

International Conference on Financial Education

Washington, DC May 7-8 2008

Hosted by the U.S. Department of the Treasury and the OECD

Day 1 Session IV.

Risk Awareness:

Enhancing Education and Protection of
Households on Large-Scale Risks

Katsuo Matsushita
General Manager
The General Insurance
Association of Japan
(GIAJ)

The General Insurance Association of Japan (GIAJ)

□ Members

26 general insurers licensed

* 52 general insurers, including our member companies, operate in Japan.

GIAJ members account for about 95% of the market.

□ Activities

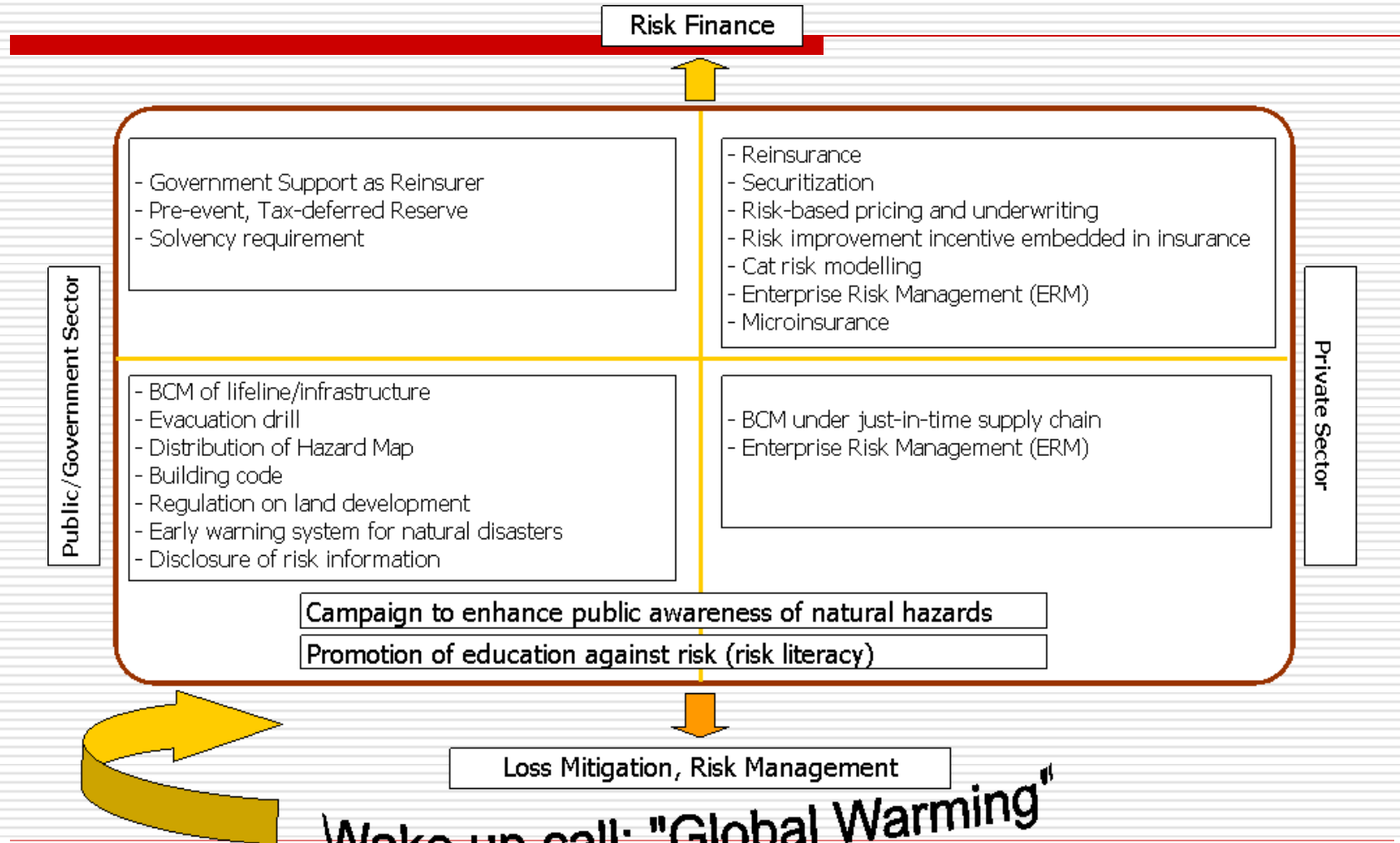
1. Policy Proposals and Requests towards Sound Development of Insurance Market
2. Information Service to Consumers
3. Development of Consumer Confidence
4. Promotion of Disaster Prevention & Traffic Safety
5. Environmental Preservation & Support for NPO
6. Prevention of Social Problems such as Automobile Theft/Fraud
7. International Advocacy

OUTLINE

1. Necessity of Comprehensive Policy
2. Backstop for Natural Catastrophe in Japan
Earthquake Insurance on Dwelling Risks
Pre-event Catastrophe Loss Reserve
3. Risk Awareness Promotion by the GIAJ
Earthquake Disaster Prevention Forum
“Exploration for Disaster Prevention”
Compilation of Hazard Maps
4. Discover and Learn from Community Wisdom
5. Linkage of Disaster Prevention and Environmental Preservation
6. Conclusion

1. Necessity of Comprehensive Policy

□ Coalition of Measures and Necessity of Collaboration



Wake up call: "Global Warming"

The General Insurance Association
of Japan (GIAJ)

1. Necessity of Comprehensive Policy

- Coalition of Measures and Necessity of Collaboration
-

We Need Collaboration between:

- Private sector and public sector
(e.g., reinsurance, pool, tax incentives for reserves, etc.)
- Risk finance and loss prevention/risk management
- Government agency and other government agencies
- Insurers and communities/NGOs
- Insurance market and capital market
- “Microinsurance” and insurance/reinsurance market

2. Backstop for Natural Catastrophe in Japan

- 3 kinds of EQ coverage are available, but in conjunction with main fire insurance policies:
 - Earthquake Insurance on Dwelling Risks
For dwelling risks with reinsurance support by the government under the Law concerning Earthquake Insurance.
 - Earthquake Insurance on Industrial Risks
For industrial earthquake risks written in the extended coverage endorsement.
 - Earthquake Fire Expense Coverage
(Consolation payment for fire insurance policyholders)
This coverage is provided as built-in coverage in the main fire policy.

2. Backstop for Natural Catastrophe in Japan

□ Earthquake Insurance on Dwelling Risks

Characteristics

- Government backstop is provided.
- **5,500 billion yen** is the aggregate limit per one event
- Contracts are concluded with an attached fire insurance policy and **cannot be concluded alone.**

Subject of the policy

- a. residential buildings or
- b. household contents

Covered risks

Losses or damage caused by fire, destruction, burying or washing away following

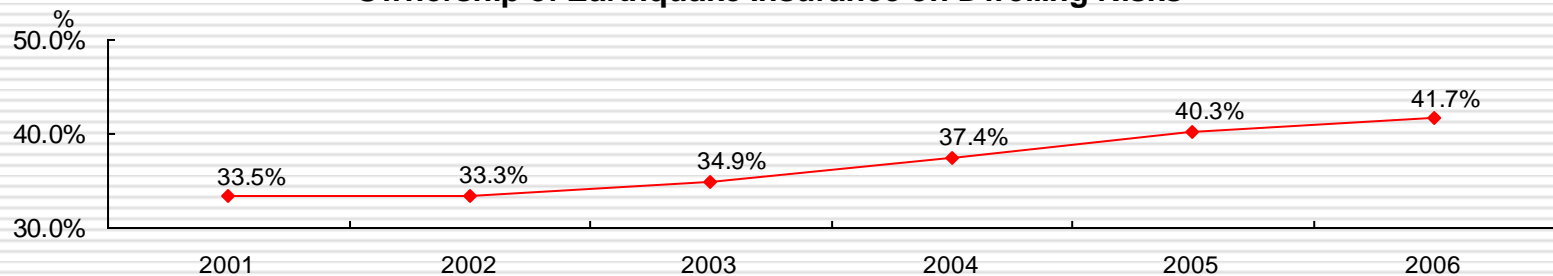
- a. **earthquake,**
- b. **volcanic eruption, or**
- c. **tsunami** following an earthquake or volcanic eruption

Amount of coverage

The insured amount of EIDR shall be set between **30% and 50% of the insured amount** of fire insurance.

The upper limits are **50 million yen for buildings** and **10 million yen for contents.**

Ownership of Earthquake Insurance on Dwelling Risks

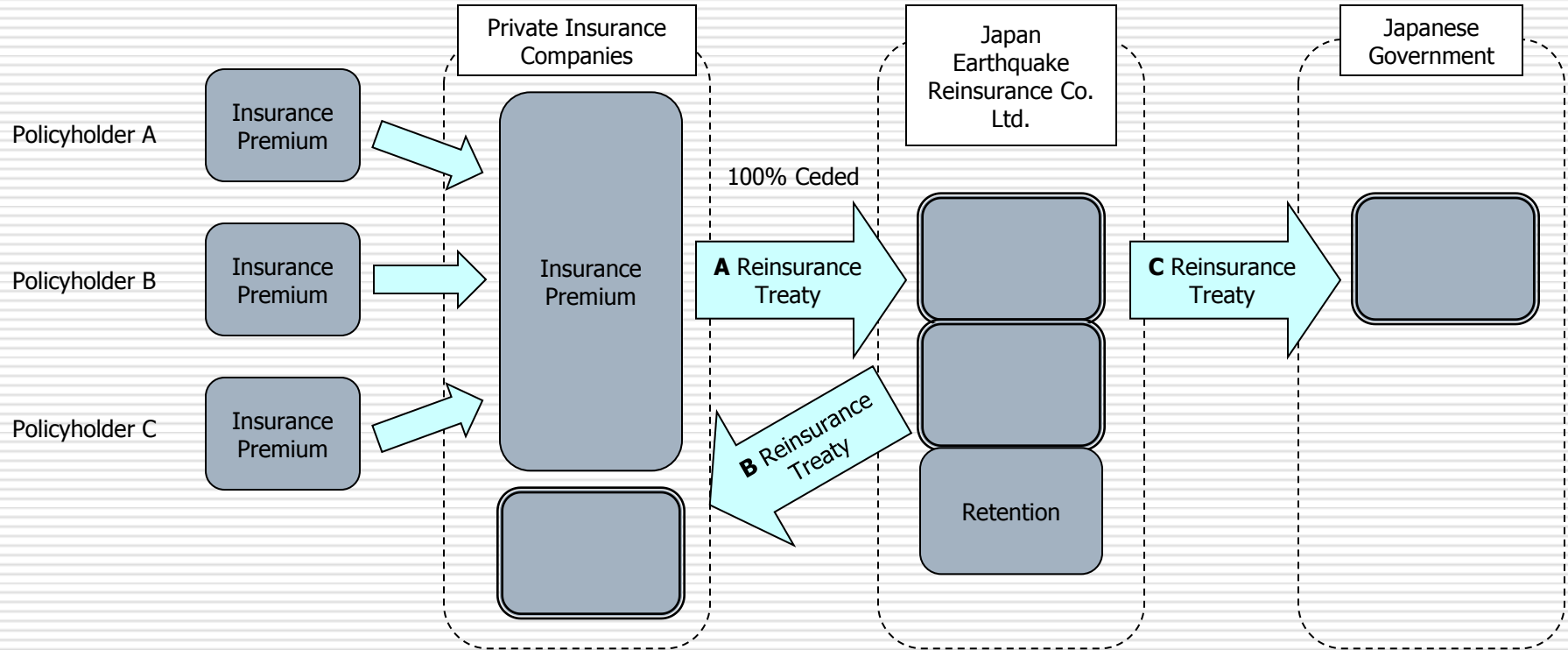


Source: The Non-Life Insurance Rating Organization of Japan. Note: Figures are as at the end of each fiscal year. Fiscal Year

2. Backstop for Natural Catastrophe in Japan

□ Earthquake Insurance on Dwelling Risks

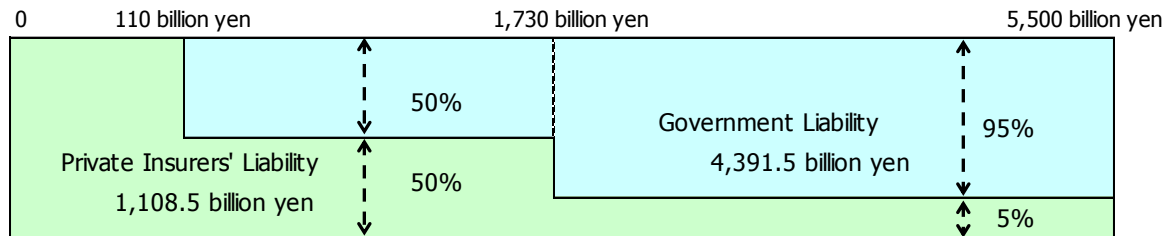
- Liability sharing scheme between the government and private insurers -



2. Backstop for Natural Catastrophe in Japan

□ Earthquake Insurance on Dwelling Risks

- Liability sharing scheme between the government and private insurers -



The earthquake insurance law was revised and the aggregate limit of liability per one event was raised from 5,000 billion yen to 5,500 billion yen on April 1, 2008.

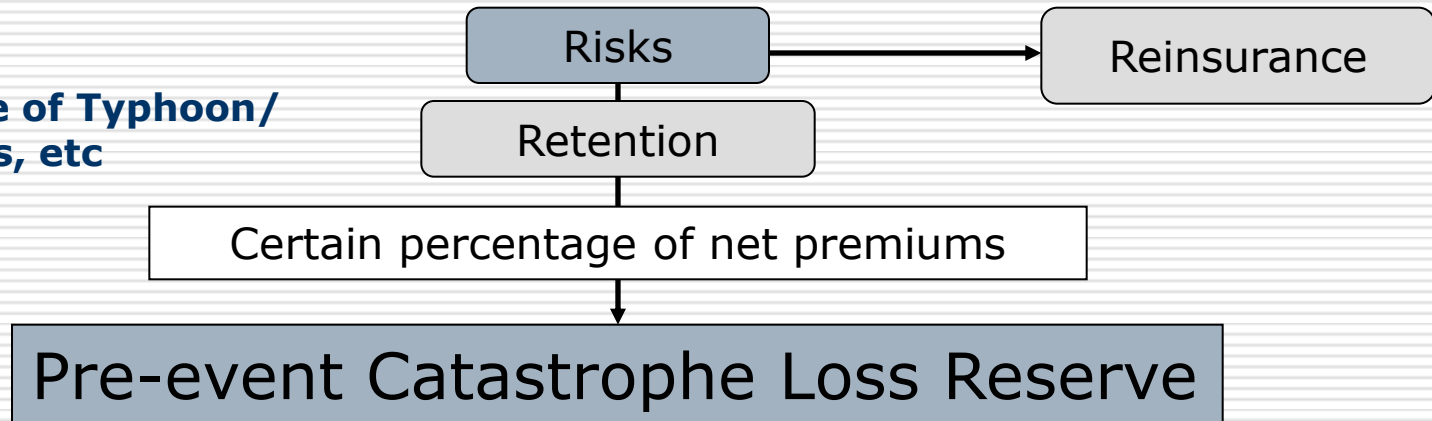
- Up to 110 billion yen: Private insurers liable for 100%
- Over 110 billion yen up to 1,730 billion yen
Government liable for 50% (810 billion yen)
Private insurers liable for 50% (810 billion yen)
- Over 1,730 billion yen up to 5,500 billion (5.5 trillion) yen
Government liable for 95% (3,581.5 billion yen)
Private insurers liable for 5% (188.5 billion yen)

2. Backstop for Natural Catastrophe in Japan

□ Pre-event Catastrophe Loss Reserve

Example:

**In the case of Typhoon/
Flood Risks, etc**



Target amount: Estimated maximum loss in a 70-year period

Tax incentives for reserves

4% of net premiums (in the case of fire insurance) can be recognized as expense

Tax-deferred reserve

3. Risk Awareness Promotion by the GIAJ

The GIAJ has been conducting various activities to improve risk awareness and literacy among various circles of society.

- * These activities were referred to in the stocktaking report on Risk Awareness and Education on Natural Catastrophes prepared for the Insurance and Private Pensions Committee. (OECD)

3. Risk Awareness Promotion by the GIAJ

1. Disaster Prevention Activities in Communities/Schools

- Dispatch of lecturers, publication of booklets, videos, CD-Roms, etc.
- Donation of fire engines and ambulances to municipalities around the nation

2. Dissemination of Flood Hazard Maps

- Encouraging local municipalities to produce and distribute flood hazard maps.

3. Encouraging Local Disaster Prevention Activities

4. Research on Measures to Mitigate Disaster Damage

3. Risk Awareness Promotion by the GIAJ

□ Earthquake Disaster Prevention Forum

- The GIAJ organizes an edificational event inviting more than 100 radio presenters from all over the nation. In the first part of the event, presenters simulate experiences of big earthquakes, smoke from fires, fire fighting, etc. Then, they are given lectures and learn the importance of disaster preparedness, tips to mitigate damage caused by disasters, and earthquake insurance, etc.
- The GIAJ asks that the presenters present their messages to their listeners about their experiences, the lessons learned in the forum, the importance of raising risk awareness and disaster preparedness.

Note To experience big quakes artificially, there is a quake simulation machine, which is carried on a truck. Major Fire Departments usually have such trucks for educational purposes. Such trucks visit schools and communities and give people an opportunity to experience big quakes.



3. Risk Awareness Promotion by the GIAJ

□ “Exploration for Disaster Prevention”

- GIAJ and Nippon Volunteer Network Active in Disaster, NPO in Kobe, jointly developed the program in 2003.
- This program is designed for elementary school students.
- Children can enjoy learning about disaster prevention and risks in daily life.



3. Risk Awareness Promotion by the GIAJ

□ “Exploration for Disaster Prevention”

Why do we support and promote this program?

- Useful for raising children’s awareness and knowledge of disaster prevention
 - Could also influence parents, and local communities through children’s activities
- Encourage ties in the communities and interaction between people of different age groups.
- Simple and inexpensive.
- The program can be tailored according to participants.

3. Risk Awareness Promotion by the GIAJ

□ “Exploration for Disaster Prevention”

- “Exploration for Disaster Prevention” is designed to guide children to gradually discover the importance of disaster prevention, while having fun.
- Children explore their towns and communities and find facilities related to disaster and crime prevention, such as fire stations, police departments, hospitals, fire hydrants, etc. Children then collate their experiences in a disaster prevention map and make presentations of their findings before the class.
- Since 2004, the GIAJ has been co-hosting, jointly with UNESCO and other parties, a “Disaster Prevention Map Contest”. Every year more than 200 schools/community groups (1,000 maps) participate in the contest.



3. Risk Awareness Promotion by the GIAJ

□ Compilation of Hazard Maps

- The GIAJ has been conducting studies and research into the making of hazard maps*.
- In 2002 and 2005, the GIAJ digitally compiled all the hazard maps produced by different municipalities in Japan into a CD-Rom, and distributed it to all municipalities in Japan, free of charge.
- Through such activities, the GIAJ hopes to facilitate the production of hazard maps and ultimately, limit the property, economic and human loss.

* A hazard map is a map showing areas where certain natural hazards such as floods, landslides, eruptions, tidal waves, high tides, etc., could occur. It also shows evacuation sites, allowing for safer evacuation of citizens in case of natural disasters.

4. Discover and Learn from Community Wisdom

- ❑ Encourage local initiative to enhance risk awareness and Discover community wisdom.
- ❑ Examples: Lessons learned from the Japanese Story "Inamura No Hi"

http://www.adrc.or.jp/publications/inamura/materials/english_inamura.pdf



“Inamura No Hi”

5. Linkage of Disaster Prevention and Environment Preservation

- ❑ Global warming and increased frequency of natural catastrophe.
- ❑ Let's start from where we can.
- ❑ Examples:
Our member companies are promoting and volunteering for the reforestation projects in East Asia, Southeast Asia and Pacific regions.
In the case of mangroves, they absorb CO2 and also provide protection against waves and storm damage.

6. Conclusion

1. Comprehensive policy framework is a must for a sustainable society and economy.
2. Insurance industry continues its efforts to enhance public awareness on catastrophe risk through all possible programs and avenues, e.g., community, schools, media, etc.
3. Important role of government: tax incentives for earthquake, wind or fire resistant buildings, tax deductions for catastrophe risk insurance premiums and appropriate catastrophe reserve of insurers.

6. Conclusion

4. Role of government as the reinsurer of last resort, when appropriate, and partnership between government and private sector.
Ultimately, appropriate sharing of risk and burden among policyholders, insurers, reinsurers, public institutions is required.
5. Energize potentials of communities through utilizing local wisdom and initiatives.
6. Let's start from where we can: linkage between risk awareness, disaster prevention and preservation of ecosystem.

Thank You !

<http://www.sonpo.or.jp/en/>
kokusai@sonpo.or.jp