

To inspectors, FSA

From Gomi Hirofumi, director-general of the inspection department, FSA

The Inspection Manual for Insurance Companies

With regard to financial inspections, “On the Basic Items for New Financial Inspection” was announced as an official notice in 1998 to enhance transparency in financial administration based on clear rules on the principle of self-responsibility and market disciplines. Also, the “Financial Inspection Manual” was established last year with the aim of improving the inspection and oversight functions of the regulatory authority while encouraging financial institutions to base their management on the principle of self-responsibility and thereby to further establish confidence in the financial regulatory regime as a whole. Conforming to these basic concepts, an inspection manual that describes the basic concepts and concrete focuses for inspections of insurance companies (hereinafter referred to as “Inspection Manual for Insurance Companies”) is now established, and inspectors are expected to conduct inspections of insurance companies in accordance with the attached manual.

The “Inspection Manual for Insurance Companies” is only a handbook to be used by inspectors when they inspect insurance companies. Nevertheless, under the principle of self-responsibility, individual insurance companies are expected to utilize this manual, with a full exercise of their own creativity and innovation, to voluntarily create more detailed manuals that coincide with the size and nature of each company. In doing so, insurance companies are also expected to ensure sound and proper conduct of business while sufficiently protecting their policyholders.

Check points contained in the manual represent a standard to be used by inspectors in evaluating risk management and compliance functions of insurance companies, and thus, do not constitute any direct statutory obligations to be achieved by insurance companies. Therefore, while fully considering the size and nature of each insurance company, inspectors are required to avoid mechanical and uniform applications of the manual to all insurance companies. Although insurance companies may not literally act in view of the checklist, their measures would not necessarily be deemed inappropriate from the perspective of ensuring the soundness and the appropriateness of their operations as well as the protection of their policyholders. There may be the case that measures taken by individual insurance companies are rational, equivalent in their effects to the description of the checklist, and sufficient given the size and nature of the companies.

Therefore, thorough discussions between inspectors and insurance companies have to be made during on-site inspections.

This official notice becomes effective on July 1, 2000 and shall be applied to inspections that will be performed on or after that day. As to items that relates to account settlements including assessment of assets as well as write-offs and provisioning, this notice will be applied to inspections concerning account settlements that will be performed on or after July 1, 2000.

Additionally, the official notice entitled "On Assessment of Assets of Insurance Companies," which was issued on April 15, 1997, shall be repealed as of July 1, 2000.

Note: It must be noted that inspections regarding insurance companies' account settlements which were made before June 30, 2000, will be performed based on official notices that were in force at the time of the settlements.

(Attachment)

Inspection Manual for Insurance company

June, 2000

General Structure of Insurance company Inspection Manuals

Basic Concepts

Compliance	Insurance sales Management	Risk Management						
		Common Items						
		Insurance Underwriting Risk	Asset investment risk			Liquidity Risk	Operational Risk	Information System Risk
			Market Risk	Credit Risk	Real Estate Investment Risk			

Inspection Manual for Insurance company

Table of Contents

Part 1. Basic Concepts

1. Basic Concepts of inspection for Insurance Company
 - (1) Purpose and position of inspection
 - (2) Basic principles of inspection for insurance company
2. Basic Concepts Underlying the Insurance Company Inspection Manuals
 - (1) Self-management-style inspections
 - (2) Inspection with emphasis on risk management
3. Position of the Insurance company Inspection Manuals

Part 2. Checklists

- I. Compliance System Checklist and Insurance Sales Management System Manual
 - (1) Compliance System Checklists
 - (2) Insurance Sales Management System Manuals
- II. Risk Management Systems Checklists
 - (1) Risk Management Systems Checklists (Common Items)
 - (2) Insurance Underwriting Risk Checklists and Manual
 - Insurance Underwriting Risk Management System Checklist
 - Solvency Margin ratio and Reserve Inspection Manual
 - (3) Asset Investment Risk Management System Checklist
 - (4) Market Risk Management System Checklist
 - (5) Credit Risk Management Checklist and Manual
 - Credit Risk Management System Checklist
 - Credit Risk Management Manual
 - (6) Real Estate Investment Risk Management System Checklist
 - (7) Inspection concerning Solvency Margin Ratio
 - (8) Liquidity Risk Management System Checklist
 - (9) Operating Risk Management System Checklist
 - (10) Information System Risk Management Checklist