

Annual Supervisory Policies for Insurance Companies for Program Year 2007

Qualitative Improvements in Supervision

Change in Circumstances surrounding Financial Supervision and Regulation

- Need to make existing efforts to improve customer protection and customer convenience more commonplace and further refined.
- The quality of financial regulation and supervision affects the competitiveness of financial and capital markets. In terms of policy, the high-priority issue is to stimulate Japan's financial and capital markets and enhance their international competitiveness.

Qualitative Improvements in Supervision

- 1) Optimal combination of rule-based supervision and principles-based supervision
- 2) Responding to high-priority issues through the effective use of regulatory resources
- 3) Placing greater emphasis on incentives for insurance companies, and respecting self-help efforts
- 4) Further improving the transparency and predictability of regulatory actions

Key Areas

1. Encouraging Insurance Companies to Make a Unified Efforts at the Organization Level to Implement Further Business Improvements

In order for insurance companies to independently ensure the appropriateness of their operations, it is important that they continue to make voluntary business improvement efforts at the organization level in a unified matter based on proper governance. Taking this into account, the FSA will examine whether they have built appropriate and autonomous business improvement processes, and encourage them to make improvements as necessary, while respecting their voluntary and continuous business improvement efforts. In doing so, the FSA's will place importance on providing incentives for business improvement.

(1) Building appropriate claims payment management systems; (2) Establishing appropriate insurance solicitation systems; (3) Enhancing queries and complaints handling systems; and (4) Developing a system to Properly handle personal information of policyholders.

2. Taking a Supervisory Stance in Accordance with the Business Scale and Style of Insurance Companies

Insurance companies vary widely in terms of business scale, ranging from large ones that form financial conglomerates to those that are generally small such as small-claims and short-term insurance businesses. Insurance solicitation styles also vary widely, ranging from those focusing on insurance agent/agency-oriented solicitation, to those focusing on

advertisement on TV, and the internet. Insurance companies have their respective characteristics in terms of the solicitation style they emphasize.

With this in mind, the FSA will sufficiently identify the current state of insurance companies as well as their issues through dialogue, and take a supervisory stance based on their divergent business scales and styles.

- (1) Stance on specific insurance businesses;
- (2) Stance on small-claims and short-term insurance businesses;
- (3) Stance on insurance holding companies and conglomerates; and
- (4) Stance based on characteristics of insurance solicitation styles

3. Promoting the Sophistication of Risk Management

Due to the increasingly diversified and complex needs of consumers and changes in the market environment, insurance companies are required to ensure financial soundness through such means as the sophistication of risk management and properly provide financial information thereon in order to properly identify various risks and fulfill their responsibility to policyholders in an appropriate manner.

With this in mind, the FSA will carry out supervision with the assumption that companies will adopt risk management practices that appraise assets and liabilities collectively based on economic value. In doing so, the FSA will sufficiently identify the current state of all insurance companies as well as their issues through dialogue.

- (1) Sophistication of asset-liability management and risk management;
- (2) Enhancing disclosure of financial information;
- (3) Ensuring adequate level of liability reserves;
- (4) Examining the reference loss cost rates and loading premiums.

4. Ensuring Sufficient Communication with Stakeholders in the Insurance Market

It is important that the FSA as well as insurance companies, insurance agents, insurance agencies, insurance brokers, consumers and their related organizations adequately share their experiences and knowledge with each other in order to ensure the sound and appropriate operation of insurance businesses, fairness in insurance solicitation and protection of insurance policyholders.

To this end, as the supervisory authority, the FSA will proactively exchange opinions on a regular basis with stakeholders in the insurance market, including the aforementioned insurance companies, related organizations, and endeavor to share with- and communicate to them its experience and knowledge.