



Annual Report on Insurance Monitoring, June 2024 (1/2)

◆ *Development of Sustainable Business Models*

■ Life Insurers (LIs)

- ✓ Major LIs have entered insurance-related businesses such as healthcare through M&A, in order to strengthen and diversify their profit base given the aging population and diversification of customer needs.
- ✓ Competition in the third sector of insurance such as medical and cancer insurance is increasing, and several LIs are developing such insurance products within short time frames. As a result, sales agencies have less time to acquire knowledge of new products, which may be limiting their readiness to respond to customers.
- ✓ Some LIs have increased their assumed interest rates in response to recent increases in interest rates, etc.

■ Non-Life Insurers (NLIs)

- ✓ Although NLIs have earned profits from auto insurance and others products, property insurance, including fire and flood insurance, has been in chronic deficit over the past decade.
- ✓ In Japan's household sector, the coverage rate of fire insurance covering flood disasters is decreasing. NLIs plan to develop insurance products with segmented premium rates according to the degree of risk. NLIs are required to provide sufficient information on flood risks to policyholders to correctly identify their risks.
- ✓ Major NLIs have provided services for disaster prevention, mitigation and early recovery such as conducting risk surveys, establishing BCP, etc. These services may contribute to improving the profitability of fire insurance and diversifying the profit base of NLIs.

◆ *Financial Soundness and Risk Management*

■ Financial Conditions

- ✓ Insurers continue to have strong financial bases; the impact of the financial environment including increases in domestic and overseas interest rates was limited.

■ Asset Management

- ✓ Major LIs continued to sell foreign bonds with currency-hedging and invest in super long-term JGBs as in the previous year. They also continued to increase investments in unhedged foreign bonds, foreign credit assets, and alternative assets to strengthen profitability.
- ✓ Major insurers hold a certain amount of US Corporate Real Estate (CRE) loans. However, its impact was limited because CRE loans accounted for only a small percentage of their total assets.

■ The Economic Value-based Solvency Ratio (ESR)

- ✓ In May 2024, the FSA released the document on ESR to be introduced in FY2025. The document provides information on regulatory frameworks, the use of internal models, and supervisory methods based on ESR, etc.



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◆ **Enhancement of Group Governance**

- ✓ Internationally active insurance groups in Japan have made continuous efforts to enhance group governance, including: (i) introducing a global communication platform to enable management to communicate with officers and employees at various levels; and (ii) quantitatively identifying overseas subsidiaries with high business risks and enhancing support for such subsidiaries from the headquarters.
- ✓ The FSA newly designated Sumitomo Life Insurance Company as an IAIG in Japan.
(Note) The total number of IAIGs in Japan is five; Dai-ichi Life Holdings, Sumitomo Life Insurance Company, Tokio Marine Holdings, MS&AD Insurance Group Holdings, SOMPO Holdings.

◆ **Fiduciary Duty (Customer-Oriented Business Conduct)**

■ **Enhancing Management of Sales Staff**

- ✓ The Life Insurance Association of Japan (LIAJ) conducted a follow-up survey on member LIs' efforts for enhancing compliance risk management systems for sales staff. According to the survey, all LIs using sales staff as distribution channels have taken measures to strengthen their compliance risk management systems.

■ **Enhancing Management of Sales Agencies**

- ✓ While most sales agencies have developed rules for managing devices for soliciting (i.e. PCs) and conducted training on cyberattacks, only approximately 60% of them has developed contingency plans.
- ✓ Most sales agencies use brochures and simulation tools that help customers to understand the Public Insurance System when sales agencies conduct insurance solicitation.

◆ **Responses based on inappropriate incidents in the Non-Life Insurance industry**

- ✓ The FSA and Local Financial Bureaus issued a business improvement order to a certain NLI and its holding company regarding fraudulent insurance claims in auto insurance. The FSA also issued business improvement orders to four major NLIs conducting price-fixing cartels in corporate insurance markets. These NLIs submitted business improvement plans and the FSA is currently monitoring their efforts.
- ✓ The FSA convened an expert panel to discuss policy measures addressing these inappropriate incidents. The panel published a report for policy recommendations including: (i) enhancing supervision on large sales agencies (introducing third party's assessment, etc.); (ii) reducing cross shareholdings; and (iii) eliminating inappropriate benefits by NLIs. The goal of these policy recommendations is to ensure customer-oriented business conduct and fair competitive environments.
- ✓ The FSA and the non-life insurance industry will consider appropriate measures based on the report.