Insurance Underwriting Risk Checklist and Manual

"Insurance underwriting risk" is the risk that an insurance company will suffer losses because the economic situations or the occurring rate of incidents have changed contrary to the forecast made at the time when a premium rate was set.

Inspectors will verify and inspect the insurance underwriting risk of insurance companies using "Risk Management Systems Checklists (Common Items)", and "Insurance Underwriting Risk Checklist". They will also inspect responsibility reserve fund and liability reserves by using "Responsibility reserve fund, etc." and "Liability reserve Inspection Manual".

Inspections on solvency margin ratio, etc. will be performed by using the "(Attachment) Inspections concerning Solvency Margin Ratio, etc." of the "Real Estate Investment Risk Checklist" on the basis of the checklists and manuals for "Asset Investment Risk"," Market Risk"," Credit Risk"," Real Estate Investment Risk" as well as this checklist and manual.

In this checklist and manual, "Responsibility reserve fund" refers to the responsibility reserve fund set forth in Article 116 of the Insurance Business Law (hereinafter to be called "Law"), "Responsibility reserve fund, etc." refers to responsibility reserve fund, reserves for dividends to policyholders and equal deposit of dividends to policyholders as stipulated in Article 28 of the Implementing Regulation of the Insurance Business Law (hereinafter to be called "Regulation") and life insurance companies' reserves for dividends to policyholders as stipulated in Article 64 of the Regulation. "Liability reserves" refers to the liability reserves as stipulated in Article 117 of the Law.

This checklist and manual apply to all insurance companies, including the foreign offices of Japanese insurance companies (foreign branch , foreign subsidiaries, and offices of the overseas workers, etc., though whether to include these offices in the inspection by this checklist and manual will be determined in light of applicable laws and ordinances, including applicable foreign-country laws and ordinances) and the Japan offices of foreign insurance companies.

[Notes on the use of this manual in inspections]

This manual is essentially a handbook to be used by inspectors in the inspection of insurance companies. It is expected that, as part of their efforts to ensure sound and proper operations and in accordance with the principle of self-responsibility, individual insurance companies will fully exercise their creativity and innovation to voluntarily create their own detailed manuals. These insurance company manuals should make note of the content of this manual and be adapted to the size and nature of the insurance company.

The check points in this manual represent standard to be used by inspectors in evaluating the risk management systems of insurance companies. They do not constitute direct statutory obligations to be achieved by insurance companies. Care must be taken that the manual is not adopted by rote and uniformly. If there may be cases in which the checklist description has not been fulfilled literally, by insurance company , in the light of ensuring the soundness and appropriateness of its operation only the time that the measures by insurance company are equivalent in their effects to the descriptions for the check point or are sufficient given the size and nature of the insurance company, these measures would not be deemed inappropriate.

Inspectors will therefore need to fully dialogue relevant points with insurance companies during on-site inspections.

Note: Explanation of check points

① Unless explicitly stated otherwise, items expressed in the question form such as "does the insurance company" or "is the insurance company" are minimum standards that are expected of all insurance companies. Inspectors, as they go through their checklists, need to fully verify the effectiveness of these items.

② Unless explicitly stated otherwise, items worded in the form of “it would be desirable that” constitute “best practice(sound practice)” for all insurance companies. Inspectors need only confirm these items.

Note: Distinction between “board of directors” and “board of directors, etc.”

① Items that are defined as roles of the “board of directors” are items for which the board of directors itself needs to determine all essential matters. This does not, however, preclude the board of directors from delegating consideration of draft documents to the management committee or similar bodies.

② The phrase “board of directors, etc.” includes the board of directors, the management committee, the management meeting, and similar bodies. Items that are defined as roles of the “board of directors, etc.” would ideally be determined by the board of directors itself, but may be delegated to the management committee, etc. provided that there has been a clear delegation of this authority from the board of directors, the management committee, etc. has kept minutes of its proceedings and other materials that would allow after-the-fact confirmation, and there are adequate internal checking by the measure the results are reported to the board of directors, or auditors are allowed to participate in the management committee, etc.

Note: Explanation of “business base”, “business bases”, “insurance sales”

① The phrase “business base” refers to organizations other than the head office that constitute business bases, such as branch offices, business headquarters, foreign branch offices, and foreign subsidiaries. The phrase “business bases” refers to organizations other than the head office that do not engage in sales activities, such as operating bases, service centers, and foreign liaison offices.

②The phrase “insurance sales” refers to insurance agency or insurance agent and does not include insurance broker.

Insurance Underwriting Risk Management System Checklist

Item	Check Point	Explanation of Check Points	Remarks
I. Recognition of risk management 1. Recognition of directors and role of board of directors, etc.	(1) Understanding of insurance underwriting risks	(1) Does directors fully recognize that insurance underwriting has a serious impact on the company's business for a long time?	
	(2) Articulation of risk management policies	(2) Does the board of directors articulate insurance underwriting risk management policies? Are the policies in conformity with strategic goals?	
	(3) Specific contents of risk management policies	(3) Do the risk management policies include the following matters? ① Risk management techniques, such as establishment of limits on insurance policy-holdings by type of insurance (portfolio management) and additional reserves for responsibility reserve fund in accordance with the status of responsibility reserve fund, etc., capital position or profit (surplus). ② Risk control techniques, such as alteration and abolition of insurance products, outward re-insurance (including methods for deciding underwriters), and establishment of underwriting standard, and standards to implement such measures. ③ Basic policies concerning marketing of new insurance products and alteration or abolition of existing insurance products. ④ Standard for reporting and approval application, etc. to the board of directors etc. ⑤ Basic policies concerning a non-life insurance company's treatment of insurance products with free, standard, or range premium rates.	
	(4) Establishment of risk management systems	① Does the board of directors establish a division in charge of properly managing insurance underwriting risks in conformity with finalized strategic goals and risk management policies? Does it articulate the authority of the division? Is the function of mutual checking ensured, for example, by making the division in question independent of the profit divisions, profit management divisions and product development division? ② Does the board of directors give actuaries the necessary authority to discharge their duties? Is the function of mutual checking ensured in light of the purpose of the system, for example, by making the actuaries independent of the profit divisions, the profit management divisions and the product development divisions? When the actuaries are not independent of the profit management divisions, is a measure taken to ensure the function of mutual checking, for example, by having persons qualified to be actuaries and belonging to divisions not in conflict of interest, or persons outside of company verify the appropriateness of the written opinions, etc. of the actuaries? ③ Does the board of directors, etc. place personnel well versed in actuarial matters in the risk management division and the internal audit division?	
	(5) Development, etc. of insurance products	(5) Does the insurance company require approval of the board of directors, etc. for marketing a new insurance product or alteration and abolition of existing insurance products that will have a serious impact on the company's business? Does the board of directors, etc. confirm that the marketing or alteration and abolition of the products in question causes no problems not only from the perspective of business policies, like competition, but also from the perspective of risk management in light of the management policies for insurance underwriting risks?	
	(6) Hearing opinions of actuaries	(6) Does the board of directors, etc., as necessary, hear opinions of actuaries on actuarial matters such as marketing of a new insurance product or alteration and abolition of existing insurance products?	

Item	Check Point	Explanation of Check Points	Remarks
2. Role of manager	(1) Formulation of risk management rules	(1) Does manager formulate, with the approval of the board of directors, etc., management rules for the specific standard to implement insurance underwriting risk management techniques and risk control techniques, reporting methods, approving procedures, etc.? Does it clearly set procedures to alter and abolish the rules in question?	Note: "Manager" refers to branch office managers and persons in senior managerial positions (including directors) with equivalent levels of responsibility.
	(2) Implementation of appropriate insurance underwriting risk management	(2) Does manager properly manage insurance underwriting risks in accordance with insurance underwriting management policies and management rules?	
II. Establishment of appropriate risk management systems 1. Establishment of systems of an insurance underwriting risk management division	Cooperation with relevant divisions	Does the insurance underwriting risk management division effectively utilize the following items as analytical data? ① Product development and production alteration and abolition, forecast of insured event, interest rate and exchange rate forecasts, monitoring of risks, conclusion of outward re-insurance, responsibility reserve fund and accumulation of liability reserve, sale of insurance products, transaction contents at the relevant divisions performing screening, etc. of insurance contract underwriting and the results of analyses, etc. ② Written opinions, etc. of actuaries Does the insurance company have a structure in place for reporting important information, such development, alteration or abolition of products, held by relevant divisions to the insurance underwriting risk management division?	Note: "Written opinions, etc." refers to written opinions, attached reports and other reference materials as stipulated in Article 82 of the Regulations and so throughout.
2. Management (1) Gasp of insurance underwriting risks	(1) Appropriate gasp of insurance underwriting risks	(1) Does the insurance company gasp risks regularly (at least once per six months) by such methods as gasp and analysis of current income and expenditure and forecasting future income and expenditure by insurance product? Is the forecast of future income and expenditure based on a reasonable scenario in light of the current interest rate movements, economic situations, insurance incidence, etc.?	
	(2) Involvement in product development, alteration and abolition	(2) When marketing a new insurance product or altering/abolishing an existing insurance product, does the insurance company study if the premium of the insurance in question is appropriate in light of asset management environments such as interest rate levels, etc., the incidence rate of the insurance in question, the actual state of business expenses, the retention rate, the risk selection method for the insurance in question, the state of responsibility reserve fund and solvency margin rate, etc.?	
	(3) Involvement in formulation of underwriting standard	(3) Does the insurance company have measures in place to confirm that the underwriting standard are the same as the underwriting conditions that were assumed at the time of the product development or the risk is smaller?	
	(4) Involvement in free-rate products, etc.	(4) Do non-life insurance companies have measures in place to confirm that the premium rates set for each product with free, standard, or range premium rate are in conformity with risk management policies, etc.?	
	(5) Establishment of computer system for risk management	(5) It is desirable that the insurance company establish a computer system equipped with multi-faceted analysis techniques for all insurance underwriting risks.	
	(6) Integrated management of assets and liabilities	(6) Does the insurance underwriting risk management division work in close coordination with the asset investment risk management division and gasp necessary information on the asset side for an integrated management of assets and liabilities?	
(2) Management of insurance underwriting risks	(1) Analysis of insurance underwriting risks and use of analysis results	(1) Does the insurance company analyze the risks measured and perform appropriate risk control in conformity with risk management policies, etc.?	

Item	Check Point	Explanation of Check Points	Remarks
	(2) Management of the status of sales	(2) Does the insurance company guide and control branch offices and insurance agencies to comply with underwriting standard, etc. in insurance sales? Does it have measures in place to actually confirm compliance? It is desirable that the insurance company establish a computer system that will not permit the conclusion of an insurance contact that runs counter to the underwriting standard.	
	(3) Management of outward re-insurance	(3) Does the insurance company confirm that the outward re-insurance division investigates the financial positions, etc. of inward re-insurance companies in accordance with risk management policies, etc. when it selects an underwriter of re-insurance? And, does the insurance company regularly confirm that amount of re-insurance for individual insurance products are inline with risk management policies?	
3. Communication	Reports to board of directors, etc.	Are the risks measured and analyzed and the risk control techniques used or to be used reported to the board of directors, etc. regularly and as needed in accordance with management policies?	
4. Establishment of actuary system	(1) Involvement of actuaries	(1) Are actuaries involved in actuarial matters such as premium calculation methods in accordance with laws and ordinances? Do they receive necessary information from relevant divisions?	
	(2) Reports to board of directors, etc.	(2) Do actuaries have the authority to report to the board of directors, etc. as necessary when they discovered problems from the perspective of risk management or protection of policyholders, etc. and do they actually report? Do they communicate such problems to the insurance underwriting division?	
III. Internal auditing and correction of problems	Contents of internal audit by the internal audit division	Does the internal audit division audit the status of insurance underwriting risk management?	