

A light teal map of Japan is positioned in the background of the slide, showing the four main islands: Hokkaido, Honshu, Shikoku, and Kyushu.

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Solvency reform and regional development

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Agenda

1. Features of insurance market in Japan
2. Impact of the financial crisis
3. JFSA views toward future solvency standards
4. JFSA Approach toward More Risk Sensitive Solvency Regime
5. Current status of solvency reform
6. Issues to be improved

1.Features of insurance market in Japan

- 2nd-3rd Largest market with high penetration rates
- Lowest interest rate
- Fixed return insurance product
- Long maturity of life insurance liability ⇒ limited hedging instruments
- The expose to significant catastrophe risks
- Significant shift of the insurance needs from death to medical and pension

Japanese insurers need

- sophisticated risk management,
- capitals for underwriting unhedgeable risks,
- proactive reaction to the policyholders' needs

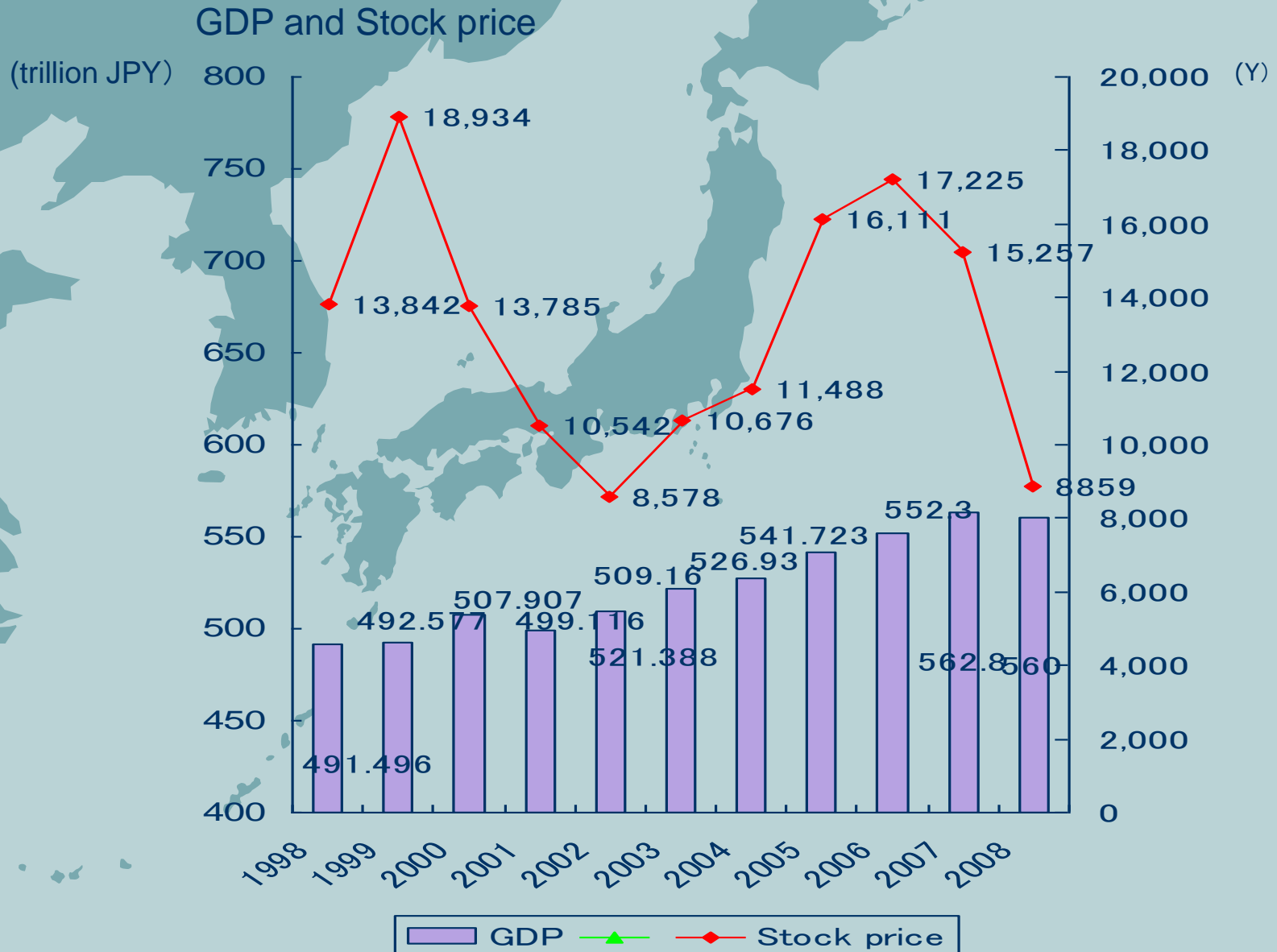
2. Impact of the financial crisis

Exposure of Japanese Deposit-taking Institutions to Securitized Products

Total Exposure to Securitized Products (end-Dec 2008)						Operating Profits from Core Businesses (end-March 2008)	Declared Losses on U.S.-originated Loans and Securitized Assets estimated by IMF GFSR (Jan 2009)
Exposure to Subprime-related Products			Book Value	Valuation Losses	Realized Losses		
Book Value	Valuation Losses	Realized Losses					
5.65	1.34	9.19	194.08	10.71	21.67	60.93	2,200.00
				32.38			

(Billion : 1USD=100JPY)

Economic Trends



Japan's Economy : Major Index

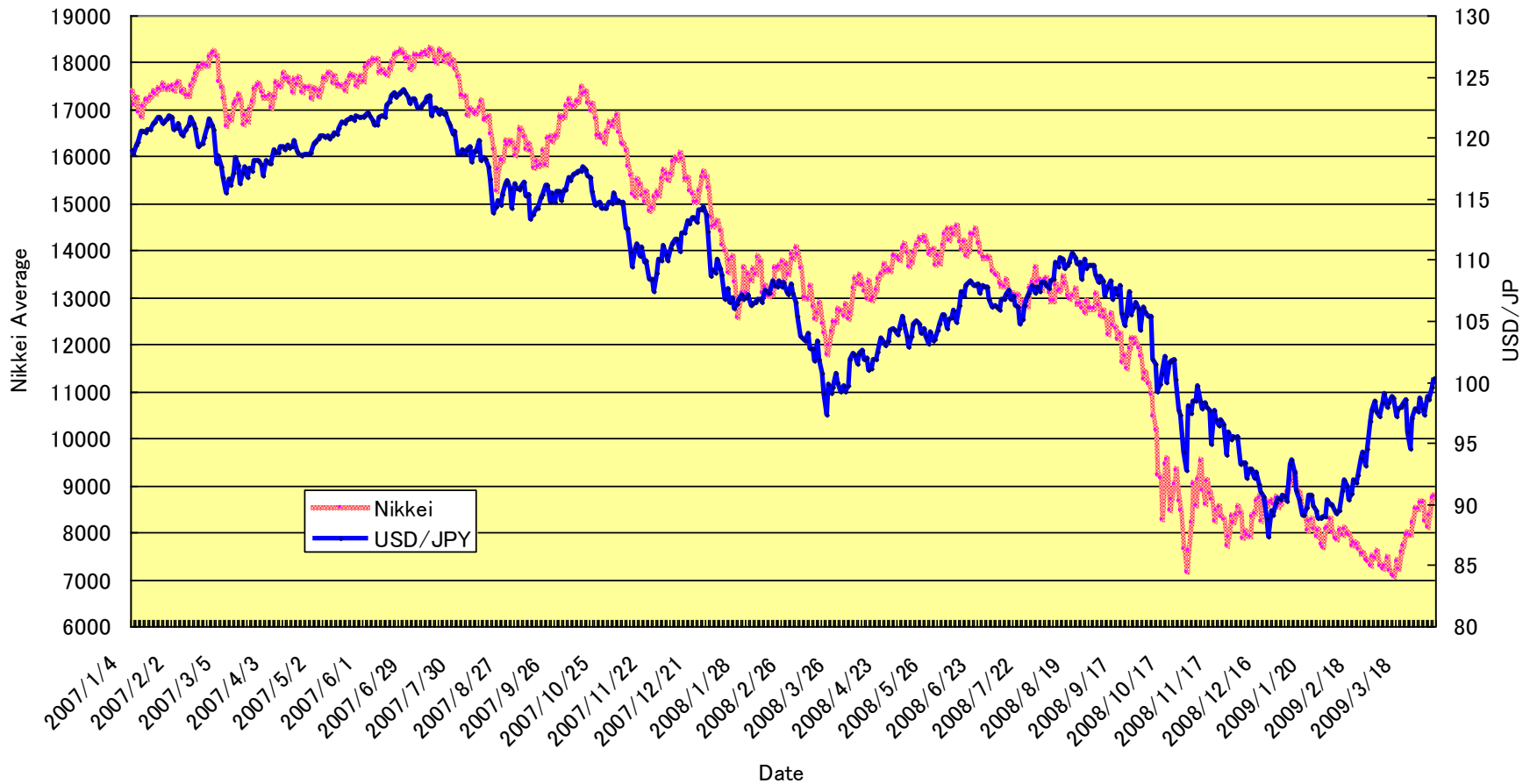
(%)

	FY 2006	FY 2007	1Q, 2008	2Q, 2008	3Q, 2008	4Q, 2008
Real GDP	2.3%	1.9%	0.3%	▲ 1.2%	▲ 0.4%	▲ 3.2%

(Cabinet Office)

	FY 2006	FY 2007	Nov, 2008	Dec, 2008	Jan, 2009	Feb, 2009
Export	13.4%	9.9%	▲ 26.8%	▲ 35.0%	▲ 45.7%	▲ 49.4%
Industrial Production	4.6%	2.6%	▲ 8.5%	▲ 9.8%	▲ 10.2%	▲ 9.4%
Unemployment Rate	4.1%	3.8%	4.0%	4.3%	4.1%	4.4%
Retail Sales	▲ 0.1%	0.5%	▲ 0.2%	▲ 1.7%	▲ 0.1%	▲ 0.3%

USD/JPY and Nikkei average



Balance Sheet (4 Major Life) (March 31, 2008)

ASSETS

Liabilities and Equities

Item	Fiscal 2008		Item	Fiscal 2008	
	Amount (million)	Share		Amount (million)	Share
Cash and deposits	1,191,932	0.9%	Policy reserves and others	112,854,386	87.8%
Call loans, etc	4,508,005	3.5%	(Reserve for outstanding claims)	(667,559)	0.5%
Investments in securities	90,885,365	70.7%	(Policy reserve)	(109,827,448)	85.4%
(National government bonds)	(32,669,426)	25.4%	Other liabilities	7,521,637	5.8%
(Local government bonds)	(3,249,113)	2.5%	Deferred tax liabilities	603,923	0.5%
(Corporate bonds)	(10,930,260)	8.5%	Total liabilities	120,979,959	94.1%
(Domestic stocks)	(20,225,094)	15.7%	Capital	579,000	0.5%
(Foreign securities)	(22,585,139)	17.6%	Suspense Receipts on Capital Subscriptions	1,521,353	1.2%
(stocks)	(5,286,439)	4.1%	Additional Paid in Capital	1,198,920	0.9%
(Other securities)	(1,226,327)	1.0%	Tresuary stock	—	0.0%
Loans	24,509,914	19.1%	Unrealized gain on Securities	4,495,408	3.5%
Reinsurance receivables	3,490	0.0%	Deferred gain on derivatives under hedge accounting	189	0.0%
Tangible fixed assets	5,000,566	3.9%	Land revaluation difference	△ 189,643	-0.1%
Other assets	1,988,979	1.5%	New share subscription right	—	0.0%
Deferred tax assets	496,927	0.4%	Total equity	7,605,231	5.9%
Total assets	128,585,194	100.0	Total liabilities and equities	128,585,194	100.0

Situation of Japanese Financial Institutions

Performance of 4 Major Life

As of end-December 2008

(billion yen)

4 Major Life	Core Operating profits	Ordinary Profits	Net Income	Unrealized Gain/Loss	Solvency Margin
for the year ended March 31, 2006	1,867	1,092	674	8,530	1120.8%
for the 6 months ended September 30, 2006	928	509	357	8,351	1133.4%
for the year ended March 31, 2007	1,988	1,004	796	9,569	1227.6%
for the 6 months ended September 30, 2007	922	421	348	8,273	1203.7%
for the year ended March 31, 2008	1,746	811	669	4,495	1128.1%
for the 6 months ended September 30, 2008	674	289	224	3,371	1079.4%
for the 9 months ended December 31, 2008	942	210	316	900	908.9%

Causes of the recent global financial crisis with regard to insurance

Problems

- ① **Inappropriate regulation for non-insurance subsidiaries of the internationally active insurance groups (IAIGs)**
Unregulated subsidiaries and unregulated holding companies are not required to set aside appropriate level of capital to absorb the loss from their business. Therefore Insurance regulation does not have robust mechanisms to avoid for the IAIGs to conduct risky business in the group wide basis.
- ② **Insufficient risk capture of CDS and similar financial guarantee**
The risks associated with CDS and similar financial guarantee were not captured well in the current capital requirement both in Banking and Insurance capital regime.

3.JFSA views toward future solvency standards

Economic based solvency regime (both solo and group basis)

- ✓ More incentive for ALM & ERM
- ✓ Capture the complex risks (e.g. subsidiaries' CDS underwritings) appropriately
- ✓ Introduce economic valuation for asset and liability simultaneously
- ✓ Careful consideration should be paid to revenue recognition, tax treatment and other transitional issues, etc.

Group solvency

- ✓ International common assessments for internationally active insurance groups (IAIGs) is needed for the comparability among the insurers, credibility and transparency of the insurance market

Qualitative assessment, supervisory review and public disclosure

- ✓ International common assessment should be supported by qualitative assessment, enhanced supervisory review, supervisory cooperation and disclosure to make sure appropriate risk and capital assessment.

4.JFSA approach toward new solvency regime

Issues to be improved

Credibility of current regime

- ✓ Prompt actions can be taken in a appropriate timing
- ✓ Ensure the market credibility both of supervisor and industry
- ✓ Reflect Material risks (e.g. ALM mismatch) appropriately

Incentive for better risk and capital managements

- ✓ Introduction of incentive structure in required capital for better risk and capital management
- ✓ Supervisory review and disclosure of risk management practice

Directions that we should take

- ✓ Higher confidence level would enhance the market confidence
- ✓ Economic based solvency regime would allow better alliance with their own risk and capital management

5. Current status of solvency reform

Short term review

- ✓ Higher confidential level from 90% to 95%
- ✓ Review of risk factors based on the recent financial market data
- ✓ Reflecting diversification according to own asset allocation

Mid-term review

On the basis of international trends,

- ✓ Introduce economic valuation to the insurance liability
- ✓ Sophisticate the risk measurement, such as interest rate risks to reflect the insurer's ALM mismatches and risk mitigations



⇒ Continue review, due regard to the international trends

- ✓ Field testing of insurance liability based on economic value
- ✓ Trials of new measurement method for interest risk, etc

6. Issues to be improved

Integration of risk managements into the decision making

- ✓ Statue without spirit??

Data quality & quantity

- ✓ Field tests to cover industry wide

Modeling techniques

- ✓ Modeling policyholder behaviors / valuation of embedded options

Risk management for complex structured products

- ✓ Lessons from the current crisis



- ✓ High priority to ERM implementation (supervisory policy)
- ✓ Field tests would improve the data and modeling issues
- ✓ Coordination with IAJ (the Institute of Actuary, Japan)