

**Japanese experiences
with respect to data collection and monitoring
of the insurance industry**

- Experience on the Recent Global Financial Crisis -

**OECD-Asia Regional Seminar:
Enhancing transparency and monitoring of insurance markets
23-24 September 2010
Kuala Lumpur, Malaysia**



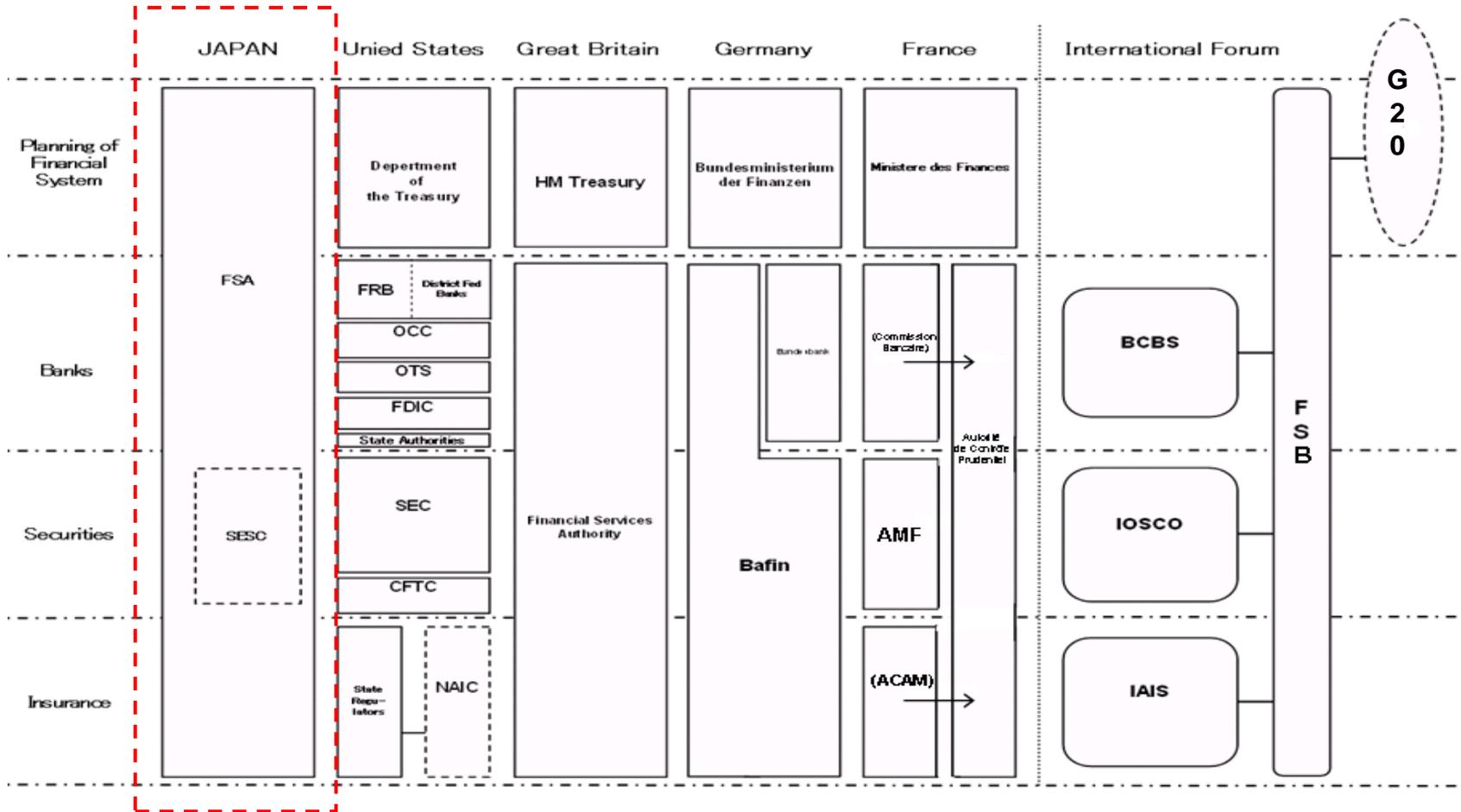
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About Financial Services Agency, Japan



* The number of staff (end-March, 2009) for each bureaus/offices include those involved in work related to Non-bank supervision.

Comparative Study: Financial Supervision of Major Countries




 Unified supervision system tends to be workable under financial crisis because financial crisis could be spreading over and across financial sectors.

Overview of Japanese Insurance Sector

● Life Insurance

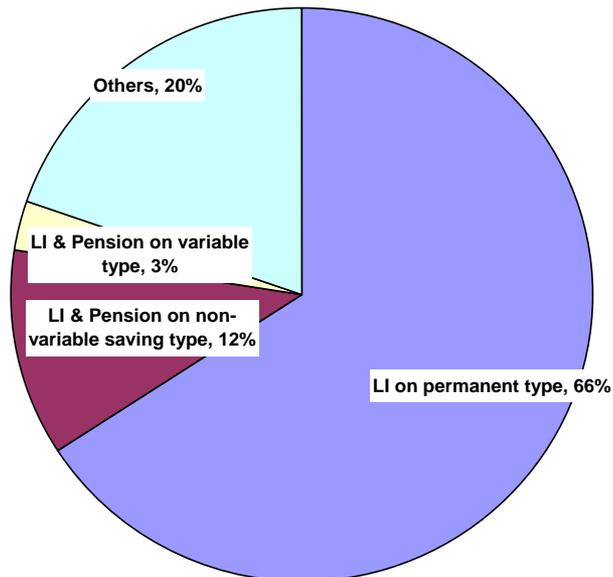
- ⇒ 47 firms including 15 foreign-based firms and 4 foreign branches*
- ⇒ permanent type is dominant, but variable type is less

● Non-life Insurance

- ⇒ 52 firms including 22 foreign-based firms*
- ⇒ shifting to mega-group structure - 3 major groups
- ⇒ automobile type is dominant

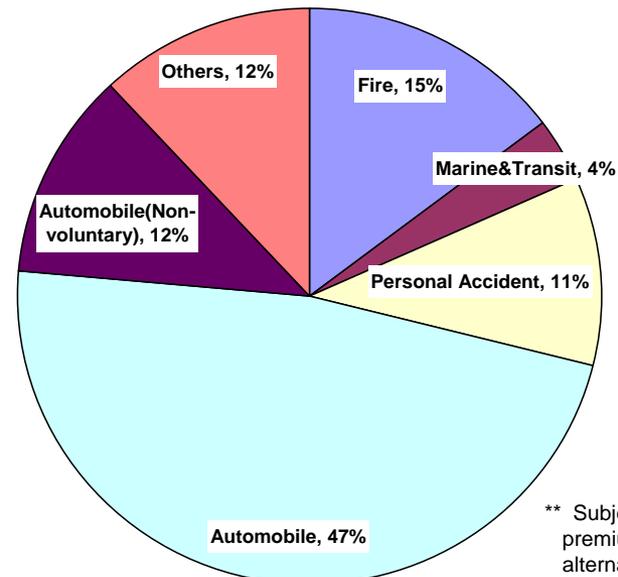
* as of July, 2010

Products share- Life Insurance (FY09)
-contractual amount basis-



(source) Statistic data on the Life Insurance Association of Japan

Products share- Non Life Insurance (FY08)
-net premium basis**-



** Subject to data limitation on net premiums, direct net premiums is alternatively used in some area.

(source) The Statistics of Japanese Non-life Insurance Business

Purpose of “Off-site monitoring”

Principal Purpose of off-site monitoring

- Supplement of on-site inspection
- Data accumulation and analysis
- Feedbacks and Share the problem

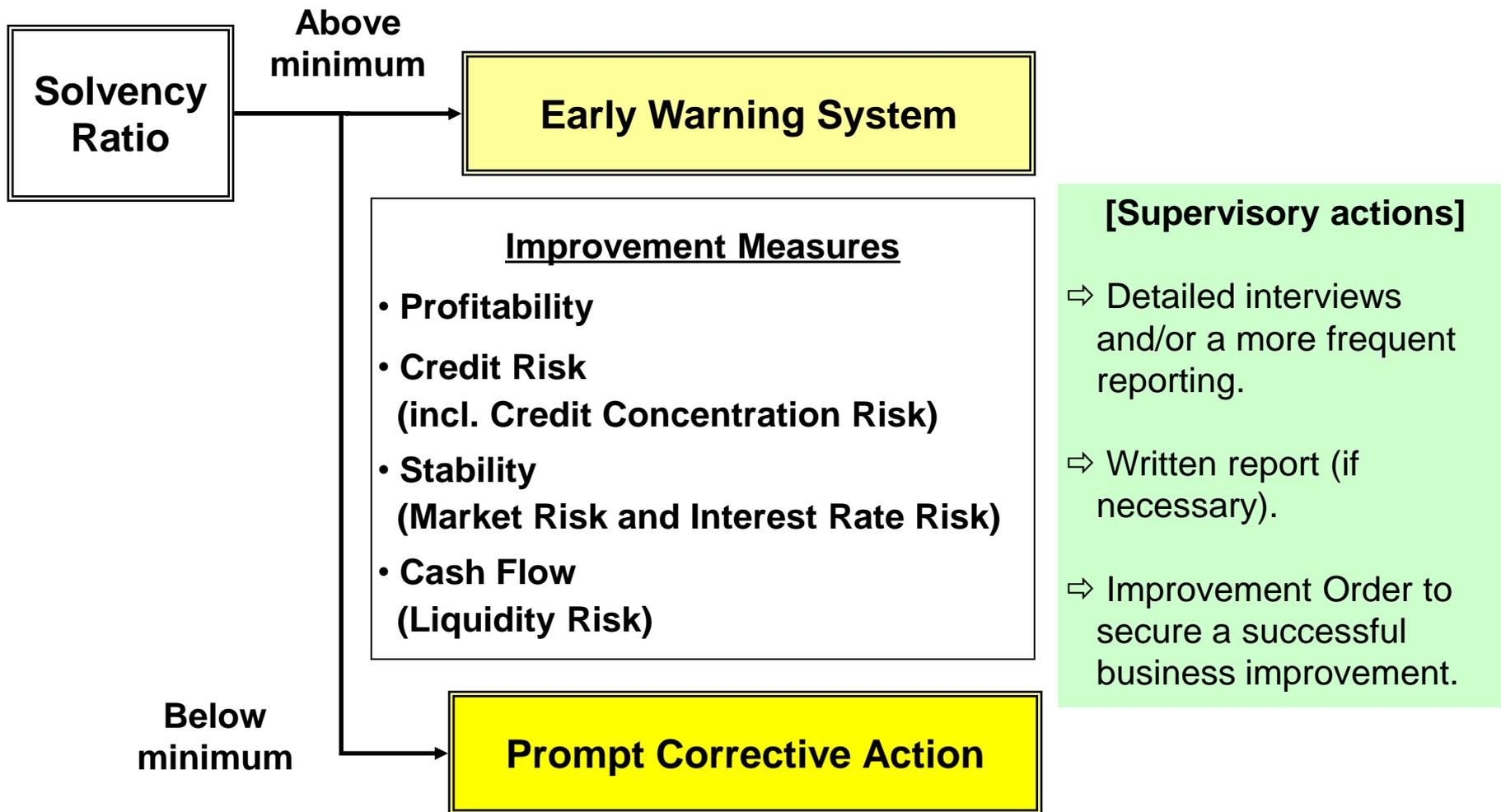
- ➔ A fuel to better cycle of governance and management by insurance firms
- ➔ Having the better sensitivity to administrative action by supervisor

On the other hand, . . .

The recent global financial crisis threw to us deeper considerations on effective monitoring.

- Highlight the significance of group supervision in insurance sector
 - risks in non-regulated subsidiaries etc.
- Broader perspective on “macro-prudence vs. micro-prudence”

Across-the-Board Monitoring System - Overview of “Early Warning Systems (EWS)”-



➡ Across-the-Board system is a means for effective monitoring on continuous basis. However, the unexpected events may not be captured.

Tailored Monitoring under the global financial crisis (Example1)

Example 1: Stress Testing

During the global financial crisis, risk events heads for the same direction.
(historical VaR model does not always work effectively)

Alternatively, **stress testing** is supplement and effective measure_

JFSA requested the stress test and share the result.

Key Points to conduct

- Timely, repeatedly manner
- Specification on the stress scenario assuming the severe situation
- ⇒ Risk events heads for the same direction (correlation or diversification does not work)
Stress scenario1: conservative correlation effect
- ⇒ More severe assumption on market rate (e.g stock price, credit spread)
Stress scenario2: “specific” price or rate at the assumable worse case

Role and function on Stress Test - Reference -

“Stress testing” is a tool that supplements other risk management approaches and measures. It plays a particularly important role in:

- providing forward-looking assessments of risk;
- overcoming limitations of models and historical data;
- supporting internal and external communication;
- feeding into capital and liquidity planning procedures;
- informing the setting of risk tolerance; and
- facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.

- **“Principles for sound stress testing practices and supervision” (May 09) Basel Committee on Banking Supervision -**



The knowledge to risks is the same, regardless that it might be an insurance sector or regardless it might be a banking sector.

Tailored Monitoring under the global financial crisis (Example2)

Example 2: Quick data collection and analysis of subprime-related products ,etc

- Under the global financial crisis, “uncertainty” in the markets is prevailing.
- People want to know “What extent” and “How much” subprime-related amount is spreading in Japanese financial sector.

JFSA collected data and analyze the impact for prudence purpose

Encouraging disclosure of information on securitised products.

- *Revision of “Supervisory Guideline for Insurance Company”* -

On the other hand,

With regard to the banking sector dominant in Japanese market, the scale of the subprime related product is totaled and disclosed by JFSA for macro prudence purpose.

➡ See the website on “Exposures of subprime-related products ,etc”

<http://www.fsa.go.jp/en/regulated/subprime/index.html>

Regulatory reform based on the global financial crisis

As our short-term action,

- **Enhancement of risk management** (June 2009)
 - ✓ Implementation of Enterprise Risk Management (ERM)
 - common criteria
 - stress test
 - ✓ Risk Management for complex instruments
 - encouraging look-through
- **Strengthening of solvency regulation** (April 2010/current)
 - ✓ Consolidated-basis solvency regulation
 - ✓ Refinement of Risk factors

As our mid-term action,

- **Future direction - Introducing economic based solvency regime**
 - ✓ IASB develops IFRS for insurance contract which is similar to economic valuation of insurance liabilities for solvency purpose.
 - ✓ With watching a moving target of adoption of IFRS in Japan, the transition will be determined.

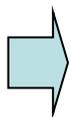
Summary

Sound capability to the proper action against financial crisis is important by supervisors

- Timely action and seeking for proper monitoring
 - best mixture of across-the-board and tailored monitoring
- Refinement of the regulatory and supervisory framework

On the other hand

- Population structure is shifting to aging combined with the diminishing number of children in Japan.
 - Change of needs for insurance
 - Change of distribution channel (Lower cost “Direct-channel” through website)
- Isn't there really interconnectedness with macro-economy in insurance sector?
 - Reinsurance is potentially risk transfer transaction.
 - “Contagion” comes always through unknown path.



Monitoring should be evolved.

Thank you !