



EUROPEAN BUSINESS COUNCIL IN JAPAN  
THE EUROPEAN (EU) CHAMBER OF COMMERCE IN JAPAN

# INSURANCE

ISSUES AND RECOMMENDATIONS



# **HARMONISATION WITH GLOBAL SOLVENCY & OTHER REGULATORY STANDARDS**



# Harmonisation with Global Solvency & Other Regulatory Standards

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## YEARLY STATUS REPORT: Progress

- ❑ The EBC appreciates the FSA's willingness to take a leadership role among international regulators and its work in the solvency area.
- ❑ However, further alignment of local regulatory requirements with the approach of Solvency II is crucial for European insurers in Japan as it would enable them to use the same methodologies in all territories and better develop group-wide risk management strategies.



# Harmonisation with Global Solvency & Other Regulatory Standards

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## YEARLY STATUS REPORT: Progress

- ❑ Such a move would both encourage and reward improved risk management within insurance companies – a goal shared by the FSA and insurers – and hopefully reduce the overall regulatory reporting burden on insurers conducting business in multiple jurisdictions.
- ❑ The EBC is in a position to provide the relevant information to the FSA on these issues.

# Harmonisation with Global Solvency & Other Regulatory Standards

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## RECOMMENDATIONS

- ❑ Japan should accelerate reforms aimed at attaining convergence between Japanese and global solvency standards by establishing a roadmap, including timelines, for convergence with Solvency II. This is of the utmost importance so that all parties concerned, including private insurers, can prepare for the new framework.
- ❑ The market-based Solvency Margin calculation methodology should be further aligned with Solvency II.
- ❑ Japan should continue to fully participate in the development by the FSB/IAIS of enhanced regulatory measures for systemically important insurers and internationally active insurance groups.

# Harmonisation with Global Solvency & Other Regulatory Standards

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## RECOMMENDATIONS

- ❑ In adopting FSB/IAIS-proposed policy measures for the Japanese market, the Government should consider the burden that risk management reporting and capital adequacy requirements could impose on businesses and minimise any conflicting cross-border jurisdictional requirements.
- ❑ The Government should consider reforming the Policyholder Protection Corporation when introducing Japanese Solvency II.





**PRODUCT APPROVALS**

# Product Approvals

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## YEARLY STATUS REPORT: Some Progress

- ❑ The EBC appreciates the FSA's initiatives to improve the product approval process, and the setting up of a regular dialogue between regulators and insurance companies.
- ❑ The EBC also appreciates the information disclosed by the FSA on the key points in its approval process, which helps insurance companies to prepare for product examination.
- ❑ However, the product approval process is still sometimes lengthy in comparison with foreign markets, causing product development delays and making effective business strategy planning difficult.





# Product Approvals

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## YEARLY STATUS REPORT: Some Progress

- ❑ The EBC believes that faster product approval would be beneficial to not only insurers but also consumers, and would therefore further the FSA's aim of promoting the customer's best interest.
- ❑ Furthermore, while ensuring customer protection, the EBC encourages the FSA to introduce a "file-and-use" system and to present a plan for its implementation.



# Product Approvals

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## RECOMMENDATIONS

- ❑ The FSA should look into how product approvals are conducted overseas. The EBC would be pleased to contribute expertise in order to make the research effort more efficient and effective.
- ❑ The FSA should introduce a system allowing insurers to register products, instead of having to obtain pre-approval. The FSA could retain the authority to conduct post-checks and issue withdrawal orders.
- ❑ The FSA should work together with financial institutions and other private players on improving consumer literacy in respect of financial products.



# **FAIR COMPETITION IN BANK DISTRIBUTION**

# Fair Competition in Bank Distribution

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## YEARLY STATUS REPORT: Limited Progress

- ❑ As the importance of bancassurance increases in providing benefits to Japanese consumers, the EBC is concerned about the strong influence that Japanese insurance companies have over Japanese banks as their major shareholders.
- ❑ For example, in recent years, European insurance companies have brought a series of innovations to the Japanese market in the area of group credit life insurance and related products, providing valuable protection in case of critical illness and disability to Japanese mortgage borrowers.



# Fair Competition in Bank Distribution

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## YEARLY STATUS REPORT: Limited Progress

- ❑ This business is now being copied by Japanese insurers and, while the EBC welcomes healthy competition in the marketplace to further benefit Japanese consumers, we believe there is a potential conflict of interest when insurers sell these products to customers of the very banks they own.
- ❑ The EBC believes that it is part of each company's fiduciary duty to carefully monitor the situation to ensure that competition is based on the quality of products and services and capacity to innovate rather than on the shareholding relationship between insurers and banks, which is irrelevant to the Japanese consumer.



# Fair Competition in Bank Distribution

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## RECOMMENDATIONS

- The FSA should further liberalise bancassurance with appropriate supervision over the level of sales commissions.
- As a first step, the FSA should allow banks to sell insurance to any company employee, regardless of the relationship between the bank and the company, and to use bank data.
- The FSA should carefully ensure that competition is based on fair comparison of offers, and is not biased by pre-existing shareholding relationships.



**INSURANCE**

**JAPAN POST REFORM**

# Japan Post Reform

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## YEARLY STATUS REPORT: Some Progress

- ❑ Even with the IPO implemented, the Government remains the majority shareholder in Japan Post, and so the public continues to believe that it guarantees the various Japan Post entities.
- ❑ The EBC considers this gives JPI an unfair competitive advantage, which JPI is exploiting in its intention to expand its product portfolio.
- ❑ The EBC believes the Government ownership in Japan Post has a negative impact on the private sector.





# Japan Post Reform

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## RECOMMENDATIONS

- ❑ Until 100% of Japan Post's shares are held privately, JPI's product portfolio should not expand and its issue limit should be capped at the current level. The Japanese Government should ensure a level playing field.
- ❑ The Government should ensure that good corporate governance is in place for Japan Post Holdings, Japan Post Insurance and Japan Post Banks.
- ❑ The Government should publish a clearer road map on how it intends to sell its shares.
- ❑ The Government should adhere to its commitments under the WTO GATS.





# **DISTRIBUTION PRACTICES**



# Distribution Practices

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## YEARLY STATUS REPORT: Some Progress

- ❑ Insurance sales by an incorporated insurance agency to members of its parent and affiliated companies are restricted to so-called “third sector” products (Insurance Business Law Enforcement article 234, 1998 MoF Notification No. 238).
- ❑ The EBC fully acknowledges the reasons for this restriction as discussed at the Administrative Reform Committee (1997) and the Insurance Council (1992).
- ❑ The EBC considers, however, that the current rule could be a barrier for new entrants and may not be beneficial to Japanese consumers.

# Distribution Practices

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## YEARLY STATUS REPORT: Some Progress

- ❑ Furthermore, the EBC believes there should be a public consultation on the possible regulation on commission disclosure, taking careful account of the impact on the social economy and consumers.
- ❑ The EBC hopes that the discussion on how to identify the right level of commission will be accelerated.



# Distribution Practices

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## RECOMMENDATIONS

- ❑ Taking into account emerging new technology and evolving insurance distribution, the FSA should review the Notification detailed above and related regulations, and present a roadmap for further deregulation for the benefit of Japanese consumers.
- ❑ When looking into distribution practices, the FSA should put more emphasis on enabling the customer to choose from a wider product portfolio.

Insurance

***KYOSAI***

Policy



# Kyosai

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## YEARLY STATUS REPORT: No Progress

- ❑ Currently *kyosai* are not subject to Japan's Insurance Business Law.
- ❑ Instead, different ministries regulate the various *kyosai* depending on the sector in which the *kyosai* is active.
- ❑ For example, JA *Kyosai* is regulated by the Ministry of Agriculture, Forestry and Fisheries.



# Kyosai

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## RECOMMENDATIONS

- ❑ *Kyosai* should be brought under FSA supervision, be covered by the Insurance Business Law, and not be allowed to expand their businesses until such provisions are in place.
- ❑ Until this is achieved, *kyosai* and their respective competent authorities should apply the same standards and regulations as the FSA.
- ❑ The membership of *kyosai* should be further clarified and restricted, as originally intended, to a well-defined group, such as a certain profession.