



Annual Report on Insurance Monitoring, June 2023 (1/2)

◆ *Development of Sustainable Business Models*

■ Life Insurers (LIs)

- ✓ LIs employing sales staff for main distribution channel made efforts to review recruitment and training methods and to promote digitalization in sales activities to customers.
- ✓ Many LIs developed insurance products that meet policyholder needs to receive benefits while alive, such as for health promotion and disease prevention.

■ Non-Life Insurers (NLIs)

- ✓ Many NLIs have reported losses on fire insurance in the past decade in spite of revenues from fire insurance accounting for just under 20% of total revenues.
- ✓ Given the rise in reference loss rates, NLIs are divided into those that have just relied on increased reference loss rate, and those that have implemented their own measures, including by adjusting premium rate and protection coverage, in order to improve earnings.

■ Risk Management of Natural Disasters

- ✓ In 2022, Many NLIs made efforts to increase their catastrophe reserves in response to natural disasters, and renewed their reinsurance policy given the rise in reinsurance premium rates worldwide.
- ✓ FSA reviewed the refined fire insurance reference loss rate submitted by the General Insurance Rating Organization of Japan, which included rate segmentation according to the degree of flood risk.

◆ *Financial Soundness and Risk Management*

■ Financial Situation

- ✓ Insurers continue to have strong financial base; the impact of COVID-19 and natural disasters was limited.

■ Asset Management

- ✓ Major LIs sold foreign bonds with currency-hedging and invested in super long-term JGBs in response to the forthcoming introduction of ESR, and increased investments in foreign credit assets and alternative assets to strengthen profitability.
- ✓ Major NLIs made efforts to reduce cross-shareholdings.

■ The Economic value-based Solvency Ratio (ESR)

- ✓ In June 2023, FSA released the latest status of work on regulations and supervisory methods toward the introduction of ESR in 2025.



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◆ *Fiduciary Duty (Customer-Oriented Business Conduct)*

■ Enhancing Management of Sales Staff

- ✓ Some LIs have faced challenges in monitoring of prevention and early detection of inappropriate actions by sales staff including money fraud.
- ✓ The Life Insurance Association of Japan (LIA) issued a report on enhancing compliance risk management system for sales staff in February 2023. FSA requested LIA to conduct follow-up on member LIs efforts in line with the report.

■ Enhancing Management of Sales Agencies

- ✓ Approximately 60% of sales agencies has set up a team in charge of cyber security and have established management rules, and approximately 50% of them have established contingency plans.
- ✓ FSA urged LIs and their agencies to take creative actions so that LIA's efforts to evaluate the quality of agencies' activities could be widely adopted.
- ✓ FSA encouraged smooth cooperation between NLI and agencies in terms of fee level and consolidation of agencies.

■ Insurance Solicitation given Public Insurance System

- ✓ Insurers have been making progress in educating sales staff and providing appropriate explanations to customers on Public Insurance System.
- ✓ Insurers increasingly use brochures made by insurers and the Public Insurance Portal on the FSA website when they contact customers such as for insurance solicitation.

■ Foreign Currency-Denominated Insurance Products

- ✓ All bank agencies that sell foreign currency-denominated insurance products have made progress in improving their quality control, though a rapid increase in the volume of sales of these products may increase complaints and troubles with customers.
- ✓ FSA published the results of an analysis of comparable common KPIs of foreign currency-denominated insurance products among sales agencies.

◆ *Small-Amount and Short-Term Insurers (SSIs)*

- ✓ Local Finance Bureaus and FSA took administrative actions against two SSIs that caused serious problems regarding funding liquidity and policyholder protection.
- ✓ In order to further enhance supervision on SSIs, FSA revised its supervisory guidelines with a view to;
(1) Achieving both policyholders protection and promotion of innovation; and
(2) Identifying problematic SSIs as early as possible
- ✓ Specifically, FSA clarified the viewpoints in assessing SSI's management structure and funding liquidity.