

Supervisory Guideline for Small-claims and Short-term Insurance Businesses (Comprehensive Guideline for Supervision of Insurance Companies [Supplementary Issue])

I. Basic Approach

- Supervision of small-claims and short-term insurance businesses is aimed at protecting policyholders, etc. by regulating so-called unlicensed cooperatives which have conventionally underwritten insurance without any legal basis with respect to certain parties, through their inclusion into the definition of insurance businesses under the Insurance Business Law.
- The Supervisory Guideline is regarded as a supplementary issue to the Comprehensive Guideline for Supervision of Insurance Companies, and systematically defines the viewpoints to be taken in the supervisory administration of small-claims and short-term insurance businesses, the basic approach of various types of regulations, supervisory perspectives and matters to be considered, and supervisory methods in concrete terms. Items not addressed by the Supervisory Guideline are to be handled by referring to the Comprehensive Guideline for Supervision of Insurance Companies.
- As small-claims and short-term insurance businesses are expected to vary widely in terms of insurance products, company size, etc., it is necessary to determine the perspectives especially on structural aspects according to the actual circumstances of the business rather than requiring that all evaluation items in supervision be fulfilled across the board. (Due consideration must be given to avoid the mechanical/uniform implementation of the Supervisory Guideline.)

II. Evaluation Items in Supervision

○ Governance

Examine the effectiveness of governance of small-claims and short-term insurance businesses.

- * Examine whether or not the governance function is working according to the characteristics and size of the small-claims and short-term insurance business by conducting various interviews, etc.

- * As the insurance division of a specific insurance business (Note) might be spun-off and established as a subsidiary, give consideration to the involvement status of major shareholders, holding company, etc.

○ Financial Soundness

Examine the management structure to ensure financial soundness of small-claims and short-term insurance businesses.

- * With respect to small-claims and short-term insurance businesses, establish provisions for setting aside policy reserves, etc. properly, measures based on solvency margin ratio (i.e., a measure of the ability to deal with normally unforeseeable risks), development of risk management structure for reinsurance, etc. as in the case of insurance companies.

<Unique Perspectives on Small-claims and Short-term Insurance Businesses>

- * State the method of confirming after-the-fact checks regarding premiums, policy reserves set aside, etc.
- * With respect to the sustainability of insurance business, set a business sustainability confirmation point in consideration of short-term products.
- * Develop a risk management structure for asset management considering that investment limited to safe assets such as deposits and government bonds is required.

○ Operational Appropriateness

Examine compliance structure, etc. of small-claims and short-term insurance businesses

- * Provide for perspectives to be taken at the time of solicitation and conclusion of insurance contracts, as an appropriate insurance solicitation structure needs to be established under the Insurance Business Law, as in the case of agents, etc. of insurance companies.

<Unique Perspectives on Small-claims and Short-term Insurance Agents>

- (i) Prevention of inappropriate solicitation activities based on multilevel marketing
- (ii) Appropriate measures for solicitation within the cap on claims

<Unique Perspectives on Business Operations of Small-claims and Short-term Insurance Businesses>

- (i) Written explanation of revision of premiums, etc. in automatically-renewed contracts
- (ii) Written explanation of lack of safety net
- (iii) Written explanation of cap on claims, etc.
- (iv) Measures to obtain signature and seal impression from policyholder after explaining the above

III. Points to Consider: Clerical

- As registration and other such supervisory affairs are handled by the Local Finance Bureau as a fundamental rule, matters entrusted internally to the Local Finance Bureau are stated and the following points to consider in the clerical process in the supervision of small-claims and short-term insurance businesses are stated:

- * Dealing with entities engaged in insurance business without registration, etc.
- * Registration affairs regarding small-claims and short-term insurance business
 - (i) Registration procedures in concrete terms, perspectives upon review (organization, system, personnel composition, etc.)
 - (ii) Handling, etc. of small-claims and short-term insurance business register (make it available for public inspection)
- * Registration affairs regarding small-claims and short-term insurance agents
- * Method of confirming deposits, etc. paid before commencement of small-claims and short-term insurance business
- * Major points to consider in off-site monitoring (conducting periodic interviews, etc.)

IV. Product Screening

State the perspectives for screening when a notification has been filed by a small-claims and short-term insurance business about the establishment of a new insurance product or the revision of an existing product.

- * Is there any risk of the product name, etc. being misunderstood by policyholders?
- * Clarity and simplicity of matters stated in general insurance clauses
- * Clarification of coverage commencement date
- * Clarification of events, etc. which nullify the insurance contract
- * Fairness and rationality of exclusions
- * Appropriateness of payment, claims procedures, etc.
- * Points to consider regarding actuary's written statement

V. Points to Consider: Interim Measure Period

State the points to consider with respect to specific insurance businesses (Note).

- (i) Notification of specific insurance business
- (ii) Insurance solicitation regulations and operational monitoring targeted at specific insurance business
- (iii) Supervision of specific insurance business
- (iv) Transfer of insurance contracts from specific insurance business
- (v) Underwriting insurance exceeding cap on underwriting

(Note) "Specific insurance business" refers to an entity which underwrites insurance with respect to certain parties as of April 1, 2006.