

**Comprehensive Guidelines for Supervision of Insurance Companies  
(Provisional Translation of “IV Points of Attention regarding Examination of Insurance Products” and the related parts)**

(Note) In these guidelines, “the Act” refers to the Insurance Business Act, and “the Ordinance” refers to the Ordinance for Enforcement of the Insurance business Act.

IV. Points of Attention regarding Examination of Insurance Products

The standard for the examination of insurance products is prescribed under Article 5(1)(iii) and (iv) of the Act and Articles 11 and 12 of the Ordinance (referred to as the “Examination Standard” hereinafter in IV), and the points of attention regarding the examination of insurance products have been published and updated as necessary in order to enhance the efficiency, clarity and transparency of the actual examination process.

Regarding an application made in accordance with laws by an insurance company or a person who intends to become an insurance company (referred to as the “Insurance Company” hereinafter in IV) for authorization or notification concerning the introduction of a new product or the modification of an existing product related to life or non-life insurance (referred to as the “Product Authorization Application” hereinafter in IV), the examination shall be conducted from the perspective of respecting individual Insurance Companies’ ingenuity and enabling them to quickly develop products in response to the changes in policyholders’ needs, with attention paid to the following points in particular.

The Insurance Act has been in force since April 2010, wherein it has established provisions for protecting policyholders, etc. The examination of insurance products shall be continued in accordance with the provisions of the Insurance Act. It should be noted that the points of attention regarding the examination of insurance products, etc. shall be updated timely in light of the results of the examination of Product Authorization Applications and the needs of policyholders, etc. in order to enhance the efficiency, clarity and transparency of the examination process.

IV-1 General Matters

In the examination of products, particular attention shall be paid to the following points, which are common to the First, Second and Third Sectors.

#### IV-1-1 Descriptions of General Policy Conditions and Special Provisions

From the viewpoint of the protection of policyholders, etc., attention shall be paid to whether the descriptions of the general policy conditions and special provisions are clear, plain and simple.

#### IV-1-2 Scope of Coverage and Compensation

- (1) Whether the scope of coverage or compensation (hereinafter referred to as the “Coverage, etc.”) conforms to the provisions of Article 3(4) to (6) of the Act.
- (2) Whether the scope of Coverage, etc. suits the needs and convenience of policyholders, etc.
- (3) Whether adequate deliberations have been conducted as to the presence or absence of an insurance-like nature, such as whether the product incorporates an appropriate mortality rate or an appropriate incidence rate of insured events and whether it covers accidental incidents and compensates for losses.
- (4) Regarding insurance products for which the amount of insurance claims is excessive relative to the cause for payment, those for which there are extremely few causes for exemption and those for which the amount of insurance claims to be paid is in excess of the amount of actual losses, whether adequate deliberations have been conducted as to whether they are too speculative or liable to moral hazard.
- (5) Whether the causes for payment are specified.

#### IV-1-3 Product Names (Names of general policy conditions and Special Provisions)

Whether the contractual rights and obligations and other contents of the insurance product that are suggested by the product name may cause misunderstanding on the part of insurance policyholders, etc.

#### IV-1-4 Risk Selection

- (1) Whether the Insurance Company has taken measures to appropriately select physical risk related to the health condition, etc. of the insured person and environmental risk related to the occupation, etc. of the insured person.

(2) Whether the Insurance Company has taken measures to prevent moral hazard.

(3) Regarding non-selection type products, whether the Insurance Company has taken appropriate measures regarding the contents of the products, such as the scope of Coverage, etc. and the level of the insurance claims so as to prevent adverse selection.

Non-selection type products: Insurance products which allow enrollment without the notification of the health condition and the job, and health examination by doctors

#### IV-1-5 Notification Items

Whether the notification items required of policyholders and insured persons are limited to a minimum necessary for the Insurance Company to make risk selection. It should be kept in mind that ambiguous categorization such as “activities of interest” is not appropriate.

#### IV-1-6 Cause for Exemption

Whether the causes for exemption are clear and appropriate from the viewpoint of fairness and reasonableness, such as causes that undermine public order and decency and causes related to the exclusion of huge risk that may affect corporate management.

#### IV-1-7 Period during Which Contract May be Cancelled due to Violation of Notification Obligation

Whether the period during which the contract may be cancelled due to a violation of the notification obligation is unduly long from the viewpoint of the protection of policyholders, etc.

#### IV-1-8 Insured Amount, Insurance Period and Scope of Eligible Age

(1) Whether the insured amount, the insurance period and the scope of eligible age for insurance contract are set within limits that are appropriate in light of common sense.

(2) Whether the insured claims amount, the loss compensation ratio and the exemption amount are set based on appropriate verification conducted from the viewpoint of preventing moral hazard.

#### IV-1-9 Items to Be Explained to Policyholders, etc. (including customers)

Regarding low-cancellation-refund-type products, non-selection type products, products that use market value adjustment and arrangements similar to conversion, etc., whether the Insurance Company adequately explains their contents to policyholders, etc.

Market value adjustment: Arrangement under which the cancellation refund is determined by the premium reserve (as specified in Article 63 of the Insurance Act) and the adjustment based on the change in market value of the investment asset arising from the difference between the interest rates at the time of the contract and the cancellation.

#### IV-1-10 Method of Disclosing Cancellation Refunds

Whether the Insurance Company takes measures to disclose the cancellation refund clearly to policyholders, etc., such as indicating the refund amount on the insurance certificate, etc. and describing the calculation method in the terms of the contract, etc.

#### IV-1-11 Matters related to Loans Based on Terms of Insurance Contracts

(1) Regarding insurance products that incorporate a system of providing loans to policyholders, whether the upper limit on the amount of loans to policyholders is set at a reasonable level compared with the cancellation refund amount. Whether appropriate measures have been taken to prevent so-called over-loans such as by refraining from providing a new loan for a certain period before the expiry of the insurance period.

(2) Regarding insurance products that incorporate an automatic premium loan system, whether policyholders have an option to use the system. Whether an insurance company takes measures, including giving a notice to policyholders without delay, if an automatic premium loan is provided.

(Note) If an automatic premium loan is provided to policyholders with respect to already-approved products, it is desirable for an insurance company to give a notice to policyholders without delay.

#### IV-1-12 Treatment of Product Sales via Internet

When conducting examination based on the provision of Article 11(ii-2) of the Ordinance, attention shall be paid to the following points:

(1) Whether the Insurance Company makes sure, through a secure means, that an applicant for an

insurance contract is a legitimate party to sign a contract. A check on the physical condition of the insured person shall be conducted in cases where the notification of the physical condition of the insured person, health examination thereof or consent thereof is required.

- (2) Whether the Insurance Company has taken measures to prevent deficiencies and alterations (referred to as the “Deficiencies, etc. hereinafter in (2)) of information concerning applications for contracts and other information concerning contracts and to ensure the protection of policyholders, etc. even if Deficiencies, etc. occur.
- (3) Whether the Insurance Company has taken security measures to prevent the use of the procedures specified under Article 11(ii-2) of the Ordinance from causing a leak of information concerning contracts and policyholders, etc.
- (4) Whether the Insurance Company has taken measures to enable applicants to check the specifics of the procedures concerning applications for contracts and other contract-related matters, the contents and important items of the contract and stores these data through a secure means.
- (5) Whether the Insurance Company has taken measures to prevent the use of the above procedures from constituting a constraint on its future interactions with the applicant in relation to the contract.

#### IV-1-13 Products with Special Account or Accumulation Account

Whether the Insurance Company has established a system for managing risks related to overall asset investments in accordance with a clear and specific strategic objective concerning asset investment that is based on a management policy. Whether the Insurance Company ensures the exercise of the function of checks and balances, such as by keeping a division responsible for managing risks related to overall asset investments independent from the investment and profit management divisions. Whether it has specified the authorities and responsibilities of the board of directors and the division responsible for managing asset investment risk.

#### IV-1-14 Treatment of Group Insurance and Group Contracts

Regarding examination related to group insurance and group contracts, attention shall be paid to the following points:

- (1) Whether the extent of the policyholder group and the insured group is specified.
- (2) Whether the minimum number of insured persons per contract and the maximum insured amount multiple, for example, are specified according to the classification of insured groups (all-employee enrollment group insurance or voluntary enrollment group insurance) and the classification of policyholder groups (Type I to Type IV, etc.)
- (3) Regarding group insurance and group contracts based on occupation type, whether the following criteria are met in cases where retirees, their spouses, etc. (referred to as the “Retirees, etc.” hereinafter in this section) are kept in the insured group.
  - (i) The policyholder group has sufficient administrative work processing capability to properly keep track of the movements of the Retirees, etc. and manage the collection of insurance premiums
  - (ii) The level of insurance premiums and the type of the dividend payment method, etc. are commensurate with the insurance underwriting risk in light of the possible effects of the inclusion of Retirees, etc. in the insured group and an ensuing rise in the ratio of Retirees, etc. that is expected to occur in the future.

#### IV-1-15 Treatment of Group and Collective Insurance

Regarding examination related to insurance contracts for which a group or an association centrally collects premiums and pays them to an Insurance Company, attention shall be paid to the following points:

- (1) Whether the scope of policyholders enrolled in group and collective insurance plans is reasonable and appropriate.
- (2) Regarding the types of insurance for which group and collective plans are introduced, whether consistency between the plans is secured.
- (3) Regarding the introduction (or modification) of premium increases and discounts related to group and collective insurance, whether the increases and discounts determined according to the loss ratio take into consideration “IV-5-5 Premium Increase and Discount Systems, etc. (2).”

#### IV-1-16 Confirmation of Consent of Insured Person Related to Insurance Contract on the Life of

Another

Regarding the confirmation of the consent of the insured person related to the insurance contract on the life of another, whether it is specified that the confirmation is made through the following methods, for example.

(1) Confirmation by means of having the insured person himself/herself sign a letter of confirmation or writing a name and putting a seal thereon in the case of an insurance contract under which an individual or a company is to be the policyholder and beneficiary of insurance claims and persons other than the policyholder, or officers and employees are to be insured.

(2) Confirmation by means of the submission of either of the following sets of documents in the case of an insurance contract under which a company is to be the policyholder and the beneficiary of insurance claims and all employees, etc. are to be insured (an insurance contract which does not cover persons who have not consented to be insured), which is not either an individual life insurance or an all-employee-enrollment group term insurance contract and regarding which it is difficult to make confirmation as described in (1).

(i) A. The Accident Compensation Rules, etc. and other documents related to the insurance contract

B. List of signatures or seals accompanied by names of all persons who have consented to be insured.

(ii) A. The Accident Compensation Rules, etc. and other documents related to the insurance contract

B. A letter of confirmation stating that the prospective policyholder has notified all persons who are to be insured of the contents of the insurance contract (the letter must contain the signatures or names accompanied by seals of the prospective policyholder and the representative of the persons who are to be insured)

C. List of persons who have not consented to be insured

(iii) A. The Accident Compensation Rules, etc. and other documents which describe the contents of the insurance contract under which the company is to become the beneficiary of death benefits

B. A letter of confirmation stating that a relevant administrative agency has been notified of the Accident Compensation Rules, etc. in accordance with the provision of Article 89 of the Labor Standards Act and that all persons who are to be insured have been notified of said rules in accordance with the provision of Article 106(1) of the same act (the letter of confirmation must contain the signature or name accompanied by a seal of the prospective

policyholder)

C. List of persons who have not consented to be insured.

(3) Confirmation by means of the submission of either of the following sets of documents by the prospective policyholder in the case of all-employee-enrollment fixed-term insurance

(i) A. The Survivor Compensation Rules, etc. and other documents related to the insurance contract

B. List of signatures or names accompanied by seals of all persons who have consented to be insured

(ii) A. The Survivor Compensation Rules, etc. and other documents related to the insurance contract

B. A letter of confirmation stating that the prospective policyholder has notified all persons who are to be insured of the contents of the insurance contract (the letter must contain the signatures or names accompanied by seals of the prospective policyholder and the representative of the persons who are to be insured)

C. List of persons who have not consented to be insured

(4) Confirmation by means of having each person who is to be insured put a signature or a name accompanied by the seal on a letter of confirmation of his/her consent to be insured or through the means described in (3)(i) above in the case of an all-employee-enrollment fixed-term insurance contract to which the human-value special provision is attached.

#### IV-1-17 Adaptation to Insurance Act

As the Insurance Act contains a unilateral forcible provision that provides for the annulment of the terms of contracts that are disadvantageous for insurance policyholders, etc. in order to protect them, the examination shall be conducted with attention paid to the following points to check whether the terms of the contract contravene the said provision.

In the examination, attention should be paid to the possibility that although some causes for the non-payment of insurance claims, such as annulment, cancellation, exemption and lapse, etc., are treated as discretionary provisions under the Insurance Act, they may contravene the said unilateral forcible provision in some cases (e.g., cases where exemption is applied to all causes for the payment of insurance benefits that have arisen after an increase in risk) depending on the terms of the contracts related to the said provision.



(1) Cancellation due to Violation of Notification Obligation

- (i) Whether the terms of the contract take into consideration the fact that the obligation for policyholders, etc. to make voluntary notification was replaced by the obligation for them to reply to questions.
- (ii) Whether there is a provision that stipulates that in cases where the notification was obstructed by an insurance intermediary or where an insurance intermediary suggested withholding of information that should be disclosed, the Insurance Company cannot cancel the insurance contract.

However, this provision shall not apply in cases where it is deemed that the prospective policyholder or the person who is to be insured would have withheld information that should be disclosed or made false notification even if the insurance intermediary had not made such a suggestion.

(2) Insurance Benefits Payment Period

- (i) Whether the Insurance Company has set a basic period of the payment of insurance benefits under the terms of the contract in light of a reasonable period necessary for the procedures related to insurance benefits, such as the loss-assessment procedure, etc.

Whether the period is unduly prolonged compared with the basic period set under existing terms of contracts (e.g., a five-day period for life insurance and a 30-day period for non-life insurance and accident and disease insurance with a fixed amount).

- (ii) In cases where an exceptional benefits payment period is set, whether the check items necessary for the payment of insurance benefits, including those related to public agencies, medical institutions, etc. are specified with regard to each insurance type and whether the duration of the period is objectively reasonable.

In cases where an exceptional benefits payment period is applied, whether the Insurance Company notifies the person requesting the benefits of the check items and the number of days necessary for the payment thereof.

- (iii) Whether the Insurance Company has developed a control environment to ensure that when it has received a notification of the occurrence of a cause for the payment of insurance benefits from policyholders, etc., clear explanations about the procedures for requesting the payment of insurance claims, etc. are provided and the forms for making the request are quickly delivered to the insurance policyholders, etc. in light of (2) (v) of “II-4-4-2 Management System for Payment of Insurance Claims, etc.”

### (3) Cancellation due to Serious Cause

Whether the provision for the cancellation due to a serious cause stipulates, in order to prevent the abuse of the right to cancellation, that in cases where the Insurance Company intends to adopt incidents other than the occurrence of a cause for the payment of insurance benefits due to a deliberate intent of policyholders, etc. (Article 30(i), Article 57(i) and Article 86(i) of the Insurance Act) and fraudulent requests for the payment of insurance benefits by beneficiaries of insurance claims, etc. (Article 30(ii), Article 57(ii) and Article 86(ii) of the same act) as serious causes, whether those incidents are equal thereto in seriousness.

### IV-2 First Sector

In the examination of products in the First Sector, attention shall be paid to the following points in particular.

#### IV-2-1 Fixed-Term Insurance with Gradually Increasing Insurance Claims

- (1) Whether fixed-term insurance products with gradually increasing insurance claims are structured in a way that encourages solicitation activity deviating from the primary purpose of insurance, such as aiming mainly to generate high investment returns, etc.
- (2) Whether the cancellation refund amount for each year is set at a level lower than the insured amount for the same year.

#### IV-2-2 Voluntary Enrollment Group Fixed-Term Insurance

- (1) Whether the minimum number of insured persons and the minimum enrollment rate (as represented by the number of insured persons divided by the number of persons eligible to be insured) are set at a level that ensures stable and appropriate management of the insurance plans.
- (2) Whether the product design and dividend payment method are such that the effective insurance premium is commensurate with the insurance underwriting risk.

### IV-3 Second Sector

In the examination of products in the Second Sector, attention shall be paid to the following points in particular.

#### IV-3-1 Automobile Insurance Contract Covering 10 or More Vehicles

Regarding an automobile insurance contract which covers 10 or more vehicles as specified under Article 83(iii)(K) of the Ordinance, whether the following requirements are met.

- (1) The insurance contract must cover vehicles owned by the insurance policyholder (including vehicles purchased by the policyholder under a purchase contract with a provision for the reservation of the ownership right, vehicles leased on a commercial basis from a person who engages in the business of leasing vehicles on a commercial basis (referred to as the Leasing Business Operator hereinafter in IV-3-1 and IV-3-2) under a leasing contract with a period of one year or longer (in cases where the policyholder has transferred vehicles he/she owned to the Leasing Business Operator and leases them back on a commercial basis under a leasing contract, the one-year criteria is applied to the total of the ownership period and leasing period; the same shall apply hereinafter in IV-3-1) or vehicles leased free-of-charge from the government of Japan or other countries or local governments in Japan (including public organizations other than local governments in cases where the insurance policyholder is a public-interest corporation)).
- (2) Regarding the coverage of losses other than damage to vehicles, the policyholder must be the insured person under the insurance contract (including an insurance contract under which the insured person is a user of a vehicle leased from the Leasing Business Operator on a commercial basis under a leasing contract with a period of one year or longer).
- (3) The insurance contract must cover 10 or more vehicles (including vehicles related to other insurance contracts that meet the requirements specified in (1) and (2)) regarding which the reference date for the renewal of the insurance premium increase or discount (referred to as the Premium Rate Examination Date hereinafter in (3)) is the same and the period from the starting date to the expiry date of insurance obligation (referred to as the “Obligation Period” hereinafter in (3)) is one year or longer (including cases where the Premium Rate Examination Date falls on the last day of the insurance period and the Obligation Period is shorter than one year or where the Obligation Period is shorter than one year under an insurance contract related to an all-vehicle-inclusive special provision (which covers all vehicles owned and used by the insurance policyholder)).

#### IV-3-2 Insurance Contracts for Vehicles for Sale, etc.

Whether the vehicles notified as the vehicles specified under Article 83(iii)(L)(2) of the Ordinance meet the following criteria:

- (1) Vehicles transported or managed by automakers, auto dealers, coachbuilders and business operators similar thereto for the purpose of sales, testing and coach building, and vehicles transported or managed by automobile land transporters, automobile auction companies and business operators similar thereto on commission from others.
- (2) Vehicles owned by policyholders who are Leasing Business Operators, finance companies, automobile scrap yard operators and business operators similar thereto (including vehicles consigned to an automobile scrap yard operator for scrapping in cases where the automobile scrap yard operator is the insurance policyholder) and which are taken over from customers, transported or managed.
- (3) Vehicles consigned to auto maintenance companies, oil suppliers, car park operators, automobile auction companies, automotive electronics servicers, automobile-washing companies, automobile paint companies, tire replacers, automobile management companies and business operators similar thereto for the purpose of the execution of their businesses

#### IV-3-3 Treatment of Flexible Provision System, etc.

(1) In cases where an Insurance Company intends to state in the statement of business procedures that special provisions related to business insurance may be established or modified without a notification, attention shall be paid to the following points in the examination:

- (i) Insurance contracts other than the ones specified in (ii) and (iii)
  - A. Whether insurance contracts related to special provisions to be established or modified are subject to the requirement for notification.
  - B. Whether the policyholders and insured persons are business operators (however, if the insurance contract falls under all of the following cases, insured persons need not be business operators).
    - (a) An insurance contract which compensates for damage arising to insured persons in connection with business activities of the policyholders
    - (b) An insurance contract in which insured persons have no option to enter

- (c) An insurance contract for which it is explicit that insured persons have no obligation to pay insurance premiums or amounts equivalent to insurance premiums
  - C. Whether the statement of business procedures states that special provisions shall be established or modified in line with the intent and purpose of the Examination Standard prescribed in the statement of business procedures, etc. and the insurance contract.
  - D. Whether the statement of business procedures states that special provisions related to expenses necessary for the payment of penalty and the implementation of an agreement and expenses similar thereto may be established or modified
  - E. Whether the special provision is related to a medical liability insurance contract regarding which there is a particular need for examination in light of the characteristics of the insurance and from the social perspective.
- (ii) Automobile insurance covering 10 or more vehicles as specified under Article 83(iii)(K) of the Ordinance
- A. Whether the criteria in B. to D. in (i) are met.
  - B. In cases where the Insurance Company intends to state in the statement of business procedures that causes for the payment of insurance claims may be modified through the establishment or modification of a special provision, whether it is permitted to alter the function of providing relief to the aggrieved parties related to bodily injury liability insurance in ways that put the said parties or the insured persons at a disadvantage, such as by narrowing the scope of coverage and establishing new causes for exemption.
  - C. In cases where the Insurance Company intends to state in the statement of business procedures that various procedures, such as the procedures for the conclusion of a contract and the request for the payment of insurance claims, etc., may be established or modified through the establishment or modification of a special provision, whether the following criteria are met:
    - (a) Regarding a special provision concerning the procedures for the conclusion of a contract, a modification that may cause failure to provide insurance coverage to a vehicle to be covered or failure to collect premiums related to a vehicle covered by insurance is not permitted. In addition, a modification that may impede a check on the provision of protection to the vehicle involved in the insured accident is not permitted.
    - (b) Regarding a special provision related to the procedures for the notification of an insured accident and the request for the payment of insurance claims, etc., a modification that may put the aggrieved party or the insured person at a disadvantage is not permitted.
  - D. In cases where the Insurance Company intends to state in the actuarial statement concerning the calculation of insurance premiums and policy reserves (referred to as the “Statement of the Calculation Method” hereinafter) that a calculation method of insurance

premiums may be established or modified through the establishment or modification of a special provision, whether the calculation method is reasonable and appropriate from the actuarial viewpoint and is not unduly discriminatory.

It should be kept in mind that even in cases where the premiums are adjusted as described in (c), the criteria in (a) and (b) must be met.

- (a) The calculation method must be suited to the contents of the special provision
- (b) The standard insurance premium rate indicated in the Statement of the Calculation Method is not altered because of the calculation method. The calculation method must be consistent with the calculation method described in the Statement of the Calculation Method. It must not entail an alteration of an existing calculation method (including the definition of the scope of relevant policyholders) related to the premium increase/discount system based on the actual loss ratio or the combined conclusion of contracts with multiple policyholders.
- (c) In cases where the insurance premium is adjusted with regard to each insurance contract to which the special provision is attached, the calculation method must make discrimination based on the risk level related to the insurance contract in question or an increase or decrease in expenses due to the establishment or modification of procedures.

When the risk level is considered, attention should be paid to whether the contract conforms to the matters related to the risk factors specified under Article 12(iii) of the Ordinance.

- E. Whether a special provision is established or modified within limits that ensure that the contents of the insurance contract after the establishment or modification meet the requirements in IV-3-1.

(iii) Insurance contract for vehicles for sale, etc. as specified under Article 83(iii)L of the Ordinance

- A. Whether the criteria specified in C. and D. in (i) are met.
- B. Whether the criteria specified in B. to D. in (ii) are met.
- C. Regarding the establishment or modification of a special provision related to vehicles specified in Article 83(iii)L(2) of the Ordinance, whether vehicles other than those regarding which a notification was made based on IV-3-2 are covered.

- (2) In cases where an Insurance Company intends to establish a special provision that meets the criteria specified in (1) in relation to losses that may arise mainly in business activities in a foreign country or international business activities in accordance with the business practices of the regions, etc. where the relevant business activity is conducted (limited to cases where the statement of business procedures states that a special provision may be established within limits

necessary for ensuring harmonization with foreign or international business practices and that in this case, the insurance company may prepare a new written agreement on the contract so that the general policy conditions incorporate the features of the special provision, instead of establishing the special provision), the insurance company may prepare a new written agreement (including the said agreement as translated into a foreign language) so that the general policy conditions incorporate the features of the special provision and conclude the contract based thereon. In this case, it shall be deemed that a special provision that meets the criteria specified in (1) was established and a notification shall not be required.

- (3) In cases where a problem is recognized in a special provision established or modified or a new written agreement on the contract as described in (2) in terms of compliance with the Examination Standard prescribed in the statement of business procedures, etc., the submission of a report shall be required as necessary under Article 128 of the Act. If a serious problem is recognized, they shall take administrative actions under Article 131 of Act (under Article 203 of the Act in the case of a foreign insurance company, etc. and Article 229 of the Act in the case of a licensed specified juridical person) or Article 132 of the Act.

#### IV-3-4 Treatment of Business Activity Loss Compensation Insurance, etc.

Regarding insurance that provides compensation for losses incurred by business operators as a result of business activity (excluding insurance contracts specified in Article 83(iii)A to J and M to HH of the Ordinance and insurance contracts that cover the management and operation of vehicles but including insurance contracts that cover expenditures arising from the physical condition, treatment and death of persons), attention shall be paid to the following points in the examination.

- (1) In cases where an insurance product that covers expenditures arising from the physical condition, treatment or death of a person (including expenses related to the implementation of an agreement) and loss of expected profits is to be established or modified, whether an application for authorization has been filed as specified in the provision in the parenthesis of Article 83(iii)(II) of the Ordinance (however, it should be kept in mind that an application for authorization is not required in the case of insurance regarding which the loss amount is clear irrespective of the physical condition, treatment and death of persons, such as insurance for losses from the cancellation of events and insurance for the cost of product recalls, and insurance that provides compensation for the payment of condolence money and expenses similar thereto for death of persons due to accidents or diseases that occur during the business hours and at the sites where business activity is conducted, such as insurance for leisure and service facility

operation costs).

- (2) Whether the contents of the product are suited to First- and Third-Sector products.
- (3) Regarding insurance that provides compensation for losses due to causes similar to the causes related to casualty and medical insurance, etc. that pays insurance claims directly to the persons concerned or provides them with compensation for losses, whether the insurance premium rate is reasonable and consistent with the premium rate of the casualty and medical insurance, etc.
- (4) Regarding insurance that covers the payment of condolence money and funeral expenses, etc. by business operators to the survivors of employees, etc. who died of disease, whether the insured amount is within limits that are appropriate in light of social common sense.
- (5) In cases where there is the risk of moral hazard similar to the case of an insurance contract on the life of another, whether the Insurance Company has taken appropriate measures to prevent moral hazard with due consideration of “II-4-2-4 Insurance Contract on the Life of Another” and “IV-1-16 Confirmation of Consent of Insured Person Related to Insurance Contract on the Life of Another.”

#### IV-3-5 Treatment of Insurance that Covers Expenses Due to Implementation of Agreement

Attention shall be paid in the examination of business activity loss compensation insurance which provides compensation for losses suffered by business operators due to the implementation of an agreement concluded with a third-party person on the performance or exemption of the obligation for the payment of a certain amount of money, etc. due to an accidental cause.

- (1) Whether the insurance provides compensation for losses incurred due to the implementation of an agreement that undermines public order and decency.
- (2) Whether the rights and obligations under the agreement are evident for the third-party person and the payment of insurance claims generates undue profits to the business operator.

#### IV-4 Third Sector

In the examination of products in the Third Sector, attention shall be paid to the following points in particular.



#### IV-4-1 Establishment of Right to Alter Actuarial Assumption Rates

In cases where the examination of the establishment of the right to alter actuarial assumption rates related to Third-Sector insurance is conducted in accordance with the Examination Standard specified under Article 11(1)(vii)A of the Ordinance, the attention shall be paid to the following points.

- (1) “Other insurance contracts similar thereto” refer to insurance contracts under which benefits are paid for the condition, etc. of persons related to Type 1 infectious diseases, Type 2 infectious diseases, and Type 3 infectious diseases as specified under the Act on Prevention of Infectious Diseases and Medical Care for Patients Suffering Infectious Diseases (Act No. 114, October 2, 1998).
- (2) Whether the establishment of the standard for the exercise of the right to alter actuarial assumption rates meets all of the following requirements:
  - (i) Whether the benchmark for the relationship between the expected incidence rate and the actual incidence rate is the same as or similar to any of the following ratios in accordance with the purpose of altering the premium rate or insurance claims amount through a change in the expected incidence rate.
    - A. Ratio of the actual incidence rate to the expected incidence rate
    - B. Ratio of insurance claims paid to insurance premium revenues (total of risk premiums and loading premiums of the current year after adjustments for the inclusion and reversion of policy reserves).
  - (ii) The benchmark in (i) is set at an appropriate level in light of the expected profits or losses related to the insurance contract in the case of a rise in the actual incidence rate.
  - (iii) Whether the procedures for changing the insurance premium or the insurance claims amount after the benchmark in (i) is reached are specified.
- (3) Whether the insurance company has developed a control environment for decision-making related to the management of the actual incidence rate and the exercise of the right to alter actuarial assumption rates.

#### IV-4-2 Treatment of Application for Authorization of Exercise of Right to Alter Actuarial Assumption Rates

In cases where an application for the exercise of the right to alter actuarial assumption rates related to Third-Sector Insurance has been filed, attention shall be paid to the following points in the examination thereof:

- (1) Whether the rules concerning the right to alter actuarial assumptions rates prescribed in the terms of the contract (e.g., standard for the exercise of the right to alter actuarial assumption rates, etc.) are observed.
- (2) Whether the internally prescribed procedures for the exercise of the right to alter actuarial assumption rates are observed.
- (3) Whether adequate explanations were provided to the policyholder at the time of the contract conclusion and whether information disclosure as to whether the standard for the exercise of the right to alter actuarial assumption rates was met was made periodically thereafter.
- (4) Whether the expected incidence rate after the alteration is a reasonable and appropriate based on the actuarial standards in light of the actual incidence rate and other factors.

#### IV-4-3 Measures to Protect Policyholders, etc. at Time of Insurance Claims, etc. Payment

With respect to products in the Third Sector, attention shall be paid to the following points concerning measures for protecting policyholders, etc. at the time of payment of insurance claims, etc.

- (1) Regarding an insurance contract under which the insured person is the beneficiary and which carries a high probability that the insured person cannot physically request the payment of insurance claims when the cause for the payment arises, whether the insurance company has taken adequate measures to enable an agent of the insured person to request the payment quickly.
- (2) When determining the scope of benefit payment in the case of sickness, unexpected accident, etc., whether the insurance company has used classification rules, etc. which policyholders, etc. find difficult to refer to.
- (3) Regarding the fact that the number of days of payment of insurance benefit, etc. in an insurance contract before renewal will be carried over after renewal of the insurance contract, whether the

insurance company has taken measures to explain the fact to policyholders, etc. in a proper manner upon renewal of the insurance contract.

#### IV-5 Actuarial Standards

When examining Statement of the Calculation Method, attention shall be paid to the following points in particular.

##### IV-5-1 Insurance Premiums

- (1) Whether the calculation method of premiums takes into consideration sufficiency, fairness, etc. and is reasonable and appropriate.
- (2) Whether the insurance premium is unduly discriminatory between different groups of insured persons and between different insurance types, etc.
- (3) Whether the expected incidence rate, loss amount and expected cancellation rate are calculated in a reasonable manner based on basic data and corrected in accordance with the reliability of basic data.
- (4) Whether the assumed interest rate is appropriately set from a reasonable and long-term perspective based on the insurance type, insurance period, payment method of insurance premiums, records of past investment performance, expected future investment return, etc.
- (5) Whether non-arbitrary and reasonable rules concerning the review of the assumed interest rate of products with a variable assumed interest rate are set from the viewpoint of the protection of insurance policyholders, etc.
- (6) Whether the loading premium (including an increase or decrease in business expenses) meets the following conditions when expressed in qualitative terms, rather than as a co-efficient.
  - (i) Whether it is specified that the loading premium should be set at an appropriate level; for example, whether the fairness between different insurance types is maintained and whether it is set at a reasonable level relative to the expected amount of business expenses.
  - (ii) Whether the loading premium is specified by internal rules, etc. in accordance with the intent

of II-2-5-2(5)(iv).

(iii) Whether the insurance company submits monitoring materials with regard to each insurance type and each sales channel as classified in accordance with the loading premium rate and in light of the degree of importance based on the viewpoints in (1) and (2). Whether data used as the basis of the monitoring materials are attached thereto.

(7) In cases where the insurance premium rate is not revised on the occasion of a revision of the scope of coverage, etc., whether the insurance company has adequately examined the need to revise the premium rate.

#### IV-5-2 Policy Reserve

(1) When examining policy reserves, attention shall be paid to the matters specified in “II-2-1-2 Provision Method” in particular.

(2) Whether it is ensured that when the product is designed so as to set the amount of benefits in the early part of the contract period at a high level, when the amount of future benefits is reduced or when the insurance premium payment is deferred, the value of the policy reserve does not become negative. In cases where a negative value is deemed to be zero for the purpose of the calculation of the policy reserve, attention shall be paid to whether an adequate study on maintaining the financial soundness is conducted.

(3) Regarding the policy reserve for insurance products with the arrangement of market value adjustment, whether it is the larger amount of either the premium reserve or the cancellation refunds.

#### IV-5-3 Policyholder Value

Whether the cancellation refund is set at a reasonable and appropriate level in light of the business expenses and investment losses as well as the insurance product design, etc. so as to avoid putting insurance policyholders at an undue disadvantage.

#### IV-5-4 Application of Premium Increase or Discount Based on Past Loss Ratio, etc.

In cases where an insurance company intends to stipulate in Statement of the Calculation Method that a premium increase or discount may be applied based on the past loss ratio (or the

payment ratio) with regard to fixed-amount benefit insurance contracts (including special provisions) related to diseases (e.g., general medical treatment, cancer and nursing care insurance), attention shall be paid to the following points in the examination:

- (1) Whether insurance contracts (including special provisions) to which a premium increase or discount is applicable are fixed-amount benefit insurance contracts (including special provisions) related to diseases with an insurance period of one year or shorter under which groups such as companies, etc. are the insurance policyholders.
- (2) Whether it is prescribed that regarding the past data used for the application of a premium increase or discount, the insurance performance of insurance contracts that meet all of the following requirements over a period of one year or longer must be checked.
  - (i) Contracts which cover the group in question
  - (ii) Fixed-amount benefit group insurance contracts whose main coverage of risks overlap each other (excluding insurance contracts which mainly cover injuries or the condition of being unable to work)
- (3) In cases where the underwriting insurance company in (2) is a different insurance company from the insurance company in question, whether it is prescribed that only if all of the following requirements are met, the materials, etc. prepared by the underwriting insurance company, etc. (hereinafter referred to as the “Materials, etc.”) may be used for the calculation of the pure premium amount in the case of insurance underwritten with the pure premium rate of the insurance company in question and the premium amount thus calculated may be applied.
  - (i) The Materials, etc. are reliable and objective.
  - (ii) The pure premium amount in the case of the application of the pure premium rate of the insurance company in question is calculated based on the conditions of coverage and the past performance of the contract that constitute the assumptions of the Materials, etc.
  - (iii) In cases where the conditions of coverage such as the period of exemption, etc. that constitute the assumptions of the Materials, etc. are different from those that constitute the assumptions of the pure premium rate of the insurance company in question, a correction is made in a reasonable manner in accordance with the calculation method of the pure premium rate of the insurance company in question.

IV-5-5 Premium Increase and Discount Systems, etc.

- (1) Whether the establishment (or modification) of a premium discount system is reasonable from the actuarial viewpoint and has no problem from the viewpoint of consistency with other premium increase or discount systems, the revenue-expenditure balance after the introduction of the discount system and fairness, etc. among policyholders.
- (2) Whether the premium increase or discount system based on the records of insurance claims payments (including those involving premium adjustments) takes into consideration past data available in a reasonable manner without arbitrary selection. In particular, whether the insurance company uses highly reliable and objective past data available and makes corrections in accordance with the reliability of the past data.

#### IV-5-6 Adaptation to Revision of Advisory Pure Risk Premium Rate

In cases where an insurance company does not revise the pure risk premium rate of insurance products whose pure risk premium rate is calculated on the basis of the advisory pure risk premium rate in accordance with a revised advisory pure risk premium rate within one year from the date when it was notified of the revision as specified under Article 9-2(3) of the Act on Non-Life Insurance Rating Organization of Japan, the company shall be required under Article 128 of the Act to submit a report or materials concerning the reasonableness and appropriateness of the pure risk premium rate it is continuing to use, as it shall be deemed that the company is applying its own premium rate without using the advisory pure risk premium rate as a basis.

#### IV-6 Examination Procedures

When examining products, attention shall be paid to the following points in particular.

##### IV-6-1 Treatment of Examination Period related to Authorization and Notification of Insurance Products

While the standard examination period related to the authorization of insurance products as specified under Article 246(1)(xii) of the Ordinance is 90 days and that related to the notification of insurance products as specified under Article 125(1) of the Act is 90 days, efforts shall be made to shorten the examination period from the viewpoint of contributing to the speed-up of product development.

In particular, regarding the application for authorization and notification of products that are

standardized and simple or products whose contents are effectively the same as the contents of existing products of other companies (limited to products which can be examined efficiently based on the Assessment Statement, etc. specified in IV-6-2), the examination shall be completed within 45 days in principle.

#### IV-6-2 Procedures for Examination of Insurance Products

In cases where the statement of the assessment of the contents of notification or application for authorization (Handbook for Formats and Reference Materials: Formats for Other Reports, etc.: IV-6-2 Attachment 1, 2 or 3) or the written outline thereof prepared by insurance companies in accordance with the legally prescribed Examination Standard so as to describe the prescribed items is attached to a notification or an application for authorization, the examination shall be conducted with the use of either the said statement or the written outline (hereinafter referred to as the "Assessment Statement, etc.") in a prompt and efficient manner. In particular, it should be kept in mind that even if the Assessment Statement, etc. is attached, it shall not be deemed that the prescribed items are described as specified above in cases where the descriptions in the Assessment Statement, etc. are deemed to be inadequate and require corrections, where adequate explanations concerning the descriptions thereof cannot be obtained from the insurance company, or where not all materials deemed to be necessary are attached.

#### IV-6-3 Implementation of Efficient Examination of Insurance Products in View of Product Selling Plans

Examination of insurance products shall be made efficiently with such efforts as exchanging opinions in advance with insurance companies if requested confirming the existence of a concrete product selling schedule, and giving priority to the application with product selling plans.

- Other related parts (Sections referred in “IV Points of Attention regarding Examination of Insurance Products”)

#### II-2-1-2 Provision Method

- (1) In the category of insurance specified under Article 3(4)(i) of the Act (hereinafter referred to as the “First Sector”) and in the category of insurance specified under Article 3(5)(ii) of the Act (hereinafter referred to as the “Third Sector”), whether the insurance company provides for the standard policy reserve with regard to contracts subject to the standard policy reserve and to provide for policy reserves under the net level premium method with regard to contracts not subject to the standard policy reserve (excluding the saving-type casualty insurance contracts with a maturity of 10 years or less and other types of insurance specified in FSA Notice No. 24-2 dated March 30, 2001).
- (2) In cases where policy reserves are provided for under the Zillmer method as a reasonable and appropriate method based on actuarial standards in the First Sector and the Third Sector because of special circumstances related to the status of the insurance company’s business operations or assets and the characteristics of insurance contracts, etc., whether the Zillmer percentage rate is reasonable in light of the level of the acquisition cost related to new contracts.
- (3) In the case of (2) above, whether the insurance company increases the standard policy reserve and the net level premium policy reserve in a well-thought-out manner.
- (4) Regarding insurance contracts for which the insurance premium payment is to be exempted because the insured have met the criteria for causes for exemption, such as prescribed medical conditions due to specified diseases, prescribed physical disabilities and prescribed conditions requiring nursing care and which may be automatically renewed, whether the insurance company provides for reserves in the amount calculated on the assumption that all such contracts will be automatically renewed until the maturity of the insurance period.
- (5) Whether the provision standards and the provision ceiling concerning “other risks” related to Contingency Reserves I and IV are set in accordance with the level of the risk of the payment of such insurance benefits as surgical operation benefits and nursing care benefits.
- (6) Whether the insurance company calculates the contingency reserve amount in the Third Sector with the use of stress testing as specified by Ministry of Finance Notice No. 231 dated June 8,



1998, and whether its internal regulations, etc. specify the control environment to ensure that checks and balances are exercised between the division responsible for calculating the contingency reserve amount and other suitable divisions, such as the internal audit division.

(7) Regarding the implementation of stress tests and liability adequacy tests, attention shall be paid to the following points:

(i) Whether the possibility of a rise in the incidence rate of insured events is properly taken into consideration.

(ii) While the tests should be implemented separately for categories of contracts with the same actuarial assumption rates in principle, contracts that meet the conditions described in A. and B. below may be tested together:

A. The contents of the benefits to be paid under the terms of the contracts are deemed to be equivalent to each other in light of the causes for benefit payment and the risk profiles, and the equivalence has been confirmed based on historical data and statistical materials.

B. The same statistical materials were used to calculate the expected incidence rates of insured events.

In cases where benefits are paid due to two or more causes for benefit payment with regard to one policy (in cases where the basic policy and special provisions are available and either of them may be chosen by the customer, each one of them shall be deemed to be an individual policy), the criteria set forth in A. and B. above must be met with regard to each cause for benefit payment. However, this shall not apply to insurance benefits regarding which the incidence rate of insured events is sufficiently low and the possibility of the performance of obligations being hindered is extremely small.

(iii) In cases where the number of the insured persons is too small to enable statistical treatment, the following arrangements shall be allowed:

A. When a sufficient period has not passed since the start of sales of an insurance product to enable statistical treatment in a stress test or a liability adequacy test, the insurance company may use an appropriate actuarial method in order to complement a lack, etc. of data with the use of the historical data and statistical materials used for the calculation of the expected incident rate of insured events. However, even in this case, it is necessary to check whether there is not any significant difference between the actual results and the historical data used for the calculation of the expected incident rate of insured events and take appropriate steps based on the actual results.

B. When it is difficult to apply the principle of equalization of income and expenditure because the law of large numbers does not work due to a decrease in the number of insured persons

following the discontinuation of the solicitation of new contracts, the insurance company may substitute the amount of benefits to be paid for the group of contracts concerned (which is equivalent to the total amount of benefit payments calculated on the assumption that all relevant insurance claims will be paid out) with the estimated expense amount in the liability adequacy test. In this case, the stress test (calculation of the Contingency Reserve IV) shall not be applied.

- (iv) Categories of policies with the same actuarial assumptions should be subject to the same stress and liability adequacy tests.

#### II-2-5-2 Major Supervisory Viewpoints

##### (5) Cooperation with Relevant Divisions

- (iv) Whether the calculation method for loading premiums specified by internal rules, etc. is reasonable and appropriate and whether it is ensured that the loading premiums calculated are not unreasonably discriminatory. In particular, in cases where the loaded premium is raised or discounted, attention shall be paid so as to make sure that the extra premium or the discount is in accordance with the prescribed contract arrangement and method of premium payment, etc. and does not constitute the effective offer of special advantage as specified under Article 300(1)(v) of the Act.

#### II-4-2-4 Insurance Contract on the Life of Another

Regarding the supervision of insurance companies in relation to the conclusion of the insurance contract on the life of another (the death insurance contract in which a person other than the insurance policyholder is the insured person, and the disease insurance with a fixed-term in which a person other than the insurance policyholder is the insured person and the cause for benefit payment is the death of the insured person due to injury or disease (including the change of the insurance claims beneficiary; in the case of the disease insurance with a fixed-term, excluding the case in which the insurance claims beneficiary is the insured person or his/her successor and the cause for benefit payment is not limited to death due to injury or disease)), attention shall be paid to the following points from the viewpoint of ensuring the protection of insured persons, etc. and the sound and appropriate management of insurance companies' business operations.

##### (1) Purpose and Intent

(i) Regarding an insurance contract under which a company (including a sole proprietor) is the policyholder and the insurance claims beneficiary, and an employee, etc. is the insured person (hereinafter referred to as the “Business Insurance”), whether the insurance company manages its business operations in accordance with the purpose and intent specified in A. or B. below.

A. Securing of financial resources for the payment of Condolence Money, death retirement allowance, etc. (hereinafter referred to as the “Condolence Money, etc.”) prescribed by the corporate labor rules, labor-management agreements or other regulations concerning accident compensation and compensation for survivors for the purpose of supporting the lives of the survivors and employees, and financial aid for the treatment of wounds and disease not related to work (hereinafter referred to as the “Accident Compensation Rules, etc.”).

B. Securing of financial resources for covering expenses to be incurred by the company following the death of employees, etc., such as the cost of employing and training replacement employees, as well as for continuing business operations and dealing with a temporary credit shortage.

(Note) When obtaining the consent of the persons to be insured, whether the insurance company ensures that it recognizes the contents of the contract, such as the name of the insurance claims beneficiary and the insured amount, etc., for example through the following methods:

(a) To deliver a copy of the application for insurance and a document describing the contents of the contract to the insured persons.

(b) To check with the insurance policyholder as to how the insured person is able to recognize the contents of the contract. The results of the check should be stored as recorded data for verification.

In addition, whether the insurance company takes measures to facilitate the delivery of relevant information by the insured persons to their family members and other necessary persons, such as including in documents provided to them a paragraph that encourages them to explain the insurance enrollment to family members.

(ii) Regarding an all-employee enrollment fixed-term insurance (this term means a group term insurance contract which covers a group including all employees, whether the insurance company manages its business operations in accordance with the purpose and intent of the group (all employees) term insurance contract—for example, whether it is clarified that its purpose or intent is to provide bereaved family members and employees with compensation money; whether the part to guarantee financial resources for paying Condolence Money, etc. is classified as “main contract,” and whether the part to secure financial resource for covering expenses to be incurred by the company following the death of employees, etc., such as the cost of employing and training replacement employees (the company’s economic loss) is classified

as “special provision”

(Note) When obtaining the consent of the persons to be insured, whether the insurance company ensures that they recognize the contents of the contract, such as the name of the insurance claims beneficiary and the insured amount, etc., for example, through the following methods:

- (a) To deliver a document describing the contents of the contract to the insured persons.
- (b) To check with the insurance policyholder as to how the insured person is able to recognize the contents of the contract. The results of the check should be stored as recorded data for verification.

(2) System to Check the Scope, etc. of Organization for Group Insurance or Group Contract

- (i) Whether a system is in place to check if the insured person is included in the insured group.
- (ii) Whether a system is in place to check if application conditions, etc. of group term insurance, etc. are properly operated in accordance with the methods specified in the statement of business procedures.

(3) Method to Determine Insured Amount

- (i) Regarding the determination of insured amount for Business Insurance, whether measures are properly taken in consideration of the purpose and intent of the insurance contract, and from the viewpoint of avoiding moral risks, including the standard, etc. for accepting the insured amount.

In the case in which the securing of financial resources for covering expenses to be incurred by the company following the death of employees, etc., such as the cost of employing and training replacement employees, as well as for continuing business operations and dealing with a temporary credit shortage, is included in the purpose and intent of the insurance contract, whether the insured amount is established in consideration of standards, including employee’s annual salary, length of service, job position, and the company’s annual sales and size, at the time of conclusion of the insurance contract so that the insurance amount will not be excessive and will be operated properly based on the upper limits; in addition, whether the insured amount for an employee is properly established in consideration of (ii) below.

- (ii) Regarding establishment of the insurance amount for the all-employee enrollment fixed-term insurance, whether measures are taken so that the insured amount will be established in consideration of the purpose and intent of the insurance (above item (1))—for example, whether the insured amount in the main contract is limited to the payment amount under the

accident and bereaved family compensation rules, etc., and whether the insurance amount in the special provision is limited to the insurance amount in the main contract (not exceeding 20 million yen).

(4) Securing of Insurance Claims Payment Linked to Accident Compensation and Bereaved Family Compensation Rules, etc.

- (i) In cases where it has been confirmed that the whole or a substantial portion of the insurance claims related to the Business Insurance will be used for the payment of Condolence Money, etc. to employees who are the insured persons based on the Accident Compensation and Bereaved Family Compensation Rules, etc., whether, at the time when the request for insurance claim payment is made, the insurance company takes measures to make sure that relevant information is provided to the insured person or the Recipient and that the insurance claims are used for welfare benefits, including the payment of Condolence Money, etc., in accordance with the purpose of the insurance contract from the viewpoint of ensuring the sound and appropriate management of its business operations; for example, whether the insurance company obtains from the policyholder: A) a document that confirms understanding of the contents of the insurance claim by the insured person or the person who should receive bereaved family compensation as specified in Article 42, etc. of the Ordinance for Enforcement of the Labor Standards Act (hereinafter referred to as the “Recipient” (it should be checked whether the said document indicates specific details such as the name of the insurance claims beneficiary and the insured amount, etc.), or B) a document that confirms the receipt of the money by the insured person or the Recipient or a record of payment, etc. to the insured person or the Recipient.
- (ii) In the case of payment of insurance money under all-employee enrollment fixed-term insurance, whether the full amount of insurance money under the main contract will be paid to the bereaved family of an employee, and if the company tentatively receives insurance money and pays the same to the bereaved family, whether the company pays the insurance money after confirming the understanding of the bereaved family; in addition, whether the said document for confirming such understanding indicates specific details such as the name of the insurance claims beneficiary and the insured amount, etc.
- (iii) In the case of the all-employee enrollment fixed-term insurance, whether the payment of insurance money under “human value special provision” is paid after confirming the understanding of the Recipient of Condolence Money, etc.; and whether the said document for confirming such understanding indicates specific details such as the name of the insurance claims beneficiary and the insured amount, etc.

## II-4-4-2 Management System for Payment of Insurance Claims, etc.

### (2) Major Supervisory Viewpoints

#### (v) Development of Control Environment at Payment Management Division

A. Whether there is a control environment to ensure that employees at the Payment Management Division understand and recognize that the payment of insurance claims, etc. forms the basis of insurance companies' business operations and make continuous efforts to develop and establish an appropriate management system for the payment of insurance claims, etc.

Whether the employees keep in mind that such efforts must take into consideration not only payment-related business operations but all activities related to the handling of customers and consumers, including sales and solicitation of insurance products, receipts of reports on accidents and the request for insurance claim payment as well as complaints and requests for consultation after the conclusion of contracts.

B. When verifying the appropriateness of a final judgment made in the payment examination process and the results of the examination on an ex-post basis, whether the Payment Management Division takes into consideration the opinions of outside experts as necessary. Whether it makes use of complaints from customers for the development and establishment of an appropriate management system for the payment of insurance claims, etc., such as by conducting analysis from the standpoint of customers.

C. Whether the role and authority of each employee at the Payment Management Division is clarified. For example, whether the rules concerning approval authority provide reasonable differences regarding the approval authority as to the amount of insurance claims, etc. and as to whether or not to make payment.

D. Whether there is a control environment to ensure that when a cause for the payment of insurance claims, etc. arises, explanations concerning the procedures for insurance claims, etc. are provided, the forms for the request for insurance claim payment, etc. are delivered, loss assessment is conducted, facts are checked and customer relations activity, etc. is conducted in a prompt and appropriate manner.

In particular, whether there is a control environment to ensure that the honor, credibility, privacy rights, etc. of the people involved in the insurance contract and third-party persons are not unduly undermined by loss assessment activity.

E. Whether the insurance company makes sure to firmly reject unreasonable requests for payment from anti-social forces, etc.

Whether it makes efforts to strengthen a control environment for the examination of

applications for contracts and requests for insurance claim payment through appropriate use of the system for the registration of the contents of contracts, the system for inquiry about the contents of contracts, the system for inquiry at the time of payment examination and the system for the prevention of illegal request for insurance claim payment, etc.

F. Whether the insurance company has set specific criteria for the management of information concerning customers and has communicated the criteria to all officers and employees to ensure their compliance therewith in light of the fact that sensitive information is handled at the time of the request for insurance claim, etc. payment and at the time of the payment.

In particular, regarding the management of information concerning customers who are individuals, whether the insurance company ensures that such information is properly handled in accordance with the Ordinance, the Act on the Protection of Personal Information, the guideline on the protection of personal information in the financial sector and the guideline for practical affairs regarding safety control measures specified in the guideline on the protection of personal information in the financial sector.

G. Whether there is a control environment that takes into consideration the following points at the time of sales and solicitation of insurance products, receipt of reports on accidents and requests for insurance claim payment.

(a) Whether the Payment Management Division, in cooperation with other relevant divisions, has taken measures to provide adequate and easy-to-understand explanations concerning the procedures for requesting insurance claim payment, etc. and prevent failure to make claims when handling customers at the time of sales and solicitation of insurance products, receipt of reports on accidents and on other occasions. For example, whether the insurance company provides such explanations in guidance books concerning contracts and on its website and makes other efforts to enhance the provision of information through such measures as preparing and distributing to consumers and policyholders explanatory materials concerning the payment of insurance claims, etc.

Regarding the descriptions provided in such explanatory materials, it is necessary, at a minimum, to indicate the contact point for inquiries from customers and it is desirable to describe specific example cases where insurance claims, etc. are paid and cases where they are not paid.

(b) Whether the insurance company explains the types of insurance claims, etc. to be paid to policyholders, etc. in an easy-to-understand manner in documents sent to them. Whether it makes appropriate notices to policyholders, etc. regarding maturity refunds, annulment refunds cancellation refunds, etc.

(c) Whether the insurance company reviews and updates the form for the request for insurance claim payment and other forms in a timely and appropriate manner in order to

prevent failure to request payment and make the forms easier-to-understand in light of the increasing diversity of insurance products. For example, whether the insurance company conducts inspection of the form about which complaints, etc. arise and analysis, etc. from the standpoint of customers.

(d) Whether the insurance company has developed procedures for enabling a designated agent to request insurance claim payment, etc. on behalf of the beneficiary in cases where the beneficiary cannot request the payment.

H. About the correspondence of an insurance company making a part of the payment before finalizing all the amounts of loss (so-called down payment), with regard to the securing of equality among the aggrieved party and the insured persons, whether it makes effort to develop a control environment for the appropriate correspondence through taking into consideration not only the needs of the insured persons but also that of the aggrieved party by prescribing the process of down payment and giving an example of down payment in the manuals and rules, etc.

I. Whether the insurance company has developed a control environment that takes into consideration the following points at the time of payment examination.

(a) Whether there is a control environment to ensure that facts are adequately investigated and checked at the time of judgment as to whether or not to pay insurance claims, etc. regardless of whether the burden of proof is on the insurance company or the claimant.

(b) Whether there is a control environment to ensure that regarding cases where a high level of judicial or medical judgment is required, the Payment Management Division seeks the opinions of the legal affairs division, doctors, etc., rather than allowing its staff members to make judgment on their own. Whether there is a control environment to ensure that the division seeks the opinions of outside experts as necessary.

It is desirable to develop a mechanism for external checks on the appropriateness of payment examination by adding outside law experts and academics to the staff of the division.

(c) Whether there is a control environment to ensure that appropriate payment examination is conducted in accordance with the payment examination standard and the manuals and rules, etc. that prescribe payment-related administrative processes.

(d) Whether there is a control environment to ensure that in cases where the insurance company supports out-of-court settlement negotiations, attention is paid to the protection of not only the policyholder but also the aggrieved party and, especially if the negotiating partner is an individual person, his/her arguments are adequately heard, conscientious and easy-to-understand explanations are provided and otherwise due care is taken.

(e) Whether there is a control environment to ensure that in cases where different employees



undertake payment-related administrative processes concerning the one and same insured event, they coordinate with each other.

- (f) Whether the insurance company endeavors to develop a control environment to exhaustively keep track of judicial precedents, etc. that could affect judgment as to whether or not to pay insurance claims, etc.
- (g) Whether the manual for payment examination is systematic and comprehensive.
- (h) Whether there is an adequate system for double-checks by managers, etc.
- (i) Whether there are adequate computer system mechanisms for checking for and preventing failure to make payment, etc. and issuing an alert for the need for payment.
- (j) Whether the starting dates of the calculation of interest on overdue payment and the deadline dates of cancellation, for example, are properly managed from the viewpoint of protecting policyholders, etc.
- (k) Whether the Payment Management Division properly manages progress in payment-related procedures so as to eliminate failure to pay insurance claims, etc. and ensure quick payment of insurance claims, etc. Whether the division takes measures to shorten the time between the receipt of the request for insurance claim payment from customers and the payment (notice of non-payment in cases where payment is not to be made), such as immediately conducting investigations related to the items that require checks at the time of payment examination in an appropriate manner.
- (l) In cases where it takes a long period of time before payment is made (before a notice of non-payment is made in cases where payment is not to be made) to a customer requesting insurance claim payment, etc., whether the Payment Management Division takes such measures as explaining the reason for the need for the long time and the estimated date of payment, etc. in an easy-to-understand manner.

J. Whether there is a control environment that takes into consideration the following environment after payment examination.

- (a) From the viewpoint of enabling quick and appropriate response to inquiries about payment and complaints related to non-payment, whether the insurance company has taken measures to ensure that staff dedicated to the handling of such inquiries and complaints act appropriately.

Whether there is a control environment to ensure that in cases where insurance claims are paid directly to a business operator that has implemented repair work related to property damage, a medical institution that treated an injury, etc. rather than to the insured person or the claimant for damages, appropriate response is made to inquiries and complaints from the business operator, medical institution, etc.

- (b) Whether there is a control environment to ensure that in cases where a complaint about the

results of payment examination is received from a customer, the facts that constituted the basis of the judgment as to whether or not to make payment are re-checked.

(c) In cases where the insurance company calculates the insurance claim, etc. based on the payment examination standard, whether it explains the basis of the calculation of the insurance claim, etc. in a conscientious and easy-to-understand manner in response to inquiries from customers; for example, such as by providing explanations in reference to the specifics of the standard.

(d) In the case of nonpayment, whether the explanations of the reason for the nonpayment, including the terms of the contract, etc. that constitute the reason, are conscientious and easy-to-understand for customers.

(e) In cases where the insurance company has decided to make payment directly to a business operator that implemented repair work, a medical institution, etc., rather than to the insured person or the claimant for damages, etc. and where there is a difference between the insurance claim amount as assessed by the insurance company and the amount requested by the said business operator, medical institution, etc., whether the insurance company explains the existence of the difference to the insured person and the claimant for damages, etc. when necessary in order to protect them.

(f) Whether the insurance company has developed dispute-settlement rules that prescribe simple and quick procedures for processing and resolving complaints, etc.

(g) From the viewpoint of further strengthening the payment management system, it is desirable not only that associations of life and non-life insurance companies have the dispute-settlement function but also that each insurance company develops a mechanism for re-examination, etc., for example.

K. Whether the Payment Management Division has developed the following control environments for ex-post checks.

(a) Whether the Payment Management Division conducts management activities regarding the items over which authority has been delegated to it by the Insurance Claim Payment Managers, such as periodically implementing inspections and audits as to whether the authority is properly exercised.

(b) Regarding the payment of insurance claims, etc. that involve more than one payment-related division, whether there is a control environment to ensure that cases which may result in failure to make payment are periodically checked, such as by developing a mechanism for mutual checks by the payment-related divisions with regard to a random selection of such cases.

(c) Whether the Payment Management Division has developed a control environment to enable ex-post verification of the appropriateness of the implementation of administrative

processes related to cases in which such insurance claims-related procedures as a claim waiver have been implemented upon the customer's request.

(d) Whether there is a control environment to ensure that model documents for explanations of reasons for non-payment to customers are reviewed and improved from the standpoint of customers in light of the issues and problems identified through complaints and inquiries, etc. Whether the support of outside experts knowledgeable about consumer issues, for example, is sought in order to make such reviews and improvements.

Whether there is a control environment to ensure that the appropriateness of notices of non-payment that have been actually sent to customers is verified.

(e) Whether the Payment Management Division analyzes cases of non-payment and makes use of the results of the analysis for the development of measures and control environment to ensure appropriate payment of insurance claims, etc.

(f) Whether there is a control environment to examine whether, rather than a complaint related to non-payment being processed only by the division that has made the decision on the payment, it has been processed ultimately by another division, such as the compliance division in an appropriate manner.

(g) From the viewpoint of further strengthening the payment management system, it is desirable to develop a mechanism for ex-post verification by outside experts of the appropriateness of payment examination, for example.

L. Given that business operations related to insurance claims, etc. such as the revision and abolition of the payment examination standard and payment examination are operations incidental to the business operations specified under Article 97 of the Act, it should be checked whether the outsourcing thereof is treated in accordance with the provisions of Article 98 of the Act and Article 51 of the Ordinance.

In cases where administrative processes incidental to business operations related to the payment of insurance claims, etc. (e.g., sending or accepting the form for the request for insurance claim payment and confirmation of contracts) are outsourced, whether attention is paid to the supervisory viewpoints described in "II-5-1 Outsourcing of Administrative Processes of Insurance Companies."

M. It is desirable for insurance companies to actively disclose the number of cases of non-payment of insurance claim, etc. and the specifics thereof as well as information concerning complaints, etc. so as to enable policyholders and other insurance users to make appropriate judgment as to the status of the insurance companies' business operations.

N. Whether the Payment Management Division and other relevant divisions have developed a control environment to ensure that in cases where an insurance contract is to be cancelled due to a serious cause as specified by the terms of the contract, they make a notice to the

policyholder within a reasonable period of time after learning of the serious cause or getting into a position to do so.

#### II-4-5 System to Manage Information of Customers, etc.

##### II-4-5-1 Significance

Customer information constitutes the basis of insurance contract transactions, and therefore it is extremely important to ensure it is properly managed.

In particular, the information of individual customers must be properly handled under the Ordinance, the Act on the Protection of Personal Information, the Personal Information Protection Guidelines, and practical guidelines.

Personal information containing credit card information (card number, expiry date, etc.) (hereinafter referred to as “Credit Card Information, etc.”) must be strictly managed because if it is leaked, there is a high risk of secondary damage, including impersonated purchasing (by illegal use of Credit Card Information, etc.).

Insurance companies are required to strictly manage corporate information (Article 1, paragraph 4, subparagraph 14 of the Cabinet Office Ordinance on Financial Instruments Business, etc.) and prevent unfair trading, including insider trading, since they are in a position to acquire such corporate information.

In view of the above, it is important for insurance companies to establish a system to properly manage customer information and corporate information (hereinafter referred to as “Information of Customers, etc.”).

##### II-4-5-2 Major Supervisory Viewpoints

###### (1) System to Manage Information of Customers, etc.

- (i) Whether the management understands the necessity and importance of appropriately managing Information of Customers, etc., and establishes internal management systems, including establishing an organizational system to secure appropriate management (including securing proper mutual supervision by various divisions) and establishing internal rules, etc.
- (ii) Whether the insurance companies establish detailed standards for handling Information of Customers, etc., and obligate their officers and employees to strictly manage such information through training, etc.; in particular, whether they establish standards for transmitting

Information of Customers, etc. to other persons after examining the standards from the viewpoints of compliance (confidentiality obligation and accountability to customers) and reputation.

- (iii) Whether the insurance companies establish a system to verify the proper management of Information of Customers, etc. by strictly controlling access to Information of Customers, etc. (for example, prevention of use by persons other than persons having access authority), measures to prevent insiders taking out Information of Customers, etc., strengthening the information management system (for example, prevention of unauthorized access from outside), etc.; in addition, whether the insurance companies take proper measures for preventing fraudulent acts by using Information of Customers, etc., including distribution of authority which tends to be concentrated among specific employees and enhancement of the management or supervision of employees having broad authority, etc.
- (iv) In the case of outsourcing the handling of Information of Customers, etc. (see note below), the insurance companies take the following measures.

(Note) “Outsourcing contracts” mean any and all contracts, irrespective of the type and kind of contracts, under which insurance companies ask other persons, including insurance agents, to handle the whole or part of Information of Customers, etc. (the same for II-4-5-2).

- A. With respect to management of outsourcees, including insurance agents, whether insurance companies check if outsourcees properly manage Information of Customers, etc., by clarifying responsible divisions and by, where necessary, monitoring periodically the conditions of operations by outsourcees, etc.
- B. Whether insurance companies check if outsourcees have established a system to ensure that proper responses are taken and a report will be immediately submitted to outsourcers in the event of an information leakage accident, etc. at outsourcees, including insurance agents.
- C. Whether insurance companies limit the authority to access Information of Customers, etc. to be given to outsourcees, including insurance agents, to the necessary scope, depending on the contents of outsourced work.

In addition, whether insurance companies check if officers or employees who are given access authority and their scope of authority are designated.

Furthermore, whether insurance companies confirm if outsourcees, including insurance agents, implement strict access management, including periodic or occasional checking of the conditions of use of the access authority (including reconciliation of persons having access authority and persons who actually used the access authority) in order to prevent the access authority being used by persons other than those having the access authority.

- D. In the case of subcontracting, whether insurance companies confirm if outsourcees,

including insurance agents, fully supervise their subcontractors, etc. Furthermore, whether insurance companies directly supervise such subcontractors, etc., if necessary.

- (v) Whether insurance companies establish a system in which, in the event of leakage, etc. of Information of Customers, etc., a report is properly submitted to the responsible division, and explanations to customers, etc. concerned, reporting to the competent authorities, and if necessary a public announcement, will be made rapidly and properly in order to prevent secondary damage, etc.

In addition, whether insurance companies analyze causes of leakage, etc. of information and take countermeasures to prevent recurrence. Furthermore, whether insurance companies examine measures necessary for preventing the recurrence of similar cases in consideration of leakage accidents, etc. of other companies.

- (vi) Whether an independent division in charge of internal audit periodically or occasionally audits wide-ranging operations concerning management of Information of Customers, etc.

In addition, whether insurance companies properly take measures, including the implementation of training, etc., in order to improve the expertise of employees in charge of auditing the management of Information of Customers, etc.

## (2) Management of Personal Information

- (i) In the case of outsourcing of safety management, supervision of employees and handling of information on individual customers, whether insurance companies take the following measures to supervise outsourcees which are necessary and appropriate for preventing leakage, loss or damage of such information in accordance with Article 53-8 of the Ordinance.

A. Measures according to the provisions of Articles 10, 11 and 12 of the Personal Information Protection Guidelines

B. Measures according to the provisions of I, II, III and Attachment 2 of the practical guidelines

(Note) When insurance agents use personal information for insurance solicitation for other insurance companies or for business operations, etc. of the divisions in charge of two different kinds of businesses, insurance companies must pay careful attention to ensure that insurance agents will not use such information for unauthorized purposes and will properly handle such information in accordance with laws and regulations, etc.

- (ii) Except in the cases specified in Article 6, paragraph 1, each subparagraph, of the Personal Information Protection Guidelines, whether insurance companies take measures, in accordance with Article 53-10 of the Ordinance, to ensure that individual customers' information concerning race, religion, family origin, permanent domicile, healthcare or criminal records,

and other special non-public information (see notes) will not be used.

(Notes) “Other special non-public information” refers to the following:

- A. Information on membership of labor unions
- B. Information on ethnic group
- C. Information on sexuality

(iii) Whether insurance companies take the following measures for credit card information, etc.

- A. For credit card information, etc., whether insurance companies establish a proper retention period in consideration of the purposes of use and other circumstances, limit the storage facility for and properly dispose of the information immediately after the expiration of the retention period.
- B. Except in the case in which it is necessary for business purposes, whether insurance companies take proper measures, including concealing part of the card number, when credit card information, etc. is displayed on the screen of computers.
- C. In the case of outsourcing of handling of credit card information, etc., whether insurance companies periodically or occasionally inspect or conduct on-the-spot inspections to check whether the rules or systems of outsourcees, including insurance agents, to protect credit card information, etc. work effectively.
- D. In the case of subcontracting, whether insurance companies directly supervise such subcontractors, etc., including by periodic or occasional inspection or on-the-spot inspection, except in the case in which outsourcees, including insurance agents, are considered to fully supervise their subcontractors, etc.

(3) Prevention of Unfair Trading, Including Insider Trading, by Using Corporate Information

- (i) Whether insurance companies establish a proper internal control system, including the establishment of internal rules concerning the buying and selling of securities by officers and employees and their other transactions, etc., and review such rules if necessary.
- (ii) Whether insurance companies take actions to improve the awareness of compliance with laws and regulations, including enhancement of professional ethics and making related laws and regulations and internal rules fully known to officers and employees, with the aim of preventing unfair trading, including insider trading, by officers and employees.
- (iii) Whether insurance companies take proper measures to prevent unfair trading, including imposition of the duty to report in the case in which officers and employees who are in a position to acquire corporate information buy or sell securities or conduct other transactions, etc. relating to the corporate information.

#### II-4-5-3 Supervisory Method and Actions

In cases where a problem is recognized with regard to an insurance company's control environment for the protection of information of customers, etc., the submission shall be required of a report as necessary under Article 128 of the Act. If a serious problem is recognized, they shall take administrative actions under Article 132 or 133 of the Act.

#### II-5-1 Outsourcing of Administrative Processes of Insurance Companies

##### II-5-1-1 Significance

As individual insurance companies must tackle the challenge of improving business efficiency, outsourcing their administrative processes is expected to become a widespread practice. It is necessary to check whether individual insurance companies, when outsourcing their administrative processes, take adequate measures to ensure the protection of customers and the soundness of corporate management in accordance with the contents of outsourced processes, etc.

(Note 1) The outsourcing of administrative processes as referred to above is entrustment by an insurance company of part or all of the administrative processes necessary for the execution of its business operations to an outside entity (excluding life insurance solicitors, non-life insurance agents and insurance brokers).

(Note 2) In particular, care shall be taken to periodically identify the status of outsourcing of administrative processes necessary for the execution of insurance companies' proper business operations by holding hearings, etc.

(Note 3) In cases where an insurance company outsources administrative processes to a subsidiary company, etc., "III-2-2 Subsidiary Companies, etc." shall be also referred to.

##### II-5-1-2 Major Supervisory Viewpoints

(1) Whether the insurance company is striving to develop the following control environments (including whether the insurance company requires outsourcing service providers to develop the following control environments under outsourcing contracts, etc.) from the viewpoint of the protection of customers.

(i) Whether it is clear that the outsourcing of business operations does not cause any change in



the contractual relationship of rights and obligations between the insurance company and its customers, who continue to have the same rights as if the business operations were conducted by the insurance company itself.

(ii) Whether the insurance company has developed a control environment to ensure the prevention of inconvenience that may be caused to customers if they fail to receive the services that are guaranteed under their contracts in relation to the outsourced business operations.

(iii) Whether there is a control environment to ensure that in cases where loss assessment is outsourced, the outsourcing service provider conducts appropriate loss assessment from the viewpoint of user protection and user convenience.

Especially, whether there is a control environment to ensure that the honor, credibility and privacy rights of the persons concerned and third-party persons are not unduly undermined by loss assessment activity.

(iv) Whether the insurance company has developed a system to manage the information of customers, etc., including the prohibition of the use of information by outsourcing service providers for purposes other than the intended ones, and has imposed an obligation of confidentiality on the outsourcing service providers.

(v) For the outsourcing of handling of information of customers, etc., refer to “II-4-5 System to Manage Information of Customers, etc.” of these Guidelines.

(vi) Whether insurance companies establish an appropriate complaints handling system, including the establishment of a system in which customers communicate complaints, etc. directly to insurance companies.

(2) Whether the insurance company conducts a comprehensive examination regarding the following points from the viewpoint of ensuring the soundness of corporate management and has developed necessary control environments (including whether the insurance company requires outsourcing service contractors to develop necessary control environments under outsourcing contracts, etc.).

(i) Risk Management

Whether the insurance company conducts a comprehensive examination of various risks related to outsourcing, including the impact that may be inflicted on its business operations if it fails to receive services as prescribed under the outsourcing contract, and whether it is considering what actions to take if such risks materialize.

(ii) Selection of Outsourcing Service Providers

Whether the insurance company selects outsourcing service providers by examining whether they are capable of providing a sufficient level of service from the viewpoint of the reasonableness of its corporate management, whether their financial position and business

condition are sufficient to provide services as prescribed under the contract and bear responsibility for the payment of damages and whether there is not any problem from the viewpoint of its own reputation.

(iii) Contents of Contract

Whether the outsourcing contract specifies the following items, for example, and is otherwise sufficient.

A. The contents and level of the service to be provided and the procedures for the cancellation, etc.

B. Obligations to be discharged by the outsourcing service provider in cases where it fails to provide service as prescribed under the contract. Matters related to how to cover losses that may arise in relation to the outsourcing (including, as necessary, measures to ensure the fulfillment of the responsibility for the payment of damages, such as the provision of collateral, etc.).

C. The contents of reports to be received by the insurance company from the outsourcing service provider with regard to the outsourced business operation and the outsourcing service provider's business condition concerning the outsourced business operation.

D. Arrangements concerning how to meet requests from the financial authorities to the insurance company in relation to inspection and supervision.

(iv) Legal Obligations, etc. Imposed on an Insurance Company

Whether the outsourcing does not impede the fulfillment of the legal obligations, etc. that would be imposed on the insurance company if the insurance company were to conduct the outsourced business operation itself.

(v) An Insurance Company's Management System

Whether the insurance company has developed internal control systems regarding the outsourced business operation, including the appointment of a manager in charge thereof and the development of control environment systems to conduct monitoring and examination (including whether the insurance company has included in the outsourcing contract a provision that enables it to verify the appropriateness of the outsourcing service provider's administrative processes).

(vi) Provision of Information

Whether there is a control environment to ensure not only that the outsourcing service provider periodically reports to the insurance company on the implementation of the outsourced business operation, etc., but also that the insurance company quickly receives appropriate information as necessary.

(vii) Audits

Whether the outsourced business operation is subject to audits by the insurance company.

(viii) Emergency Actions

Whether the insurance company is considering ways to avoid major disruptions to its business operations even if the outsourcing service provider fails to provide service as prescribed under the outsourcing contract. Whether the insurance company has developed a control environment to enable the provision of the outsourced service to customers in place of the outsourcing service provider.

(ix) Outsourcing to Group Company

In cases where the insurance company has concluded an outsourcing contract with a group company, whether the terms of the contract do not virtually constitute the provision of support to the outsourcing service provider in violation of the arm's length rule.

III-2-2 Subsidiary Companies, etc.

The scope of business in which insurance companies' subsidiary companies, etc. may engage shall be defined as follows from the viewpoint of banning insurance companies' engagement in other businesses as specified under Article 100 of the Act.

(Note 1) It should be kept in mind that in cases where the total number of voting rights attached to shares or equity interests held by an insurance company and its subsidiary companies in a domestic company (excluding a subsidiary company of the insurance company) exceeds the voting rights holding threshold (as specified under Article 107(1) of the Act; the same shall apply hereinafter), the scope of business in which the domestic company (hereinafter referred to as the "Specified Invested Company") may engage must be within the scope of business in which companies may engage as specified in Article 106(1)(i) to (vii), (xii) and (xv), and the criteria, etc. regarding subsidiary companies that are prescribed in the Ordinance, relevant notices and the Guideline for Supervision must be met.

(Note 2) When judging whether a certain company is a subsidiary, etc. or an affiliated juridical person, etc. of an insurance company, the attention shall be also paid to whether the insurance company complies with the Rules Concerning Terms and Forms to Be Used in, and Method of Preparation of, Financial Statements, etc., Audit Committee Statement No. 60 "Auditing Treatment Regarding Determination of Scope of Subsidiary Companies and Affiliated Companies in Consolidated Financial Statements" (December 8, 1998, Japan Institute of Certified Public Accountants) and other corporate accounting standards generally deemed to be fair and appropriate, regardless of whether the insurance company compiles securities reports and other documents based on the Financial Instruments and Exchange Act.

(Note 3) The "companies" as specified under Articles 106 and 107 of the Act exclude

special-purpose companies (e.g., companies established for the purpose of asset securitization, capital-raising, etc.) and quasi-company business entities, such as associations, securities investment corporations, partnerships and LLCs (hereinafter referred to as the “Quasi-Company Business Entities”). Attention shall be paid to whether the purpose of the restriction on the scope of business in which insurance companies’ subsidiary companies, etc. may engage or the ban on insurance companies’ engagement in other businesses has not been contravened through Quasi-Company Business Entities.

(Note 4) Of the treatment regarding the subsidiary companies, etc. of the insurance holding company, the approval required under Article 271-22(1) of the Act when an insurance holding company turns a company other than those described in the same provision into a subsidiary company shall not be required in cases where the insurance holding company turns such a company into a Subsidiary, etc. (excluding a subsidiary company) or an affiliated juridical person, etc. However, care should be taken to ensure that the business that the said company (including the specified invested company) intends to conduct does not meet any of the following criteria:

- (1) The business may damage the social credibility of an insurance company which is a subsidiary company of the insurance holding company because its contents meet the criteria specified in (i) or (ii) below:
  - (i) The business may undermine public order or social morals
  - (ii) The business may impede the stability of the people’s lives or the sound development of the national economy.
  
- (2) The business has a high probability of undermining the sound management of the company in light of the capital amount, the staffing structure and other factors and, in cases where its sound management is undermined, may undermine the sound management of an insurance company which is a subsidiary company of the insurance holding company.

Care should be taken to ensure that an organization which must be treated as a subsidiary, etc. or an affiliated juridical person, etc. of an insurance company will not be treated as a subsidiary, etc. or an affiliated juridical person, etc. of an insurance holding company with the aim of deviating from the purpose of the restriction on the scope of business in which insurance companies’ subsidiary companies, etc. may engage or the ban on insurance companies’ engagement in other businesses.

### III-2-2-1 Scope of Business in which Subsidiary Companies, etc. may Engage

Regarding the scope of business in which subsidiary companies, etc. may engage, attention

shall be paid to the following points:

- (1) Whether the dependent business (as specified under Article 106(2)(i) of the Act; the same shall apply hereinafter) conducted by a subsidiary company of the insurance company is limited to the administrative processes related to the insurance company's business but which do not concern the core of the said business.

(Note) It should be kept in mind that a subsidiary, etc. and an affiliated juridical person, etc. of an insurance company that are engaging in a dependent business must also meet the criteria specified under "Regarding the Establishment of Criteria as to Whether Companies Engaging in Dependent Businesses are Doing so Mainly on Behalf of Insurance Companies, Insurance Holding Companies and Subsidiary Companies Thereof under Provisions of Article 106(10), etc. of the Insurance Business Act" (Notice No. 38 of 2002; hereinafter referred to as the "Income Dependence Level Regulation Notice"). It should be noted that in this case, the definition of "the amount of income" shall be the same as the definition under the "Income Dependence Level Regulation Notice" (income from the insurance company and subsidiary companies thereof).

- (2) Whether the finance-related business (as specified under Article 106(2)(ii) of the Act; the same shall apply hereinafter) in which a subsidiary company of an insurance company is engaging are within the following scope:

- (i) Acting as an agent for business operations related to the insurance company's insurance business (excluding business operations specified under Article 56-2(2)(ii) of the Ordinance) and implementing administrative processes on behalf of the insurance company

\*Whether the business is limited to the scope of businesses specified under Article 51 of the Ordinance.

- (ii) Credit Guarantee Business

A. Whether the subsidiary company doesn't engage in business loans of the insurance company, or those of subsidiary companies and subsidiaries, etc. or affiliate juridical persons, etc. of the insurance company and its insurance holding company. Whether attention is paid to the following points in the conduct of the business.

B. In the management of the credit guarantee company's business operations, whether sufficient care is taken to establish a dedicated business operation system for the guarantee business, build up retained earnings and take other measures to secure appropriate reserves for payment, through the establishment of appropriate guarantee commission rates, appropriate recognition of allowances, etc. depending on the characteristics of guarantee so that guaranteed

obligations may be smoothly fulfilled. In particular, in the case of guarantee for companies in the group, considering that guarantee risks are not transferred to outside the group, whether sufficient care is taken to ensure that business performance of the credit guarantee company will not influence the securing of soundness of operations by the insurance company, etc.

C. Whether the credit guarantee company, when providing credit guarantee, does not require unnecessary personal security in addition to physical security.

D. Whether the insurance company does not force debtors who need credit guarantee to use guarantee provided by a credit guarantee company established as a subsidiary company of its own.

E. Whether the insurance company reduces the interest rate on a loan guaranteed by the credit guarantee company by a margin corresponding to the following items compared with the usual interest rates.

(a) Usual expected loss from a loan default

(b) Cost of establishing, managing and disposing of collateral, etc.

(c) Cost expected to be reduced as a result of the streamlining of the credit investigation and loan examination procedures, etc.

(iii) Sales of computer software products

\*Whether software products sold by the subsidiary company are related mainly (the threshold for “mainly” shall be 50%) to the business operations of the insurance company, corporate finance and pension-related administrative processes. Whether the subsidiary company does not sell software products that significantly deviate from the business operations of the insurance company (the provision of a software product developed by the parent insurance company for itself (including partial modification of the software product) to other insurance companies, banks, etc. as well as financial instruments business operators engaging in securities-related businesses shall be permitted).

(iv) Telecommunications Business Activities (so-called VAN business)

\*Whether the business handles affairs mainly (the threshold for “mainly” shall be 50%) related to the insurance company’s businesses, corporate finance and pension-related administrative processes.

(Note) When an inquiry concerning the notification to the Ministry of Internal Affairs and Communications as specified under Article 22(1) of the Telecommunications Business Act has been made, a reply shall be given to the effect that the notification is unnecessary in cases where a subsidiary company, etc. provides the service of acting as an intermediary for communications by others (hereinafter referred to as the “Intermediary Service”) for non-profit purposes (e.g., cases where a joint investment subsidiary, etc. provides the intermediary service exclusively to

the investing financial institutions and where it is obvious from the terms of the provision of the service, such as the fees set by the joint investment company that the purpose is not to earn income related to the Intermediary Service; the provision of the Intermediary Service by a 100%-owned subsidiary company is included among such cases).

(v) Business related to health and welfare

A. Business related to health includes, for example, contributing to the maintenance and enhancement of the health of club members by installing indoor sports facilities, etc. and deploying expert instructors and medical experts there.

B. Business related to welfare includes, for example, the operation and management of facilities related to the welfare of elderly people such as welfare facilities for the elderly (including elderly people's homes with various services), supplying prepared meals to residents of welfare facilities for the elderly, the operation and management of rehabilitation organizations (including athletic clubs); the provision of consulting, brokerage services and investigation and research related to health, medical care, and welfare; the development of nursing care equipment; training for care workers; and business related to at-home care services.

(vi) Investment Advisory Business

\*Whether attention is paid to the following points from the viewpoint of the special nature of the business and the protection of investors

A. Whether the company in question avoids holding assets in custody, leaving the custody service to a trust bank, etc.

B. Whether the scope of investment advice covers investments in securities and financial products and excludes investments in real estate, antique goods, etc.

(vii) Intermediary and introductory services

\*Whether the intermediary and introductory services provided by the company in question do not deviate from the intent of the ban on engagement in other businesses. The intermediary and introductory services include, for example, those matching automotive repair business operators mainly with policyholders, etc. of automobile insurance or those matching medical institutions mainly with policyholders, etc. of foreign travel casualty insurance.

(viii) Leasing Business

\*Whether the company in question limits its real estate leasing contracts to those concluded for arrangements similar to loans (so-called finance lease) and avoids engaging in business other than that in which companies eligible to be subsidiary companies, such as real estate business targeting general customers, may engage.

(3) Whether a specified subsidiary, etc. (which refers to a specified subsidiary, etc. other than a

Specified Invested Company; the same shall apply hereinafter) and a specified affiliated juridical person, etc. (which refers to a specified affiliated juridical person, etc. other than a Specified Invested Company; the same shall apply hereinafter) of the insurance company meet the following criteria; however, this checkpoint shall not apply to Quasi-Company Business Entities.

(i) Whether the scope of business in which a specified subsidiary, etc. and a specified affiliated juridical person, etc. of the insurance company may engage is within the scope of business in which companies eligible to be subsidiary companies may engage (as specified under Article 106(1) of the Act; the same shall apply hereinafter) and whether the criteria, etc. concerning subsidiary companies that are prescribed in the Ordinance, relevant notices and the Guideline for Supervision are met.

For example, it should be kept in mind that an insurance company can own a company engaging in specialized banking-related business (as specified under Article 106(2)(iii) of the Act) as a specified subsidiary, etc. or as a specified affiliated juridical person, etc. provided that the insurance company owns a bank as a subsidiary.

(Note) It should be kept in mind that the criteria similar to those specified under Articles 2(1)(i), 6(i) or 7(i) of the Income Dependence Level Regulation Notice may not be met regarding the businesses operations specified under Article 56-2(1)(xviii) of the Ordinance which a specified subsidiary, etc. and a specified affiliated juridical person, etc. conduct only if the said company conducts business related to real estate for investment.

(ii) Regarding an insurance company's specified subsidiary, etc. or a specified affiliated juridical person, etc. that is specializing in a dependent business mainly on behalf of the insurance company's Specified Invested Company, or other specified subsidiary, etc. or specified affiliated juridical person, etc. (hereinafter referred to as the "Principal Corporations, etc."), it may be deemed that the criteria specified in (i) are not violated in cases where income earned from the Principal Corporations, etc. exceeds 50% of the total income (in cases where the said company engages in the business specified under Article 56-2(1)(xviii) of the Ordinance and where the ownership of the real estate related to the business is shared by two or more persons, one of which is the insurance company or a subsidiary company thereof, the total income from the business conducted by a company established with investment made by the said insurance company or the said subsidiary company in proportion to the real estate ownership ratio shall be the amount obtained by multiplying the income from the business conducted by the said company by the percentage of the ownership ratio).

(iii) In cases where an insurance company's specified subsidiary, etc. or a specified affiliated juridical person, etc. which was notified as an affiliated company (including companies



established by the affiliated company, etc. for the purpose of entrusting its businesses thereto and companies engaging in a similar business but excluding companies that meet the criteria specified in (iv)) and which engaged in a business other than that in which a company eligible to be a subsidiary company was allowed to engage when the Act on Development, etc. of Relevant Laws for the Financial System Reform (hereinafter referred to as the “New Act”) entered into force continues to engage in that business after the entry into force of the act, it may be deemed for the moment that the criteria specified in (i) are not violated, provided that a report concerning the name, the business and other necessary items of the said specified subsidiary, etc. or specified affiliated juridical person, etc. has been submitted under a separate order.

However, this shall not apply in cases where the said specified subsidiary, etc. or specified affiliated juridical person, etc. becomes a subsidiary company or a specified invested corporation of the said insurance company and cases where the said specified subsidiary, etc. or specified affiliated juridical person, etc. starts a new business other than businesses in which it engaged before the New Act was put into force.

(Note 1) An affiliated company of an insurance company is a company in which the insurance company invests and which is deemed to be closely related to the insurance company in light of the background of its establishment as well as their financial and personnel relationships.

(Note 2) In the following cases, for example, an affiliated company may be treated in a similar way to the aforesaid specified subsidiary, etc. and specified affiliated juridical person, etc. provided that the purpose of the Insurance Business Act is not violated.

A. Cases where a company regarding which notification that it is an insurance company’s affiliated company and engages in the above business was already provided to the authority has become a Specified Invested Company (limited to a subsidiary, etc. or an affiliated juridical person, etc.) of the insurance company as a result of the insurance company’s acquisition of shares in the affiliated company that were owned by other companies when the New Act was put into force and where there is a compelling reason for the occurrence of this situation (limited to cases where the notification specified under Article 132 of the Supplementary Provisions of the New Act has been made).

B. Cases where an entity that met the above requirements to be a specified subsidiary, etc. or a specified affiliated juridical person, etc. of the insurance company when the New Act was put into force has become a specified invested person (limited to a subsidiary, etc. and an affiliated juridical person, etc.) of the insurance company under the provision of Article 107(4)(i) of the Act (limited to cases where the authorization specified under the same provision has been obtained).

C. Cases where entities that met the above requirements to be a specified subsidiary, etc. or a specified affiliated juridical person, etc. of two different insurance companies when the New Act was put into force have become a specified subsidiary, etc. or a specified affiliated juridical person, etc. of one or the other of the two insurance companies (hereinafter referred to as the “surviving company”) as a result of a merger (if the surviving company engages in a business other than the ones in which it engaged before the merger, limited to cases where a necessary review of the said business was made by the end of the fiscal year that ended in March 2002).

(iv) Whether a specified subsidiary, etc. or a specified affiliated juridical person, etc. does not engage in business other than that in which a company eligible to be a subsidiary company may engage, such as real estate business targeting general customers, the goods sales business and the travel agency business.

However, in cases where a specified subsidiary, etc. or a specified affiliated juridical person, etc. was engaging in such business when the New Act was put into force and continued to do so thereafter, whether a necessary review was made in principle by the end of the fiscal year that ended in March 2002.

It should be noted that in cases where a specified subsidiary, etc. or a specified affiliated juridical person, etc. engages in either a dependent business or a finance-related business (including business reported as business similar to the dependent business or finance-related business under a separate order) or in both a dependent business and a finance-related business (limited to cases where the dependent business meets criteria similar to those specified in each article of the Income Dependence Level Regulation Notice (in accordance with the example cited in (ii) above; however, the income from persons who conduct insurance solicitation upon the entrustment of the insurance company may be included in the income from a subsidiary of the insurance company); it may be deemed that the provision of Article 56-2(3) shall not be applicable), it may be deemed for the moment that the criteria specified in (i) above are not violated provided that a necessary review of business other than the said dependent business and finance-related business was made by the end of the fiscal year that ended in March 2002.

(Note 1) It should be kept in mind that in cases where a specified subsidiary, etc. or a specified affiliated juridical person, etc. failed to make a necessary review by the end of the fiscal year that ended in March 2002 and has not yet done so, the submission of a report shall be required under a separate order.

(Note 2) In cases where there is a compelling reason for having a specified subsidiary, etc. or a specified affiliated juridical person, etc. conduct a business which is incidental to a business conducted by a subsidiary company of an insurance company and which is obligated by a local government or other public entity from the viewpoint of its public nature, etc., the said business

may be treated in a similar way to business similar to the dependent business or finance-related business even if it is business outside the scope of business in which companies eligible to be subsidiary companies, etc. are allowed to engage.

#### III-2-2-2 Treatment of Agents or Brokers for Buying and Selling of Collateralized Properties (Excluding Real Estate) for Loans and Discounts, etc. Made by Other Business Operators

Whether agents or brokers for buying and selling of collateralized properties (excluding real estate) for loans and discounts, etc. made by other business operators are treated by paying attention to the following points.

(1) Whether the business of such agents or brokers is limited to the following.

Agency or brokerage (hereinafter referred to as “Agency, etc.”) of buying and selling of collateralized properties (excluding real estate) for loans and discounts, etc. in the case in which other business operators exercise their security interest to recover such loans and discounts, etc.

(Note 1) Keep in mind that Agency, etc. of buying and selling cannot be permitted, except the case of exercise of the security interest, in view of the ban on insurance companies’ engagement in other businesses.

(Note 2) Keep in mind that Agency, etc. of buying and selling of real estate cannot be permitted in view of the ban on insurance companies’ engagement in real estate business.

(Note 3) Keep in mind that acquisition, retention, management and selling of collateralized properties are not permitted for companies other than those specified in Article 56-2, paragraph 1, subparagraph 24, of the Ordinance.

(2) Whether such agents or brokers satisfy the standards specified in the “Income Dependence Level Regulation Notice” in performing their business operations.

#### III-2-2-3 Treatment of Companies Holding and Managing Collateralized Properties Related to Loans, etc. Provided by Insurance Companies (so-called Self-Auction Companies)

Regarding companies holding and managing collateralized properties related to loans, etc. provided by insurance companies, whether attention is paid to the following points.

(1) Whether the business in which the Company engages is limited to the following business:

(i) Acquisition (in the case of properties, other than real estate, not only limited to acquisition through auction but also includes acquisition through private enforcement) of collateralized properties related to loans, etc. provided by the parent insurance company, etc. in cases where the parent insurance company, etc. needs to exercise the security interest in order to collect the loans, etc. (including cases where a third-party entity exercises the security interest in the collateralized properties provided to the parent insurance company, etc.).

(ii) Holding, managing and selling of acquired properties (hereinafter referred to as “Holding, etc.”).

(2) Whether the Company complies with the following requirements in executing business.

(i) Holding, etc. of Real Estate

A. Whether the auction price is in principle set in accordance with the minimum sales price published by a court.

B. When acquiring real estate, whether the Company takes great care to avoid acting in ways that invite public criticism.

C. Whether business operations conducted in relation to the acquired real estate while the Company owns it are limited to those intended to maintain and improve the value of the real estate to a level essential for smooth sales, such as land improvement, completion of an unfinished building and the acquisition of adjacent land.

D. In cases where the acquired real estate is leased while the Company owns it, whether the relevant business operations are limited to the scope that does not prevent smooth sale of the real estate.

E. Whether the Company does not engage in a business in which an affiliated company is not allowed to engage, such as the hotel business.

(ii) Holding, etc. of Movable

A. Considering that movables are of great variety and estimated risks arising from the Holding, etc. are diverse, whether the Company properly assesses, analyzes and manages the responsibility of management arising from the Holding, etc. of movables and risks, including warranty against defects, etc., depending on the type and characteristics of movables, and establishes a system to properly respond to such risks.

B. Whether the Company evaluates movables based on an objective and reasonable evaluation method before acquiring such movables.

C. Whether the Company properly manages acquired movables depending on the type,

characteristics, etc. of such movables, and makes efforts to improve or maintain the value of such movables.

D. Whether the Company examines a proper method to sell or realize acquired movables depending on the type, characteristics, etc. of such movables, and makes efforts to do so.

E. Whether the Company doesn't engage in a business which is not appropriate for an affiliate in the process of Holding, etc. of movables.

(iii) Holding, etc. of Receivables

A. Whether the Company evaluates receivables based on an objective and reasonable evaluation method before acquiring such receivables.

B. With respect to acquired receivables, whether the Company makes such efforts to maintain the value of such receivables as occasional acquisition of information necessary for judging the creditworthiness of third party debtors of such receivables (debtors of objective receivables) and continuous monitoring of their financial conditions.

C. With respect to acquired receivables, whether the Company makes efforts to smoothly recover such receivables by taking timely and proper measures for recovery (including transfer of such receivables to third parties).

(iv) Holding, etc. of Other Properties

With respect to other properties, whether the Company takes measures equivalent to those for Holding, etc. of above-mentioned real estate, movables, and receivables.

(3) Whether subject properties are collateralized properties for loans and discounts, etc. provided by the parent insurance company, etc. and whether the parent insurance company, etc. can expect to recover loans and discounts, etc. if subject properties are purchased.

(Note) Loans and discounts, etc. include such receivables, including the right of indemnity which is acquired by the parent insurance company, etc. as a result of performance of guarantee, which are secured receivables in the properties.

(4) Others

(i) Whether the Company conducting the Holding, etc. of real estate has acquired the license specified under Article 3 of the Building Lots and Buildings Transaction Business Act in accordance with the provisions of the Act.

(ii) Whether the Company conducting the Holding, etc. of properties other than real estate has acquired the license, the permit, the registration or the approval, etc. which is necessary for the Holding, etc. of such properties.

(iii) Whether the Company conducts segregated management of revenues and expenditures as well as profits and losses with regard to each of the acquired properties.

(iv) Whether the parent insurance company, etc. and the Company have taken necessary measures to ensure the soundness of the Company's financial condition.

#### III-2-2-4 Scope of Business in which Insurance Companies' Foreign Subsidiary Companies, etc. may Engage

(1) It is necessary to ensure that foreign subsidiary companies, etc. of insurance companies do not engage in any business other than that in which companies eligible to be a subsidiary company may engage by applying the concept of the scope of business in which domestic subsidiary companies, etc. may engage to the scope of business in which they may engage.

(Note) This shall not apply to a subsidiary company established for the purpose of holding and managing assets seized as collateral in cases where it is necessary to exercise the security interest related to foreign loans in order to collect the loans but it is extremely difficult to sell collateralized assets under the market condition of the country concerned and where there is not any other appropriate way to deal with the situation under the laws of the country.

In addition, businesses which are conducted by a foreign company engaging in the insurance business and which have been permitted by the supervisory authorities of the home country of the company shall be permitted in principle, provided that the purpose of the Insurance Business Act is not violated.

(2) A subsidiary, etc. or an affiliated juridical person, etc. which has been reported as an invested foreign company (including a company established by the invested foreign company for the purpose of entrusting its business thereto and a company engaging in a similar business) and which was engaging in business other than that in which a company eligible to be a subsidiary company was permitted to engage when the New Act was put into force shall be treated in the same way as that described in III-2-2-1(3)(iii) above.

(Note) An invested foreign company is a foreign company in which an insurance company invests in a manner that enables it to maintain the control thereof or continue participation in the management thereof.

The control of management refers to cases where an insurance company virtually holds the majority of the voting rights in a foreign company (including cases where shares or investment interests with the voting right are not nominally held by persons other than the insurance

company, such as officers of the insurance company, but are held by the insurance company in their own account; cases where the insurance company and the foreign company virtually hold the majority of the voting rights in another foreign company; and cases where the foreign company virtually holds the majority of the voting rights in another foreign company).

Participation in the management refers to cases where an insurance company virtually holds 50% or less of the voting rights in a foreign company and where the insurance company can exercise material influence on the foreign company's business policy through its personnel, and financial and transactional relationships therewith. It should be noted that cases where another investor has the majority of the voting rights in the foreign company shall in principle not be deemed to constitute cases where the insurance company can exercise material influence.

- (3) If an Authorization application as specified in Article 106, paragraph 7, of the Act with the aim of making a company as specified in Article 106, paragraph 1, subparagraph 8 or 14 of the Act (hereinafter referred to as "Foreign Company, etc. Engaging in Insurance Business") as a subsidiary company, the attention shall be paid to whether the following matters are clearly described in the statement of reasons or other authorization application.
- (i) Whether the Foreign Company, etc. Engaging in Insurance Business makes a company other than companies eligible to be subsidiary companies a subsidiary company.
  - (ii) If the accompany described in (i) above is made a subsidiary company, the particulars of the business of the company, and the recent conditions of assets and profit/loss of the company.
  - (iii) The particulars of necessary measures which are scheduled to be taken to make the company cease to be a subsidiary company within five years from the day of having made the company described in (i) above a subsidiary company.

It should be noted that the authorization mentioned in the paragraph above cannot be given: if the sound financial conditions of an insurance company could be adversely affected; or if the business of the company other than companies eligible to be subsidiary companies could harm the public order and morality, and could ruin the social credibility of the Foreign Company, etc. Engaging in Insurance Business; or if it cannot be confirmed that the Foreign Company, etc. Engaging in Insurance Business will be able to properly or fairly perform management of the subsidiary company to ensure that the company other than companies eligible to be subsidiary companies will conduct business operations in a proper manner.

- (4) The intent of Article 106, paragraph 4, of the Act is to exceptionally postpone the application of the restriction on the scope of business in which insurance companies' subsidiary companies may engage for five years, in the case in which an insurance company makes a company other than

companies eligible to be subsidiary companies a subsidiary company by making the Foreign Company, etc. Engaging in Insurance Business a subsidiary company, based on the assumption that an insurance company takes necessary measures to make the company cease to be a subsidiary company. Based on a similar intent, the case in which a company other than companies eligible to be subsidiary companies may be made a subsidiary company for the period exceeding five years subject to approval of the Financial Services Agency Commissioner is limited to the circumstances specified in subparagraphs of Article 106, paragraph 6, of the Act. In view of the above, “unavoidable circumstances” specified in such subparagraphs refer to the following, for example.

(i) Paragraph 6, subparagraph 1

- A. An insurance company began to sell stocks in a company other than companies eligible to be subsidiary companies but the stock selling is delayed due to economic conditions or negotiations, etc. with potential buyers.
- B. The procedure of liquidation of a company other than companies eligible to be subsidiary companies is delayed due to local legal reasons.

(ii) Paragraph 6, subparagraph 2

The continuance of holding of a company other than companies eligible to be subsidiary companies is necessary in view of the characteristics of the local insurance market. An insurance company cannot achieve its objective if a certain business is outsourced to a third party without a capital relation with the insurance company.

Considering that the provisions of Article 106, paragraph 4, of the Act are exceptional rules for the restriction on the scope of business in which insurance companies’ subsidiary companies may engage, it should be noted that if an each application for permit as specified in Article 106, paragraph 5, of the Act is filed, the fact of existence of any avoidable circumstances as of the date of application, the policy of retaining the voting rights in the company other than companies eligible to be subsidiary companies (or measures, etc. which are examined to remove unavoidable circumstances within one year from the day of permit) and others must be described in the application document.

- (5) Despite the provisions of III-2-2-4 (1), an insurance company is allowed to make a company other than companies eligible to be subsidiary companies a subsidiary, etc. (excluding a subsidiary company; the same in this item (5)) or an affiliated juridical person, etc. by making the Foreign Company, etc. Engaging in Insurance Business a subsidiary company. However, it should be noted that in view of the intent of the restriction on the scope of business in which insurance companies’ subsidiary companies may engage, an insurance company must take



necessary measures to make the company cease to be a subsidiary, etc. or an affiliated juridical person, etc., in principle, within approximately five years.

The above provisions shall apply to the case in which an insurance company makes a company other than companies eligible to be subsidiary companies a subsidiary, etc. or an affiliated juridical person, etc. by making the Foreign Company, etc. Engaging in Insurance Business a subsidiary, etc. or an affiliated juridical person, etc.