

Non-Life Insurance in Japan --- Automobile Insurance & Fire Insurance

CAS Annual Meeting
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Agenda

- We will discuss current situation and issues in Japan , especially on the following topics:
 - ◆ Market Situation
 - ◆ Compulsory Automobile Liability Insurance (hereafter "CALI")
 - ◆ Voluntary Automobile Insurance
 - ◆ Fire Insurance
 - ◆ Earthquake Insurance



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Market Situation

Key Figures (1)

- Number of Non-Life Insurance Companies : 51
- Number of Agencies : 217,864 (-7.6%)
- Number of Sales Staff in Agencies : 2,154,962(+0.3%)

- Direct Premiums * : JPY 7,980.1 b (-3.7%)
- Net Premiums * : JPY 7,161.8 b (-4.1%)
- Direct Claims * : JPY 4,378.6 b (+2.3%)

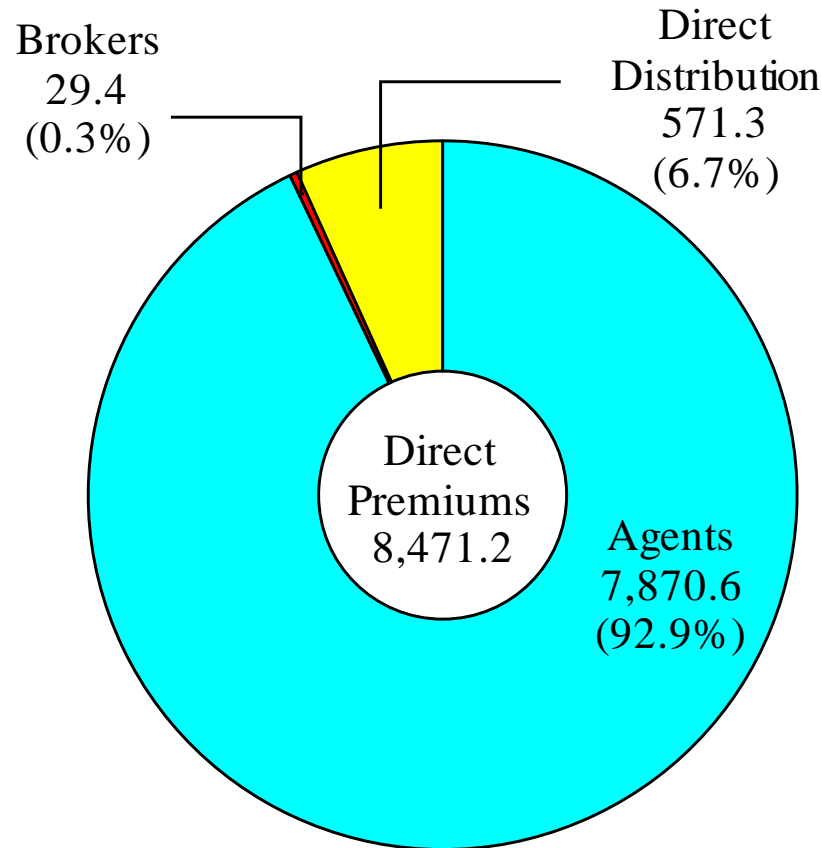
* all figures are for FY 2008 (domestic companies only)

(The fiscal year in Japan begins on April 1 and ends on March 31 of the next year.)

Key Figures (2)

- Direct Premiums by Distribution Channel

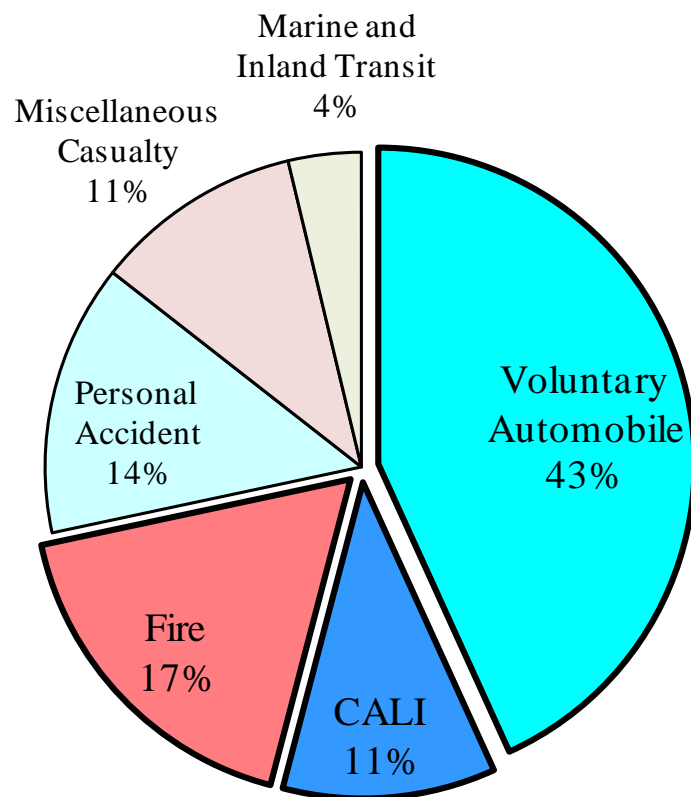
(In JPY billion)



* all figures are for FY 2008

Key Figures (3)

• Direct Premiums by Line of Business



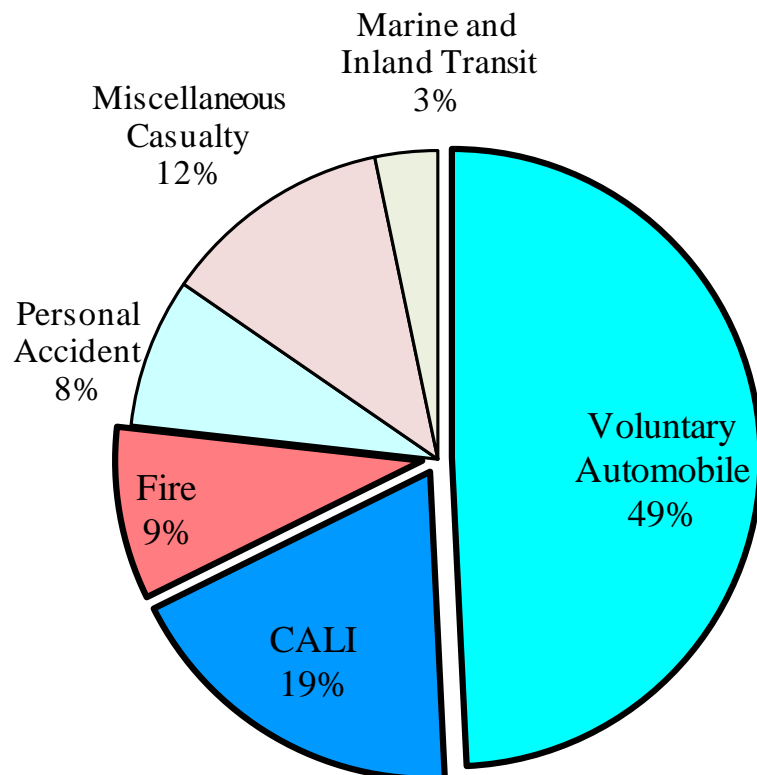
(In JPY billion)

Line of Business	Direct Premiums
Voluntary Automobile	3,447.5
CALI	868.4
Fire	1,402.3
Personal Accident	1,109.9
Miscellaneous Casualty	853.4
Marine and Inland Transit	298.6
Total	7,980.1

* all figures are for FY 2008 (domestic companies only)

Key Figures (4)

• Direct Claims by Line of Business



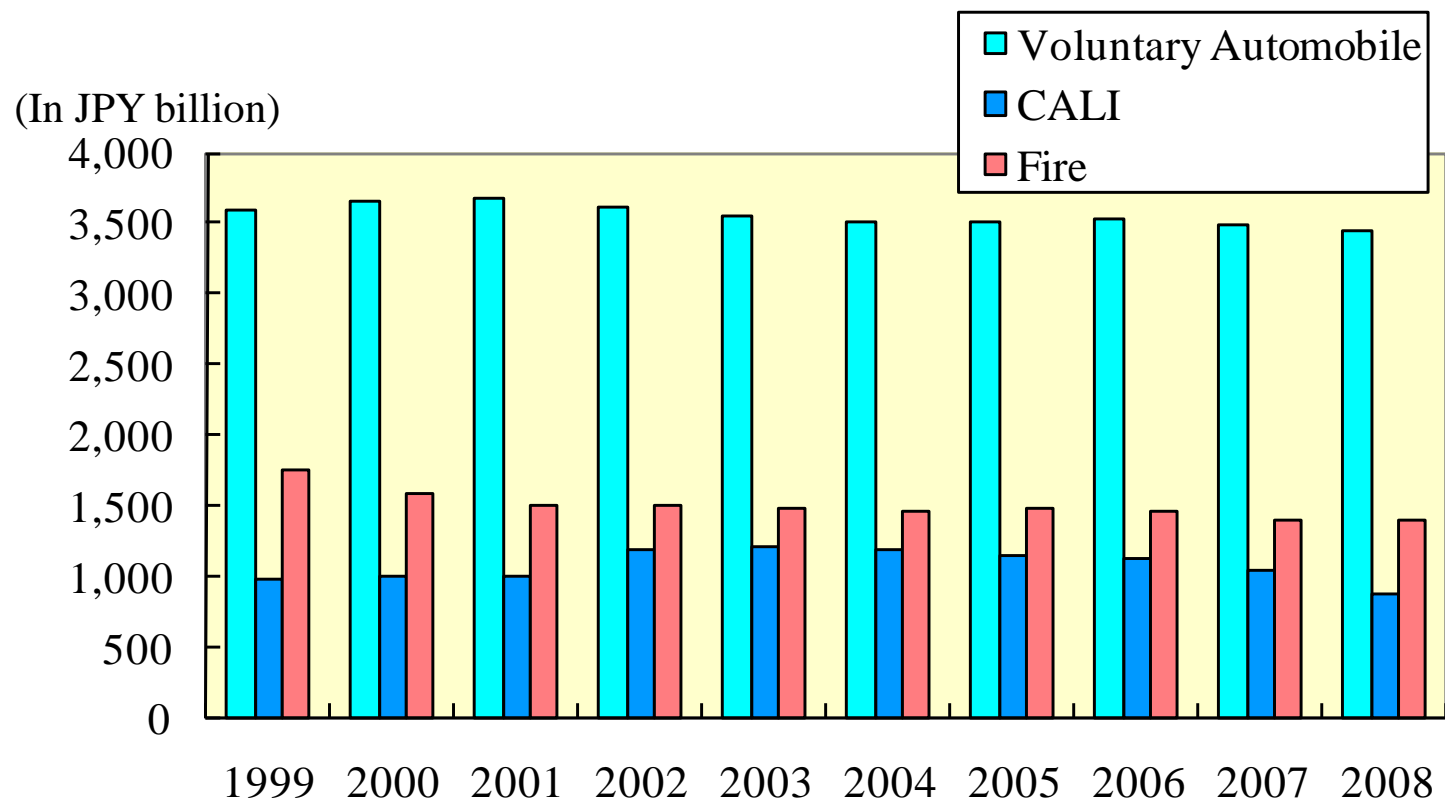
(In JPY billion)

Line of Business	Direct Claims
Voluntary Automobile	2,155.9
CALI	807.7
Fire	397.9
Personal Accident	343.0
Miscellaneous Casualty	530.5
Marine and Inland Transit	143.7
Total	4,378.7

* all figures are for FY 2008 (domestic companies only)

Key Figures (5)

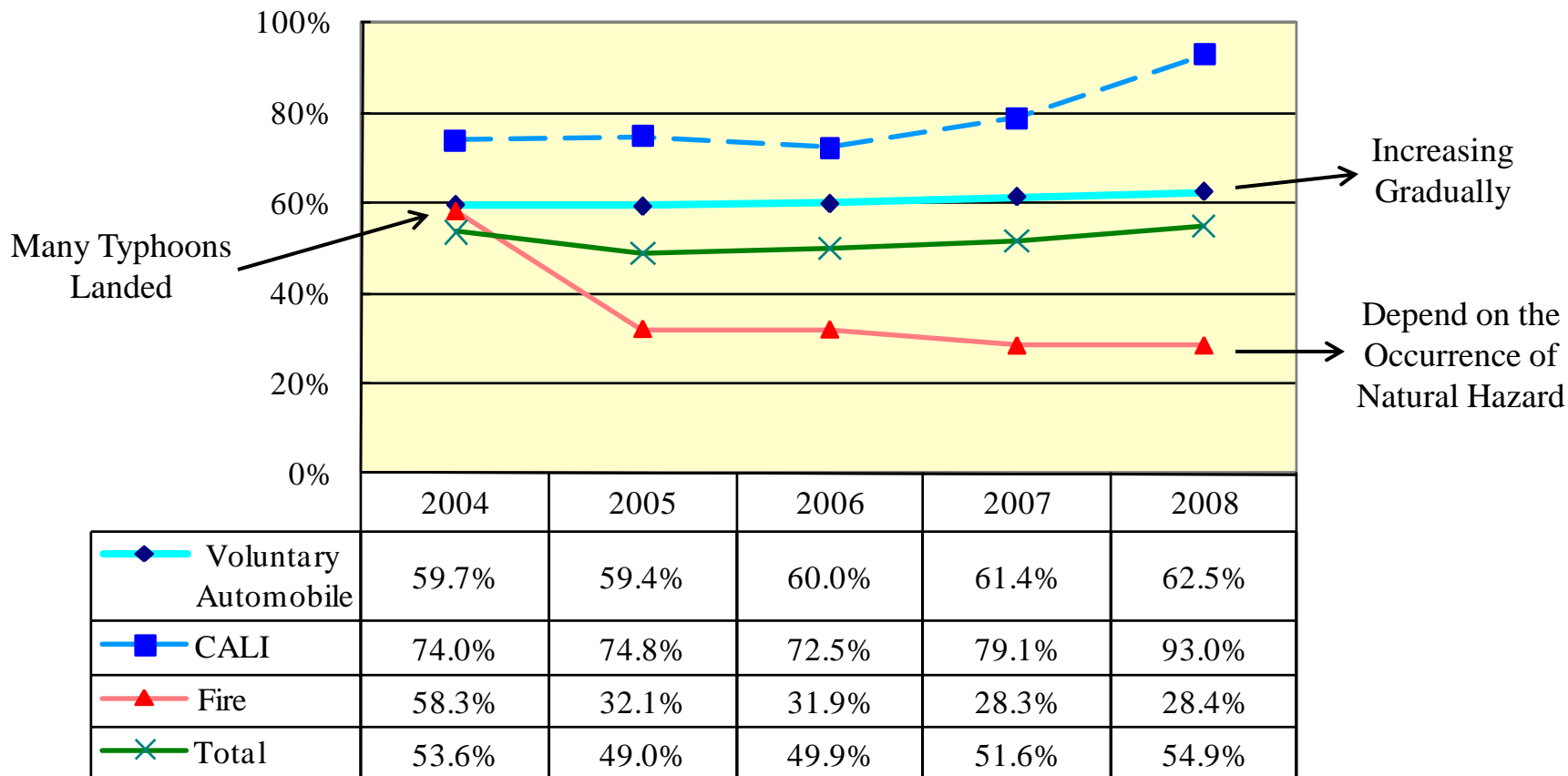
- Direct Premiums by Line of Main Business



* FY 1999 -- 2008 (domestic companies only)

Key Figures (6)

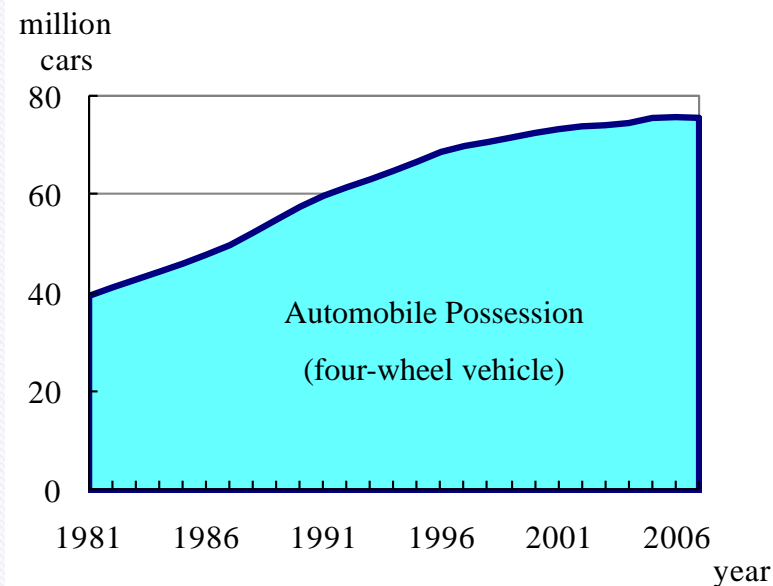
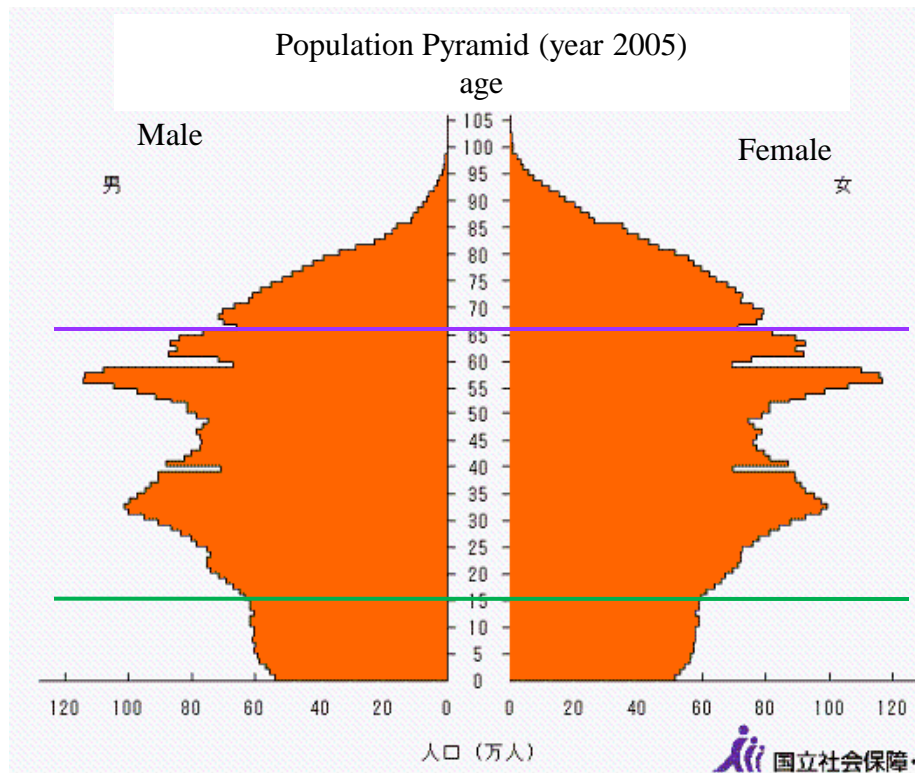
• Loss Ratio by Line of Main Business




* FY 2004 -- 2008 (domestic companies only)

** Loss Ratio : The ratio of claims paid plus loss adjustment expenses to direct premiums written

- Maturation of Market
 - Progress of Low Birthrate and Longevity
 - Leveling Off of Automobile Possession



- Results after Deregulation
 - Inappropriate Claim Payment
 - ◆ Complicated Insurance Product
 - ◆ Incomplete Payment System
 - Premium Error
 - ◆ Complicated Classification
-  Simplified Insurance Product

- Number of Non-Life Insurance Companies

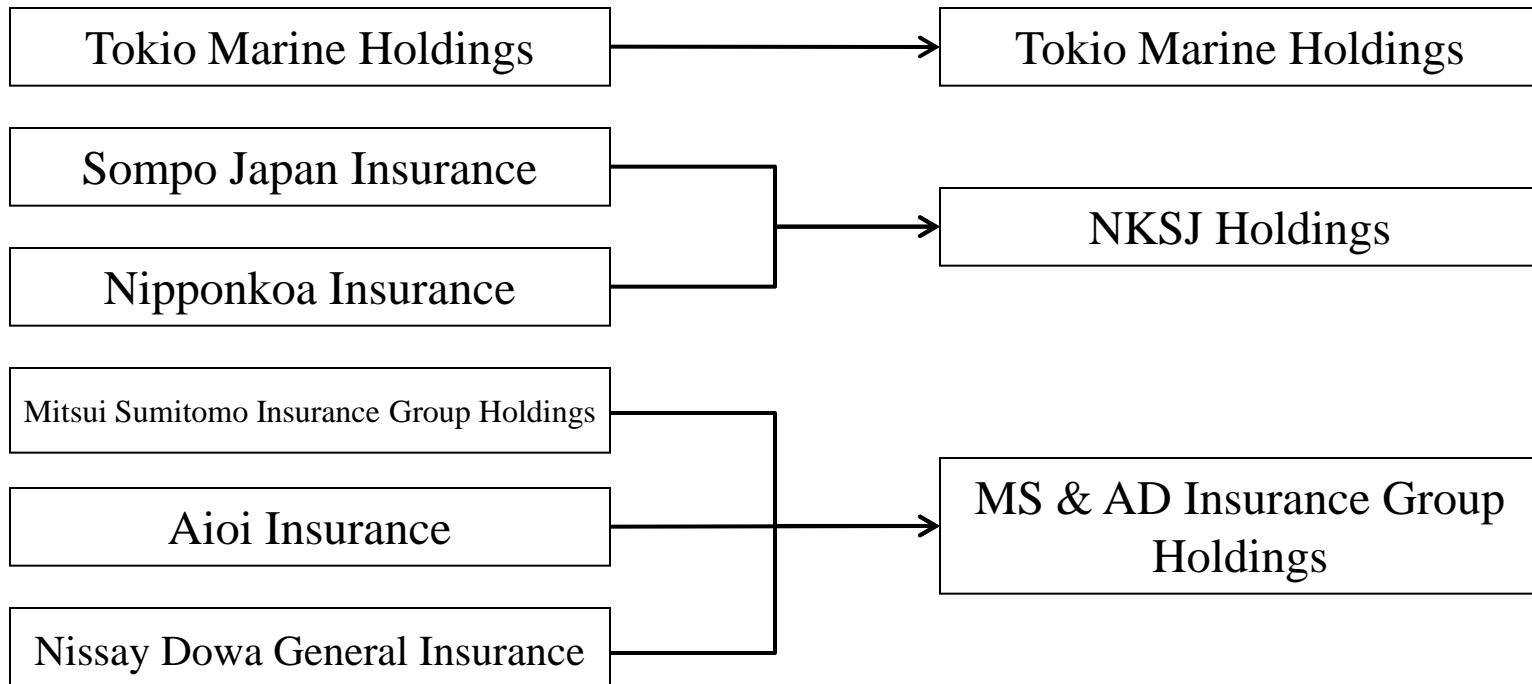
year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Domestic Companies	36	36	33	30	29	28	26	26	30	30
Foreign Companies	27	26	26	24	25	23	22	22	22	21
Total	63	62	59	54	54	51	48	48	52	51

* Domestic Companies : Licensed as domestic company

**Foreign Companies : Licensed on a branch or agent basis

- 3 Large Groups after 2010

– Merging operations (2010 -)



- Non-Life Insurance Rating Organization of Japan (NLIRO)
 - Established under " The Law Concerning Non-Life Insurance Rating Organizations "
 - Non-Profit Private Organization
 - Supervised by FSA (Financial Services Agency)

- Business

- Calculating Standard Full Rates

- Compulsory Automobile Liability Insurance (CALI)
- Earthquake Insurance

- Calculating Advisory Pure Risk Premium Rates

- Voluntary Automobile Insurance
- Fire Insurance
- Personal Accident Insurance
- Nursing Care Insurance

- Claim Settlement of CALI

etc

- Standard Full Rates

- Compulsory Automobile Liability Insurance (CALI)
- Earthquake Insurance

- Premium Rates (Incl. Loading)

- No-Loss and No-Profit

- Used by All Insurance Companies

- Advisory Pure Risk Premium Rates

- Voluntary Automobile Insurance
- Personal Accident Insurance
- Fire Insurance
- Nursing Care Insurance

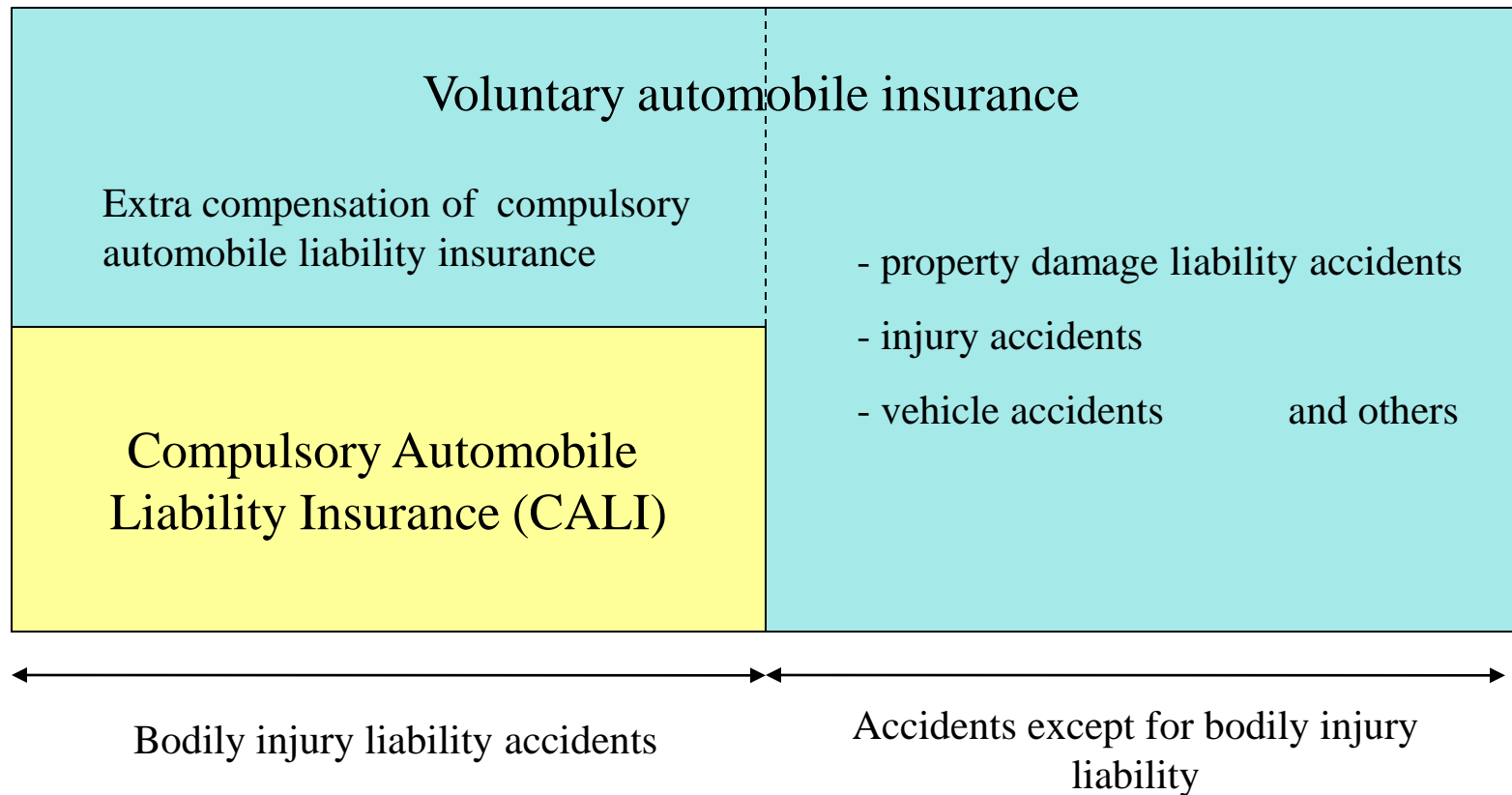
- Used by Insurance Companies with Adjustment and Loading
- No Obligation to Use



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Automobile Insurance in Japan

Automobile Insurance Coverage Scheme

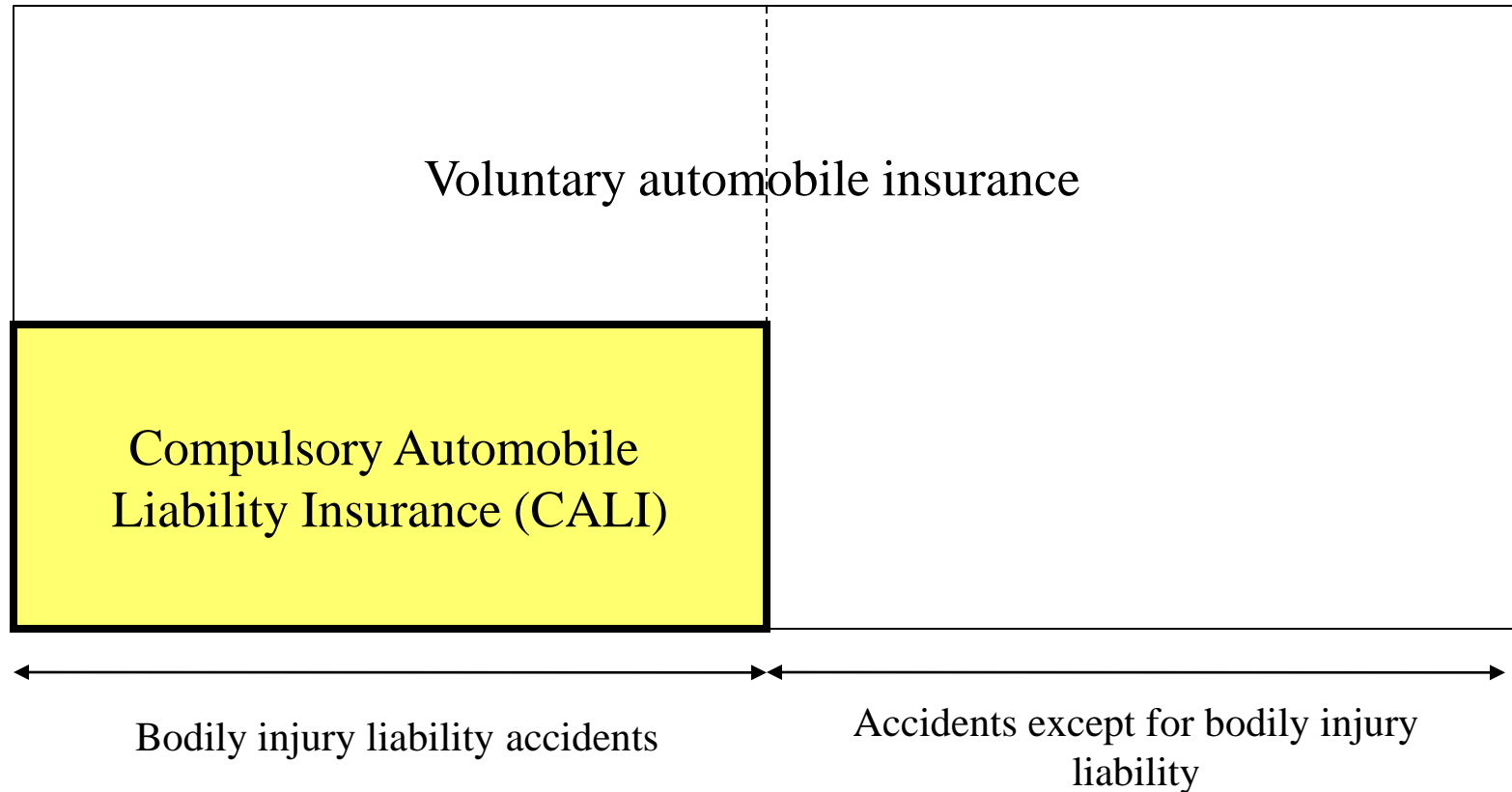




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Compulsory Automobile Liability Insurance (CALI)

Automobile Insurance Coverage Scheme



1950- Rapid progress in motorization

- 1955
- The Automobile Liability Security Law was established
 - CALI was introduced

...

The limit of liability was increased over time

...

2002 Abolition of the reinsurance scheme by the government

(1) Coverage

- Bodily injury liability accidents

(2) Limit of liability per person

(In JPY)

Death	30 m
Permanent disability	40 m
Other bodily injuries	1.2 m

(3) Policy term

- From 1 month to 60 months
- In case of passenger automobiles;

New cars	36 or 37 months
Other than above	24 months

(4) Premium payment method

- Lump sum Only

Premium Rates

(1) Premium rates

- Standard full premium rates are provided by NLIRO

(2) Composition of premium

$$\text{Premium} = \text{Pure risk premium} + \text{Loading cost premium} \\ + \text{Imposition premium (*)}$$

(*) It is collected for funds of government's compensation system.

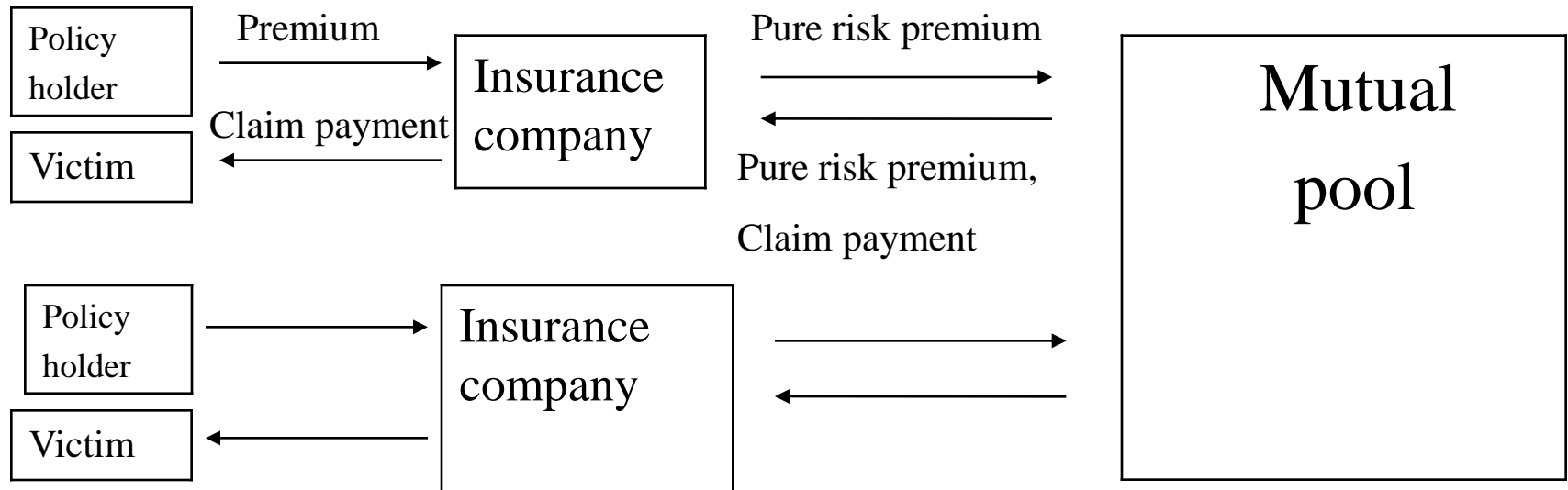
(3) Premium example

(In JPY)

Type of vehicle	24 months	36 months
Passenger Automobile (Private Use)	22,470	30,910
Light Automobile	18,980	25,730
Small-size Freight Automobile (Private Use)	19,290	—
Small-size Two-wheeled Automobile	13,400	—

Institution

- Compulsory participation
- Government's compensation system
- No-loss and No-profit
- Mutual pool



Underwriting Reserves

- The reserving method is different from other lines.

(Underwriting reserves of CALI)

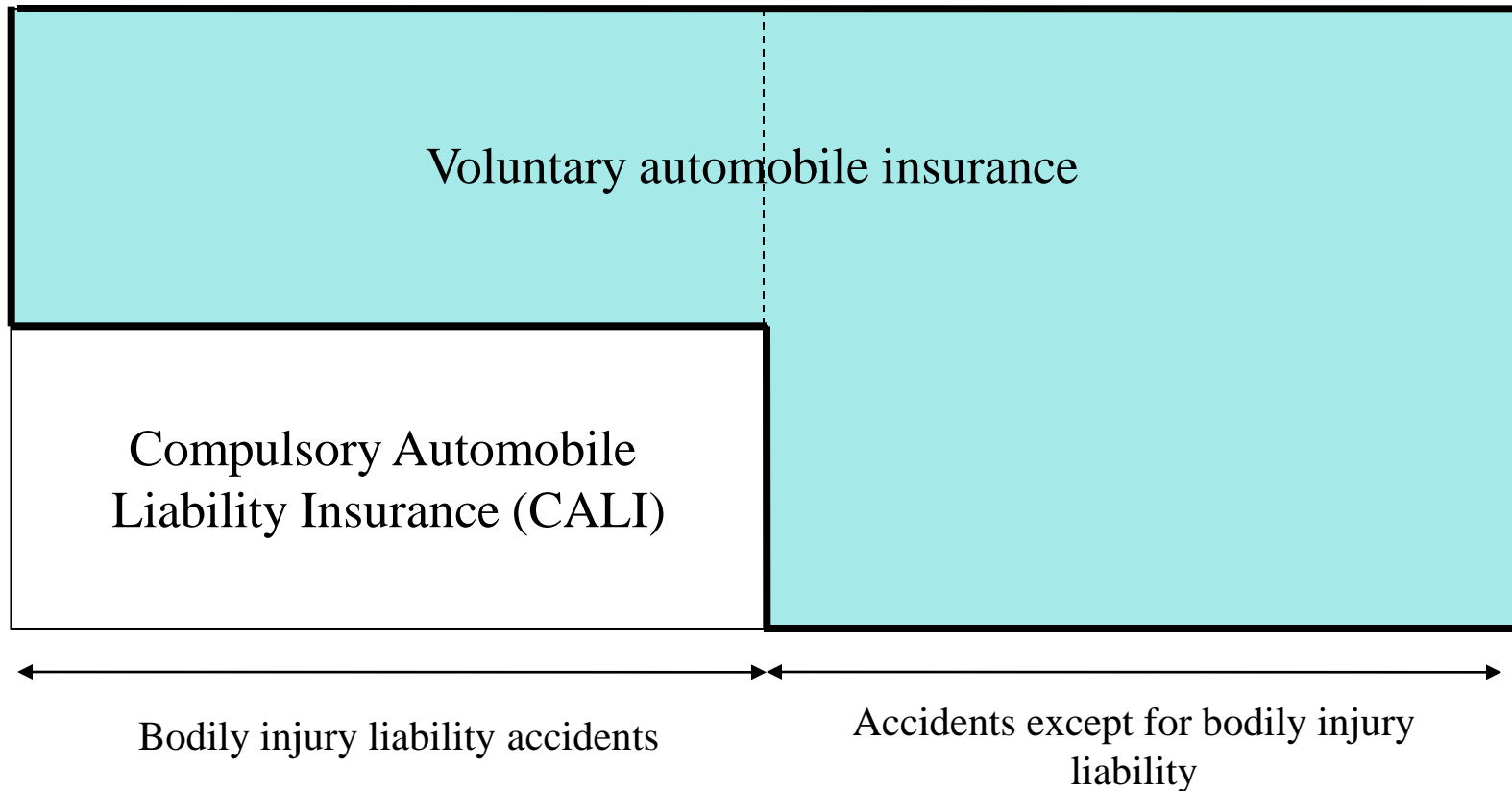
Reserves of pure risk premiums incomes	The profit of the pure risk premiums of every year is reserved. (reversed when profits is negative)
Reserves of loading cost premiums incomes	The profit of the loading cost premiums of every year is reserved. (reversed when profits is negative)
Reserves of investment profits	Investment profit of income premiums is reserved every year.



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Voluntary automobile insurance

Automobile Insurance Coverage Scheme



General Coverage

Coverage		
For victims	Bodily Injury Liability	<input checked="" type="checkbox"/>
	Property Damage Liability	<input checked="" type="checkbox"/>
For the insured	Driver's Personal Accident	<input checked="" type="checkbox"/>
	Protection Against Uninsured	<input checked="" type="checkbox"/>
	Passenger's Personal Accident	<input checked="" type="checkbox"/>
	Bodily Injury Compensation Coverage	
For vehicles	Physical Damage to Own Vehicle	<input checked="" type="checkbox"/>

: advisory pure risk premium rates are provided by NLIRO

Risk Classification

Type	Non-Fleet	Fleet
Number of Vehicles	Less than ten	Ten or more
Use	For personal use	For business use
The premium decided by	<ul style="list-style-type: none"> - Past accident number - Driver age conditions - Type of vehicle <p style="text-align: right;">...etc</p>	<ul style="list-style-type: none"> - The loss ratio of the past for every policyholder - Type of vehicle <p style="text-align: right;">...etc</p>

The classified rating system in Non-Fleet contract

- Premium rates are determined based on Grade
- Grade is divided from 1 to 20
- New policyholders start from Grade 6

The number of claims in this year	Grade of next year
No claims	+1
Per one claim	-3

Premium example of Non-Fleet contract

<Coverage>

Per policy limit Bodily Injury : Unlimited
 Property Damage : Unlimited
 Bodily Injury Compensation Coverage : JPY 30m

Type of vehicle Private subcompact

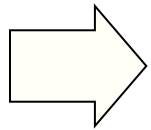
(In JPY)

Grade	6	20
Age conditions		
Regardless of age	253,520	78,700
21 years old or over	135,170	49,780
26 years old or over	93,430	37,960
30 years old or over	84,330	34,330

*A premium changes by insurance companies, type of vehicle, coverage, and so on

(1) Leveling off in the number of vehicles

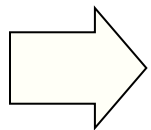
- The penetration rate of automobile insurance is 85%
- The number of vehicles is decreasing gradually
- The number of vehicles covered by voluntary automobile insurance is almost leveling off



The new policyholders are decreasing

(2) Progress of Aging

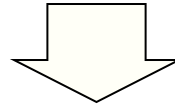
- The elderly population increases rapidly
- The population rate of elderly people aged 65 and over is 20%
(In U.S. : 12%)



The accidents caused by elderly people are increasing

Deregulation of automobile insurance

- 1997 Legalization of insurances to subdivide risks
- 1998 Abolishment of obligation to use rates calculated by the Automobile Insurance Rating Organization of Japan (Currently NLIRO)



➤ Expansion of Discount

- Decreasing unit prices

➤ Expansion of Coverage

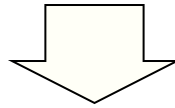
- Coverage suitable for the various needs of policyholders
- Overheating of product development

Problem I

Inappropriate claim payment

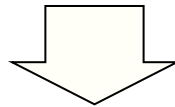
➤ Expansion of Coverage

- Various riders and coverage of extra expenses were developed



➤ Complicated insurance product

➤ Incomplete claim settlement system



➤ Insufficient payment

- About JPY 36,800 million in 19 companies

Solution I

➤ Simplifying

- Reduce riders and simplify coverage of extra expenses

➤ Improving claim settlement system

- Strengthening of the system check at payment

Problem II

Aggravation of insurance profit and loss Combined ratio is over 100% in 2007

- Stagnation of premium income
 - The new policyholders are decreasing
 - The premium unit prices are decreasing

- Rising of loss ratio and expense ratio
 - Improving claim settlement system

Fiscal Year	2001	2002	2003	2004	2005	2006	2007
Loss Ratio	57.7%	56.9%	60.0%	59.5%	59.4%	60.0%	61.6%
Expense Ratio	37.7%	38.0%	37.8%	37.0%	36.6%	37.3%	38.8%
Combined Ratio	95.4%	94.8%	97.8%	96.5%	96.0%	97.3%	100.4%

Revision of advisory pure risk premium rates

<Outline>

- Raising of advisory pure risk premium rates
 - +5.7% on the average

Notification Year	FY2000	FY2003	FY2009
Average revision rate	+5.2%	-6.0%	+5.7%

- Integration and subdivision of age condition classification
 - Every 10 years old from 30 years old
(maximum classification : 70 years old or over)



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Fire Insurance & Earthquake Insurance in Japan

- Many natural hazards:
 - ◆ Typhoon
 - ◆ Torrential rain
 - ◆ Earthquake
- Dwelling situation
 - ◆ Wooden dwelling (about 60%)
 - ◆ Close to each other



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Fire Insurance

Fire insurance: Coverage

- Fire insurances cover various insured events such as:

- ◆ Fire and Explosion
- ◆ Lightning
- ◆ Windstorm
- ◆ Water damage
- ◆ Theft
- ◆ Accidental breakage

Traditional Type

All Risk Type

Fire insurance: Payable amount

- Specific payable amount of traditional type

Peril	Damaged amount /percent	Payable amount
Windstorm	JPY 0.2m or more	Damaged amount
	Less than JPY 0.2m	None
Water damage	Less than 15%	Insured amount*5%
	15%-30%	Insured amount*10%
	30% or more	Insured amount*70%

- Various riders are available:
 - ◆ Personal liability
 - ◆ Personal effects protection
 - ◆ Extra expense in the case of the insured events
- Saving-type insurances are available

- Risk premium rates
 - Advisory pure risk premium rates which are provided by NLIRO
 - Classified based on many risk factors
 - ◆ Types of Risks
 - ◆ Locations
 - ◆ Material of buildings ...etc
 - Used with/without adjustment

- Loading cost rates
 - Calculated by the companies
 - Each company has own rate
- Premium rates
 - Different by each company

Fire insurance: Premium (1)

- Premium example (1) (As of November 1, 2009)

Type of coverage: Traditional type
 Insured Amounts: JPY 20 m
 Location: Tokyo
 Payment method: Lump-sum

Type of risk: Dwelling
 Insured: Building
 Material: Wooden and Mortal

(In JPY)

Policy term	(a) 1 year	(b) 5 years
Premium	32,000	137,600

- Premium of (b) 5 years is not equal (a) 1 year*5, but (a) 1 year*4.3
- Long term contract premium is calculated by using discount rates, which is level during the policy term

Fire insurance: Premium (2)

- Premium example (2) (As of November 1, 2009)

Type of coverage: Traditional type
 Insured Amounts: JPY 20 m
 Policy term: 1 year

Type of risk: Dwelling
 Insured: Building
 Payment method: Lump-sum

(In JPY)

Material	(a) Tokyo	(b) Fukuoka
Concrete	12,200	16,000
Steal	19,400	24,200
Wooden	32,000	49,600

– Wooden type dwellings occupy 60% of the total in Japan

- Premium error
 - Found out in mainly fire insurance in FY 2006
 - Investigated for all contracts
 - Resulted in refund of excess premium

No of Policy	Returned premium
1.6 m	JPY 39.9 b

(*Including other than fire insurance)

- Caused by complicated classification

- Clarification of products
 - Simplify premium classification
 - ◆ Consolidation of the material of buildings
 - Elimination of additional/discount premium
- Improvement of premium calculation system

- Increasing natural hazard
 - The top 7 paid loss since 1961

As of March 31, 2008

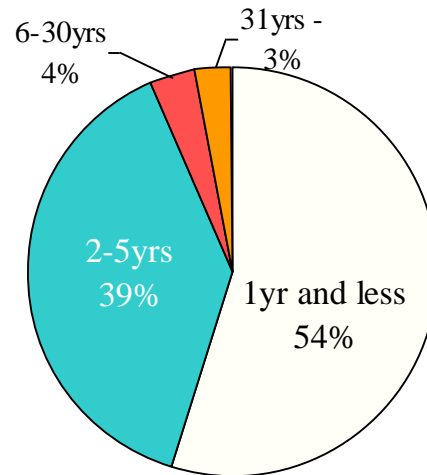
(In JPY billion)

	Name	Paid Loss	Occurrence Year
1	Typhoon No.19	567.9	2001
2	Typhoon No.18	387.4	2004
3	Typhoon No.18	314.7	1999
4	Typhoon No.7	160.0	1998
5	Typhoon No.23	138.0	2004
6	Typhoon No.13	132.0	2006
7	Typhoon No.16	121.0	2004

- Global warming

- Policy term

- 1 month - 30 years or more
- Percentage of policies for dwelling risk in FY 2007



Note: Total numbers of policies are 9.7 million

- Long term contracts occupy about 46%
 - ◆ Contract of mortgages concurrently

- Long term fire insurance
 - Mainly sold together with the mortgage loans
 - Premium is:
 - ◆ Lump-sum;
 - ◆ Calculated by using discount rates; and
 - ◆ Level during the policy year
 - Difficult to reflect:
 - ◆ Future increasing natural hazard risk
 - ◆ Future changing interest rate risk

Fire insurance: Solution

- Progress of valuation
 - Natural hazard model
 - Regulated additional reserve for natural hazard risk
- Further investigation of natural hazard risk
 - Additional premium for natural hazard risk for long term fire insurance
- Upper limitation of the policy year



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Earthquake Insurance

Earthquake insurance: Overview

– Not covered by the fire insurance

– Back ground

(1) The Mid Niigata Prefecture Earthquake in 1964



(2) Consideration of necessity of earthquake insurance

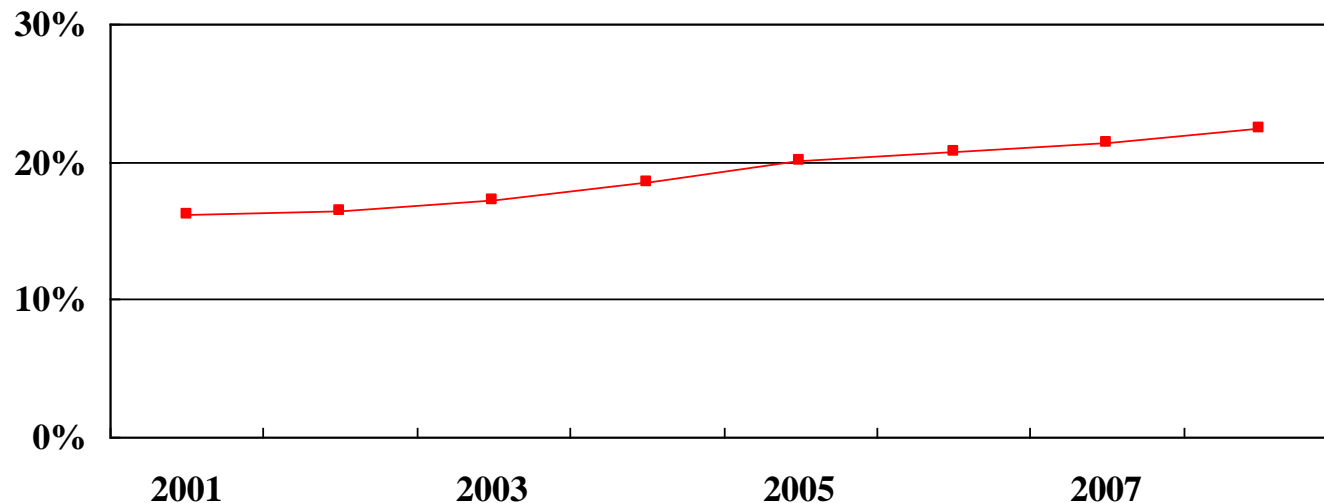


(3) Enactment of The Law concerning earthquake insurance in 1966

– For the coverage of dwelling and its contents only

- Contents of the law and related regulations:
 - ◆ Premium rates
 - ✓ Required to be as low as possible
 - ✓ Maintaining equilibrium between income and expenses
 - ◆ Incident
 - ✓ Attached to only fire insurance
 - ✓ Attachment rate: 40%-50%
 - ◆ Japanese government reinsurance scheme
 - ◆ Calculation method of policy reserve etc.

- Increasing penetration
 - Increasing occurrence of the earthquake
 - Advertising
 - Tax exemption



(*)Penetration: In force earthquake insurance policies/ Number of household

Earthquake insurance: Product

Insured object	Dwelling and its contents (*1)
Insured amount	(1) Within a range of 30% to 50% of the insured amount for fire insurance (2) Limitation Dwelling: JPY 50 m Contents: JPY 10 m
Policy term	1 year (*2)
Insured events	Earthquake, Volcanic eruption and Tsunami

(*1) Office furniture is excluded.

(*2) On the certain conditions, less than 1 year contract or more than 1 year contract is available

- Premium rates
 - Standard full rates provided by NLIRO
 - ◆ Application by all companies
 - ◆ No-loss and No-profit

Premium Rates = Risk Premium Rates + Loading Cost Rates - Cumulative Balance of Income and Expenditure - Cumulative Investment Return

- Calculated based on the risk factors:
 - ◆ Locations
 - ◆ Wooden/Non wooden

Earthquake insurance: Premium

- Premium example (As of November 1, 2009)

Insured Amounts: JPY 10 m

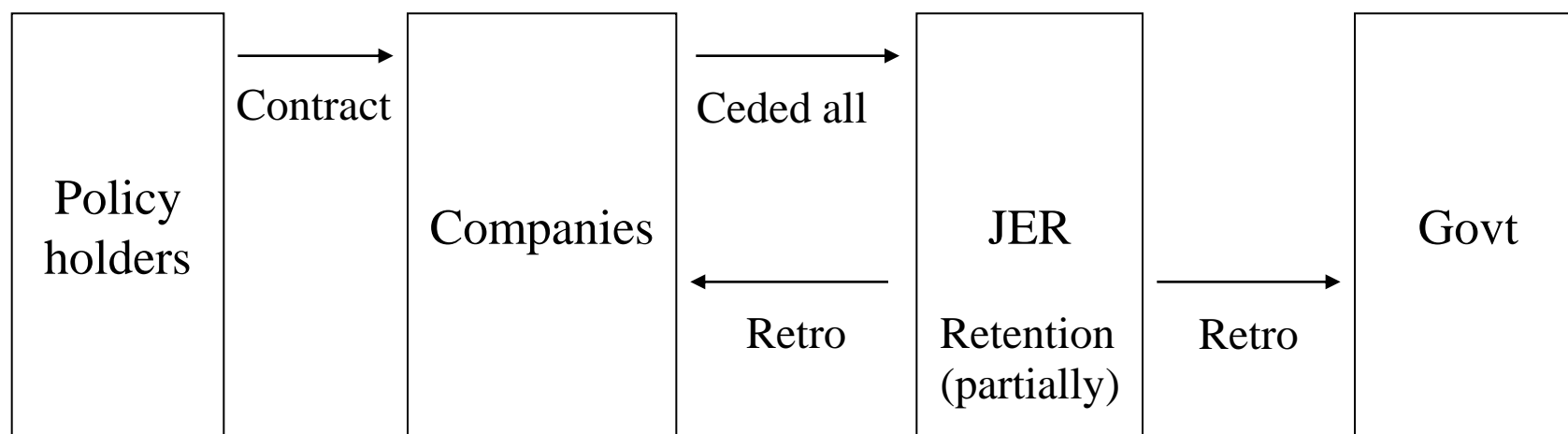
Policy term: 1 Year

Payment method: Lump-sum

(In JPY)

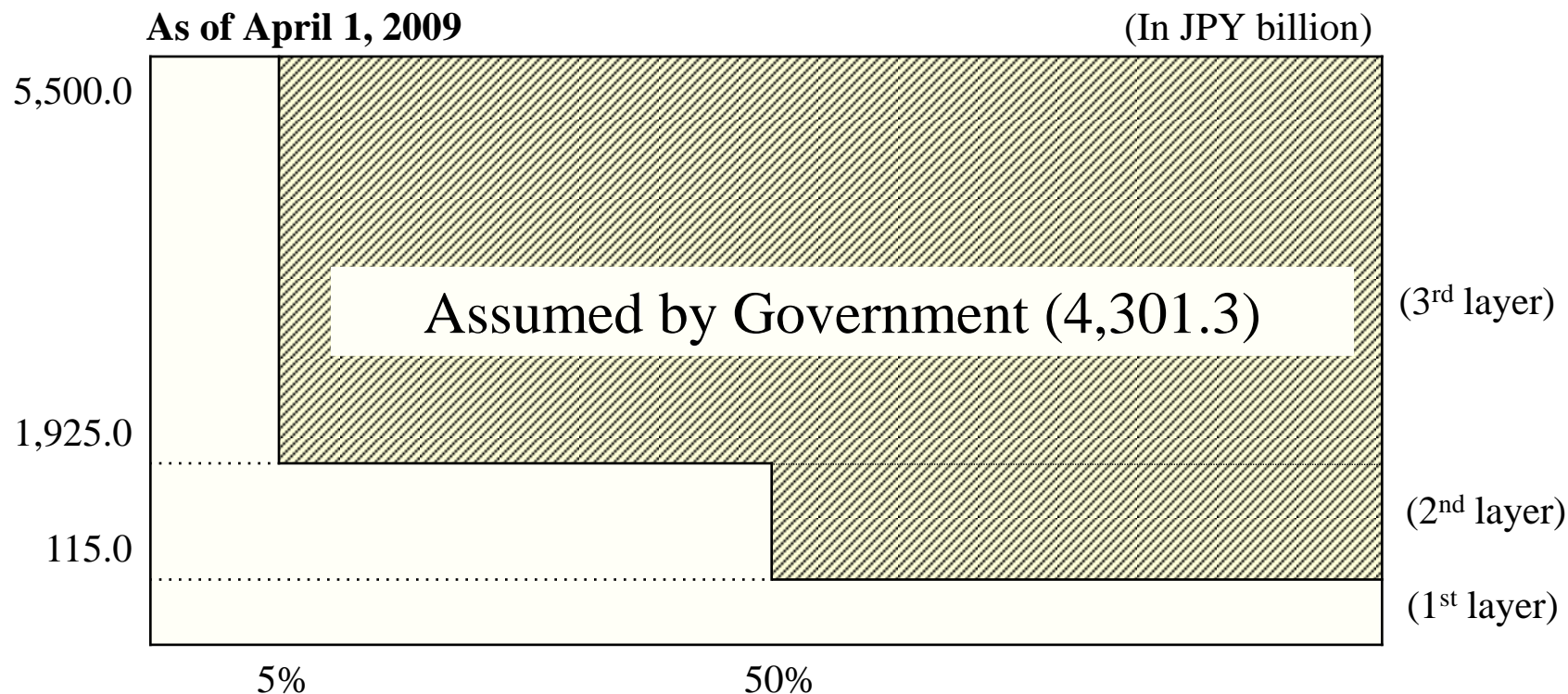
	Non wooden	Wooden
Tokyo	16,900	31,300
Osaka	10,500	18,800
Hokkaido	6,500	12,700
Fukuoka	5,000	10,000

- Reinsurance flow



JER: Japan Earthquake Reinsurance Company Co., LTD
(Specific company which deals with earthquake reinsurance only)

- XL reinsurance is written by Government



(*) White cells: Companies' retention (JPY 1,198.8 b)

Earthquake insurance : Issues

- The top 7 paid loss since 1966

As of March 31, 2008

(In JPY billion)

Name	Paid Loss
1 Kobe EQ in 1995	78.3
2 Geiyo EQ in 2001	16.9
3 The EQ occurred west off Fukuoka prefecture on March 20, 2005	16.8
4 The Mid Niigata Prefecture EQ in 2004	14.9
5 The Niigataken Chuetsu-oki EQ in 2007	8.1
6 The EQ occurred west off Fukuoka prefecture on April 20, 2005	6.3
7 The Tokachi-oki EQ in 2003	6.0



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The End