

Attachment

(Concerning Earthquake Insurance Law)

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LAW CONCERNING EARTHQUAKE INSURANCE

Law No. 73, May 18, 1966

as amended by

Law No. 160, December 22 of 1999 (in full force as from January 6, 2001)

(Objective)

ARTICLE 1. The objective of this law is to promote the diffusion of earthquake insurance by having the Government reinsure the earthquake insurance liabilities of insurance companies, etc. thereby helping to stabilize the livelihoods of the victims of earthquake, etc.

(Definitions)

ARTICLE 2. Under this law, "Insurance Companies, etc." shall refer to persons granted a non-life insurance business licence under Paragraph 5 of Article 3 of the Insurance Business Law (Law No. 105 of 1995) or a foreign non-life insurer's business licence under Paragraph 5 of Article 185 of the same law or employees of persons granted a licence under Paragraph 5 of Article 219 of the same law (referred to as "Insurance Companies" in Article 9-2), or such juridical persons carrying on the business of mutual aid related to fires in conformity with other laws and designated by the Minister of Finance.

2. Under this law, "Earthquake Insurance Contracts" shall refer to non-life insurance contracts (including mutual aid contracts related to fires, as described below) conforming to the requirements mentioned below.

- (1) The object of the insurance is a building for residential use and/or household and personal goods only.
- (2) Loss or damage (limited only to that those prescribed under the Cabinet Orders) due to fire, destruction, burial or being carried away in a flood, resulting directly or indirectly from an earthquake or volcanic eruption, or tsunami following the event (hereinafter referred to as "earthquake, etc.") is covered by the amount prescribed under the Cabinet Orders.
- (3) The contract is incidental to specific non-life insurance contracts.
- (4) The insured amount is equivalent to an amount no less than 30% and no more than 50% of the insured amount in the principal non-life insurance contract (when that amount exceeds the amount prescribed under the Cabinet Orders, then the insured amount shall be the amount prescribed under the Cabinet Orders).

3. Under this law, "Insurance", "insurance claims" and "insurance liability" shall be changed to read respectively "mutual aid", "mutual aid claims" and "mutual aid liability" in respect of mutual aid contracts.

(Reinsurance by Government)

ARTICLE 3. The Government shall be able to enter into a reinsurance agreement with the insurance companies, etc. as the third party reinsuring insurance the liabilities undertaken by

insurance companies, etc. under earthquake insurance contracts.

2. The reinsurance agreement described in the preceding paragraph provides for payment, when the total amount of insurance claims to be paid for single earthquake, etc. under all earthquake insurance contracts held by the other party exceeds the amount prescribed under the Cabinet Orders, in such proportions applicable to each layer of that excess amount prescribed under The Cabinet Orders.

3. The total amount of reinsurance claims to be paid by the Government for any one earthquake, etc. shall be required to be within the limit not to exceed the amount set by decision of the Diet for each year.

4. Two or more earthquakes, etc. occurring within 72 consecutive hours shall be deemed to be one earthquake, etc. This, however, shall not apply when the situation where the affected areas do not overlap at any point.

(Reduction in the Insurance Claims to be Paid)

ARTICLE 4. When the total amount of the insurance claims to be paid for any one earthquake, etc. under all earthquake insurance contracts covered by the reinsurance agreement of the Government under the stipulations of Paragraph 1 of the preceding article exceeds the total of the amount to be borne by all of the insurance companies, etc. the insurance companies shall be able to reduce the amount of insurance claims to be paid by them, under the prescriptions of The Cabinet Orders. This shall be in accordance with the reinsurance agreement and the amount contributed by the Government under the stipulations of Paragraph 3 of the same article.

(Suspension of Signing New Earthquake Insurance Contracts when an Earthquake Warning Statement Has Been Issued)

ARTICLE 4-2. When a warning statement about an impending earthquake disaster is issued under the stipulations of Paragraph 1 of Article 9 of the Large Scale Earthquake Countermeasures Act (Law No.73 of 1978, hereafter called "warning statement" in this article), the insurance companies, etc. shall not enter into any new earthquake insurance contracts for object located in the area (designated as an Area under Intensified Measures against Earthquake Disaster under the stipulations of Paragraph 1 of Article 3 of the same law covered by the warning statement) that are covered by the reinsurance agreement of the Government (except those prescribed by the Cabinet Orders) from the time the warning statement is issued until the day warning statement is withdrawn under the stipulations of Paragraph 3 of Article 9 of the same law. (Should the large scale earthquake referred to in the warning statement occur, the suspension shall end on the day designated by the Minister of Finance through a public notice after consultation with the Earthquake Insurance Council).

2. Matters relating to the suspension of signing new earthquake insurance contracts when a warning statement have been issued (including the occurrence of the large-scale earthquake referred to in the warning statement), in addition to those matters stipulated in the preceding paragraph, shall be prescribed under the Cabinet Orders.

(Insurance Premium Rates and Reinsurance Premium Rates)

ARTICLE 5. The premium rates for earthquake insurance contracts covered by Government reinsurance shall be required to be as low as possible while maintaining equilibrium between income and expenses.

2. The reinsurance premium rates for the Government reinsurance operation shall be required to be reasonable in order to ensure adequate reinsurance premium income to compensate for reinsurance claims paid over the long term.

(Application for Inquisition)

ARTICLE 6. Insurance companies, etc. shall be able to apply for inquisition to the Minister of Finance for inquisition of complaints regarding the matters concerning the Government reinsurance.

2. When the application for inquisition is made under the stipulations of the preceding paragraph, the Minister of Finance shall make inquires at the Earthquake Insurance Council and come to a decision.

3. An application for inquisition under Paragraph 1 shall be deemed to be a juridical demand in respect of interruption of prescription.

(Earthquake Insurance Council)

ARTICLE 7. The Earthquake Insurance Council may be established under the Ministry of Finance in accordance with the Cabinet Orders.

2. In addition to dealing with the matters falling under its jurisdiction as stipulated under Article 4-2 and Paragraph 2 of the preceding article, the Earthquake Insurance Council shall, in a situation where reinsurance claims are to be paid, investigate and deliberate on the matters regarding the amount of the reinsurance claims and reduction in the amount of reinsurance claims to be paid under the stipulations of Article 4, in response to an inquiry by the Minister of Finance.

3. In addition to the matters stipulated in the two preceding paragraphs, matters for the organization and management of the Earthquake Insurance Council shall be prescribed under the Cabinet Orders.

(Measures to be taken by the State)

ARTICLE 8. Upon recognizing that there is especially necessary for the purpose of payment of insurance claims under the earthquake insurance contracts, the Government shall endeavor to assist insurance companies, etc. in arranging for or accommodating them with funds.

(Report and Inspection)

ARTICLE 9. When recognizing necessity for securing sound operation of the Government reinsurance undertaking stipulated in this law, the Minister of Finance shall be able to require

the insurance companies, etc. carrying on earthquake insurance business to submit the reports on that business or to make his staff enter the offices of the insurance companies, etc. to inspect the books, documents and other items.

2. The staff of the Minister of Finance entering and inspecting under the stipulations of the preceding paragraph shall be required to carry a certificate identifying their status and to exhibit the same to the persons concerned.

3. The authority for entry and inspection under the stipulations of Paragraph 1 shall not be construed as approved for criminal investigation.

(Consultations)

Article 9-2. When attempting to perform the dispositions indicated in each items of Paragraph 1 of Article 311-2 of the Insurance Business Law, the Prime Minister shall consult with the Minister of Finance in advance, regarding reinsuring insurance liabilities undertaken by insurance companies, etc. under earthquake insurance contracts.

(Notices)

Article 9-3. The Prime Minister shall notify the Minister of Finance in advance of the facts and details when the case falls under Clause (1), and without delay when the case falls under any one of Clauses (2)-(4).

(1) When issuing orders for changes, and besides with regard to earthquake insurance contracts relating to the reinsurance by the Government, due to the provisions of Articles 131, 203 or 229 of Insurance Business Law.

(2) When a license application is submitted as set forth in Paragraph 1 of Article 4, Paragraph 1 of Article 187, or Paragraph 1 of Article 220, of the Insurance Business Law, and there is a description with regard to the earthquake insurance contracts relating to the reinsurance by the Government in the Business Plan attached thereto.

(3) When an application submitted for authorization of the changes set forth under Paragraph 1 (including cases where it is applied mutatis mutandis by Article 207 of said Law) of Article 123 or Paragraph 1 of Article 255, of the Insurance Business Law, with regard to the earthquake insurance contracts relating to the reinsurance by the Government.

(4) When the filing due to the provisions in Paragraph 1 of Article 9-3 of the Law concerning the Non-Life Insurance Rating Organizations (Law No. 193 of 1948) is submitted and such is in regard to the earthquake insurance contracts relating to the reinsurance by the Government.

2. After receiving the notification under the preceding Paragraph, when recognizing the necessity for securing sound operation of the Government reinsurance undertaking stipulated in this law, the Minister of Finance shall be able to state his opinion to the Prime Minister.

3. The Prime Minister shall respect the opinion when the Minister of Finance states his opinion as stipulated under the preceding Paragraph.

(Delegation of Authority to the Commissioner of Financial Services Agency)

Article 9-4. The Prime Minister shall delegate the authority under this law (except those prescribed by the Cabinet Orders) to the Commissioner of the Financial Services Agency.

(Enforcement Stipulations)

ARTICLE 10. The procedures for enforcing this law and other matters necessary for its execution shall be prescribed in Finance Ministry Ordinances.

(Penal Stipulations)

ARTICLE 11. Persons failing to report or falsifying the report stipulated in Paragraph 1 of Article 9 or having refused, hindered or evaded the inspection stipulated in the same paragraph shall be subject to a penal fine of not more than ¥30,000.

2. When a representative or proxy, employee or other worker of insurance companies, etc. has committed the illegal acts, stipulated in the preceding paragraph with regard to the business of the insurance company, etc., in addition to penalizing the person who committed the illegal act, the insurance companies, etc. shall be subject to the penalty stipulated in the preceding paragraph.

(replaced in May 2011)

ENFORCEMENT ORDER FOR THE LAW CONCERNING EARTHQUAKE INSURANCE

Cabinet Order No.164, May 31, 1966
as last amended by
Cabinet Orders No. 125, may 2, 2011

The Cabinet shall prescribe this Cabinet Order according to the stipulations of Paragraph 2 of Article 2, Paragraph 2 of Article 3, and Article 4 of the Law Concerning Earthquake Insurance (Law No. 73 of 1966).

(Amount and Loss or Damage to be Covered)

ARTICLE 1. Listed below are the categories of loss or damage prescribed in the Cabinet Orders stipulated in Item (2) of Paragraph 2 of Article 2 of the Law Concerning Earthquake Insurance (hereinafter referred to as "the Law"). and the amount prescribed in the Cabinet Orders stipulated under Item (2) of the same paragraph shall be the amount prescribed in the same item, in accordance with the classification of loss or damage mentioned in the same item.

- (1) Total loss of a building for residential use (hereinafter referred to as "residential building") (when the amount of loss of or damage to the main structural part of the residential building is 50% or more of the current value of the residential building or when 70% or more of the residential building of the floor space has been lost by fire or carried away in flood) : the total insured amount
 - (2) Half loss of a residential building (when the amount of loss of or damage to the main structural part of the residential building is equivalent to 20% or more but less than 50% of the current value of the residential building or when 20% or more but less than 70% of the total floor space has been lost by fire or carried away in flood) : 50% of the insured amount
 - (3) Partial loss of a residential building (when the amount of loss of or damage to the main structural part of the residential building is equivalent to 3% or more but less than 20% of the current value of the residential building) : 5% of the insured amount
 - (4) Total loss of the household and personal goods (when the amount of loss or damage to the household and personal goods is 80% or more of the current value of the household and personal goods) : the total insured amount
 - (5) Half loss of the household and personal goods (when the amount of loss or damage to the household and personal goods is 30% or more but less than 80% of the current value of the household and personal goods) : 50% of the insured amount
 - (6) Partial loss of the household and personal goods (when the amount of loss or damage to the household and personal goods is 10% or more but less than 30% of the current value of the household and personal goods): 5% of the insured amount
2. "The current value" within each item of the preceding paragraph is the value of the

(replaced in May 2011)

insured object at the time immediately before the loss or damage occurred and at the place it is located.

3. The amount of loss of or damage to the main structural part of the residential building stipulated in Item (1) to Item (3) of Paragraph 1 includes the minimum expenses directly necessary for restoring the ground, etc. for the purpose of the restoring the residential building to its condition before it was damaged by the earthquake, etc. stipulated in Item (2) of Paragraph 2 of Article 2 of the Law (hereinafter referred to as "earthquake, etc.").

4. When a residential building has become uninhabitable because of the imminent threat of landslide or other hazards resulting directly or indirectly from an earthquake, etc., the residential building shall be deemed to a total loss as prescribed in Item (1) of Paragraph 1.

5. When a residential building has suffered a damage from being submerged above the floorboards or the similar damage provided in the Ordinances of the Finance Ministry due to water disaster related to flood, etc. resulting directly or indirectly from an earthquake, etc. (excluding the situation where the residential building has suffered a total loss, half loss or partial loss as prescribed in Item (1) to Item (3) of Paragraph 1), the residential building shall be deemed to have suffered a partial loss as prescribed in Item (3) of Paragraph 1.

(Limits of the Amount Insured)

ARTICLE 2. The amount to be prescribed in the Cabinet Orders stipulated in Item (4) of Paragraph 2 of Article 2 of the Law shall be ¥50,000,000 for a residential building and ¥10,000,000 for the household and personal goods. However, when an earthquake insurance contract is already in force for the residential building or household and personal goods, the insured amount shall be calculated by subtracting, respectively, from these amounts, the insured amount from the earthquake insurance contract already in force.

(Reinsurance Agreement)

ARTICLE 3. The amount prescribed in the Cabinet Orders stipulated in Paragraph 2 of Article 3 of the Law shall be ¥115,000 million when the other party of the agreement stipulated in the same paragraph is a non-life insurance company stipulated in Paragraph 4 of Article 2 of the Insurance Business Law (Law No. 105 of 1995), that accepts the reinsurance of insurance liabilities stipulated in Paragraph 1 of Article 3 of the Law. Out of the total amount of insurance claims stipulated under the same paragraph, the proportions for each layer prescribed in the Cabinet Orders stipulated under Paragraph 2 of the same article shall be, 50% for the part exceeding ¥115,000 million but not more than ¥871,000 million and 95% for the part exceeding ¥871,000 million (The proportions are established in the Ministry of Finance Ordinances for cases where the amount of the excess part exceeds the amount provided in the Ministry of Finance Ordinances giving consideration to the limit of the liability to be borne by the Government stipulated in Paragraph 3 of the same article).

(replaced in May 2011)

(Reducing the Insurance Claims)

ARTICLE 4. Reducing the insurance claims stipulated in Article 4 of the Law shall be done in the case of a single earthquake, etc., by multiplying the insured amount in each contract by the proportion of the sum of the amount to be borne by all insurance companies, etc. and the amount of the limit of the Government contribution stipulated in the same article to the total amount of insurance claims paid stipulated under the same article as the insurance claim to be paid.

(Exception for Entering into an Earthquake Insurance Contract When a Warning Statement Is Issued, etc.)

ARTICLE 5. The earthquake insurance contracts prescribed in the Cabinet Orders stipulated under Paragraph 1 of Article 4-2 of the Law shall be those to be contracted continuously upon expiry of the policy periods of earthquake insurance contracts having been entered into prior to the Warning Statement stipulated under the same paragraph which conform to the requirements listed below.

- (1) The insured and the object of insurance are the same as those of previous contract.
- (2) The amount insured does not exceed that of the previous contract.

2. In a situation where the Minister of Finance revokes or alters the date it has designated through the public notice under the stipulations of Paragraph 1 of Article 4-2 of the Law, it shall make a public notice to that effect after consulting with the Earthquake Insurance Council.

3. The public notice by the Minister of Finance under the stipulations of Paragraph 1 of Article 4-2 of the Law and the prescription of the preceding paragraph shall be made in the official gazette.

(Establishing an Earthquake Insurance Council, etc.)

ARTICLE 6. An Earthquake Insurance Council (hereinafter referred to as "the Council") shall be established to handle any of the matters described below.

, in any of the situations mentioned in each item below,

- (1) When the large-scale earthquake related to the Warning Statement stipulated in Paragraph 1 of Article 4-2 of the Law occurs; the Council will be established to deliberate on the date to be designated by the Minister of Finance as the last day of the period during which entering into new earthquake insurance contracts covered by the Government reinsurance is to be prohibited.
- (2) When insurance companies, etc. have applied to the Minister of Finance for inquisition under the stipulations of Paragraph 1 of Article 6 of the Law: the Council will be established to examine for application.

2. In addition to the matters mentioned in each item of the preceding paragraph, the Minister of Finance shall establish and consult with the Council on the matters relating to the amount of the reinsurance claims and a reduction in the amount of insurance claims to be paid under the stipulations of Article 4 of the Law.

(replaced in May 2011)

3. While the Council is established, if there arises a need to dispose of matters stipulated under Paragraph 2 of Article 7 of the Law other than those that existed at the time of the Council' establishment, the Council shall also dispose of these other matters.

4. The Council shall be abolished when it has disposed of the matters given to it under the prescriptions of the preceding three paragraphs.

5. When the Council is to be established under the prescriptions of Paragraph 1 and Paragraph 2 or is to be abolished under the prescriptions of the preceding paragraph, the Minister of Finance shall make a public notice to that effect in the official gazette.

ARTICLE 7. The Council shall be consist of ten or fewer members.

2. The members shall be appointed by the Minister of Finance from among persons of learning and experience or from among experts in field of non-life insurance.

3. The members shall be relieved of their positions when the Council is abolished under the prescriptions of Paragraph 4 of the preceding article.

4. The members shall serve on a part-time basis.

ARTICLE 8. The council shall have a chairperson.

2. The chairperson shall be elected by the council from among its members and shall preside over the affairs of the Council.

3. When unavoidable circumstances prevent the chairperson from performing his or her duties, a member previously designated by the chairperson shall act as a proxy.

4. The Council shall neither commence proceedings nor adopt any resolutions without the presence of the chairperson or the member acting as chairperson's proxy under the prescriptions of the preceding paragraph and the majority of the members.

5. The proceedings of the Council shall be decided by the majority of the members present, and in case of a tie, the decision by chairperson shall prevail.

6. The general administrative matters of the Council shall be disposed of by the Government Financial Institutions Divisions of the Minister's Secretariat of the Ministry of Finance.

7. The procedure of the proceedings and other necessary matters for managing the Council, in addition to those prescribed under each of the preceding paragraphs, shall be determined by the chairperson after consulting with the Council.

(The Powers not Entrusted to the Commissioner of the Financial Services Agency)

ARTICLE 9. The powers stipulated under Article 9-4 of the Law shall be the powers pursuant to the stipulations of Article 9-2 of the Law relating to the dispositions mentioned in Item (2) of Paragraph 1of Article 311-2 of the Insurance Business Law.

(replaced in May 2011)

REGULATION FOR ENFORCING THE LAW CONCERNING EARTHQUAKE INSURANCE

Ministry of Finance Ordinance No.35, June 1, 1966

as last amended by

Ministry of Finance Ordinances No. 24, May 2, 2011

The Regulation for Enforcing the Law Concerning Earthquake Insurance shall be enacted as described below to conform with the stipulations of Article 10 of the Law Concerning Earthquake Insurance (Law No. 73 of 1966) and Paragraph 3 of Article 88 of the Insurance Business Law (Law No. 41 of 1939).

(Scope, etc. of the Insurable Property)

ARTICLE 1. A building for residential use (hereinafter referred to as a "residential building") as stipulated in Item (1) of Paragraph 2 of Article 2 of the Law Concerning Earthquake Insurance (hereinafter referred to as "the Law") shall be defined as a building used for residential purpose in its entirety or in part, while the household and personal goods stipulated in the same item shall refer to household furniture, appliances, clothing and other movable goods necessary for ordinarily living, the household and personal goods do not include precious stones, semiprecious stones, precious metals, pearls and products made from these materials, nor do they include tortoiseshell works, coral works, amber works, ivory works, cloisonne works, as well as paintings, writings, curios and artistic handicrafts, with a values exceeding ¥300,000 per item or each set.

2. The specific non-life insurance contracts stipulated in Item (3) of Paragraph 2 of Article 2 of the Law include the falling type of insurance.

- (1) Fire insurance
- (2) Fire mutual insurance
- (3) Building endowment insurance
- (4) Long term refund in expire insurance

(Residential Building Submerged, etc. Above the Floorboards)

ARTICLE 1-2. The damage to residential buildings that is covered by the Ministry of Finance Ordinances stipulated in Paragraph 5 of Article 1 of the Enforcement Order of the Law Concerning Earthquake Insurance (Cabinet Order No. 164 of 1966, hereinafter referred to as "the Order ") shall be defined as damage due to submersion above the floorboards (including floors made of tatami or of wood.) of that part of the building used as a residence or damage due to flooding in excess of 45 cm. above the ground directly under the residential building.

(Reinsurance Agreement)

(replaced in May 2011)

ARTICLE 1-3. The Ministry of Finance Ordinances stipulated in Article 3 of the Order shall be ¥4,629,000 million, and the proportion to be provided in Ministry of Finance Ordinances stipulated in the same article shall be the proportion of the amount calculated by subtracting ¥231,450 million from the part exceeding ¥871,000 million out of the total amount of insurance claims stipulated under Paragraph 2 of Article 3 of the Law to the amount of the excess.

(Time of Occurrence of Tsunami)

ARTICLE 2. With respect of tsunami, the time of the occurrence of earthquake, etc. stipulated in Paragraph 4 of Article 3 of the Law shall, be the time at when it strikes the Japanese land.

(Reduction, etc. in the Insurance Claims to be Paid)

ARTICLE 3. When the circumstances stipulated under Article 4 of the Law have occurred, the Minister of Finance shall make a public notice to that effect as well as announce the proportion of the amount of each individual contract that is paid.

2. When the circumstances provided in the preceding paragraph occur, the insurance companies, etc. shall be able to make payments based on rough estimates for insurance claims covered by the Government reinsurance.

(Application for Inquisition)

ARTICLE 4. The application for inquisition stipulated in Paragraph 1 of Article 6 of the Law must include following information.

- (1) the name and address of the insurance company, etc.
- (2) A description of the matters relevant to reinsurance for which the application for inquisition is made
- (3) The purport of the application for inquisition
- (4) The reason for the application for inquisition
- (5) The evidence
- (6) The date of the application for inquisition

2. Insurance companies, etc. shall be required to attach documentary evidences, if any, to the application form prescribed under the preceding paragraph.

(Withdrawal of Application for Inquisition)

ARTICLE 5. The insurance companies, etc. shall be required, when intending to withdraw the application for inquisition, to make it in writing.

(Certificate of Identification for Inspection)

ARTICLE 6. The form of the certificate stipulated under Paragraph 2 of Article 9 of the Law shall be shown separately.

(replaced in May 2011)

(Method of Calculating Underwriting Reserves of Earthquake Insurance)

ARTICLE 7. As regards the underwriting reserves for earthquake insurance, insurance companies, etc. shall be required, in each business year, to set aside cumulatively, as contingency reserve, the total amount of the amount (hereinafter referred to as "net pure premiums") subtracted the amount mentioned in Item (2) from the amount mentioned in Item (1) and the amount (hereinafter referred to as "the investment income") of investment income accruing from the assets relating to the earthquake insurance.

(1) The total amount of premiums income and reinsurance return premiums in each business year

(2) The total amount of reinsurance premiums and cancellation return premiums paid during the business year, and the operating expenses in the business year from which the expenses disbursed for advertising or publicity for promoting the diffusion of earthquake insurance (hereinafter referred to as "expenses for advertising / publicity") and reinsurance commission received are subtracted

2. In a situation where there are earthquake insurance contracts with unexpired insurance periods exceeding one year at the end of each business year, the insurance companies, etc. shall set aside, as an unearned premium reserve, an amount corresponding to the unexpired periods from the total amount of the net pure premiums and the expected interest (the investment income expected to accrue during the insurance periods in computing the premiums of insurance contracts with the insurance period exceeding one year) that has accrued by the end of the business year. The amount of the risk reserve to be set aside under the stipulations of the preceding paragraph shall be the total amount of the net pure premiums and the investment income in the business year with the addition of unearned premium reserve at the end of the last preceding business year, minus the amount to be set aside as the unearned premium reserve at the end of the business year.

3. When there is an agreement to refund all or part of a premium at the maturity of the insurance period, a reserve for the refund shall be set aside. The refund reserve is in addition to the risk reserve provided in Paragraph 1 and the unearned premium reserve provided in the preceding paragraph. In computation of the risk reserve provided in Paragraph 1, the amount to be allocated for the refunds shall be subtracted from the premium income provided in Item (1) of the same paragraph and the already paid maturity refunds shall be added to the total amount prescribed in Item (2) of the same paragraph.

4. When the insurance companies have paid the insurance claims, set aside an outstanding payment reserve, disbursed expenses for advertising / publicity or investment losses (the losses of working asset of earthquake insurance, hereinafter referred to as "investment losses") during each business year, they shall withdraw the total amount of the net insurance claims paid (the insurance claims paid during the business year from which reinsurance claims recovered during the business year are deducted, same below), the reserve for outstanding claims (excluding the net insurance claims paid and the reserve for outstanding claims both corresponding to the reserve for outstanding claims set aside during the preceding business year, same below), and the expenses for advertising / publicity and investment losses

(replaced in May 2011)

from the contingency reserve brought forward from the preceding business year. The same shall apply to the amount of interest paid on any debt for payment of insurance claims.

5. Concerning the preceding paragraph, if the total amount of the net insurance claims paid, the reserve for outstanding claims, the expenses for advertising / publicity, the investment losses and the interest paid exceeds the amount of the contingency reserve, the excess amount shall be subtracted from the amount of the contingency reserve to be set aside during the business year under the stipulations of Paragraph 1. In such a situation, if the amount of the contingency reserve to be set aside is less than the excess, the deficit shall be subtracted from the amount of contingency reserve to be set aside in the following and subsequent business years under the stipulations of the same paragraph.

6. If, part of the amount of the net insurance claims paid and the amount of the reserve for outstanding claims set aside in each business year corresponding to the reserve for outstanding claims set aside in the preceding business year falls short of the amount of the reserve for outstanding claims set aside in the preceding business year, the deficit shall be added to the contingency reserve to be set aside under the stipulations of Paragraph 1.

7. The amount of that part having become unnecessary to be refunded out of the reserve for refunds provided under Paragraph 3 shall be transferred to the contingency reserve.

Report Concerning the Earthquake Insurance System

April 23, 1965

To: Kakuei Tanaka, Minister of Finance

Taizo Ishizaka,
Chairman of the Insurance Council

Concerning the detailed measures for the establishment of earthquake insurance systems about which the Council was consulted on July 13, 1964, the opinions of the Council are summarized as in the Exhibit, and We are hereby reporting such.

In Japan, which has experienced great societal and economic damage due to earthquakes, the establishment of earthquake insurance is one of the most important concerns for insurance systems, and investigation and discussion about such have been performed since the commencement of such systems. However, since the frequency and damage levels, etc., of earthquakes are difficult to grasp statistically, and moreover since there is a possibility that the scale of the losses due to such can sometimes be extraordinarily huge, there are countless difficulties in adopting earthquake insurance into the insurance systems, and notwithstanding the general requests, except for the special case of during wartime, no universal earthquake insurance system capable of contributing to the stabilization of the livelihood of the general people has been realized up to this day.

However, when this is viewed over a long period, the total amount of damage by repeated earthquakes is considered to be not necessarily that much greater than damage by fire, it would not necessarily be impossible to incorporate such into the insurance systems if the state, which can consider the income and outgo on the basis of long periods exceeding the normal company base is involved, and moreover measures to avoid so-called adverse selection are performed, along with measures to avoid excess accumulation of losses from earthquakes, and the like.

This Council has discussed various problems concerning the establishment of earthquake insurance systems from the above point of view and reached the following approximate conclusions.

There are still numerous problems to be solved in this insurance that have been of concern for many years; however, concerning this insurance, which by its essence embraces difficult problems, it is considered that the urgent task is first to attempt the commencement of actually feasible systems, rather than wishing for ideal ones from the beginning. In the future, we would wish to have Government and non-life insurance companies implement the specifics more fully as well with even more enthusiasm, meeting the needs of society.

Summary of Earthquake Insurance System

(1) Insurable Property (Scope of Object)

The objective of this system is considered to be to contribute toward the stabilization of the livelihood of general people at times of earthquake disaster, so it is appropriate that the property insurable be residences (including simultaneous use residences with stores, etc.) and household goods.

(2) Covered Risks

- a. Concerning the cause of losses, not only earthquakes, but also tsunami and volcanic eruptions, arising due to causes similar to earthquakes should be included.
- b. Among the events befalling the objects of the insurance due to said reasons, as for events other than fire, loss adjustment is considered to be difficult; however, taking into consideration the requests of the general public, not only fire risks, but also the risks of destruction, burying and washing-away should be covered.
- c. As for the losses to be covered, from the problem of actual business, that is, the difficulty of loss adjustment at the time of earthquakes, and from the point of view of freedom from small losses, partial losses should not be covered and coverage should be for total losses only; however, cases that are not total losses physically but are economically equivalent to total losses should be total losses.

(3) Method of Underwriting

Considering the characteristics of earthquake disasters, the public position should be automatic attachment. In such cases, following the recent general insurance trend of generalization, such should be automatically attached to householders' comprehensive insurance or storekeepers' comprehensive insurance handled by non-life insurance companies; however, on the other hand, it would be reasonable if a way were opened to be able to take out fire insurance with earthquake insurance attached as an option.

(4) Premium Rates

- a. As for premium rates, considering the character of this insurance, it would be desirable for such to be as low as possible, by such means as squeezing the expense rates to the utmost.
- b. From the principle of determination of premium rates, it is natural that there should be quite a difference between rates in accordance with the area, ground or structure; however, due to the character of this insurance, it would be appropriate to make that difference not so large.

(5) Complementary Measures by the Government

- a. The Government would underwrite reinsurance by the excess of loss reinsurance method in order to cover huge earthquake losses that cannot be covered by the funds of private insurance companies.
- b. As for the burden of private insurance companies, endangering the ability of companies to meet their liabilities concerning other existing insurance should be avoided; however, in the light of society's request for this insurance and the public nature of the non-life insurance business, as much as possible of the burden should be taken up.
- c. On the other hand, when there is a special necessity arising in private insurance companies for the payment of insurance claims, such as the difficulty of converting owned assets into cash, the Government should pay special consideration concerning the procurement, accommodation, etc., of the required funds.

(6) Payment of Claims

- a. The amount of insurance claims to be paid has little social relevance unless such contributes to a reasonable extent to the restitution of things suffering losses due to earthquake; but on the other hand, the burden of insurance premiums on policyholders subject to automatic attachment and the burden of the insurance claims on the state and insurance companies must be considered. Additionally, considering the sociality of this system, and for avoiding the accumulation of losses due to a single disaster, an insurability limit for each property should be established. Taking into consideration these points, for the time being, at the commencement of these systems, policy should be that the amount of claims to be paid should be at least 30% of the contracted amount of the attached insurance, and moreover, the payment limit for each contracted property should be 900,000 yen for residences and 600,000 yen for households,

totaling about 1.5 million yen.

- b. In case of the occurrence of extraordinarily huge earthquake disasters, the total amount of insurance claims to be paid should be limited as determined in advance, and in case the total amount of losses exceeds the limit, the insurance claims to be paid under the respective contracts should be reduced in accordance with the proportion exceeded.

The limit of the amount of total insurance claims to be paid should be determined by comprehensively taking into consideration the diffusion status of the insurance, the burden of insurance premiums on policyholders, the burden capacity of insurance companies, the financial status of the nation, and so forth; however, considering the purpose of the establishment of the earthquake insurance system, it would be desirable that such be an amount of an extent that reduction of claims to be paid would not occur, even in the case of the great earthquake disasters that could be foreseen for Japan.

(7) Other

Concerning whether or not the associations performing the mutual aid business similar to fire insurance under special laws should cover earthquake risk in the future, or what kind of measures would be required in such cases, etc., as the characters and coverage capacity, etc. of the associations differ from each other, and such is an issue relating to the forms of regulations relevant to associations, it is not appropriate to discuss said categorically, so taking into consideration the enforcement status of earthquake insurance according to this plan, and as necessary, while paying attention to a balance with the above stated contents, such should be investigated respectively and deliberately in the Government.

**Contents of Primary Discussions Concerning
Issues for the Investigation of Earthquake Insurance System**

(1) The possibility of earthquake insurance

The reasons why universal earthquake insurance has not yet been capable of realization until today, except for the example of the one under the Wartime Specific Non-Life Insurance Law, which ended after an extremely short life, even though Japan has been said to be an earthquake

country, are, first of all, that it's difficult to use the law of large numbers on such things as earthquakes in the frequency, in the scale of losses. Secondly, there is a possibility that the losses caused can sometimes be extraordinarily huge. Incidentally, among the earthquakes that occurred in the 97 years from the first year of the Meiji era (1868) to 1964, there are 72 occasions for which damage records are existent, and by estimating the amount of losses that the insured ordinary properties (residence, store, office, etc.) would suffer at present, supposing such should recur today, the total loss amounts for said period would be about 2.4 trillion yen, and out of this, it is assumed that a loss of about 2 trillion yen would arise from a Great Kanto Earthquake recurrence alone. In other words, compared to fire, which is almost leveling off in frequency and amount of loss, it is characteristic of earthquakes that on the one hand there are years without any damage, and on the other hand once earthquakes do occur, extraordinarily huge damages are caused suddenly, so the coverage capacity of private non-life insurance companies alone could never ever deal with such.

Therefore, earthquake insurance has been a concern since the introduction of modern insurance systems in Japan, and solutions for said problem have been attempted several times up to the present. Additionally, using the recent Niigata Earthquake as a positive stimulus, the necessity of earthquake insurance has become a social concern again, and the realization of such is strongly desired in the Diet as well, where there was a resolution that the establishment of said should be fundamentally investigated and that further preparations and enhancement of the non-life insurance systems in Japan should be attempted.

This Council was consulted for deliberations on concrete measures concerning earthquake insurance, and we could not help investigating the question of whether it would be possible to cover earthquake disasters with insurance systems. Needless to say, this poses extremely difficult issues. However, when viewing such over a long period, since the total amount of damage by earthquakes is not necessarily considered to be so much larger than the amount of damage from fires, even private insurance could sufficiently deal with such if huge earthquake disasters were excluded. Therefore, it would not necessarily be impossible to incorporate such into the insurance systems if the state, which can consider the income and outgo on the basis of long periods exceeding the normal company base is involved, and moreover measures to avoid so-called adverse selection are performed, along with measures to avoid excess accumulation of losses from earthquakes, and the like.

Thereupon we performed investigation of issues concerning the design of the insurance as follows, on the basis of the recognition that the objective of the establishment of this insurance system would be to contribute to the stabilization of the livelihood of the general people at times of earthquake disasters.

(2) The Insurable Property

Concerning the insurable property, that is, the objects to be insured, though there is an opinion that these should be areas that contribute directly to the recovery of production facilities that suffered damage (industrial risks) but, at present, in the field of fire insurance for business as well, as for industrial risks such as factories or storehouses, it is determined that the risk due to earthquakes is covered by special clause for earthquake risk coverage, and from the point of view that the objective of the establishment of this system is to contribute to the stabilization of livelihood of the general people at times of earthquake disasters, as for the objects to be insured, residential buildings and so-called simultaneous use residences, which are used simultaneously with stores, etc., should be considered first.

As for movables, there was an opinion that such should be excluded since loss adjustment is difficult; however, from the present situation in which there are many who do not possess houses, and also the possibility that disasters could become even more massive in human terms since a tightfisted mentality concerning trying to save households would operate at such times, we reconciled our opinions to include households among the insurable property.

(3) Risk covered

- a. As for the causes of losses, there was an opinion that such should be limited to earthquakes and an opinion that volcanic eruptions and tsunami by earthquake should be included. The grounds for the opinion that such should be limited to earthquakes were that the risk of volcanic eruptions and tsunami are regionally determined, so depending on the method of underwriting, there is a fear of adverse selection; however, at present both are exempted in ordinary insurance, and also since these are disasters arising due to the same cause as earthquakes, we reached the conclusion also that such should not be excluded from the viewpoint of an even societal balance.

(Note) When classifying the estimated amount of damages (converted to market value) to general risks due to the earthquakes from 1868 to 1964, grouped by cause, damages due to volcanic eruptions in this period were extremely slight, with washing-away damage due to tsunami at about 11 billion yen, the amount of fire damage due to earthquakes at about 1.5 trillion yen, and destruction damage, etc., due to earthquake at about 800 or so billion yen.

b. Next, the scope of risks covered, that is, concerning losses befalling the objects of insurance due to the causes indicated in a., there was an opinion that such should be limited to fire, and an opinion that not only fire, but also destruction, burying and washing-away should be included. The grounds for the opinion that such should be limited to fire were that making correct loss adjustments is considered to be difficult for damage by destruction and burying, etc. Thus it wouldn't be appropriate for this insurance, which would be concurrent with major disasters, that if said were limited to fire risks, the rates could be relatively low, and that from the viewpoint of the coverage capacity of the insurer, if it were limited to fire, the claims to be paid could be made large, etc. On the other hand, there was the counter argument that if only fire risks were covered, there would be such problems as that fire fighting by the people themselves would be passive and moreover there would be a danger of creating moral hazard. And, additionally loss by fire after destruction could not be an insurable event. Finally, from the point of view of attempting a balance among the victims due to the same disaster, and also from the request by the general public toward this insurance, there was a strong opinion that to cover fire risks alone would be an inept solution and merely a half-fulfillment of society's demands, and we arrived at the conclusion that the scope of coverage should not be limited to fire but should include destruction, burying and washing-away.

c. As for the losses that are to be covered, whether or not total loss such as total loss by fire or complete collapse alone should be covered, or whether or not a particular loss such as half loss by fire or half collapse should be covered became an issue. One of the reasons for the opinion that partial loss should be excluded was the actual problem of the difficulty of loss adjustment, and taking into consideration that partial loss coverage is not so meaningful, considering the fact that the payment amounts themselves for this insurance would be small because of the insuring conditions or payment conditions which are stated later, it was determined that only total loss would be covered. However, handling of cases in which a physically less than total

loss is equivalent to a total loss in economic terms became an issue, and there were no objections to such being included under total loss. At any rate there were strong opinions that since loss adjustment at the time of earthquakes would be concurrent with many difficulties in actuality, performance of joint adjustment by all of the companies may be necessary.

- d. In relation to the insurable risks, we performed investigation concerning establishment of natural disaster insurance, including wind or water damage due to typhoons, etc., together with earthquakes; however, since there is specificity as for the time and area for wind and water damage, there is an extremely strong fear of adverse selection, and then the amount of payments could be huge due to such. And in addition there are many problems from the viewpoint of methods of underwriting or rates, etc. We considered it to be appropriate to make efforts towards the establishment of earthquake insurance for the time being, and as for wind and water damage insurance, to await future investigation.

(4) Methods of underwriting

As for the methods of underwriting the insurance contracts, it would be difficult for such to be established as insurance through a voluntary and independent insurance system due to the characteristics of earthquake disasters, and since it would be necessary to have many participants universally, it would be necessary to adopt the method of attaching such automatically to existing fire insurance for dwellings. The problem is to what existing insurance such should be attached. At present, in the field of fire insurance for dwellings there are ordinary fire insurance and comprehensive insurance (householder's comprehensive insurance, storekeeper's comprehensive insurance), the latter of which has a wider scope of coverage compared to the former, and whether said should be automatically attached to both of these or automatically attached only to comprehensive insurance became an object of discussion.

The first method of said being automatically attached to both ordinary fire insurance and comprehensive insurance (i.e., the method of deleting the immunity clause due to earthquakes in fire insurance policie conditions) is as it were a method of leaving no selection for policyholders, and though the most participants universally could be obtained, it would not be appropriate to take away the freedom of general policyholders and have them bear such an expense of additional insurance premiums, and also the more universal the policyholders were, the greater the amount of loss that

would accumulate due to a single risk, and thus such would create more and more problems for insuring conditions and payment conditions as stated later.

Therefore, the method of leaving room for selection, that is, the plan to attach said automatically to comprehensive insurance is considered to be the most appropriate. In this case, due to the even more serious request for a public aspect because of the involvement of the state in this insurance, we must consider the problem of automatic attachment to specific insurance; however, generalization of insurance is at present the world trend, and since so-called all-risk insurance is considered to be the goal to which non-life insurance should strive in the future, there is no particular issue here. However, on the other hand, since it would be inappropriate to ignore policyholders who desire coverage of earthquake risk only, exclusive or fire risks, there was a strong opinion that we must think out separately the method for opening a way for voluntary attachment to ordinary fire insurance. However, the method of voluntary attachment has problems since it would cause the scale of insurance groups to be unstable, and thus make the prediction of income and outgo difficult, and there is the problem remaining that if the premium rate in such cases were to be higher than the rate of automatic attachment to comprehensive insurance due to the problem of adverse selection, etc., opening the way for voluntary attachment would be meaningless, so it is necessary to be sufficiently deliberate about implementation.

(Note) Concerning the internal and external examples with regard to methods of undertaking, in the case of Japan's Wartime Specific Non-Life Insurance Law, policies were capable of being made both by the method of automatic attachment to fire insurance and by voluntary and standalone earthquake insurance, and from examples of foreign countries, it has been reported that in countries where serious disaster insurance systems have been adopted (Spain, New Zealand), there is a public position that such is automatically attached to fire insurance and comprehensive insurance, etc., without any room for selection, while in countries where voluntary systems such as standalone earthquake insurance or seismic risk expanded coverage, have been adopted (US, Canada, etc.), there are problems such as the vicious cycle of increasing premium rates and the arbitrariness of participants, along with the difficulty of prediction of income and outgo.

(5) Premium rates

- a. Concerning premium rates, even if the state does the reinsurance, rates should have a rational basis in terms of commercial profit, and from the character of this insurance, for example as for expense rates, it is desired that such should be squeezed to as low as possible without being trapped by the computation of ordinary rates.
- b. From the principle of determination of premium rates, it is natural that there should be quite a difference between rates in accordance with the area, ground or structure; however, due to the character of this insurance, it would be appropriate to make that difference not so large.
- c. In any event, the opinion was strong that it is proper that the increased proportion of insurance premium burden of the policyholders due to automatic attachment of earthquake insurance should be limited to within at most about 50%.

(6) Insurance organizations

Concerning insurance organizations, though there was the opinion that due to the characteristics of earthquake insurance, we should not be corralled in by the common examples of business insurance, and that such should be handled under national management and be compulsory insurance, there are various issues in compulsory insurance systems, and rather than a purely national insurance, it would be more efficient socially and economically to activate the existing private non-life insurance organizations, and moreover taking into consideration that private insurance companies, etc., have a reasonable extent of coverage ability along with the positive attitude to take on earthquake insurance, it is considered that it would be more reasonable to fulfill the objective in a form in which the state would complement the private lack of capacity from a position of being able to consider long-term income and outgo.

These methods of complement by the state were considered: a. state perform reinsurances, b. the state loans to the insurance companies, c. the state performs loss compensation to the insurance companies, d. a semi-official special corporation performs earthquake insurance, e. insurance companies cover losses up to a certain amount and for losses exceeding such, the state would offer support in some form, etc.,

The last method is the one adopted in Laws on Compensation for Nuclear Damage, and as it is problematic to perform financial support to policyholders only at the time of disaster, in addition, in the case of said Law, there are special circumstances such as the liability without fault imposed on

commercial nuclear operators, the policy to foster the nuclear business, and the contents of support by the state being uncertain, etc., and it was determined that it would not be appropriate to adopt this method for earthquake insurance.

In the plan for establishing a special corporation, the private insurance companies and the state would perform joint investment, and the insurance companies would function as deputies in the business of underwriting policies; however, the problem is that the coverage capacity is for the time being limited to their capital, and it would be difficult to secure equity participation in advance to the extent sufficient to be able to perform the payments expected in earthquake insurance, so this plan was not adopted.

Next, the method of the state performing loss compensation was the one used in the Wartime Specific Non-Life Insurance Law, and it is superior to the plan for a special corporation since prior equity participation is not required; however, it could be equivalent to nationally-managed insurance depending on how it is handled, and additionally there is the difficult problem of how single-year losses and profits could be incorporated into earthquake insurance, which has in an actual sense the character of long-term insurance.

Therefore, as result of comparison and investigation of the merits and demerits of each method, we came to the conclusion that the method of having the state perform reinsurance at a fair charge would be most the rational. Of course, even though it is subject to the collection of reasonable reinsurance fees by the state, since the occurrence of losses due to earthquake is unpredictable, the payment of reinsurance preconditioned by collections that are never correctly predictable is problematic from the standpoint of taxpayers, so there was an opinion that rather than this, the method of long-term, low interest loans might be more appropriate. However, the fact of insurance companies bearing a huge amount of loan debts for long periods would make their coverage capacity toward general insurance contracts extremely weak, and it would also be recognized to be problematic for international credibility since the insurance industry had not been a borrower, so after all it was determined that the method of the having the state perform reinsurance would be most appropriate. However, even in the case of the reinsurance method by the state, as a situation expected to occur of the difficulty of exchanging company owned assets into cash concerning the privately borne portion, it is going to be necessary to think the special loan method out.

For the method in the case of reinsurance by the state, a. the method of reinsurance of a certain

proportion all the time, and b. the method of reinsurance of losses exceeding a certain amount were considered, and as for the proportional reinsurance method in a., the Government having to make payment for all small losses would be cumbersome, and since support by the Government would not be necessary for losses within the scope of private coverage capacity even in earthquake disasters, it was recognized that the excess loss reinsurance method of b., in which the retention limit of private insurance companies is obvious, would be more appropriate. Additionally, concerning the specifics of the excess loss reinsurance method, various methods can be considered, and there was also a concept in which the reinsurance would be separated into two stages, with the state covering a certain proportion in the first stage and the state underwriting the reinsurance of the entire amount in the second stage.

(7) The payment conditions and the amount of insurance claims

How to decide insurance claims to be paid was the point with the largest number of issues in the progress of the deliberations, in relation to expected amounts of losses, coverage capacity of private insurance companies, financial capacity of the nation, rates, etc.

- a. Since earthquake damage can sometimes be extraordinarily huge, for example, paying the whole of the insured amount of attached comprehensive insurance is considered to be impossible, even with the financial capacity of the nation, so there is the problem that arises of coverage proportions or payment proportions concerning earthquake disasters. However, when considering a fixed rate insurance claim payment proportion for all cases preconditioned on the return of an extraordinarily great earthquake such as the Great Kanto Earthquake, it would naturally be unavoidable to set the proportion low; however, then there is the problem that such does not accommodate society's request for earthquake insurance. Therefore, recognizing the actual fact that in the case of extraordinarily great disasters, it can be expected that neither the Government nor insurance companies have sufficient capacity to deal with said, and for the greater protection of policyholders in the case of earthquake disasters of the normally possible extent, it is possible to consider a method of setting stages of payment proportions in accordance with the degree of disaster, and to heighten the payment proportion in the case of relatively small scale losses. However, such a method poses numerous difficulties such as: it would harm fairness among the policyholders, there being no precedent examples among

existing kinds of insurance, payment to each policyholder would become impossible unless all loss adjustments were finished, it would not be realistic since the right relationship between policyholder and insurer would become muddled concerning losses arising near the boundary of the loss amounts for which payment proportions are different, and it would be almost impossible to set up rational premium rates, etc.--so this was not adopted.

b. Accordingly, it was determined that the payment proportion should be a fixed rate, and in such cases, even if such were set as low, it would not necessarily be possible to say that an extraordinary disaster would not occur, so it is inescapable to consider a system in which, in preparation for such an extraordinary disaster, the limit of burden would be determined in advance, and in case of the occurrence of an extraordinary disaster exceeding such a limit, the insurance claims to be paid under the respective contracts would be reduced in accordance with the proportion of the total amount of loss to the limit amount, in other words, a system of peaking-out of the total amount of insurance claims to be paid. There were dissenting opinions toward this concept if it were preconditioned by the involvement by the nation, such as that an effective remedy should be displayed in the very case of occurrence of extraordinary huge losses, and that for policyholders the possibility of reduction of insurance claims to be received, the key of insurance, is perhaps persuasive at the time of taking the policies out but not at the time of suffering a disaster, and there is a possibility of a fear of causing an unpredictable situation for insurers, and that such would harm fairness among policyholders; however, we came to the conclusion that this peaking-out system would be unavoidable since there is a limit to the burden capacity of the non-life insurance companies and the financial capacity of the nation. However, needless to say, such a system is not desirable for a purpose of earthquake insurance after all, and it should rather be said to be unavoidable that the limit should be as high as possible and also that deliberate consideration would be desirable so policyholders could gain sufficient understanding in advance.

c. Next, concerning how to determine the amounts of insurance claims to be paid specifically, society's request for this insurance and premium rates became issues. In the case of this insurance as well, in order to consider that insurable interest is in the compensation of proprietary loss, there would be no objection to the point that insurance claims to be paid would be meaningless in a social sense unless such could contribute a reasonable extent to the

restoration of the things suffering damages due to earthquake. However, in the other aspects, considering the fact that the burden capacity of the insurers has limits, and that it would be inappropriate to force policyholders to bear an excess burden of insurance premiums for earthquake insurance, since the public position is automatic attachment, it would be unavoidable that the payment rates, etc., should be by themselves restricted. Moreover, because of the fact that it would not be necessary to remedy extremely large amounts of personal assets by insurance in which the nation is involved, and it would be necessary to avoid the accumulation of losses due to a single disaster as much as possible, it would be necessary to set up the limit for the insuring amount for each contracted object.

Taking into consideration the above points, we came to the conclusion that the public position for the amount of insurance claims to be paid would be no less than 30% of the amount insured of the principle insurance contract to which such is incidental, and besides, it was determined that an insuring restriction of about 3 million yen for buildings and 2 million yen for households would be performed, and it seems appropriate to set up a payment limit of 900,000 yen for residences, and 600,000 yen for households, for a total about 1.5 million yen.

- d. Though there is the extremely difficult problem of what we should consider to be extent of the coverage capacity of the Government and private companies, we came to the following conclusion with regard to such. For non-life insurance companies, endangering their liability for other existing insurance by performance of this insurance should be avoided, and though we have to consider the increase of payments due to maritime insurance and business properties earthquake insurance, etc., in the case of the occurrence of earthquake disaster, at the same time, in the light of society's requests for this insurance and the public character of the non-life insurance business, as much burden should be borne as possible. On the other hand, as for the burden limit of the Government in the case of the occurrence of extraordinarily huge disasters, since huge amounts of funding are required for disaster restoration of communal facilities, the procurement of financial funds in such cases can be problematic, and the amount of the limit of burden by the Government and reinsurance premium rate should be reasonably stipulated by having these mutually related.

However, if this insurance is adopted, effort should be made so that a situation of reduction of insurance claims to be paid would not occur even in the case of the return of an event of at least

the size of Great Kanto Earthquake.

(Note) It is reported that even in the case of the return in 1966 of an earthquake disaster of the size of Great Kanto Earthquake, the total amount of insurance claims to be paid under the above conditions would not reach 300 billion yen, and non-life insurance companies would make efforts to cover about 30 billion yen for the time being.

However, it would be necessary to raise the limit of the total insurance claims to be paid in accordance with increases in the predicted payment amounts after the improvement of diffusion of the insurance, and also to raise the limit of burden by the insurance companies in accordance with increases in the coverage capacity.

(8) Other

Concerning whether or not associations performing the mutual aid business similar to fire insurance under special laws are to cover earthquake risk in the future, and if so, whether or not such should be accepted, and what kind of measures would be required in such cases, etc., were issues at this Council.

Concerning this, as the character or coverage capacity, etc. of the associations are different, it would not be appropriate to discuss them categorically; however, at least, for these associations to cover earthquake risk, such should be preconditioned on maintenance of soundness of the associations, sufficient legal regulations and supervision being performed from the point of view of protection of policyholders, methods for risk diffusion to all over the nation being taken, having reasonable coverage capacity for the predicted accumulation of losses, etc.

On the other hand, it would be natural for systematic adjustment concerning the system for which the Government performs reinsurance to be attempted between the insurance business and the mutual aid business, which is similar to insurance; however, preparations have been insufficient at the present stage and this Council decided not to come to any conclusion on this occasion.

It is considered that these problems should be respectively and deliberately investigated on the part of the Government, taking into consideration the actual development of the plans in the above that we investigated, and considering balance in the contents in accordance with necessity.

Report of the Insurance Council [extract]

June 14, 1979

To: Ippei Kaneko, Minister of Finance

Shuzo Hayashi, Chairman of the Insurance Council

In response to the recent changes in the environment of the insurance business, the Council determined to perform deliberations from a new point of view concerning system for future insurance business at the 39th General Meeting on November 7, 1978, and as results of the accumulated of investigations since then, the opinions of the Council are summarized as in the Exhibit, and We are hereby reporting such.

Section 2 Concerning Earthquake Insurance System Revisions

The earthquake insurance system were commenced in 1966, and in the approximately 10 several years since then, partial improvement concerning the details has been performed as necessary; however, until now overall reconsideration has not been conducted for the systems. Nonetheless, from recent trends of public opinion, etc., we have recognized that fundamental reconsideration is necessary; the Council has discussed concerning various issues since last year and reached the following conclusions.

Outline of Earthquake Insurance System Revisions

Among the ongoing system, concerning the “insurable properties” (scope of objects), “covered risks” (causes of events and forms of risk) and “insurance mechanisms” (reinsurance by the Government by the excess of loss reinsurance method), there are no systemic issues for the continuation of these; however, revisions should be performed on the following points.

1. Matters requiring revisions and the details of the revisions
 - (1) Concerning the losses to be covered

It is stipulated in the ongoing system that only total loss shall be covered; however, partial loss coverage should be introduced in some form for the enhancement of the system.

The primary reason why the ongoing system originally stipulated that coverage should be only for total loss is the quantitative and qualitative difficulty of loss adjustment at the time of earthquake disasters. In other words, it is actually impossible to say that making payments on insurance claims in accordance with the respective loss ratios in the case of earthquake disasters, and even if we introduced partial loss coverage, it is judged that there would be no other way but to make payments at a certain rate in accordance with the approximate stage of the damage.

It is desirable that loss adjustment standards of the non-life insurance companies and national damage certification standards be consistent concerning this type of insurance; however, as for the latter, at present integrated standards have been created with regard to total destruction, total burn down, washing away and half destruction and half burn down of residences, and there are no specific standards set up for partial loss. Moreover, as for household goods, the national damage certification standards do not at all refer to such at present.

As stated later, in the deliberations on this occasion, the measure of having different insurance handling for cases of huge earthquakes and for cases of mid-to-small earthquakes was not adopted, assuming the case of earthquake disasters covering large areas and considering the loss adjustment ability of non-life insurance companies on such occasions, due to such requests as mass disposition, rapidity of adjustment, and fairness. If there are certifying documents with regard to the affliction issued generally by public organizations on the basis of the national damage certification standards, it will be unavoidable to adopt the method, etc., of referring to said, and taking into consideration these situations concerning the buildings for residential use and household goods, a realistic policy should utilize the following method.

a. Concerning buildings for residential use, partial losses that are to be covered should be limited to cases of half loss (cases equivalent to partial destruction and partial burn down of the national damage certification standards), and while the entirety of the amount insured of the earthquake insurance is paid in the case of total loss, in the case of half loss, half the amount of such should be paid. Additionally, concerning the coverage of partial losses as well, which are

not to the extent of half loss, various measures were discussed; however, we came to the conclusion that said is impossible in the present situation where we cannot attain an appropriate means of solution concerning adjustment capability and fairness among the victims.

b. Concerning the household goods, the difficulty of loss adjustment is even greater, qualitatively and quantitatively, compared to cases of buildings, and we recognize that it would be impossible to introduce half loss coverage on the basis of individual adjustments. As for the possible methods of adjustment, we recognize that there is no other way but to pay some kind of benefits in accordance with the loss certification of the buildings containing the household goods. On the other hand, the damage level of the household goods does not necessarily correspond to the damage level of buildings containing such, and excluding special cases such as destruction by fire and washing-away, it is recognized that the loss proportion of the household goods as a whole is relatively light.

Therefore, in case the household goods is not in the status of total loss but the building containing such has damage of more than half loss, it is reasonable to pay flat benefits at a low rate such as about 10% of the amount insured of the earthquake insurance also in the sense of avoiding unfair results among the insured of the household goods.

(2) Concerning the payment of insurance claims (restrictions on contracted amounts)

As stated later, from the characteristics of earthquake disasters, earthquake insurance is contracted incidental to the fire insurance for dwelling; however, it is impossible to pay the entire amount insured of the principal contracts even with the financial capacity of the nation, and moreover we recognize that it is not necessary to go so far as to remedy an extremely large amount of personal assets using insurance in which the state is involved, and likewise in the ongoing systems, there should be a limit set to the insuring proportion and insuring amount for each of the contracted objects.

As for the insuring proportion, there is a general criticism that the ongoing 30% gives too small a compensation, and the raising of said is recognized to be necessary; however, since there is a limit to the coverage capacity of the private insurance companies and financial capacity of the nation, it is appropriate to set 50% as the upper limit. At the same time, considering the point of the burden of premiums on policyholders, it should be determined that

more space for selection be left for policyholders as for the amount insured, it should be determined that an amount within a scope of 30% to 50% of the amount insured of the principle contract can be selected as the amount insured for the earthquake insurance.

The reason why the lower limit is 30% is that amounts of earthquake insurance of less than 30% are recognized to make little sense in terms of society.

As for the limit of the insuring amount, such makes little sense in terms of society unless it contributes greatly to the restoration of the buildings and household goods suffering losses due to earthquake, and at that time the weight of the number of contracts undergoing insured amount restrictions due to the limit amount, present day standard construction costs per dwelling and the amount of household goods retained in the standard family, etc., should be considered. At the same time, as for restrictions on insurance in which the state is involved, the burden of insurance claims on the state and non-life insurance companies, etc. should be considered. Comparing these points, it is desirable that such should be ten million yen for buildings for residential use, and such should be five million yen for household goods.

(3) Concerning undertaking methods

From the characteristics of earthquake insurance, arbitrary and independent insurance systems are difficult to establish, so the adoption is unavoidable of the method of earthquake insurance incidental to the existing fire insurance for dwelling as is presently done; however, as stated above, by expanding the scope of losses to be covered and raising the insuring proportion and the limit of the insuring amount, it is expected that the burden of insurance premiums on policyholders will increase, so the method of ongoing automatic attachment to comprehensive insurance is a problem. However, to make such completely arbitrary is not realistic either from the standpoint of the diffusion rate and predictions of income and outgo, etc., so the method of automatic attachment in principle to all fire insurance for dwelling should be adopted.

Additionally, as stated above, as for the amount insured of earthquake insurance, as it is permitted to select between 30% to 50% of the amount insured of fire insurance to which such is incidental, the selective undertaking method of total loss only coverage or partial loss only coverage concerning the loss to be covered should not be adopted since quite a deal of turmoil can be expected at the time of undertaking as well as when damage is suffered.

(4) Concerning premium rates

Concerning premium rates, it is needless to say that, due to the nature of this insurance, such should be as low as possible by squeezing operating cost to the utmost. Concerning the differences, etc., among the areas, at present, the principle is not to make the difference so large, considering the point of automatic attachment; however, concurrent with the changes in the undertaking method, it is desirable that calculations should be made so that the degree of risk will be reflected in the rates as fully as possible. Additionally, at such time, buildings and household goods should be under separate systems.

2. Other matters deliberated

(1) The Council again discussed concerning the handling of extraordinarily great disasters that was mentioned as an issue in the Report Concerning Earthquake Insurance Systems in 1965. In other words, when preconditioned by the re-occurrence of extraordinarily great earthquakes such as the Great Kanto Earthquake and setting up a fixed rate insurance claims payment ratio for all cases, setting such ratio low would be unavoidable as a matter of course, so we deliberated on the possibilities concerning measures for greater protection of policyholders in the case of earthquake disasters of the normally possible extent, compared to cases of huge disasters.

However, the conclusion was the same as the result of the previous discussions: such method, first of all, does not go well with the original purpose of earthquake insurance systems, and in addition, there are various difficulties in actual issues such as that stipulation clear standards for separating huge disasters and mid-to-small disasters is difficult, and thus this was not adopted.

Additionally, there was a discussion that huge disasters of the Great Kanto Earthquake class should be handled separately, outside of the insurance systems, but this was a discussion of hoping for infinite financial capacity in the nation, and the Council was unable to approve such an idea.

In conclusion, we will follow the idea and method of peaking-out in ongoing systems.

(2) Private non-life insurance companies should share their roles as much as possible in response to society's requests concerning this insurance; however, at the same time, the situation of them being incapable of fulfilling their liabilities concerning other insurance should be avoided, and

imposing burdens that would make difficult the continuation of business activity after the occurrence of huge disasters would be problematic. Therefore, it is necessary that the limit amount of liability of private non-life insurance companies should be stipulated according to a certain standard so that burdens exceeding the balance of liability reserves of earthquake insurance will be accepted socially in the character of private business, and coverage will be of the amount judged to be generally expected.

Additionally, concerning the funds for payment of insurance claims, when payments exceeding the balance of the liability reserves of earthquake insurance must be made as a matter of course, even within the scope of the balance, and when there is a special necessity arising in private insurance companies, such as difficulty of conversion of owned assets into cash, the Government should pay special consideration concerning the procurement, accommodation, etc., of the required funds.

- (3) In the progress of the deliberations, the insufficiency of the methods for ensuring comprehension among policyholders concerning this insurance in the non-life insurance business sector became a frequent issue. As there are more matters that will be left to the choice of policyholders in the future, the whole business sector should make the utmost efforts towards thorough comprehension, and especially, concerning the details of total loss and half loss, explanations should be made on the basis of documentation at the time of underwriting policies so that sufficient comprehension be ensured.
- (4) In the case of the occurrence of unfortunate trouble with policyholders at the time of suffering disasters, in order to attempt early settlement of such, preparations should be advanced in normal times so that, as soon as a disaster happens, a claim disposition organization can be installed in each region, including fair third parties, with the right timing.
- (5) Finally, we recognize that it is necessary to take some measures so that in a situation where a warning statement against earthquake disaster under the stipulations of the Large Scale Earthquake Countermeasures Act (Law No. 73 of 1978) has been issued, insurance companies can reject the undertaking of contracts.

