



FSA Newsletter October 2005



The minister for Financial Services, offering a few words at the meeting of Directors of Local Financial Bureaus.
(July 28)



Children observed "KASUMIGASEKI", the central Ministries.
(August 25)

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【Topics】

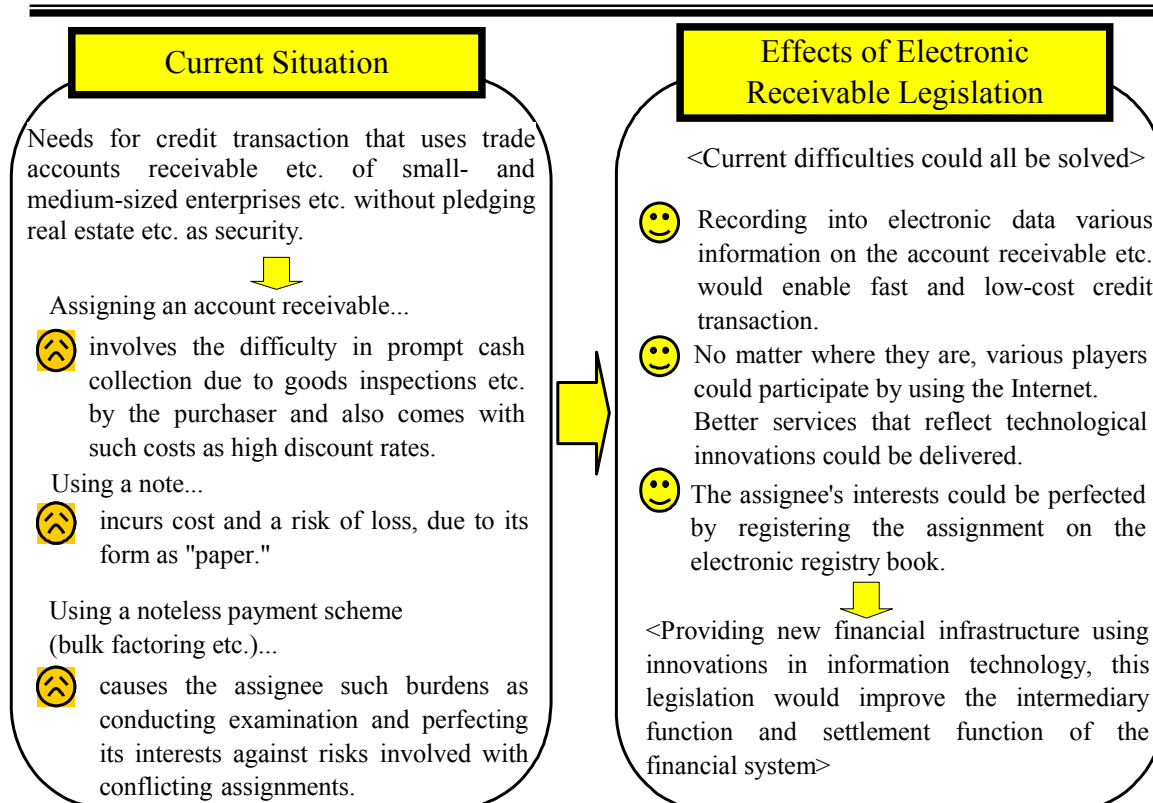
"Summary of Discussions on Electronic Receivable Legislation from a Financial System Perspective"

In accordance with decisions by the IT Strategy Headquarters, including the one on the "IT Policy Package", the "Working Group on Information Technology Innovations and Financial System" (Chair: Professor Shuya Nomura, Chuo Law School) held a series of eight sessions, starting from April of this year, and deliberated on the issue of electronic receivable legislation from a financial system perspective. This is a part of financial infrastructure improvements through the strategic utilization of IT, which is one of the measures listed in the "Program for Further Financial Reform". As a resume of the deliberations, "Summary of Discussions on Electronic Receivable Legislation from a Financial System Perspective" (hereinafter referred to as "Discussion Summary") was released to the public on July 6, in the form of a memorandum issued in the Chair's name.

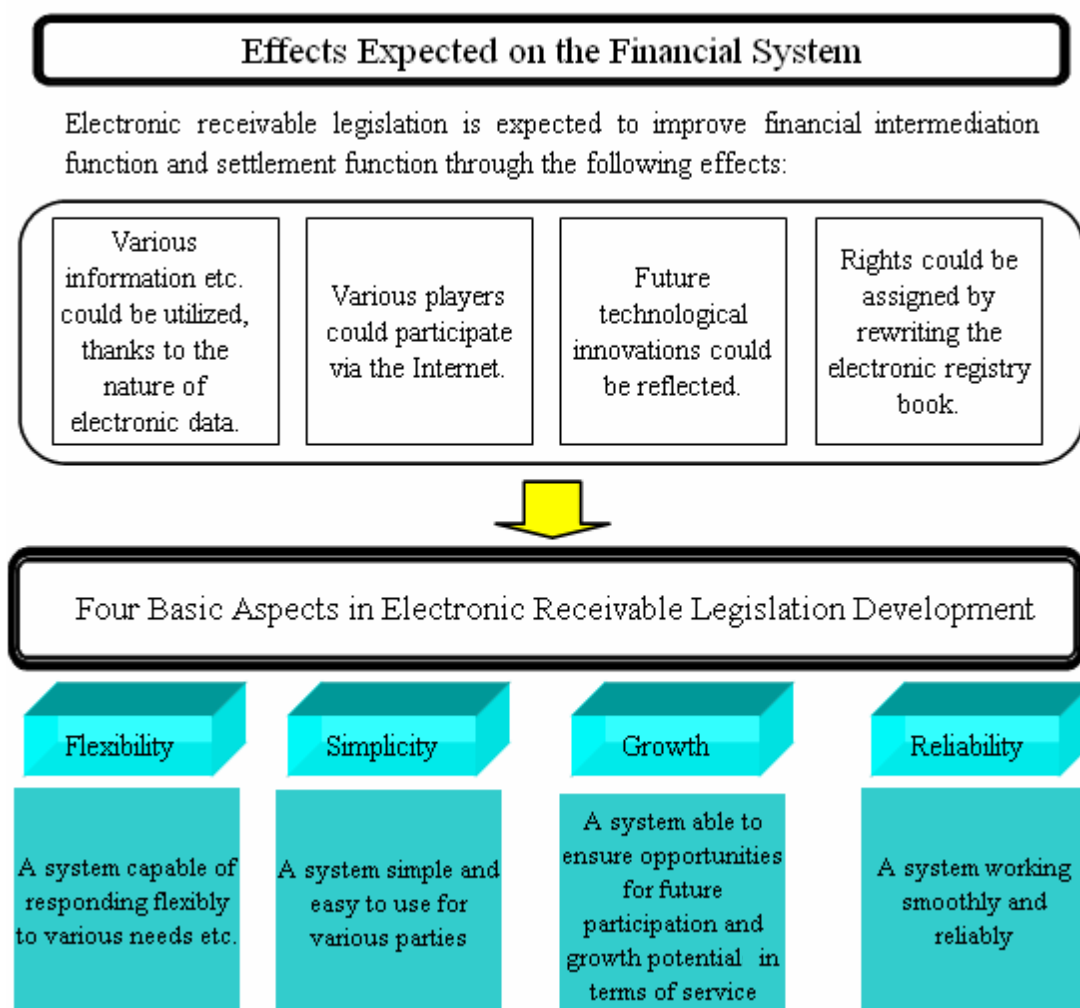
1. Overview of "Discussion Summary"

In the "Discussion Summary", an electronic receivable is characterized as "a new type of receivable that is different from either a nominative claim or a claim on a note, and that is created and assigned electronically and independently of underlying agreements such as a sales contract". Electronic receivable is considered to be not only an across-the-board solution to issues raised in assigning the nominative claim or in using notes, but also a new financial infrastructure that could benefit from outcomes of future innovations in information technology, enabling a wide range of commercial information etc. to be utilized in financial services. This new framework can contribute to further development of financial intermediation function and settlement function in Japanese financial system. More specifically, the following effects are anticipated:

Effects Expected from Electronic Receivable Legislation on the Financial System



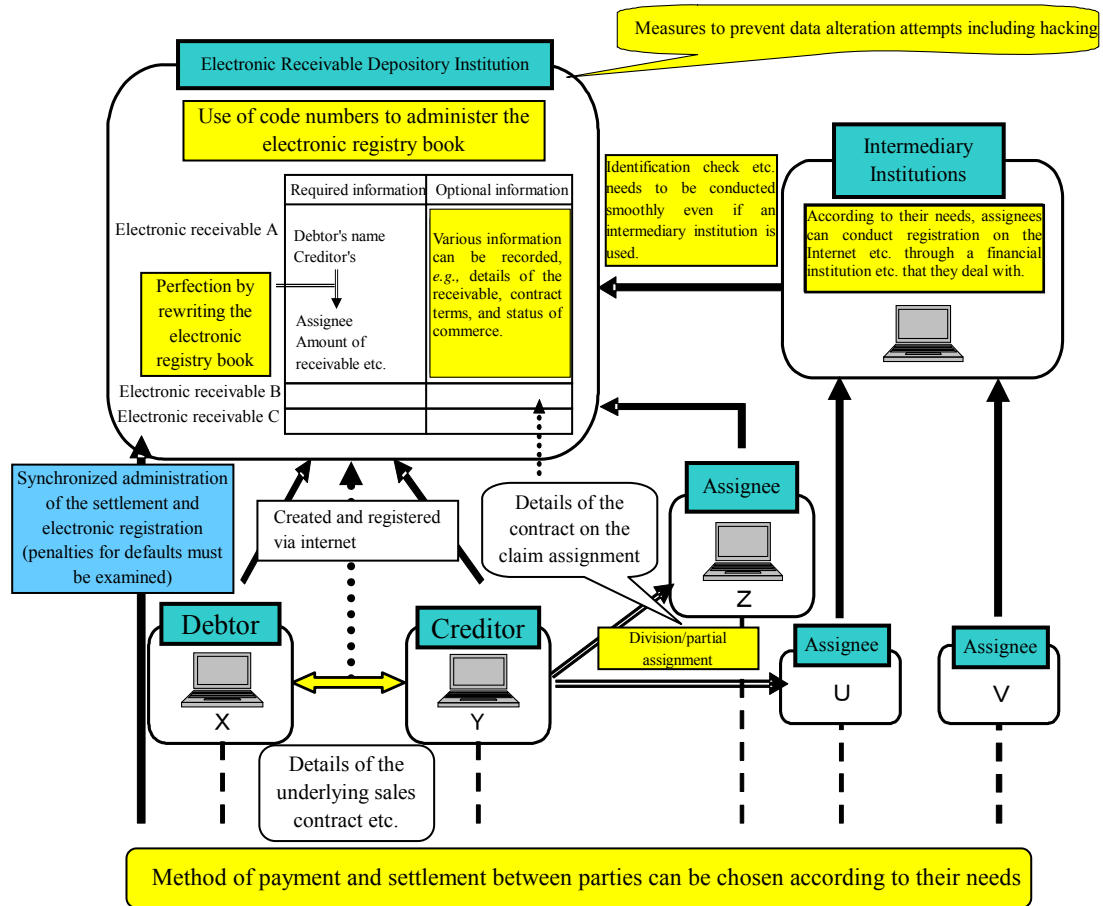
As shown in the chart below, the "Discussion Summary" specified four basic aspects, *i.e.*, "flexibility", "simplicity", "growth" and "reliability," that would be required on the part of the financial system for electronic receivable legislation to deliver the effects expected. Also, the "Discussion Summary" sorted out issues relevant to a concrete shape of electronic receivable legislation.



2. Future Actions

Relevant ministries and organizations etc. will proceed with specific deliberations from a perspective of basic legislation etc. with a view to establishing the "Electronic Receivable Law" (name tentative). Financial Services Agency hopes that the "Basic Aspects" and the respective issues etc., which are presented in the "Discussion Summarization," will be given appropriate consideration. Also, we are, at the same time, committed to taking appropriate actions, in response to the progress of deliberations in the future from a perspective of the financial system and practice.

Concept for Electronic Receivable



"Funding Rules for Policy Reserves and Performance Monitoring etc. for Third-Sector Products"

The "Program for Future Financial Reform," which the Financial Services Agency released to the public in December of last year, mentions in the list of the measures to be taken the establishment of rules for technical provision and performance monitoring etc. with respect to so-called third-sector products in areas of medical care, health care and long-term care insurance etc., so that insurance claims etc. should be paid in a timely and appropriate fashion under adequate risk management. In response to this, the Agency deliberated on the issue through a series of sessions, starting in February of this year, held by the "Study Team on Funding Rules for Policy Reserves and Performance Monitoring etc. for Third-Sector Products," and subsequently drew up a document titled "Funding Rules for Policy Reserves and Performance Monitoring etc. for Third-Sector Products" and released it to the public on June 28. The main items summarized in this document are described on the following page.

<Characteristics of Third-Sector Products>

- Susceptible to influences from external factors such as public healthcare policies and unforeseen actions on the part of policyholders
- In Japan, mainstream products are those with lifetime coverage. Therefore, they entail long periods of coverage.




Products come with long-term uncertainty

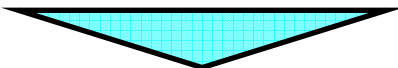


<Current Situations and Problems>

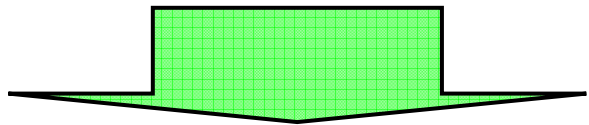
- Funding of standard Policy Reserve ⇒ Incidence rates to be used, *e.g.*, hospitalization rate, are determined by each company
- Funding of contingency Reserve ⇒ Risks are calculated in a unified and mechanical fashion
- After-the-fact analysis of incidence rates ⇒ Analysis methods and post-analysis measures are determined by each company.



Debates have been inadequate as to the appropriateness of these situations or what an effective structure might be.



It is necessary to discuss and establish adequate risk management methods
and rules for Policy Reserves



<Basic Concepts>

- In the future, deliberations need to be conducted with a view to standardizing incidence rates.
⇒ To start with, it is necessary to develop data on third-sector products.
- Therefore, steps to be taken for the time being are strict implementation of measures such as:

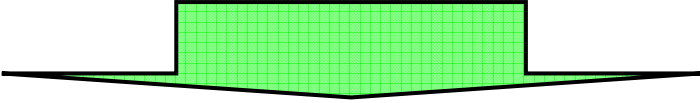
For insurance companies to:

- (i) ensure that Funding Rules for Policy Reserves is set aside in a necessary amount by conducting timely and adequate performance monitoring etc.,
- (ii) check a sufficient funding level of contingency Reserve by means of stress tests, and
- (iii) disclose the progress etc. of (i) and (ii).

For regulatory authorities to:

- (iv) conduct regular off-site monitoring.

(See Note)



**Ensuring soundness in financial affairs of insurance companies ⇒ Sounder
policyholders protection**

(Note) In addition to the above, insurance companies also need to work steadily on strengthening their risk management systems and enhancing the functions of Actuaries, as well as considering the introduction of a structure whereby agreement terms can be revised, within a scope not inconveniencing policyholders, in the case of unexpected events.

Our plan ahead is, upon carefully examining the items summarized above, to take legislative measures etc. as soon as possible with a view of having them come into force from the fiscal year 2006.

"Interim Summary of Issues: How Information Should be Supplied When Selling and Soliciting Insurance Products"

The "Study Team on Insurance Product Sales and Solicitation" (Chair: Professor Shuya Nomura, CHUO UNIVERSITY Faculty of Law), which is organized under the auspices of the Financial Services Agency (FSA), recently (July 8) put together and released to the public a document entitled "Interim Summary of Issues: How Information Should be Supplied When Selling and Soliciting Insurance Products."

1. Background Leading up to Examination by the Team

Considering the fact, among other facts, that there are still a large number of complaints about sales and solicitation activities in the insurance industry and that product features have become difficult for consumers to understand due to more diversified and complicated product lineups, the "Program for Further Financial Reform" set forth that the issue of "how explanation etc. should be provided to customers in insurance sales and advertisements etc." should be examined from a viewpoint of improving protection of and convenience for users.

In order to examine the aforementioned issue in a professional and practice-oriented fashion, the FSA organized the "Study Team on Insurance Product Sales and Solicitation" in April of this year with membership including experts and service users, and proceeded with the examination work focusing mainly on further sorting out and specifying important information that should be explained clearly and carefully and approaches to apply when giving explanations to customers. Recently, the Team's examination results were put together in the form of the following interim summary of issues.

For your information, the Team has three set areas of examination: (1) further sorting out and specifying important information that should be explained clearly and carefully and approaches to apply when giving explanations to customers, (2) compliance with the suitability rule in relation to insurance agreements and (3) permission of proper comparative advertisements that stimulate fair competition. The Interim Summary of Issues addresses area (1), while examination of the issues of (2) suitability rule and (3) approval of comparative advertisements are scheduled to continue in the future, in that order.

2. Overview of Interim Summary of Issues

(1) Important Information to be Explained in Particular

The following points were raised on the subject of explanation to be provided when selling and soliciting insurance products:

- (i) The fact that the volume of information supplied to consumers has become too large due to more diversified and complicated insurance product lineups and an increased volume of information to be explained, paradoxically, hinders customers from understanding the products.
- (ii) The fact that different companies supply different pieces of information may result in consumers reaching different degrees of understanding of insurance products, at the same time making it difficult for them to compare products of multiple companies.

The Summary presents a view that taking the following measures should be effective in an attempt to rectify the situations described above:

- (i) Setting important pieces of information, limited to such a volume that would not discourage normal consumers from trying to understand them.
- (ii) Specifying a minimal list of important information by product category.

The Summary also presents a view that in order to specify important pieces of information, information should be sorted out into the following groups and then supplied to customers:

- (i) "Policy overview": Information necessary for customers to understand the details of a given insurance product

- (ii) "Warning information": Information that insurance companies should supply to customers as warning

The following suggestions are presented for the "policy overview" and "warning information" ideas:

- (i) With respect to the content of "policy overview" and "warning information," a framework should be set in the form of law or regulation etc. and the industry should establish self-imposed guidelines for detailed lists by product category.

Taking protection-oriented products as an example, the following framework might be set:

[(Proposed) Framework of "Policy Overview"]	[(Proposed) Framework of "Warning Information"]
a. How the product works b. Period of insurance c. Coverage details (<i>e.g.</i> , main events insured, main exclusions) (Note) If there is any unusual policy exclusion, such a fact should be noted in particular. d. Insurance terms (<i>e.g.</i> , coverage amounts) e. Main riders that can be added, together with their overviews f. Insurance premiums (if there are any optional riders, their premiums should be shown individually) g. Method and period of insurance premium payment	a. Cooling-off information b. Duty of disclosure (consequences of violation) c. Coverage commencement date d. Main exclusions (Note) If there is any unusual policy exclusion, such a fact should be noted in particular. e. Grace period for insurance premiums, policy lapse and revival etc. f. Cancellation and cash surrender value g. Safety net h. Any pieces of information that are specifically required by law or regulation etc. to be supplied to customers as warning (<i>e.g.</i> , direct policy transfer program, explanation required under the Law on Sales of Financial Products).

- (ii) From a viewpoint of ensuring effectiveness, required information needs to be limited to a certain volume in terms of the total information being supplied, *i.e.*, "policy overview" and "warning information," put together (for example, someone suggested that it should desirably be limited to such a volume that roughly covers both sides of an A3 sheet of paper)
- (iii) A document describing "policy overview" and "warning information" would need to contain the contact information of the insurance company's section responsible for handling complaints and consultation and also a statement that customers may bring complaints to the industry-run service charged with handling complaints and consultation.

(2) Timing of Information Supply

The following suggestions are presented with respect to timing of information supply:

- (i) A document describing the "policy overview" would desirably be issued "well in advance" of the signing of the policy.
- (ii) The "warning information" would desirably be described in the same document as the "policy overview" and be issued "well in advance." In consideration, however, of a point raised by some members that the very effect of the warning increases after, rather than before, a consumer decides to purchase the policy, an insurance company which prints the "policy overview" and "warning information" on separate sheets should also be permitted to issue the "warning information" document at the time of application.

(3) Method of Description

The following ideas are presented with respect to method of description:

- (i) The description must be easy for consumers to understand. The following approaches should be effective for that purpose:
 - Good readability and highlighting techniques (*e.g.*, font size, layout of information)
 - Technical term reviewing, standardization of terms used
 - Expressions and presentations that can draw the attention of consumers (*e.g.*, Q&A format)
 - Use of figures, charts and tables
 - Document separation etc.
- (ii) It is necessary to give feed back on consumers' comments to the method of description by, for instance, conducting on a regular basis analysis of complaints and subjects of consultation etc. brought from consumers and reflecting the findings on the way in which information is described on documents.

(4) Method of Explanation

The following ideas are presented with respect to method of explanation:

- (i) The following matters need to be explained orally:
 - Importance of reading the document describing the "policy overview" and "warning information"
 - Importance of reading the portion of the said document that contains information that is particularly disadvantageous to customers, such as main policy exclusions
- (ii) With respect to policy exchanges or conversions in particular, it is necessary to explain orally that "policy exchanges or conversions etc. might result in a disadvantage to policyholders."

(5) Method of explanation etc. Commensurate with Means of Solicitation

The Summary presents a view that it is necessary to ensure that, as a general rule, the same level of explanation should be provided in the case of non-interpersonal (via phone, postal mail or Internet etc.) sales as that set for cases of interpersonal sales.

(6) Agent Supervision and Education

As, in most cases, it is an agent who actually supplies information, some member pointed out that it is important to further enhance agent supervision and education efforts.

(7) Assuring Effectiveness (Enforcement) of Rules

- (i) As measures that can be applied for the time being, suggestions were made that the following actions might be taken:
 - Supervision by public authorities
 - Actions by insurance companies (establishing an internal structure, enhancing the section responsible for handling complaints and consultation, ensuring that products are developed in consideration of what explanation should be provided at the time of solicitation)
 - Further development and enhancement of complaint and dispute settlement support functions and structures of the industry
 - Release of the number of complaints etc.
- (ii) As mid-term issues, suggestions were made that, among other suggestions, the industry should act as a self-regulatory body and extra-judicial dispute settlement systems should be further enhanced.

(8) How to Provide an Explanation to Have Policyholder's duty of Disclose Properly

The Summary presents a view that it is necessary for insurance companies to take sufficient steps in accordance with the "Guidelines for Steps to Take to Have Policyholder's Disclose Properly," which was developed by the Life Insurance Association of Japan, to have policyholders etc. duty of disclose properly.

(9) Consumer Outreach Activities

The Summary presents a view that an appropriate action for the Japan Institute of Life Insurance etc. would be to create industry-wide reference material (a buyers' guide) by putting together, in an easy-to-understand fashion, pieces of information that consumers must pay attention to in purchasing an insurance product and post them on homepages etc. of the respective insurance companies, business associations and the FSA. Suggestions were made that further efforts should desirably be made, as a consumer education attempt, to provide financial education regarding insurance products etc. right from the compulsory schooling stage.

"Basic Guidelines and Plan for Financial Inspections in Program Year 2005"

The Financial Services Agency (FSA) recently (July 8) released to the public a document entitled "Basic Guidelines and Plan for Financial Inspections for Program Year (PY) 2005," in which its policies on the conduct of inspections during the program year 2005 are clearly presented, together with the scheduled number of inspections. An overview of these guidelines and plan for inspections is as follows.

(Note) Program year 2005: July 2005 to June 2006

FSA achieved in PY 2004 the targets set forth in its Program for Financial Revival, designed to normalize the non-performing loans (NPLs) problems in major banks. Building upon this achievement, the FSA has announced its new Program for Further Financial Reform, which placed an emphasis on enhancing the protection of customers' interest and the strength of Japanese financial system, through the initiative of the private sector.

The financial inspection shall, in this context, be effected in pursuit of the best interest of public users and of the national economy. FSA's mission shall thus be ensuring efficiency, transparency, and effectiveness of its inspections, while promoting the efforts of financial institutions towards a voluntary and sustained improvement in their managements. To this end, the FSA conducts inspections based on the Financial Inspection Basic Guidelines (FIBG), and will introduce the Financial Inspection Rating System (FIRST) for deposit-taking financial institutions.

In thus taking new actions, the Agency is committed to conducting inspections upon specifying the following four priorities in inspections so as to pay attention to the circumstances surrounding financial institutions today and to ensure their soundness and proper management:

(i) Protecting the interest of public users

For the interest of public users of financial institutions, the FSA inspection will focus on customer protection management of the institutions, especially protection of privacy information, accountability obligation, appropriate execution of contracts, and a due treatment of public complaints. The FSA will also examine obligations of institutions related to disclosure of public information, as well as information security in financial transactions.

(ii) Assisting the revival of SMEs and of regional economies

In order to help achieve the revival of small-and medium-sized enterprises (SMEs) and the vitalization of regional economies, the FSA's focus will be on the efforts by regional financial institutions in assisting local SMEs, with due respect to the business reality of such SMEs.

(iii) Focus on process-checking

For the past years, the FSA's inspections had placed a strong focus on asset quality of financial institutions. Now that the major banks' NPLs problem has been all but normalized, the FSA intends to shift its focus to a wider perspective, i.e. process-checking on overall management quality, including compliance of regulations and risk management, while giving due regard to the unique business reality of each financial institution.

(iv) Globalization and structural changes in financial activities

The FSA will inspect financial institutions in line with the Guidelines for Financial Conglomerate Supervision, and will focus on compliance with anti-money laundering laws and regulations.

Under the Basic Plan for Financial Inspections for this program year, the FSA will conduct inspections of 320 deposit-taking financial institutions, 15 insurance companies, 10 securities companies etc. and 365 other financial institutions including non-bank money lenders, as well as 5 other institutions consisting of governmental financial agencies and Japan Post.

For further details, please refer to "[The Basic Guidelines and Plan for Financial Inspections in Program Year 2005 \(July 8, 2005\)](#)": you can have access to it from "[Press Releases](#)" on the Financial Services Agency's website.

"Business Accounting Council Subcommittee on Internal Controls Draft for Public Comment"

On July 13, 2005, the Business Accounting Council Subcommittee on Internal Controls released to the public a document entitled "Evaluation and Auditing Standards for Internal Control Reported in Financial Reports (Draft for Public Comment)."

The background leading up to the preparation and public release of the Standards (Draft for Public Comment) is as follows:

Since last year, incidents of improper conduct regarding the disclosure under the Securities and Exchange Law came to light one after another. These incidents raised doubts as to whether internal controls exercised by the companies were functioning effectively; from a perspective of strengthening internal controls reported in financial reports, the Financial Services Agency (FSA) accordingly requested the Business Accounting Council in the "Actions Towards Securing Reliability of Disclosure System (Part Two)," which the FSA put together and released to the public in December of last year, to set clear standards for evaluation by the management and examination by certified public accountants etc. with respect to the effectiveness of internal controls reported in financial reports. Responding to this request, the Business Accounting Council Subcommittee on Internal Controls held a total of 11 sessions since February of this year to deliberate on the issue.

The Draft for Public Comment prescribes methods and procedures to be applied by the management in conducting the work of evaluation and reporting and by certified public accountants etc. in conducting examinations with respect to the effectiveness of internal controls reported in financial reports and, taking into account an argument that requiring evaluation by the management and audits by certified public accountants etc. might be posing an excessive burden, proposes such measures that would not impose excessive evaluation and audit costs without compromising the original purpose, *i.e.*, securing reliability of financial reports, by reference to the Subcommittee's study of the progress of a similar program in the U.S. which had already been introduced.

The FSA seeks comments from a broad range of interested parties in the general public until August 31, based on which the Subcommittee is set to begin deliberations with a view to completing the final version of the standards.

"Business Accounting Council Audit Subcommittee Draft for Public Comment"

Following the public release of a document entitled "Revision of Auditing Standards and Interim Auditing Standards / Establishment of Quality Control Standards for Audits (Draft for Public Comment)" by the Audit Subcommittee of the Business Accounting Council on July 20, 2005, the Financial Services Agency (FSA) sought comments from a broad range of interested parties in the general public until August 22.

The background leading up to the preparation and public release of the Standards (Draft for Public Comment) is as follows:

In response to a case of auditing wrongdoing, with the involvement of certified public accountants this time, which was related to controls of quality in audits, including audit structures at the auditing firm, the FSA requested the Business Accounting Council in a document entitled "Actions Towards Securing Reliability of Disclosure System (Part Two)," which the FSA put together and released to the public in December of last year, to conduct necessary deliberations, such as on the revision of the auditing standards.

Accordingly, the Audit Subcommittee of the Business Accounting Council accordingly held a total of ten sessions since March of this year to deliberate on the issue.

In the Draft for Public Comment, the Subcommittee demands, from a perspective of improving controls of quality in audits at auditing firms etc., that auditing firms should appropriately develop and operate their quality control systems in the respective stages of audits from the acceptance of an auditing engagement, then audit planning, actual audits, and through to the issue of an audit report, and exercise daily monitoring and regular checking on their own initiative.

The Subcommittee is set to begin deliberations based on comments received, with a view to completing the final version of the Standards.

"Results etc. of Blanket Inspections of Personal Information Management Systems at Financial Institutions"

Considering the sentiment of the Japanese people of wanting a high level of personal information protection to be exercised in the financial sector and having seen the Personal Information Protection Law etc. come into force in April of this year, the supervisory authorities delivered a written request to deposit-taking financial institutions and other financial institutions operating in the areas of securities and insurance, respectively, to conduct blanket inspections of their personal information management systems and report the results to the supervisory authorities by the end of June.

Pursuant to this request, the financial institutions conducted inspections and audits to check for any leakage etc. of personal information concerning their customers that they were managing as of April 1 of this year; as a result, incidents, including losses, were found at many financial institutions, of which a summary was released to the public by the supervisory authorities on July 22.

Of the 1,069 financial institutions to which the supervisory authorities delivered the request, the number of institutions at which incidents, including losses, were found was 287 (26.8%). While, in terms of the number of customers, information losses etc. occurred with respect to approximately 6,780,000 customers in total, none of them was reported to have led to any improper use etc. resulting in damage to customers, or reported to contain high potential of leading to such a result.

This prompted actions on the part of the financial institutions: each and every one of those 287 financial institutions at which information losses etc. were found to have occurred has taken or is planning to take internal control-related measures for recurrence prevention purposes, including customer relations actions, such as establishing a section to receive inquiries, officer and employee guidance and education, or revision of operational flows.

We deeply regret that the recent blanket inspections resulted in the discovery of information losses etc. at so many financial institutions, even discounting the fact that these incidents had basically occurred before April 1, the date as of which the Personal Information Protection Law etc. came into force. As we believe that, now that the Personal Information Protection Law etc. has come into force, it is more important than ever for financial institutions, from a perspective of protecting personal information and securing users' trust in financial institutions, to manage customer information appropriately; we urge each financial institution to continue making efforts in appropriate customer information management.

"Establishment etc. of Financial Services Agency Policy Evaluation Plan for Fiscal Year 2005"

1. Introduction

In accordance with the purposes of the "Law Concerning the Evaluation of Policies by Administrative Organs," which came into force in April 2002, the Financial Services Agency aims to:

- (i) thoroughly fulfill its accountability to the Japanese people for its financial administration,
- (ii) deliver efficient and high-quality financial administration that benefits the Japanese people, and
- (iii) deliver result-oriented financial administration formulated from the people's perspective, through the implementation of policy evaluation.

2. Establishment of Policy Evaluation Plan

The FSA first prepared a draft evaluation plan for the fiscal year 2005 in accordance with the "Program for Further Financial Reform" (December 2004) and by referring to comments on its policy evaluation and, after making necessary corrections in consideration of the discussions by the Policy Evaluation Advisor Council (July 5, 2005), proceeded to release the finalized plan to the public.

3. Details of Policy Evaluation Plan

Under the Policy Evaluation Plan for the fiscal year 2005 (period covered by the Plan: from July 1, 2005 to June 30, 2006), performance evaluation, operation evaluation and comprehensive evaluation are scheduled to be conducted. In addition, revision work is also scheduled with the intention to strengthen the link between policy evaluation and budgeting.

(1) Performance Evaluation

Specific policies and objectives to be evaluated for the fiscal year 2005 are as shown in the "List of Policies and Objectives Subject to Performance Evaluation," *i.e.*, "Basic Objectives," "Priority Objectives," "Policies" and "Priority Programs"; the specific details of each priority program are summarized under "Details etc. of Priority Programs for the fiscal Year 2005."

In order to deliver better evaluation work in the future, the FSA also seeks comments on the policies to be evaluated, reference indices and evaluation method (public comment procedures).

(2) Operation Evaluation

The items scheduled to be subject to operation evaluation are operations in the area of information etc. (of all the operations requiring budgetary steps, major operations for which new or increased budget is scheduled).

(3) Comprehensive Evaluation

Work of comprehensive evaluation will continue to be done with respect to the evaluation of the "Financial System Reform (Japanese Big Bang)," which the FSA has been engaged in since the fiscal year 2004.

"Sample findings Issues Raised in Financial Inspections" and "Collection of Opinions Submitted"

1. Introduction

The Financial Services Agency (FSA) released documents entitled, respectively, "Sample findings Issues Raised in Financial Inspections" and "Collection of Opinions Submitted" to the public on July 27. What is behind the preparation and public release of both collections is the FSA's pursuit of a kind of financial inspection that focuses particularly on improving the transparency and predictability of financial inspections and having an effect of prompting financial institutions to make voluntary and sustained efforts towards improving their management.

2. Background Leading up to Preparation of Collections, etc.

(1) Preparation of Sample findings Issues Raised in Financial Inspections

The "Program for Further Financial Reform," which the FSA released to the public in December of last year, presents the FSA's intention of enhancing the feedback system regarding the results of inspections of financial institutions in an attempt to develop a framework to improve the transparency and predictability of financial administration and achieve full accountability; accordingly, the FSA stated in the "Provisional Translation" (March of this year), which was developed pursuant to the Program, its plan to prepare sample findings issues raised in financial inspections and release it, preferably during July of this year, to the public. A document entitled "Action Program concerning enhancement of Relationship Banking Functions (for fiscal years 2005 to 2006,)" which the FSA released to the public in March of this year, also contains a plan to give out information on issues raised in inspections that are commonly found in many financial institutions, from a viewpoint of urging financial institutions to, among other actions, strengthen their internal control systems under the principle of self-responsibility. The "Sample findings Issues Raised in Financial Inspections" were prepared in accordance with these stated plans.

(2) Preparation of Collection of Opinions Submitted

The opinion submission system is a system in which financial institutions, subject to on-site inspection, can submit their opinions directly to the Director-General of the Inspection Bureau regarding any issue on which they disagree with inspectors even after holding sufficient discussions; it has been applied since January 2000.

Having accumulated a substantial amount of case examples as a result of the submissions of 295 cases in the five and half years since the introduction of the system up until now, the FSA prepared the "Collection of Opinions Submitted" and released it to the public with the same intention as it had for the Sample findings Issues Raised in Financial Inspections.

Also note that, in addition to the preparation of the Collection, the FSA made improvements, applicable as from the program year 2005, on the way the opinion submission system is operated, including: (i) inviting external experts to sit on the Opinion Submission Review Board, which is charged with reviewing opinions submitted, and (ii) expanding the range of topics that are allowed to be submitted under the system, to cover all inspections conducted by the FSA Inspection Bureau, and Local Finance Bureaus etc.

3. Details of Collections, etc.

(1) Sample findings Issues Raised in Financial Inspections

The Sample findings Issues Raised in Financial Inspections presents a total of 174 cases mainly consisting of topics etc. raised in relation to many financial institutions, selected from among all issues that were raised in financial inspections conducted during the program year 2004, which concern topics etc. specified as priority items of inspection under the Basic Guidelines and Plan for Inspections in Program Year (PY) 2004 (July 28, 2004) (hereinafter referred to as the "Basic Guidelines"). The respective numbers of cases presented by form of operation are shown as follows; note that the cases in relation to deposit-taking financial institutions are presented under

three separate groups, *i.e.*, major banks etc. and foreign bank branches, regional banks, and Shinkin Banks and Credit Cooperatives, in accordance with the FSA's practice of raising issues as adapted to the size and characteristics of the financial institution being inspected.

The number of cases presented under a given operation category or topic does not reflect the actual number of issues raised in inspections, and, while most cases presented were chosen to imply general characteristics of a given operation category, it is wrong to conclude that any topic that is presented under a specific operation category has never been raised in other operation categories; therefore, any one who attempts to connect these figures to financial institutions' voluntary and sustained efforts towards improving their management might benefit more by referring to issues raised under other operation categories as well.

I. Deposit-taking financial institutions	128 cases
1. Major banks etc. and foreign bank branches	(38 cases)
2. Regional banks	(39 cases)
3. Shinkin Banks and Credit Cooperatives	(51 cases)
II. Insurance companies	31 cases
III. Securities companies	15 cases

For deposit-taking institutions, the cases presented are categorized according to the rating items as set under the "Financial Inspection Rating System" and, for insurance companies and securities companies, they are categorized according to the Inspection Manual.

The "Financial Inspection Rating System" will start its trial application from January 2006, and subsequently become fully effective as early as program year 2006.

Some of the 174 cases described in the Sample findings Issues Raised in Financial Inspections are briefly described below for illustrative purposes, organized by business category:

- **Major banks and foreign bank branches**

In accordance with a decision under the Basic Guidelines to treat governance as a priority item in the case of inspecting a major bank, the involvement of the management in dealing with major borrowers is among the issues raised.

- **Regional banks**

In accordance with a decision under the Basic Guidelines to inspect computer system risk management systems etc. subsequent to computer system changes for the purpose of introducing payment and settlement deposits, accountability to customers concerning the introduction of payment and settlement deposits is among the issues raised in relation to regional banks. Another example of an issue raised is the one related to their actions in areas of contribution to small- and medium-sized enterprise business revitalization and regional economy revitalization and activation.

- **Shinkin Banks and Credit Cooperatives**

Hoping that the Collection will serve as a useful reference for Shinkin Banks and Credit Cooperatives to develop internal control systems, we presented a larger number of cases under this operation category, including issues raised in relation to the appropriateness of credit risk management and to liquidity risk management systems etc.

- **Insurance companies**

In accordance with a decision under the Basic Guidelines to list the appropriateness of insurance solicitation activities as a priority item in inspection, a case related to insurance solicitation management systems is among the cases presented under the category of insurance companies; a case related to systems of paying insurance claims etc. is another example.

- **Securities companies**

In accordance with a decision under the Basic Guidelines to treat risk management systems and statutory compliance systems concerning stock trading via the Internet as priority items when inspecting a securities company, the cases presented under the category of securities companies include an issue raised in relation to computer system outsourcing management etc. relevant to the management of a securities trading system via the Internet.

(2) Collection of Opinions Submitted

The Collection of Opinions Submitted provides descriptions of the cases, selected from among the 295 cases, that were submitted up until the program year 2004, which we thought may serve as a useful reference for financial institutions to exercise their risk management etc.; the descriptions are a summary of those cases given without specifying the financial institutions that submitted the opinions, and includes review results and focuses on the points of disagreement.

In selecting cases, we took into account the fact that 272 cases, or approximately 90% of all the cases submitted by financial institutions, are related to credit risks, and accordingly made a selection concentrating on cases concerning borrower classification (seven cases), cases concerning write-off and provision (two cases) and a case concerning collateral appraisal, as well as cases concerning accounting treatments (two cases), thus presenting a total of 12 cases.

For your information, 133 cases out of the 295 cases that had been submitted resulted in the opinions of the submitting financial institutions being accepted.

4. Future Plans

We intend to summarize on a regular basis the issues raised in inspections during each program year and release the results to the public every year.

While it will have to depend partially on how extensively the opinion submission system will be used in the future, we are hoping to revise the Collection of Opinions Submitted on an approximately yearly basis, taking into account the topics of the times in each revision.

“Annual Policies for Small- and Medium-Sized and Regional Financial Institution Supervision for the Fiscal Year 2005”

Pursuant to the “General Guidelines for Small- and Medium-Sized and Regional Financial Institution Supervision,” which was established in May 2004 (hereinafter referred to as the “Supervision Handbook”), the Financial Services Agency drew up “Annual Policies for Small- and Medium-Sized and Regional Financial Institution Supervision for the Administrative Year 2005” (hereinafter referred to as “Supervision Policies”) and released it on July 28. An overview of the Supervision Policies is as follows:

(Note) Administrative year 2005: from July 2005 to June 2006

1. Background

The Supervision Handbook sets forth that “in order to clarify items of priority in supervision, the FSA will develop and release supervision policies at the beginning of each administrative year, to be applied during the said administrative year.”

Underlying this decision to develop and publicly release such supervision policies every administrative year is the need to show in a standardized fashion basic ideas and items of priority in conducting the work of supervision for each administrative year, as supervising small- and medium-sized and regional financial institutions (RFIs) involves a large number of target RFIs with a great diversity and oversight through Local Finance Bureaus.

In supervising RFIs in the administrative year 2005, the authorities will conduct their off-site monitoring work comprising various interviews including “Comprehensive Interview,” in accordance with the Supervision Policies developed for the year.

2. Composition

The Supervision Policies starts with the presentation of “Basic Ideas” that are applied to achieve fundamental objectives of the financial administration under the current circumstances surrounding financial institutions, and then proceeds to sort out “Items of Priority” for this administrative year. These are the items that should be given particular attention so as to adequately address the current circumstances surrounding financial institutions, and are arranged into three areas, *i.e.*, “Further Promotion of Region-Based Relationship Banking,” “Adherence to User Protection Rules and Improvement of Convenience” and “Further Sophistication of Risk Management.”

A notable aspect of the Supervision Policies is that it clearly sets out, as items of priority, measures to be taken in response to a number of recent developments, that include: establishment of the “Program for Further Financial Reform” in December 2004 and, being one of the measures described under it, the establishment of “Action Program to Promote Further Enhancement of Region-Based Relationship Banking Functions (FY2005-06)” in March this year; the removal of the blanket guarantee on deposits in April this year; the establishment of customer information losses at financial institutions; and the establishment of counterfeit cash card fraud cases to a serious problem.

3. Basic Ideas

The “Basic Ideas” section describes the current circumstances surrounding RFIs, and the basic ideas that are applied to achieve fundamental objectives of the financial administration under such circumstances.

(1) Current Circumstances Surrounding RFIs

The current circumstances surrounding RFIs are described as follows:

- (i) Seeing that the phase of financial administration is shifting from one that emphasizes “financial system stability” to another that emphasizes “financial system vitality,” the “Program for Further Financial Reform,” released in December 2004, demanded that basic principles of the authorities responsible for financial administration should be to (a)

- complement market discipline, (b) establish a “Code of Conduct” for financial administration, and (c) develop and enforce user protection rules. From now on, pursuant to the stated basic principles, the authorities must work towards bringing about a financial system with a high level of user satisfaction by drawing on the strengths of the “private sector.”
- (ii) With regard to regional financing, the “Program for Further Financial Reform” stated that region-based relationship banking should be further promoted with the view of revitalizing and activating regional economies, facilitating small- and medium-sized enterprise (SME) financing, and strengthening management functions of RFIs. In order to put this into action, the “Action Program to Promote Further Promotion of Region-Based Relationship Banking Functions (FY2005-06)” (hereinafter referred to as the “new Action Program”) was newly developed and released in March this year to cover FY2005 and FY2006, as successor of the “Action Program concerning enhancement of Relationship Banking Functions” (released in March 2003; hereinafter referred to as the “former Action Program”). While efforts towards enhancement of region-based relationship banking functions under the former Action Program are steadily progressing as a whole, it will inevitably take some time for a good part of these efforts to bring forth a discernible effect; thus, it is likely necessary to continue the existing efforts under the new Action Program in an attempt to further promote region-based relationship banking.
 - (iii) With the removal of the blanket guarantee on deposits in April this year, financial institutions are pressed to strive, all-the-more vigilantly, toward strengthening their management functions under market discipline, where further improvement of information disclosure to their users is a key issue. In addition, it is increasingly necessary for financial institutions to ensure user protection: the detection of customer information losses at many financial institutions after the enforcement of the Personal Information Protection Law this April asks for the establishment of appropriate systems to protect customer information, while stricter measures for financial crime prevention purposes are also needed in light of, for instance, a looming problem of counterfeit cash card fraud.

(2) Basic Ideas

Taking into account the current circumstances surrounding RFIs, as described in (1) above, the Supervision Policies sets forth that strict and effectual supervisory administration should continue in an efficient and effective fashion this administrative year in accordance with the following basic ideas and pursuant to the Supervision Handbook, so that the fundamental objectives of financial administration (*i.e.*, ensuring stability of financial function, protecting users of financial services, and securing smooth financing activities) could be achieved.

The supervisory authorities should:

- (i) Make efforts towards securing sufficient communication with financial institutions while keeping a reserved, yet sound and constructive, relationship, by means of regular meetings and exchanges of views, in order to accurately grasp and analyze information concerning financial institutions’ management in an attempt to use the findings in taking timely and appropriate supervisory actions.
- (ii) Pay respect to voluntary efforts by financial institutions in their business administration, in full consideration that authorities’ role is to examine in the light of laws and regulations, and prompt any necessary corrections to, corporate decisions that financial institutions make as private entities in accordance with the principle of self-responsibility, and that information disclosure-based discipline should be their main code of conduct.
- (iii) Make efforts to strengthen coordination with the inspection branches, while maintaining mutual independence, by securing sufficient communication by means of “Inspection/Supervision Coordination Meetings” and other daily exchange of information, in order to deliver financial supervision with a high level of effectiveness.

4. Items of Priority

In order to adequately address the current circumstances surrounding RFIs, the Supervision Policies specifies three pillars as “Items of Priority” in the work of supervising RFIs for this administrative year, taking into account the fundamental objectives of the financial administration. The pillars are: “Further Promotion of Region-Based Relationship Banking,” “Adherence to User Protection Rules and Improvement of Convenience” and “Further Sophistication of Risk Management.”

(1) Further Promotion of Region-Based Relationship Banking

We expect that financial institutions will, in accordance with the new Action Program, work to further promote region-based relationship banking via “selection and concentration” reflecting regional features and user needs as well as improved information disclosure and discipline thereby, so as to respond to financing needs of local SMEs in a more appropriate fashion, and will also secure sound management and gain full trust from regional users. For that purpose, the Supervision Policies requires the authorities to follow up on the progress of unique “Relationship Banking Promotion Plans” developed by financial institutions, and also to exercise appropriate supervision focusing on the following points in particular:

- (i) Business revitalization and facilitation of SME financing
- (ii) Strengthening of management functions
- (iii) Enhancement of convenience for regional users

(2) Adherence to User Protection Rules and Improvement of Convenience

From a viewpoint of protecting users of financial services, the Supervision Policies sets forth that appropriate supervision focusing on the following points in particular should be exercised, working in coordination with the inspection branches. Considering that the delivery of services with a high level of user satisfaction calls for precise understanding of users’ comments and complaints by financial institutions, the Supervision Policies also requires that appropriate steps be taken, paying respect to any initiatives on the part of financial institutions.

- (i) Establishing customer information protection systems
- (ii) Strengthening and thoroughly implementing measures for prevention of financial crimes
- (iii) Enhancing systems of explanation to customers and functions to deal with consultations and complaints
- (iv) Securing appropriateness in computer system management systems

(3) Further Sophistication of Risk Management

For financial institutions to have appropriate risk management systems and secure their financial soundness, and thus to gain trust from depositors and users, the Supervision Policies sets forth that appropriate supervision focusing on the following points in particular should continue this administrative year, with a view of achieving further sophistication of risk management at each financial institution, facing the scheduled implementation of Basel II from the end of March 2007.

- (i) Securing reliability in asset appraisal and credit risk management
- (ii) Developing market risk management systems
- (iii) Developing management systems of earnings and improving profitability

"Lending Crunch and Oppressive Debt Collection Hotline" Case Reporting and Information Use Progress

1. What is the "Lending Crunch and Oppressive Debt Collection Hotline"?

As part of its efforts towards facilitating financing for small- and medium-sized enterprises etc., the Financial Services Agency set up and operated a service called the "Lending Crunch and Oppressive Debt Collection E-mail and Fax Reporting Program" (commonly known as the "Lending Crunch and Oppressive Debt Collection Hotline") to listen, on a far-reaching scale, to the voices of borrowers, including small- and medium-sized enterprises. The intention behind the establishment of such a fax and e-mail reporting service was to provide small- and medium-sized enterprises with the means of directly reporting to the FSA etc. in the event of, among other types of incident, unfair treatment by a financial institution on the grounds of the Financial Inspection Manual etc.

2. Establishment of "Financial Service User Support Line"

The "Lending Crunch and Oppressive Debt Collection Hotline" reporting service was recently merged into a new service called "Financial Service User Support Line," which was established on July 19 of this year for the FSA to receive inquiries, consultation requests and comments etc. under a one-stop umbrella (hereinafter referred to as the "Support Line"). While any information concerning lending crunch and oppressive debt collection must now be reported to this "Support Line," case reporting and information use progress will continue to be released to the public as in the past.

3. Hotline Case Reporting and Information Use Progress (As of July 18, 2005)

(1) Case Reporting Progress

In accordance with the FSA's practice of releasing to the public, on a quarterly basis, case reporting and information use progress under the "Lending Crunch and Oppressive Debt Collection Hotline," such progress was reported to the public for the tenth time on July 29, 2005 (see Note). In consequence of the "Support Line" being established on July 19 of this year, the tenth release contains the progress made between July 1 and July 18, in addition to the information reported up until June 30, or the last day of the regular release period. The accumulated total of the cases that were reported since the October 2002 service establishment up until July 18, 2005 is 1,786.

(2) Information Use Progress

- (i) As one example of information use on financial institutions on a non-individual basis, the cases reported to the Lending Crunch and Oppressive Debt Collection Hotline were referred to in the work of establishing the "Administrative Guidelines for Explanation Offering Structures and Consultation and Complaint Handling Functions Regarding Credit Transactions" (which were subsequently incorporated into the "General Supervision Guidelines for Small- and Medium-Sized and Regional Financial Institutions") in July 2003.

Pursuant to the "Basic Guidelines and Plan for Financial Inspections in Program Year 2004," which was established in July of last year, the inspections during the program year 2004 (from July 2004 to June 2005) were conducted with a emphasis placed in particular on, for instance, the status of accountability fulfillment in relation to borrower companies in accordance with the Administrative Guidelines etc. as well.

Furthermore, we have also requested financial institutions, on the basis of the information reported to the Hotline, to make efforts towards, for instance, facilitating small- and medium-sized enterprise financing and establishing adequate explanation offering structures for customers, as well as enhancing their consultation and complaint handling functions.

- (Note) In addition to taking these actions, the FSA has also stated an intention in the "Financial Inspection Manual Supplementary Issue on Small- and Medium-Sized Enterprise Financing," which was revised in February of last year, to take into consideration when conducting

inspections how well a financial institution comprehends the business conditions etc. of borrower companies through close-knit communication with them.

(ii) On an individual financial institution basis, the information has been used in the following fashions:

(a) The information reported is summarized by the Supervision Bureau every quarter, on the basis of which we conduct interviews with financial institutions to hear about their policies and systems etc. In the case information which its provider etc. agrees to have the company's name etc. disclosed to the financial institution, we have conducted interviews on a case-by-case basis to confirm the fact etc.

When it was deemed necessary to check the matter for supervision purposes as a result of such interviews, we proceeded to request a report under, for example, Article 24 of the Banking Law.

(b) In inspecting a financial institution, we referred to all information reported by the time of the inspection as well as what that financial institution had reported to us, and accordingly examined the status of their accountability fulfillment to borrower companies and complaint handling systems etc.

When we deemed that there was a problem with a given financial institution as a result of an inspection, we proceeded to request a report on corrective measures under, for example, Article 24 of the Banking Law.

(iii) Specific details of the use of reported information are as follows:

(a) On the basis of the information reported between January 1 and March 31 of this year, the Supervision Bureau conducted interviews with 25 financial institutions.

We also requested one of those institutions to file a report, as it was deemed necessary to check the matter for supervision purposes.

(b) Regarding inspections of 24 financial institutions, which we started between January 1 and March 31 of this year, we referred to the information etc. reported by the time of the inspection and accordingly examined the status of their accountability fulfillment to borrower companies and complaint handling systems etc.

(iv) In order to use the information reported to the "Lending Crunch and Oppressive Debt Collection Hotline" more effectively and take government-wide actions subsequently, we also worked in coordination with the Small and Medium Enterprise Agency and held interagency communication meetings on an as-required basis.

(v) Although the "Lending Crunch and Oppressive Debt Collection Hotline" service was, as has been described above, merged into the "Support Line," which was established on July 19 of this year, the treatment of reported information remains unchanged from the past. In the future, please contact the "Support Line" to report any information concerning a lending crunch or oppressive debt collection.

"Status of Non-Performing Loans as of end-March 2005 (Point Summary)"

On July 29, the Financial Services Agency (FSA) released to the public the status of non-performing loans as it stood as of the end of March 2005.

A brief explanation of the status of non-performing loans as of the end of March 2005 is given as follows:

The non-performing loan balance of all banks (on the basis of loans subject to disclosure under the Financial Reconstruction Law) totaled 17.9 trillion yen as of the end of March 2005, a drop of 8.7 trillion yen from 26.6 trillion yen recorded in the period ending March 2004.

In terms of non-performing loan ratio, the figures calculated for major banks, regional banks, and all banks dropped significantly in comparison to the figures recorded for the periods ending March 2004 and September 2004, respectively, each marking a record low since data on loans subject to disclosure under the Financial Reconstruction Law began to be released to the public (*i.e.*, since the end of March 1999).

(Note) Non-performing loan ratio (= non-performing loans (loans subject to disclosure under the Financial Reconstruction Law) / total credit balance)

	Mar. 04		Sept. 04		Mar. 05
Major banks:	5.2%	→	4.7%	→	2.9%
Regional banks:	6.9%	→	6.3%	→	5.5%
All banks:	5.8%	→	5.3%	→	4.0%

What is particularly notable is a fall of the non-performing loan ratio of major banks from 8.4%, as of the end of March 2002, to 2.9%, whereby the objective of halving their non-performing loan ratio, as set in the "Program for Financial Revival (October 2002), was successfully achieved.

(Note) Objective of halving their non-performing loan ratio: to lower, by fiscal year 2004 (the period ending March 2005), the non-performing loan ratio of major banks to approximately half the level recorded for the period ending March 2002 (8.4%).

Non-performing loan ratios of regional banks have also been dropping steadily as a whole, as their efforts in the area of relationship banking are generally showing steady progress.

As we find that the implications of having thus succeeded in solving the non-performing loan problem of major banks to recover their normal operation as a result of taking various measures set in the "Program for Financial Revival" are quite significant, we will continue to be committed to taking all possible steps in the supervision of financial institutions in the future, lest a non-performing loan problem should reemerge and hobble the Japanese economy.

For further details, please visit the FSA's website and go to either "[End - March, 2005 \(released on July 29, 2005\)](#)" under "[Status of Non-Performing Loans](#)," or "[The Status of Non Performing Loans as of end-March 2005 \(July 29, 2005\)](#)" under "[Press releases](#)."

**Meeting of Financial System Council First Subcommittee Working Group on
Takeover Bid Procedures etc.**

The Financial System Council First Subcommittee Working Group on Takeover Bid Procedures etc. (Chair: Professor Shinsaku Iwahara, Graduate School of Law and Politics, University of Tokyo) recently held its first meeting on Thursday, July 28.

In response to a recommendation made in the "Interim Summary," a report by the First Subcommittee of the Financial System Council released to the public on Thursday, July 7, that deliberations should be conducted on the issue of takeover bid procedures from a viewpoint of, among other points, (i) maximizing the corporate value and, in turn, shareholder interests and (ii) further assuring transparency in takeover bidding and equality between investors, and that the substantial shareholding reporting requirements should also be examined, the Working Group on Takeover Bid Procedures etc. was established under the First Subcommittee of the Financial System Council to conduct specialized deliberations on these stated matters.

In the meantime, on the same day (Thursday, July 7), the Liberal Democratic Party's Committee on Corporate Governance put together "Recommendations for Fair M&A Rules," in which it gives recommendations on takeover bidding procedures and substantial shareholding report requirements etc.; the Working Group on Takeover Bid Procedures etc. is set to continue its deliberation work, taking into consideration the issues etc. raised in these Recommendations.

【Hot Picks from the Financial World】

* We deliver the hottest information of the times in this section, selected from among questions and answers given at the Minister's press conferences etc. If you wish to find out more, we invite you to visit the "[Press Conferences](#)" section of the Financial Services Agency's website.

Q: Yesterday(July 28, 2005), a meeting was held by the Working Group on TOB for the first time. Please describe the need and the purpose of reviewing the TOB system at this point, as well as the rough timeline in general.

A: I have been informed that the Working Group convened a meeting yesterday as just mentioned, and that the members engaged in lively discussions about the TOB system and other matters. Issues raised in the discussions on the TOB regulation include whether it is necessary to reexamine the regulation in view of maximizing corporate value and shareholders' interests, and whether it is necessary to further improve the transparency and fairness of securities transactions. In the process, due consideration must be given so that the smooth business restructuring of companies will not be undermined. In our opinion, the TOB regulation should be studied broadly from such viewpoints, and we hope the Working Group on TOB will deliberate the matter in a vigorous and speedy fashion. However, we cannot give a specific timeline for the future at this stage, as there are many issues that need to be studied.

(from the press conference following a cabinet meeting on Friday, July 29, 2005)

Q: What is the Minister's take on an official announcement by the Bank of Tokyo-Mitsubishi and UFJ Bank to postpone their plan to merge?

A: I am indeed aware that those banks publicly announced that they have moved the date of their scheduled merger to January 1 of next year. My understanding is that, in proceeding with their scheduled merger, they decided to postpone it out of the consideration of the size and business volume of the new bank, so as to achieve a seamless merger by avoiding any form whatsoever of major system failure and any inconvenience to their customers caused by such a failure, from a viewpoint of moving on with full awareness of a PDCA cycle, including assurance of stability and safety through vigorous risk mitigation efforts, and making adequate preparations under appropriate project management. As regulatory authorities, we, in turn, are committed to conducting a review of their application for permission to merge, from a viewpoint of emphasis on customers and user protection; as to the prospect of whether the post-merger operation of the bank will be performed in a correct, fair and efficient fashion, we are intending to keep a careful watch.

(from the press conference following a cabinet meeting on Monday, August 15, 2005)

Q: Japan's efforts in solving the non-performing loan problem were highly, quite highly, valued in the IMF's report. With this in mind, please explain again what you see as the needs in the track of the structural reform process in the future, or the policies to be acted upon by the Financial Services Agency to address those needs.

A: While the IMF's evaluation of Japan's financial sector during the Article 4 consultations, which you just referred to in your question, sees approvingly the actions taken thus far by the Financial Services Agency, its "Program for Financial Revival" being a leading example, and the current conditions of the financial sector, it is also expecting that specific measures set in the "Program for Further Financial Reform" be implemented soon, citing the activation of the financial sector, including enhancement of profitability, as an action item for the future. I therefore believe that the IMF's view of Japan's financial sector has been improved significantly in consequence of further progress in dealing with non-performing loans, or the lifting of the freeze on "pay off," and that the IMF now recognizes the Agency's actions in a positive light. In any event, through its continued efforts in implementing the measures set in the "Program for Further Financial Reform," the Financial Services Agency aims to establish a financial system in which the level of user satisfaction of financial product and service is high, which is highly evaluated internationally, and is also capable of contributing to regional economies, by drawing on the private sector's vitality rather than the initiative of the government.

(from the press conference following a cabinet meeting on Wednesday, August 10, 2005)

【Primer on Financial Literacy】

* This section provides easy-to-understand explanations on financial terms and various questions related to financial matters which tend to be too specialized and hard to understand.

The key phrase selected this time is **"Over-the-counter insurance sales by banks."**

1. **"Over-the-counter insurance sales by banks"** means **activities by banks and shinkin banks etc. (hereinafter referred to as "banks etc.") selling insurance products of insurance companies, by acting as life-insurance solicitors, non-life insurance agencies or insurance brokers.**

(Note) "Sales of insurance products" as referred to here means agenting or brokering in the signing of an insurance agreement. Therefore, banks etc. are NOT parties to insurance agreements: each insurance agreement is made by and between the customer who buys the insurance product and the insurance company.

2. Over-the-counter insurance sales by banks were previously banned because of the concern that banks etc. might engage in such activities as exerting their dominance to force customers to buy insurance, in other words, what is called pressure-selling. From a perspective of, among other advantages, improved convenience for customers, however, the sale of some types of insurance products has been permitted since April 2001 on the condition that special measures should be taken to prevent adverse activities such as pressure-selling. Subsequently, in October 2002, the range of products that can be sold was expanded.

(Reference information)

Past Developments:

April 2001	The sales ban was lifted for credit life insurance linked to housing loans, long-term fire insurance, debt repayment support insurance and overseas travel accident insurance
October 2002	The sales ban was lifted for individual annuity insurance, <i>zaikei</i> (asset formation) insurance, maturity refund personal accident insurance with an annuity payout feature, and <i>zaikei</i> personal accident insurance

3. With the recent amendment to the Insurance Business Law Enforcement Regulations etc. (promulgated on July 8 of this year), the range of permissible products will be further expanded in December 2005, with the full lifting of the ban scheduled for approximately two years thereafter (December 2007), during which time the status of insurance solicitation by banks etc. will be monitored.

(Reference Information)

Insurance products of which sales will be permitted from December 2005:

- Single premium permanent life insurance, and level premium endowment insurance (excluding corporate insurance contracts) and single premium endowment insurance with a period of insurance of up to ten years
 - Any individual non-life insurances, other than automobile insurance, (excluding business-related insurances) that are not under a contract of group insurance etc. or are maturity refund insurances
 - Maturity refund personal accident insurance
4. For banks etc. to engage in insurance solicitation, they are subject to special measures established to prevent adverse activities, including the prohibition against tie-in sales, intended for the avoidance of such adverse activities as pressure-selling, as described in Section 2 above. With the full lifting of the ban in sight, the recent amendment to the Insurance Business Law Enforcement Regulations etc. includes new measures intended for the avoidance of adverse activities, including: (i) restriction on insurance solicitation in relation to borrowers etc. in need of business funding (prohibition against insurance solicitation for which commissions are paid), (ii)

separation of personnel responsible for business funding loans and personnel responsible for insurance solicitation, and (iii) prohibition against insurance solicitation in relation to any one who applies for a loan. These measures will be checked for effectiveness by means of monitoring.