Asset Investment Risk Management System Checklist

"Asset investment risk" is the risk that an insurance company will incur losses mainly due to the following factors.

① The value of an asset (including off-balance-sheet assets) fluctuates.

② The insurance company cannot control asset management with the nature of liability, and then ,has no other choice to save liquidity under bad condition or cannot maintain pre-promised rate.

With regard to solvency margin ratio regulations, Insurance Business Law Enforcement Regulations Article 87 stipulates that "(asset investment risk) is the risk related to asset investment, etc. that could be generated by larger than normally expected fluctuations of securities or other assets held." Note that, in this checklist, the term "asset investment risk" is used in the broader sense of the word.

Inspectors will inspect the asset investment risk management systems of insurance companies using "Risk Management Systems Checklists (Common Items)", "Market Risk Management System Checklist", "Credit Risk Management System Checklist and Manual", "Real Estate Investment Risk Management System Checklist", "Insurance Underwriting Risk Checklist and Manual", "Liquidity Risk Management System Checklist" and this checklist.

This checklist and manual apply to all insurance companies, including the foreign offices of Japanese insurance companies (foreign branch , foreign subsidiaries, and offices of the overseas workers, etc., though whether to include these offices in the inspection by this checklist and manual will be determined in light of applicable laws and ordinances, including applicable foreign-country laws and ordinances) and the Japan offices of foreign insurance companies.

Inspections on solvency margin ratio, etc. will be performed using the "(Attachment) On Inspections concerning Solvency Margin Ratio, etc." of the "Real Estate Investment Risk Management System Checklist" on the basis of the checklists and manuals for Insurance Underwriting Risk, Market Risk, Credit Risk, Real Estate Investment Risk as well as this checklist.

[Notes on the use of this manual in inspections]

This manual is essentially a handbook to be used by inspectors in the inspection of insurance companies. It is expected that, as part of their efforts to ensure sound and proper operations and in accordance with the principle of self-responsibility, individual insurance companies will fully exercise their creativity and innovation to voluntarily create their own detailed manuals. These insurance company manuals should make note of the content of this manual and be adapted to the size and nature of the insurance company.

The check points in this manual represent standard to be used by inspectors in evaluating the risk management systems of insurance companies. They do not constitute direct statutory obligations to be achieved by insurance companies. Care must be taken that the manual is not adopted by rote and uniformly. If there may be cases in which the checklist description has not been fulfilled literally, by insurance company , in the light of ensuring the soundness and appropriateness of its operation only the time that the measures by insurance company are equivalent in their effects to the descriptions for the check point or are sufficient given the size and nature of the insurance company, these measures would not be deemed inappropriate.

Inspectors will therefore need to fully dialogue relevant points with insurance companies during on-site inspections.

Note: Explanation of check points

① Unless explicitly stated otherwise, items expressed in the question form such as "does the insurance company" or "is the insurance company" are minimum standards that are expected of all insurance companies. Inspectors, as they go through their checklists, need to fully verify the effectiveness of these items.

② Unless explicitly stated otherwise, items worded in the form of "it would be desirable that" constitute "best practice(sound practice)" for all insurance companies. Inspectors need only confirm these items.

Note: Distinction between "board of directors" and "board of directors, etc."

① Items that are defined as roles of the "board of directors" are items for which the board of directors itself needs to determine all essential matters. This does not, however, preclude the board of directors from delegating consideration of draft documents to the management committee or similar bodies.

② The phrase "board of directors, etc." includes the board of directors, the management committee, the management meeting, and similar bodies. Items that are defined as roles of the "board of directors, etc." would ideally be determined by the board of directors itself, but may be delegated to the management committee, etc. provided that there has been a clear delegation of this authority from the board of directors, the management committee, etc. has kept minutes of its proceedings and other materials that would allow after-the-fact confirmation, and there are adequate internal checking by the measure the results are reported to the board of directors, or auditors are allowed to participate in the management committee, etc.

Note: Explanation of "business base", "business bases", "insurance sales"

① The phrase "business base" refers to organizations other than the head office that constitute business bases, such as branch offices, business headquarters, foreign branch offices, and foreign subsidiaries. The phrase "business bases" refers to organizations other than the head office that do not engage in sales activities, such as operating bases, service centers, and foreign liaison offices.

②The phrase "insurance sales" refers to insurance agency or insurance agent and does not include insurance broker.

Item	Risk Management System Check Point	Explanation of Risk Management Check Points	Remarks
I. Recognition of risk management, etc. 1. Recognition of directors and role of board of directors	(1) Directors' understanding and recognition of risk management	(1) Does the board of directors understand the locus and type of risks involved in asset management? Does it understand the risks involved in the liability side as well? Does it understand the techniques that are used to measure, monitor, and manage various risks, and does it recognized the importance of integrated risk management of assets and liabilities?	
	(2) Articulation of strategic goals of asset management based on management policies, etc.	(2) Does the board of directors set clear, specific strategic goals of asset management based on management policies? Are the strategic goals reviewed as necessary?	
	(3) Specific contents of strategic goals of asset management	(3) Do strategic goals of asset management include basic policies for asset management under various risk management systems, such as asset allocations, etc. that take account of the nature of liabilities and the level of risk that the company as a whole can tolerate? Is the level of risk that the company as a whole can tolerate determined on the basis of its business vitality, such as capital position, profitability, ability of risk management, and capacity of solvency?	Note: "Asset allocations, etc." include setting limits, and so throughout.
	(4) Establishment of organizations for risk management	(4) Does the board of directors establish a structure to manage the whole risk of asset management in accordance with the finalized strategic goals? Is the function of mutual checking ensured, for example, by making the division managing the whole risk of asset investment independent of the management divisions and the profit management divisions? Are the authority and responsibility of the board of directors and the asset investment risk management division clearly prescribed?	
	(5) Reporting on risk status to the board of directors, etc. and use of its report in decision-making for the organizations as a whole	(5) Does the board of directors, etc. regularly receive the reports on the status of asset investment risk and make necessary decisions? Does the board of directors, etc. make use of measured risk information in business execution and in enhancements, etc. of management structures?	
	(6) Introduction of new asset management method	(6) When introducing a new asset management method, does the board of directors, etc. take into account the nature of liabilities and tolerable level of risk, and risk management techniques?	

Item	Risk Management System Check Point	Explanation of Risk Management Check Points	Remarks
2. Recognition and roles of manager	(1) Establishment of rules for asset investment risk management	(1) Does the manager in charge of asset investment risks establish rules for the following matters with the approval of the board of directors, etc.? Do the rules articulate the division of the authority and responsibility between the asset investment risk management division and the management division, and a reporting line? ① Procedures for deciding asset allocations taking account of the nature of liabilities ② Procedures for settling limits on each asset ③Various risk management techniques (measurement, monitoring, management) ④ Policies and risk management techniques on medium- and long-term asset holding ⑤ Policies (including hedging policies) on derivative transactions ⑥ Risk management techniques for assets whose liquidity is too low to be disposed of, or whose market value cannot be objectively calculated ⑦ Review and reviewing procedures for various rules on asset allocations, etc. and risk management ⑧ Study items and approval procedures in case of introducing a new asset management method ⑨ Risk management techniques in case of consigning asset investment to outside	Note: "Limits" refers to all of the company-set limits that are necessary for risk management, such as risk limits (limits of expected losses from VaR and similar concepts), limits on asset investment (limits of holding asset), and loss-cut rules, and so throughout.
	(2) Appropriate asset investment risk management techniques	(2) Does the manager in charge of asset investment risks manage on the basis of the strategic goals of asset investment and the policies and rules on asset investment risk management? Does the manager always analyze changes of market environments, etc. in order to reflect them properly on asset allocation and risk management techniques? Does it properly report matters that have impacts on asset investment to the board of directors, etc.?	
II. Establishment of appropriate risk management systems 1. Recognition and assessment of risks	(1) Gasp of asset investment risks	(1) Does the asset investment risk management division gasp the market risk, credit risk, real estate investment risk and liquidity risk of all assets numerically or in a verifiable form and on a consolidated basis (within the limits of laws and ordinances)? Does it also fully verify risks of assets whose risk level and objective market value cannot be calculated? Does it work in close coordination with the insurance underwriting risk management division and gasp necessary information on the liability side for an integrated management of assets and liabilities? In case of consigning asset investment to outside, does the division gasp the risk of asset investment on the part of the consignees?	
	(2) Market risk	(2) Does the asset investment risk management division clearly identify assets having market risks and their risks? ① With regard to assets for which there is a market, does the division gasp the risk volume calculated by a generally acknowledged method? ② With regard to assets for which there is no market or whose liquidity is very low, does it gasp numerical values necessary for risk management, such as the market value calculated by an objective method? And when a market value is calculated, is the rationality of the calculation method in question verified by a third party not adopting the same calculation method? ③ With regard to assets whose market value cannot be calculated by an objective method, does it fully study the risk of holding such assets in light of the strategic goals of asset investment and relevant rules?	

Item	Risk Management System Check Point	Explanation of Risk Management Check Points	Remarks
	(3) Credit risk	(3) Does the asset investment risk management division clearly identify assets having credit risks and their risks? When evaluating the credit risk of securities, does it study not just superficial standard such as ratings, etc. but also substantial risks?	
	(4) Real estate investment risk	(4) Does the asset investment risk management division clearly identify assets having real estate investment risks and their risks? Does it gasp risks on the basis of the objective standard for evaluation? does a third party without adopting these standards verify the rationality ?	
	(5) Liquidity risk	(5) Does the asset investment risk management division gasp the liquidity of the whole assets?	
2. Risk management	(1) Management of limits	(1) Does the asset investment risk management division gasp that each management division follows set rules and properly manages them on a consolidated basis (within the limits of laws and ordinances)? ① Do management divisions appropriately make reports in accordance with rules? ② Do they follow rules for procedures when, for example, they have exceeded set limits? ③ Does it check if assets are continuously held in excess of limits?	
	(2) Risk management of assets with no limits	(2) With regard to assets whose risk management cannot be performed by using objective numerical value, does the asset investment risk management division perform appropriate risk management by taking account of the nature of the assets on a consolidated basis (within the limits of laws and ordinances) and the ratio of the assets in question to the total assets in accordance with the strategic goals of asset investment and relevant rules?	
	(3) Internal audit, external audit	(3) Does the internal audit division audit in order to confirm that asset investment risk management is appropriately implemented? Is the effectiveness of the risk management structure audited by accounting auditors, etc. at least once per year? With regard to matters identified as requiring improvements by internal audit or external audit, does the asset investment risk management division properly manage the status of improvements?	