scale and contents of assets of the insurance company under inspection; additionally, the calculation of projected loss percentage is required to</p>	<p>do so (for example, there is an insufficient accumulation of data, etc.) shall be examined. In such a case, the timing of when the calculation period for the actual bad debts percentage or probability of bankruptcy becomes sufficient to cover the required three calculation periods due to the accumulation of sufficient data, etc., shall be identified, and whether the method of calculation of the amount of estimated loss for such shorter period is reasonable shall be examined.</p> <p>(e) <u>Examination of projected loss percentage</u>  In calculating the projected loss percentage, how well the insurance company under inspection understands changes in economic</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>be performed in a strict and clear manner.</p>	<p>conditions, projected performance of specific borrowers, including the type of business of the borrower, economic conditions of the area where the borrower operates its business, etc., shall be examined. If the insurance company under inspection has a proper understanding of dramatic changes in economic conditions, etc., and yet does not implement such necessary changes for each borrower, whether there is a reasonable basis for the insurance company under inspection not to implement such changes shall be examined.</p> <p>(f) <u>Examination of the amount of estimated loss in the previous term and prior terms</u> Whether the amount of estimated loss</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p>for each borrower in the previous term and prior terms was at a sufficient level compared with the actual bad debts or the actual cases of bankruptcy relating to specific borrowers that occurred after these terms shall be examined. If the level of the amount of estimated loss is determined to have been insufficient as a result of such examination, the cause thereof (for example, in the calculation of the amount of estimated loss in the previous term and prior terms, whether the corrections in the previous term and prior terms based on future projections were appropriate) shall be examined, and whether a correction of the projected loss percentage as of the reference date was appropriate shall be examined.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p>(g) <u>Examination of collectible amount by cash flows, etc.</u></p> <p>If the collectible amount by cash flows is deducted from the amount of loans under Class III for specific borrowers, whether the estimated amount of cash flows is reasonable, and whether the balance of the amount of Class III loans after deducting the collectible amount is regarded as the amount of estimated loss, shall be examined.</p> <p>If the amount of estimated loss arising from loans to “in danger of bankruptcy” borrowers that are below a certain amount is calculated for each group of borrowers based on a projected loss percentage calculated for each group, instead of for each</p>	<p>Note: “Collectible portion by cash flows” refers to the amount of loans to a specific borrower that is certainly expected to be collected, in principle, within the following three years, or, if a business improvement plan, etc., is in place, within the following five years, using net income as adjusted by non-cash expenses such as depreciation.</p>

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>b. Methods under which the reasonably calculated available-for-sale amount of loans that have a market for sale is regarded as the estimated collectible</p>	<p>borrower in consideration of the status of loans secured by collateral, etc., due to a large number of “in danger of bankruptcy” borrowers, whether the calculation of the amount of estimated loss for each group is reasonable shall be examined. In such a case, it is acceptable to calculate the amount of estimated loss arising from loans to “in danger of bankruptcy” borrowers under a certain amount by treating such loans as one group. Whether the scope of loans to “in danger of bankruptcy” borrowers under a certain amount is reasonable shall be examined.</p> <p>b. When a method under which the balance of amount of Class III loans after subtracting the available-for-sale amount is regarded as the amount of</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
2) Specific allowance for doubtful	<p>value and the balance of the amount of such loans after subtracting the estimated collectible value is regarded as the amount of estimated loss</p> <p>For loans to “de facto bankrupt” or “bankrupt” borrowers, the aggregate amount of loans classified under Class III or Class IV</p>	<p>estimated loss and such amount of estimated loss is used to record the allowance for doubtful accounts, if the available-for-sale amount of loans that have a market for sale is regarded as their estimated collectible value and the balance of the amount of such loans after subtracting their estimated collectible value is regarded as the amount of estimated loss, whether the calculation of the available-for-sale amount of such loans is reasonable and whether the balance of the amount of Class III loans after subtracting their estimated collectible value is regarded as the amount of estimated loss shall be examined.</p> <p>Whether the amount of loans to “de facto bankrupt” and “bankrupt” borrowers that is classified as Class III or Class IV is</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
<p>accounts and direct write-offs of bad debts of borrowers classified as “de facto bankrupt” or “bankrupt”</p>	<p>for each borrower shall be regarded as the amount of estimated loss, and the amount equivalent to the amount of estimated loss shall be recorded as an allowance for doubtful accounts, or, directly written off.</p>	<p>regarded as the amount of estimated loss and recorded as an allowance for doubtful accounts, or directly written off, shall be examined.</p> <p>Whether the entire amount of loans that are classified as Class III or Class IV is regarded as the amount of estimated loss, and whether the entire amount that is certainly expected to be collected is classified as Class II and such estimated collectible value is not further deducted from the amount classified as Class III, shall be examined.</p>	
<p>3) Allowance for specific foreign loans</p>	<p>For the allowance for specific foreign loans, it is necessary to determine applicable countries according to the financial, economic, and foreign currency management conditions of such countries, and to clarify loans to private companies and overseas</p>	<p>For the allowance for specific foreign loans, whether the selection of countries and loans subject to such account, and the calculation methods for the projected loss percentage and the amount of estimated loss are appropriate, shall be examined. In</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>Japanese affiliates in such countries that are subject to the allowance for specific foreign loans. The amount of such loans multiplied by the projected loss percentage, which is a rate of future occurrence of losses due to financial, economic, and foreign currency management conditions of such specified countries, shall be regarded as the amount of estimated loss, and the amount equivalent to the amount of estimated loss shall be recorded under the allowance for specific foreign loans.</p>	<p>particular, whether the calculation method of the projected loss percentage is reasonable in consideration of the available-for-sale amount of loans to such specified countries in the loan trading market and ratings of such countries by rating agencies, etc., shall be examined.</p> <p>Whether the amount of loans, excluding loans that are deemed collectible due to the fact that they are secured by bank deposit collateral, guarantees by those who reside outside of the specified countries, and/or insurance, etc., loans in local currency and loans with no transfer risk due to their structural nature multiplied by the projected loss percentage for the future loss expected to occur due to financial, economic, and foreign currency management conditions, etc., of such specified countries is regarded as the</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
		<p>amount of estimated loss, and the amount of estimated loss is recorded under the allowance for specific foreign loans, shall be examined.</p> <p>More specifically, for loans to “normal” and “needs attention” borrowers that are subject to the allowance for specific foreign loans, in addition to the general provision for doubtful accounts, whether the amount of estimated loss, which shall be the amount of such loans multiplied by the projected loss percentage calculated based on the financial conditions, etc., of the subject country, is recorded as an allowance shall be examined.</p> <p>For loans to “in danger of bankruptcy,” “de facto bankrupt,” and “bankrupt” borrowers that are subject to the allowance for specific foreign loans, in addition to the</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
4) Examination of appropriateness of the aggregate amount of		<p>amount of estimated loss calculated based on the financial condition, etc., of each borrower, whether the amount of estimated loss based on the financial condition, etc., of the specified countries, which shall be the remaining portion of loans to such borrowers after subtracting the amount of estimated loss calculated based on the financial condition, etc., of each borrower multiplied by the projected loss percentage calculated based on the financial condition, etc., of such specified countries, is recorded in the allowance for specific foreign loans or as a specific allowance for doubtful accounts, shall be examined.</p> <p>Whether the aggregate amount of allowance for doubtful accounts is at a sufficient level to provide for the credit risk held by the insurance company under inspection shall be examined.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
<p>allowance for doubtful accounts</p> <p>2. Allowances other than allowances for doubtful accounts</p>	<p>Allowances other than allowances for doubtful accounts shall be recorded upon reasonable estimation of the contingent losses, etc., that are highly likely to occur in the future. The account titles of allowances listed below are merely examples. Other account titles may be used.</p>	<p>For allowances other than allowances for doubtful accounts, whether the reasonably estimated amount to provide for a contingent loss that is highly likely to occur in the future is recorded as an allowance shall be examined.</p> <p>If there is a contingent loss that is highly likely to occur in the future and yet no allowance other than the allowance for doubtful accounts is recorded, whether there is a reasonable basis not to record such allowance shall be examined.</p>	
<p>(1) Allowance for loss on sales of loans</p>	<p>In cases when the real estate collateral value of loans sold to the Cooperative Credit Purchasing Company declines, etc., the</p>	<p>Whether the market value of such real estate collateral is reasonably calculated, whether the criteria for recording</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>projected amount of loss that is expected to occur in the future due to a decline in value of sold loans shall be calculated and the amount equivalent to such projected amount of loss shall be recorded as the allowance for loss on sale of loans.</p> <p>In cases when the market value of sold loans declines below 50% of the initial sale price, if the portion of the difference between the original sale price and the market value of sold loans that is to be paid by the insurance company that extended the loans is certainly expected to be sold on or before the last day of the following financial term, the portion of the difference between the original sale price and the estimated sale price of the real estate collateral that is to be paid by the insurance company that extended the loans shall be recorded as an allowance.</p>	<p>allowances are reasonable, and whether such criteria at a minimum meet the requirements stated in the criteria shall be examined.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
(2) Allowance for specified	<p>Note: The projected amount of loss arising from a decline in real estate collateral value, etc., is not the projected amount of loss arising from the default of claims against the Cooperative Credit Purchasing Company. Therefore, it is neither appropriate to classify the Cooperative Credit Purchasing Company as an “in danger of bankruptcy,” “de facto bankruptcy,” or “bankruptcy” borrower, nor to record the projected amount of loss as a specific allowance for doubtful accounts. Claims against the Cooperative Credit Purchasing Company shall be recorded under the general provision for doubtful accounts (excluding claims for which there is a reasonable basis not to treat as those to be recorded under the general provision for doubtful accounts).</p> <p>If support by means of debt waivers, cash donations, etc., is provided to borrowers in</p>	<p>Whether borrowers to whom support is expected to be provided by means of debt</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
debtor assistance	<p>financial difficulties for the purpose of aiding the reconstruction of or supporting such borrowers, in principle, the projected amount of loss that is expected to occur due to such support shall be calculated, and the amount equivalent to such projected amount of loss shall be recorded as the allowance for specified debtor assistance. More specifically, in calculating the projected amount of loss arising from the support of consolidated subsidiaries of the insurance company under inspection (including so-called affiliated non-banks), the amounts of write-offs and allowances required for these consolidated subsidiaries shall be calculated in consideration of the self-assessment results of these consolidated subsidiaries, for the amounts that are classified as Class III or Class IV, after subtracting the estimated collectible value (the aggregate amount of the amount</p>	<p>waivers or other methods such as cash donations are all provided for by an allowance and whether the calculation of projected amount of loss arising from the support to such borrowers is reasonable shall be examined.</p> <p>In the case when support is provided by means of debt waivers, if the projected amount of loss arising from such support is recorded as the specific allowance for doubtful accounts, whether there are reasonable grounds to record such projected amount of loss as the specific allowance for doubtful accounts and whether the calculation of such projected amount of loss is reasonable shall be examined.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>recorded under net assets and the estimated collectible value by cash flows during the business improvement plan implementation period; Class IV shall be applied first) by the same or similar method used for the calculation of write-offs and allowances for the insurance company under inspection, and the required amount of write-offs and allowances shall be regarded as the projected amount of loss arising from the provision of support and recorded as the allowance for specified debtor assistance. In such a case, as a minimum, the entire amount for the portion classified as Class IV or the amount of estimated loss that is calculated by the same method as that used for the loans to “in danger of bankruptcy” borrowers according to the write-off and allowance criteria of the insurance company under inspection for the portion classified as Class III, shall be regarded as the projected amount of loss,</p>		

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>which shall be recorded as the allowance for specified debtor assistance.</p> <p>In principle, the projected amount of loss arising from support to specified borrowers by means of debt waivers, cash donations, etc., shall be recorded as the allowance for specified debtor assistance. However, in cases when such support is provided by means of a debt waiver, if there is a reasonable basis to record such projected amount of loss as a specific allowance for doubtful accounts, such as the case when such a specified borrower is classified as an “in danger of bankruptcy” borrower, the projected amount of loss arising from the support is within the scope of the loan, and the projected amount of loss is small and thus there is little need to provide an allowance for specified debtor assistance, such projected amount of loss may be recorded as</p>		

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
(3) Other allowances for contingent losses	<p>a specific allowance for doubtful accounts.</p> <p>Other than those cases stated in (1) and (2) above, if there are contingent losses, etc., that are highly likely to occur in the future, the reasonably estimated amount that is expected to be borne in the future shall be regarded as the projected amount of loss and recorded as other allowances for contingent losses.</p> <p>In particular, if items were changed to off-balance-sheet status by means of the liquidation of loans, etc., and the credit risk of such items was not completely transferred to a third party and thus credit risk remains with the insurance company under inspection in whole or in part, the portion of the loans classified as Class III in the amount equivalent to the amount of estimated loss and the portion classified as Class IV shall be regarded as the projected amount of loss, and</p>	<p>Whether the projected amount of loss to be borne in the future is reasonably estimated and recorded as other allowances for contingent losses shall be examined.</p> <p>In particular, for those items that were changed to off-balance-sheet status by means of the liquidation of loans, etc., whether the projected amount of loss is recorded as an allowance for contingent losses as stated in the criteria shall be examined.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
3. Valuation of Securities	<p>recorded under other allowances for contingent losses.</p> <p>Securities shall be valued according to the classifications stated in a. through c., below.</p> <p>a. Valuation of bonds</p> <p>(a) With regard to held-to-maturity bonds, policy-reserve-matching bonds, and other bond securities with a known market value, the portion thereof classified as Class IV shall be regarded as the projected amount of loss and thus shall be directly written off.</p> <p>(b) The amount of estimated loss of held-to-maturity bonds, policy-reserve-matching bonds, and other bond securities without a known market value shall be calculated</p>	<p>In relation to valuation of securities, whether the projected amount of loss is recorded as an allowance or directly written off as stated in the criteria shall be examined.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>according to the method used for the allowance for doubtful accounts relating to loans, and the portion thereof classified as Class III in the amount equivalent to the amount of estimated loss shall be regarded as the projected amount of loss and recorded as an allowance, and the portion thereof classified as Class IV shall be regarded as the projected amount of loss and recorded as an allowance, or, directly written off.</p> <p>b. Valuation of stocks The portion of stocks classified as Class III in the amount equivalent to the amount of estimated loss shall be regarded as the projected amount of loss and recorded as an allowance, and the portion classified as Class IV shall be regarded as the projected amount of loss</p>		

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
4. Valuation of Derivatives	<p>and directly written off.</p> <p>c. Valuation of foreign securities and other securities Foreign securities and other securities shall be valued according to the classifications stated in a. and b., above.</p> <p>Derivatives that are not subject to mark-to-market valuation shall be valued according to the valuation of loans.</p>	<p>Whether derivatives are valued as stated in the criteria shall be examined.</p>	
5. Valuation of Other Assets		<p>In relation to the valuation of other assets, whether the projected amount of loss is recorded as an allowance or directly written off as stated in the criteria shall be examined.</p>	
(1) Valuation of advance payments	<p>The portion of advance payments other than those similar to loans that is classified as Class IV shall be regarded as the projected</p>		

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
(2) Valuation of chattels and real estate	<p>amount of loss and recorded as an allowance, or, directly written off.</p> <p>The portion of chattels and real estate that is classified as Class IV shall be regarded as the projected amount of loss and recorded as an allowance, or, directly written off.</p>		
(3) Valuation of golf association memberships	<p>The portion of golf association memberships that is classified as Class IV shall be regarded as the projected amount of loss and recorded as an allowance, or, directly written off.</p>		
(4) Valuation of insurance premiums receivable, receivables from agencies,	<p>The portion of insurance premiums receivable, receivables from agencies, receivables from foreign agencies, receivables from reinsurers, receivables from foreign reinsurers, receivables from co-insurers, and receivables for agent services that is classified as Class III in the</p>		

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
<p>receivables from foreign agencies, receivables from reinsurers, receivables from foreign reinsurers, receivables from co-insurers, receivables for agent services</p> <p>(5) Valuation of other assets</p>	<p>amount equivalent to the amount of estimated loss shall be regarded as the projected amount of loss and recorded as an allowance, and the portion thereof classified as Class IV shall be regarded as the projected amount of loss and recorded as an allowance, or, directly written off.</p> <p>a. If purchased monetary receivables are classified by the same method used for loans, the amount of estimated loss of purchased monetary receivables that are issued by borrowers who are “in danger</p>	<p>If purchased monetary receivables or beneficial interests in trust of loans are classified by the same method used for loans, whether the amount of estimated loss is calculated by the same method used for</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>of bankruptcy,” “de facto bankrupt,” or “bankrupt” borrowers shall be calculated by the same method used for the allowance for doubtful accounts, and the portion that is classified as Class III in the amount equivalent to the amount of estimated loss shall be regarded as the projected amount of loss and recorded as an allowance, and the portion thereof that is classified as Class IV shall be regarded as the projected amount of loss and recorded as an allowance, or, directly written off.</p> <p>b. If a beneficial interest in trust of loans is classified by the same method used for loans, the amount of estimated loss for the beneficial interest arising from the liquidation of loans to borrowers who are “in danger of bankruptcy,” “de facto bankrupt,” or “bankrupt” borrowers shall</p>	<p>the allowance for doubtful accounts shall be examined.</p> <p>In cases when purchased monetary receivables or beneficial interests in trust of loans are classified by the same method used for loans, or, when purchased monetary receivables or beneficial interests in trust of loans are to be classified but in fact are not being classified, if any allowance or write-off is recorded, whether there is a reasonable basis to do so shall be examined.</p>	

Item	Examination of appropriateness of write-off and allowance criteria	Examination of appropriateness of write-off and allowance results	Remarks
	<p>be calculated by the same method used for the allowance for doubtful accounts, and the portion classified as Class III in the amount equivalent to the amount of estimated loss shall be regarded as the projected amount of loss and recorded as an allowance, and the portion classified as Class IV shall be regarded as the projected amount of loss and recorded as an allowance, or, directly written off.</p> <p>The portion of other assets, other than those stated above, that is classified as Class III in the amount equivalent to the amount of estimated loss shall be regarded as the projected amount of loss and recorded as an allowance, and the portion thereof that is classified as Class IV shall be regarded as the projected amount of loss and recorded as an allowance, or, directly written off.</p>	<p>In relation to other assets, other than the assets stated above, whether the projected amount of loss is recorded as an allowance or directly written off as stated in the criteria shall be examined.</p>	

## REFERENCES

1. Concerning “Inspection Manual for Insurance Companies”  
(Notice No. 121, Inspection Bureau, FSA, June 20, 2000)
2. Concerning Amendments to “Concerning the Inspection Manual for Deposit-Taking Institutions and Insurance Companies”  
(Notice No. 128, Inspection Bureau, FSA, April 25, 2001)
3. Concerning Amendments to “Concerning the Inspection Manual for Deposit-Taking Institutions and Insurance Companies”  
(Notice No. 201, Inspection Bureau, FSA, June 28, 2001)
4. Concerning “Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises”  
(Notice No. 264, Inspection Bureau, FSA, June 28, 2002)
5. Concerning Amendments to “Concerning the Inspection Manual for Deposit-Taking Institutions,” etc.  
(Notice No. 90, Inspection Bureau, FSA, February 25, 2003)
6. Concerning Revisions of “Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises,” etc.  
(Notice No. 86, Inspection Bureau, FSA, February 26, 2004)

Notice No. 121, Inspection Bureau, FSA  
June 20, 2000

To: Inspection Administrator, Chief Financial Inspectors, Senior Financial Inspectors, Special Financial Inspectors, and Financial Inspectors

From: Hirofumi Gomi  
Director-General of the Inspection Department, Financial Supervisory Agency

Concerning the “Inspection Manual for Insurance Companies”

In the area of financial inspection, we issued “Basic Matters Concerning New Financial Inspections” (Notice No. 140, Inspection Department, MOF) in 1998. We have since been working on implementing a shift to policy administration with high transparency that is underpinned by clear rules, with basic emphasis on strict adherence to the principle of self-responsibility, and on market disciplines. Similarly, we issued “Inspection Manual for Deposit-Taking Institutions” [in 1999], by use of which we are working on encouraging management of financial institutions based on the principle of self-responsibility, and thereby building trust in the entire financial administration, in addition to further enhancing the inspection and supervision functions of the supervisory authorities and setting transparent administration in place. In accordance with these basic approaches, the Inspection Department recently developed a manual in which the basic approach to inspection of insurance companies and specific points to note, etc., in conducting an inspection are defined (hereinafter referred to as the “Inspection Manual for Insurance Companies”), as described in the attachment hereto. You are kindly requested to conduct inspections in accordance therewith.

The “Inspection Manual for Insurance Companies” is essentially a handbook to be used by inspectors for the examination of insurance companies. It is expected that, in accordance with the principle of self-responsibility, individual insurance companies will fully exercise their creativity and ideas to develop voluntarily, by reference to this manual, etc., their own detailed manuals that are suited to the size and nature of their operations, as part of their efforts to ensure sound and proper operations of insurance companies and to protect policyholders, etc. In addition, each item on the checklists contained in this manual represents a benchmark to be used by inspectors in evaluating the risk management system and the compliance system of an insurance company. Insurance companies are not legally bound at the present to achieve such a benchmark.

When using this manual, inspectors must take into account the size and nature of the subject insurance company and take care not to administer this manual rigidly, by rote. In cases when checklist requirements are not literally observed by an insurance company, insofar as the measures taken by such insurance company are deemed reasonable and effectively equivalent with checklist requirements or sufficient, given the size and nature of the insurance company concerned from the viewpoint of ensuring sound and proper operations of the insurance company and the protection of policyholders, etc., the measures will be acceptable. Accordingly, inspectors need to exchange fully their opinions with insurance companies during on-site inspections.

This notice will become effective as of July 1, 2000 and shall be applied to inspections commencing on or after the said date, except that any items concerned with assessments of assets, write-offs, and provisions, etc., and account closing procedures shall apply to inspections regarding account closing procedures undertaken on or after July 1, 2000.

In addition, the notice dated April 15, 1997, "Assessments of Assets by Insurance Companies," (Notice No. 185, Inspection Department, MOF) will become obsolete, effective July 1, 2000.

(Note) When an inspection will be conducted with respect to account closing procedures, etc., by an insurance company that were undertaken on or before June 30, 2000, it shall be noted that such an inspection is to be conducted in accordance with any notices, etc., that were in effect at the time of such procedures, etc.

Notice No. 128, Inspection Bureau, FSA  
April 25, 2001

To: Inspection Administrator, Chief Financial Inspectors, Senior Financial Inspectors, Special Financial Inspectors, and Financial Inspectors

From: Kazuto Nishikawa  
Director-General of the Inspection Bureau, Financial Services Agency

Concerning Amendments to “Concerning the Inspection Manual for Deposit-Taking Institutions and Insurance Companies”

Inspections by the Financial Services Agency (“FSA”) are intended to serve the function of adding to internal controls that deposit-taking institutions and insurance companies (hereinafter referred to as “financial institutions, etc.”) conduct themselves in accordance with the principle of self-responsibility, including internal audits, and strict external audits by accounting auditors, etc., under the assumption that these practices are in place.

In consideration of the importance of having financial institutions, etc., establish an effective internal audit and external audit system, the Inspection Bureau established the “Working Group on Internal and External Audit Functions” in August 2000 and has hitherto examined steps to amend its inspection manuals. In order to encourage financial institutions, etc., to establish an internal and external audit system based on self-responsibility and further enhance the effectiveness and efficiency of inspections by the FSA, the Inspection Bureau has amended portions of the “Inspection Manual for Deposit-Taking Institutions,” published July 1, 1999 (Notice No. 177, Inspection Bureau, FSA), and the “Inspection Manual for Insurance Companies,” published June 20, 2000 (Notice No. 121, Inspection Bureau, FSA), as described below. You are kindly requested to fully understand and observe the amended inspection manuals.

This notice will be effective as of April 25, 2001 and shall apply to inspections commencing on or after July 1, 2001.

1. The “Inspection Manual for Deposit-Taking Institutions” shall be amended as follows:

(1) “Checklist for the Risk Management System” (Common)  
“Internal inspection” in Section II.3. shall be read as “internal audit,” and Chapter III. shall be amended as described in Attachment 1.

(2) “Checklist for the Credit Risk Management System”  
“Internal inspection division” in Item II.1.(2) shall be read as “internal audit division.”

(3) “Checklist for the Market Risk Management System”  
Section II.2. shall be read as follows:

Reference	Current provision	Post-amendment provision
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(1)(3)(4)(4) (1)(3)(5)(5)	Inspection division	Internal audit division
(1)(6)(1)(1) (3)(9)(9)	Internal inspection division	
(3)(1)(1)	Internal inspection and audit	Internal audit
(3)(9)(9) (3)(10)(10)	Internal inspection	
(3)(8)(8)	Internal and external inspection and audit, etc.	Internal and external audit, etc.
(3)(9)(9)	At the time of inspection	At the time of audit

(4) “Internal Model Checklist”

The term “inspection” appearing in Section II.7. “Internal Inspections and External Audits” shall be read as “audit.”

(5) “Checklist for the Operational Risk Management System”

Sections II.1. and II.2. shall be amended as described in Attachment 2, and Section II.3. and Chapters III. and IV. shall be read as follows:

Reference	Current provision	Post-amendment provision
II.3.(1)(1) II.3.(2)(2) III.1.(3)(3) III.2.(2)(2) III.2.(4)(4) IV	Inspection division	Internal audit division
III.1.(2)(2)	Inspection results	Audit results

(6) “Checklist for the Management System for System Failures”

Chapters II. and III. shall be read as follows, and the Notes in the Remarks column in Section III.1. shall be removed:

Reference	Current provision	Post-amendment provision
II.2. III.1.(1) III.1.(1)(1) III.1.(2)	Inspection division	Internal audit division
II.2.	System inspection	System audit
II.2.	Inspection results	Audit results
III.1. III.1.(2)(2)	Internal inspection	Internal audit
III.1.(2)(2)	Headquarters inspection	
III.1.(2)	Method of inspection	Method of audit
III.1.(2)(2)	Scope of inspection	Scope of audit

2. The “Inspection Manual for Insurance Companies” shall be amended as follows:

(1) “Manual for Inspection of the Insurance Sales Management System”

Sections II.1. and II.2. shall be amended as described in Attachment 3, and “inspection division” in Paragraphs II.3.(2), II.4.(1) and II.4.(2) shall be read as “internal audit division.” In addition, “internal inspection” in Paragraph I.(14)7) of the Schedule to the Manual shall be read as “internal audit.”

(2) “Checklist for the Risk Management System” (Common)

“Internal inspection” in Section II.3. shall be read as “internal audit,” and Chapter III. shall be amended as described in Attachment 4.

(3) “Checklist for Inspection of the Insurance Underwriting Risk Management System”

Chapters I. and III. shall be read as follows:

Reference	Current provision	Post-amendment provision
I.1.(4)3 III.	Inspection division	Internal audit division
III.	Inspection	Audit

(4) “Manual for Inspection of Policy Reserves, etc., and Reserve for Outstanding Claims”

“Inspection division” in Item I.1.(6)(6) and “inspection” in Section III.1. shall be read as “internal audit division” and “audit,” respectively.

(5) “Checklist for Inspection of the Asset Risk Management System”

“Inspection” in Paragraphs II.2.(3) and II.2.(3)(3) shall be read as “audit.”

(6) “Checklist for the Market Risk Management System”

Section II.2 shall be read as follows:

Reference	Current provision	Post-amendment provision
(1)3)(4)(4) (1)3)(5)(5)	Inspection division	Internal audit division
(1)6)(1)(1)	Internal inspection division	
(2)(1)(1)	Internal inspection and audit	Internal audit
(2)(9)(9) (2)(10)(10)	Internal inspection	
(2)(8)(8) (2)(9)(9)	Internal and external inspection and audit, etc. At the time of inspection	Internal and external audit, etc. At the time of audit

(7) “Checklist for the Credit Risk Management System”

“Internal inspection division” in Item II.1.(2)(2) shall be read as “internal audit division.”

(8) “Checklist for the Operational Risk Management System”

Sections II.1. and II.2. shall be amended as described in Attachment 5, and Section II.3. and Chapters III. and IV. shall be read as follows:

Reference	Current provision	Post-amendment provision
II.3.(1)(1) II.3.(2)(2) III.1.(3)(3) III.2.(2)(2) III.2.(4)(4) IV.	Inspection division	Internal audit division
III.1.(2)(2) III.3.(1)(1) III.4.(1)(1)	Inspection results	Internal audit results
III.2.(4) III.2.(4)(4) III.4.(1)(1)	Inspection	Internal audit

(9) “Checklist for the System Risk Management System”

Chapters II. and III. shall be read as follows, and the Notes in the Remarks column in Section III.1. shall be removed:

Reference	Current provision	Post-amendment provision
II.2. III.1.(1) III.1.(1)(1) III.1.(2)	Inspection division	Internal audit division
II.2.	System inspection	System audit
II.2.	Inspection results	Audit results
III.1. III.1.(2)(2)	Internal inspection	Internal audit
III.1.(2)(2)	Headquarters inspection	
III.1.(2)	Method of inspection	Method of audit
III.1.(2)(2)	Scope of inspection	Scope of audit

Notice No. 201, Inspection Bureau, FSA  
June 28, 2001

To: Inspection Administrator, Chief Financial Inspectors, Senior Financial Inspectors, Special Financial Inspectors, and Financial Inspectors

From: Kazuto Nishikawa  
Director-General of the Inspection Bureau, Financial Services Agency

Concerning Amendments to “Concerning the Inspection Manual for Deposit-Taking Institutions and Insurance Companies”

The Inspection Bureau has hitherto developed and published inspection manuals from the viewpoint of further enhancing its inspection and supervision functions, encouraging management of financial institutions based on the principle of self-responsibility, and thereby ensuring transparent administration of financial policies. In accordance with the Emergency Economic Package announced on April 6, [2001], with regard to the introduction of fair value accounting for financial products and the current status of Internet transactions in the financial sector, the Inspection Bureau has amended portions of the “Inspection Manual for Deposit-Taking Institutions,” published July 1, 1999 (Notice No. 177, Inspection Bureau, FSA) and the “Inspection Manual for Insurance Companies,” published June 20, 2000 (Notice No. 121, Inspection Bureau, FSA) as described in Attachments 1 through 6 hereto. You are kindly requested to fully understand and observe these amended inspection manuals.

This notice will be effective as of July 1, 2001 and shall apply to inspections commencing on or after that date, with the exception of items that are concerned with assessments of assets, write-offs, and provisions, etc., and account closing procedures shall apply to inspections regarding account closing procedures undertaken on or after July 1, 2001.

Attachment 1	Credit Risk (for Deposit-Taking Institutions)
Attachment 2	Compliance System (for Deposit-Taking Institutions)
Attachment 3	Operational Risk (for Deposit-Taking Institutions)
Attachment 4	Systems Risk (for Deposit-Taking Institutions)
Attachment 5	Credit Risk (for Insurance Companies)
Attachment 6	Systems Risk (for Insurance Companies)

Notice No. 264, Inspection Bureau, FSA

June 28, 2002

To: Inspection Administrator, Chief Financial Inspectors, Senior Financial Inspectors, Special Financial Inspectors, and Financial Inspectors

From: Hirofumi Gomi  
Director-General of the Inspection Bureau, Financial Services Agency

Concerning “Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises,” etc.

The approach taken by our financial inspection manuals concerning asset assessments is to give comprehensive consideration, especially with respect to the borrower classifications of medium, small, and micro-sized enterprises, etc., not only to the financial status of a subject company, but also to the particularities of that company, including its technological strengths and sales ability as well as the assets of its representatives, etc.

However, on the other hand, opinions have been voiced that the descriptions of judgments of borrower classifications for medium, small, and micro-sized enterprises, etc., in the financial inspection manuals are abstract and difficult to understand, or that the financial inspection manuals possibly are being applied rigidly, using rote inspection practices.

The financial inspection manuals provide descriptions that are generalized to a certain degree so as to enable a broader coverage of inspections with respect to the large number of different financial transactions and the varied risk management status of a financial institution, according to its size and nature; if, however, this very aspect might possibly interfere with efforts of financial institutions in securing a risk management system or with judgments by the authorities conducting inspection and supervision practices, we must take actions to resolve such a situation.

In accordance with this recognition, we have developed “Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises” (hereinafter referred to as the “Supplement”), which consists of points of inspection that present descriptions about judgments of borrower classifications for medium, small, and micro-sized enterprises, etc., in the financial inspection manuals, as well as specific examples of how these points of inspection should be applied, as described in Attachment 1 hereto, in order to contribute to better comprehension of the status of actual corporate management when making a judgment of borrower classifications of medium, small, and micro-sized enterprises, etc.

In conjunction with the development of the Supplement, we have amended portions of the “Inspection Manual for Deposit-Taking Institutions,” published July 1, 1999 (Notice No. 177, Inspection Bureau, FSA), the “Inspection Manual for Insurance Companies,” published June 20, 2000 (Notice No. 121, Inspection Bureau, FSA) and the “Inspection

Manual for Securities Companies,” published June 14, 2001 (Notice No. 170, Inspection Bureau, FSA), as described in Appendices 2 through 12 hereto. You are kindly requested to fully understand and observe the amended inspection manuals. (Refer to the Attachment hereto.)

The items amended under Attachments 2 through 12 shall apply to inspections commencing on or after the date of issue of this notice.

(Note) The Supplement mentioned above shall apply to both the “Inspection Manual for Deposit-Taking Institutions,” and “Inspection Manual for Securities Companies.”

## **(Attachments)**

Attachment 1	Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises
Attachment 2	Compliance System: Comparison Table of Previous and Amended Provisions (for Deposit-Taking Institutions)
Attachment 3	Credit Risk: Comparison Table of Previous and Amended Provisions (for Deposit-Taking Institutions)
Attachment 4	Market Risk: Comparison Table of Previous and Amended Provisions (for Deposit-Taking Institutions)
Attachment 5	Compliance System: Comparison Table of Previous and Amended Provisions (for Insurance Companies)
Attachment 6	Market Risk: Comparison Table of Previous and Amended Provisions (for Insurance Companies)
Attachment 7	Credit Risk: Comparison Table of Previous and Amended Provisions (for Insurance Companies)
Attachment 8	Inspections of Solvency Margin Ratio, etc.: Comparison Table of Previous and Amended Provisions (for Insurance Companies)
Attachment 9	Compliance System: Comparison Table of Previous and Amended Provisions (for Securities Companies)
Attachment 10	Laws and Regulations, and Reference Cases Concerning Assurance of Fair Trading: Comparison Table of Previous and Amended Provisions (for Securities Companies)
Attachment 11	Items Concerning Capital Adequacy Ratio: Comparison Table of Previous and Amended Provisions (for Securities Companies)
Attachment 12	Market Risk: Comparison Table of Previous and Amended Provisions (for Securities Companies)

Notice No. 90, Inspection Bureau, FSA  
February 25, 2003

To: Inspection Administrator, Chief Financial Inspectors, Senior Financial Inspectors, Special Financial Inspectors, and Financial Inspectors

From: Takafumi Sato  
Director-General of the Inspection Bureau, Financial Services Agency

Concerning Amendments of the “Inspection Manual for Deposit-Taking Institutions,”  
etc.

The Inspection Bureau has hitherto developed and published inspection manuals from the viewpoint of further enhancing its inspection and supervision functions, encouraging management of financial institutions based on the principle of self-responsibility, and thereby ensuring transparent administration of financial policies. In accordance with the mention given in the “Program for Financial Revival” announced on October 30, [2002] of “Tightening Assessments of Assets” as a means to ensure stricter asset assessment practices and with the recent amendments, etc., of laws and regulations, including the Personal Identification Law, the Inspection Bureau has revised portions of the “Inspection Manual for Deposit-Taking Institutions” published July 1, 1999 (Notice No. 177, Inspection Bureau, FSA), the “Inspection Manual for Insurance Companies” published June 20, 2000 (Notice No. 121, Inspection Bureau, FSA), the “Inspection Manual for Securities Companies” published June 14, 2001 (Notice No. 170, Inspection Bureau, FSA) and the “Inspection Manual for Investment Trust Businesses, Investment Corporations, and Investment Advisory Businesses” published June 21, 2002 (Notice No. 225, Inspection Bureau, FSA) as described in Attachments 1 through 4 hereto. You are kindly requested to fully understand and observe these amended inspection manuals.

This notice will be effective as of February 25, 2003 and shall apply to inspections commencing on or after that date, with the exception of any items that are concerned with assessments of assets, write-offs, or provisions, etc., and the account closing procedures shall apply to inspections regarding account closing procedures undertaken on or after the issue date of this notice.

Notice No.86, Inspection Bureau, FSA  
February 26, 2004

To: Inspection Administrator, Chief Financial Inspectors, Senior Financial Inspectors, Special Financial Inspectors, and Financial Inspectors

From: Takafumi Sato  
Director-General of the Inspection Bureau, Financial Services Agency

Concerning Revisions of the “Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises,” etc.

The “Action Program Concerning Enhancement of Relationship Banking Functions,” released to the public on March 28, 2003 contained a statement on the Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credit of Small and Medium-Sized Enterprises (Notice No. 264, Inspection Bureau, FSA), published June 28, 2002 (hereinafter referred to as the “Supplement”), which read: “...the status, for instance, of how firmly the Supplement is applied in practice should be monitored, and necessary revisions should be adopted so as to better suit its provisions to the actual status of small and medium-sized enterprises.”

With the intention of revising the Supplement, on December 22, 2003 we invited public comments regarding revision proposals, and have since then examined the comments that were received through January 21, 2004. Today, we hereby notify the public regarding the revisions made to the Supplement as described in Attachment 1. These revisions shall apply to inspections commencing on or after the date of issue of this notice.

In conjunction with these revisions of the Supplement, we have also revised portions of the “Inspection Manual for Deposit-Taking Institutions” published July 1, 1999 (Notice No. 177, Inspection Bureau, FSA), the “Inspection Manual for Insurance Companies” published June 20, 2000 (Notice No. 121, Inspection Bureau, FSA), and the “Inspection Manual for Investment Trust Businesses, Investment Corporations, and Investment Advisory Businesses” published June 21, 2002 (Notice No. 225, Inspection Bureau, FSA) as described in Attachments 2 through 4 hereto. The revisions described in Attachments 2 through 4 shall apply to inspections commencing on or after the date of issue of this notice.

Each of you are kindly requested to fully understand and observe the details of the revisions mentioned above, and also strive to conduct scrupulous inspections underpinned by an adequate understanding of the purpose and intention as well as content of the Supplement including the recent revisions, and in adequate consideration of the actual status of corporate management of medium, small, and micro-sized enterprises.