

Real Estate Investment Risk Management System Checklist

“Real estate investment risk” is the risk that an insurance company will incur losses because its earnings on real estate have decreased due to fluctuations of rents or because real estate prices have decreased due to changes in market conditions.

Inspectors will verify and inspect the real estate investment risk management systems of insurance companies using the Risk Management Systems Checklists (Common Items), the Asset Investment Risk Management System Checklist, and this checklist.

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.

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

[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

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.

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.”

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.

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”

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.

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

Item	Risk Management System Check Point	Explanation of Risk Management Check Points	Remarks
I. Recognition of risk management 1. Recognition of directors and role of board of directors	(1) Understanding of risk	(1) Does directors fully recognize, when making real estate investments, that an insurance company may incur losses because of a decrease in its earnings on real estate caused by fluctuations of rents or because of a decrease in real estate prices caused by changes in market conditions? Does the board of directors recognize the nature of real estate when formulating risk management policies? For example, is it aware that investment in real estate (particularly new investment) requires a huge amount of money, that its liquidity is very low, and that investment income is uncertain and cannot be substituted?	
	(2) Appropriate asset allocation	(2) When determining asset allocation for real estate investment, does the board of directors compare it with risks associated with investments in securities, loans in light of the nature of liabilities? When determining asset allocation, does the board of directors consider and screen diversified investment by taking account of land price trends, disasters in order to avoid overconcentrated investment? Does the board of directors, etc. regularly receive reports on risk status and verify the reports from the perspective of real estate investment risks?	
	(3) Establishment of risk management structures	(3) Does the board of directors establish a screening management division for appropriate management of screening, monitoring and analysis, etc. of investment items whose risks the company is exposed to? Does it clearly set the authority and responsibility of the screening management division? Is the screening management division insulated from the influence of the financing divisions, for example, by being independent of the financing divisions and not having directors concurrently overseeing both the screening management division and the financing divisions? If the screening management division is not independent of the investment divisions or if a director concurrently oversees both the screening management division and the investment divisions, has the insurance company provided for checking functions to ensure that screening management is appropriate?	
	(4) Establishment of alarm points (alarm zone)	(4) Does the board of directors, etc. establish alarm points (alarm zone) of unrealized losses on real estate investment based on the company's business strength, such as capital position, profitability and claims-paying ability? Are the alarm points (alarm zone) reviewed regularly?	
	(5) Setting minimum investment yield	(5) When making real estate investment (particularly new investment), does the board of directors, etc. set the minimum investment yield taking account of assumed rate of interest, etc.? Is assumed rate of interest reviewed regularly?	
2. Recognition and roles of manager	(1) Formulation of risk management rules	(1) Does the manager in charge of the screening management division articulate real estate investment risk management rules clearly for appropriate management of real estate investment risks in light of strategic goals? Is the scope of real estate for investment clearly set by rules? Does the company regularly check if the division of real estate for investment is made in accordance with the rules?	
	(2) Recognition and understanding of risk factors	(2) Does the manager in charge of the screening management division appropriately monitor and measure the risk factors (factors that cause fluctuations of earnings and factors that cause fluctuations of real estate prices) which the company is exposed to? Does it appropriately manage them?	

Item	Risk Management System Check Point	Explanation of Risk Management Check Points	Remarks
II. Establishment of appropriate risk management systems 1. Management of real estate investment (planning, screening)	(1) Establishment of investment standards for real estate investment	(1) Does the screening management division formulate real estate investment risk management rules, including investment standard and screening procedures that take account of the following matters, with the approval of the board of directors, etc.? Profitability of investment (investment returns, etc.) Eligibilities of investment (compliance, etc.) Does the division review the rules regularly?	Note: "Compliance, etc." includes matters that need to be noted when eligibility is taken into consideration, such as whether the investment is anti-social and speculative.
	(2) Collection of information on real estate investment	(2) Does the investment division appropriately collect, analyze, and screen information on rents, supply and demand of tenants, land price trends, changes in regulation of land use and taxation, geographical conditions of real estate, status of competition, and environment (soil pollution, liquefaction, ground sinkage, etc.) for use as data for investment decision? Does the division also collect information on real estate that the company is considering selling or disposing of internally?	
	(3) Screening of real estate investment	(3) When screening real estate investment, does the screening management division take the following into account? Conformity with investment standard Appropriateness of business plan Portfolio (Studying diversifying investment)	
2. Management of real estate investment (management after implementation)	(1) Management of investment real estate	(1) Does the investment division appropriately manage investment real estate with regard to the following matters? Invitation of tenant Operating rate, such as vacancy rate Commission agent Maintenance Projects in progress Foreign exchange risks of overseas real estate Does it report property whose prices have fallen below the minimum investment yield to the asset investment risk management division timely? Is the check on the status of management, etc. conducted regularly (at least once per year) by a division (such as the internal audit division) that is independent of the real estate division?	
	(2) Measurement of unrealized profits/losses on real estate	(2) Does the investment division regularly calculate unrealized profits/losses on real estate? When evaluating real estate, does it calculate appropriately using rational methods? Does the division (credit audit division, etc.) that is independent of the real estate division check the evaluation of real estate? When an unrealized loss on real estate has exceeded the alarm point (alarm zone), is it reported to the asset investment risk management division?	
	(3) Management of need control real estate and review of its business plan	(3) With regard to real estate whose price has fallen below the minimum investment yield or whose unrealized loss has exceeded the alarm point (alarm zone) (hereinafter to be called "need control real estate"), does the insurance company perform particularly strict management? When the insurance company reviews the business plan and makes re-investment with regard to the need control real estate, does it do so after the screening by the screening management division?	

Item	Risk Management System Check Point	Explanation of Risk Management Check Points	Remarks
		Are the management and review (including the possibility of sale or disposal) of the need control real estate checked by the asset investment risk management division?	
3. Real estate management (sale, disposal)	Study of selling or disposing of real estate	Does the insurance company study selling or disposing of real estate whose unrealized loss has exceeded the alarm point (alarm zone), which has been not in used for a fixed period of time, and for which there is not utilization plan (hereinafter to be called "idle real estate")? Are the management and study of idle real estate checked by the asset investment risk management division?	
4. Communication	(1) Reporting to the asset investment risk management division	(1) Is the status of real estate investment risks reported regularly (and timely as necessary) to the asset investment risk management division and other relevant divisions?	
	(2) Appropriate reporting to the board of directors, etc.	(2) Is the status of need control real estate and idle real estate reported regularly (and from time to time as necessitated) to the board of directors, etc.? When changing the classification of real estate larger than a certain size from "for investment" to "for business use," is it reported to the board of directors, etc.?	
	(3) Establishment of real estate investment risk management computer system	(3) It is desirable that the insurance company has a computer system in place for the management of real estate investment risks.	