



OLIS 2010 Autumn

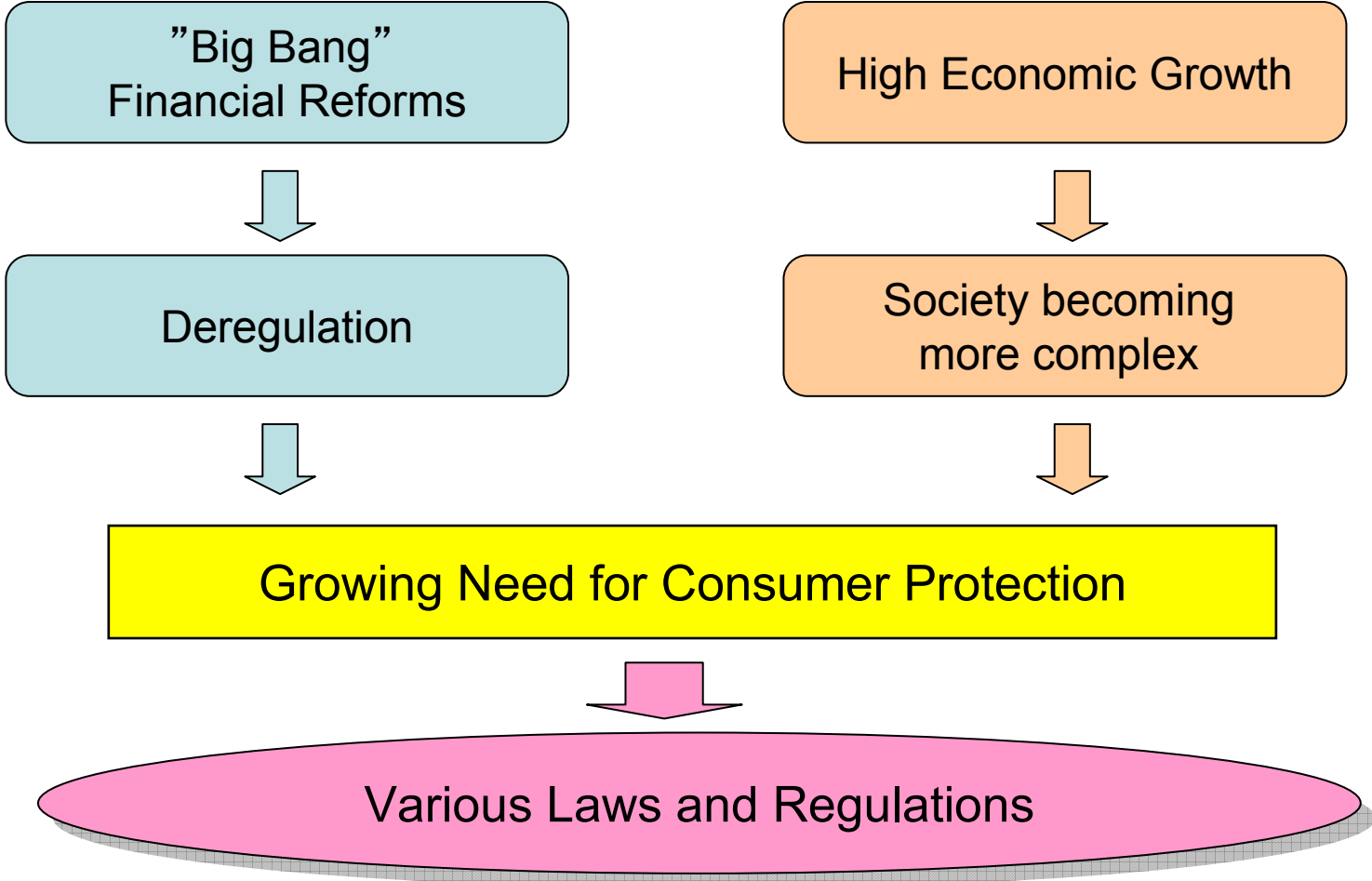
# The Regulations concerning Life Insurance

October 22, 2010

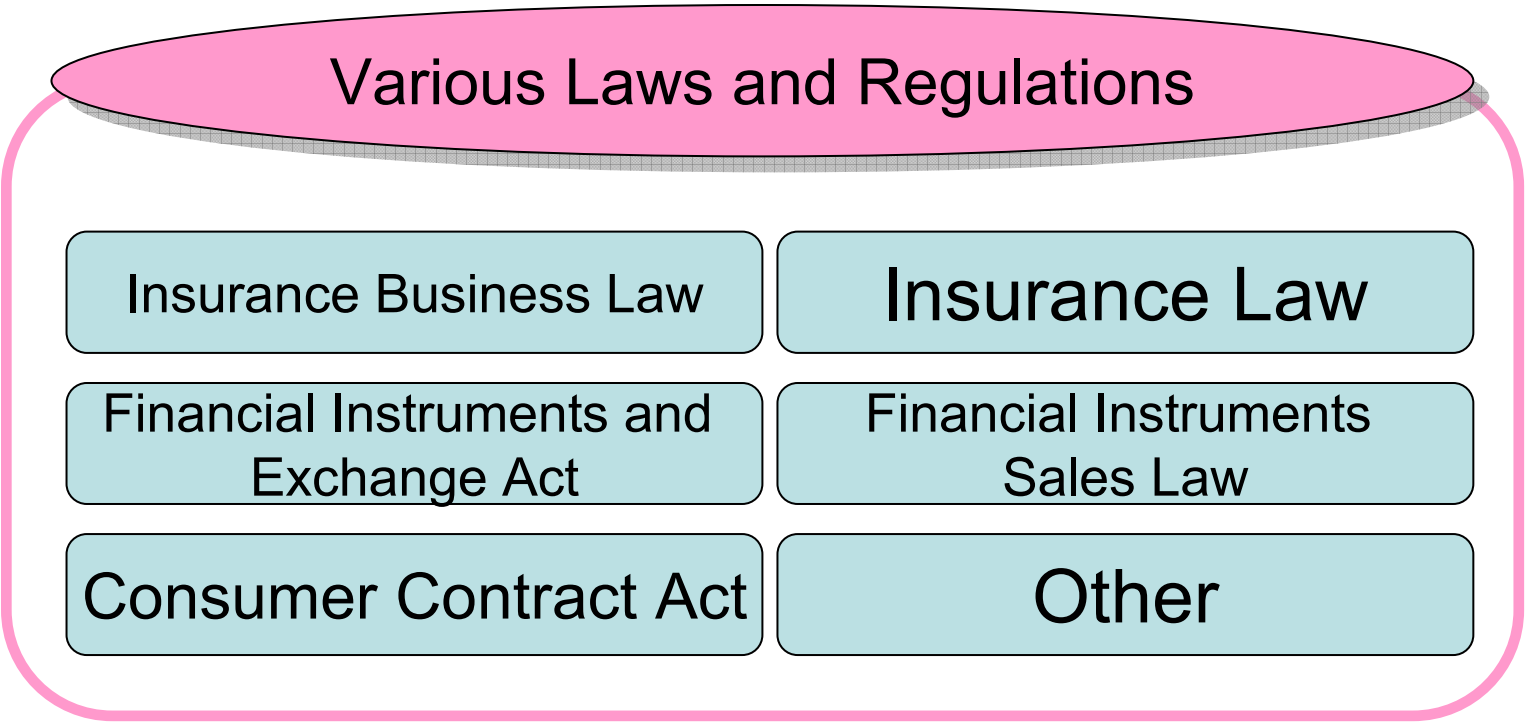
Takashi Koto

Oriental Life Insurance Cultural Development Center

# Outline of First-Half of Today's Lecture



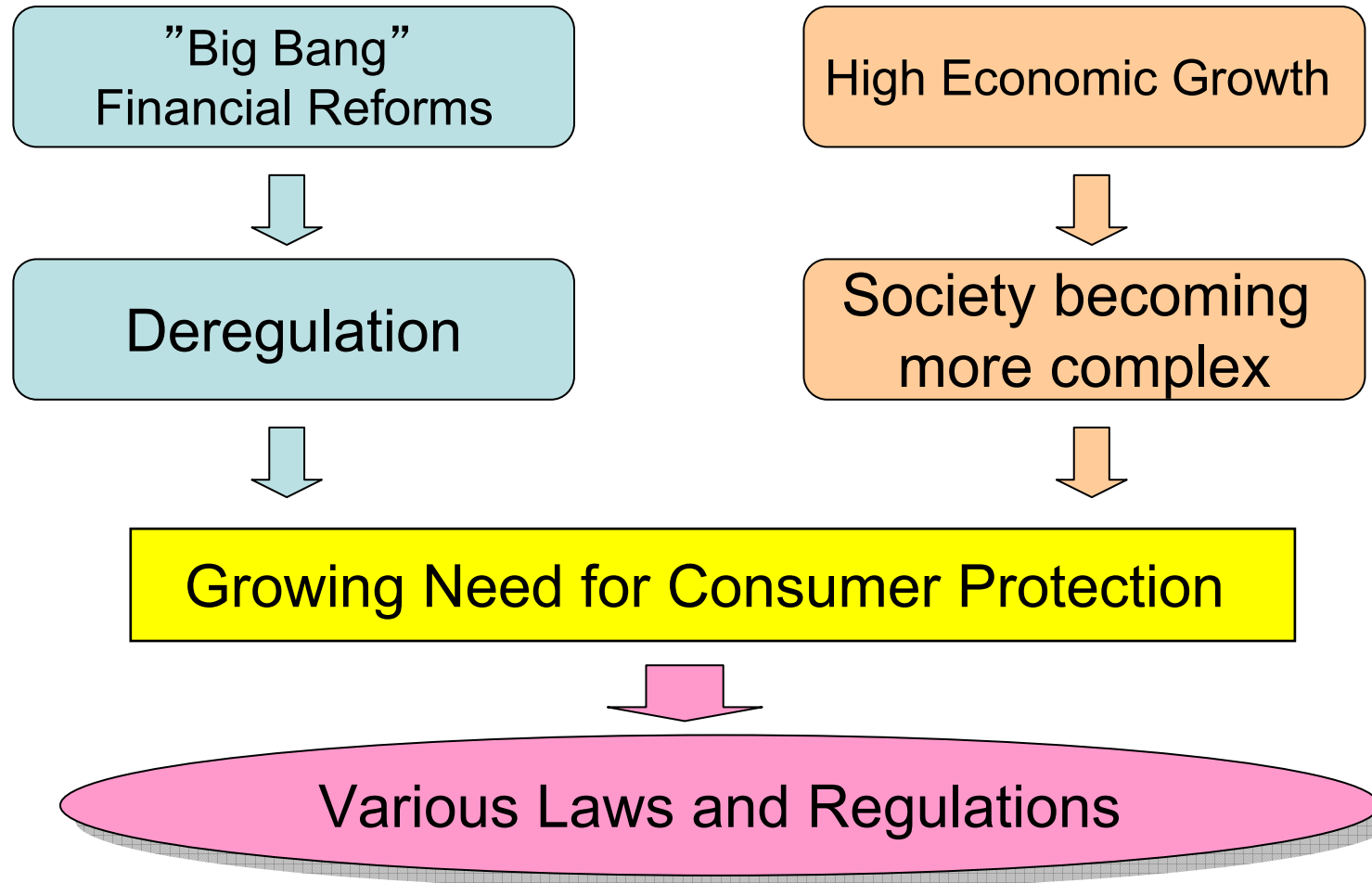
# Outline of Second-Half of Today's Lecture



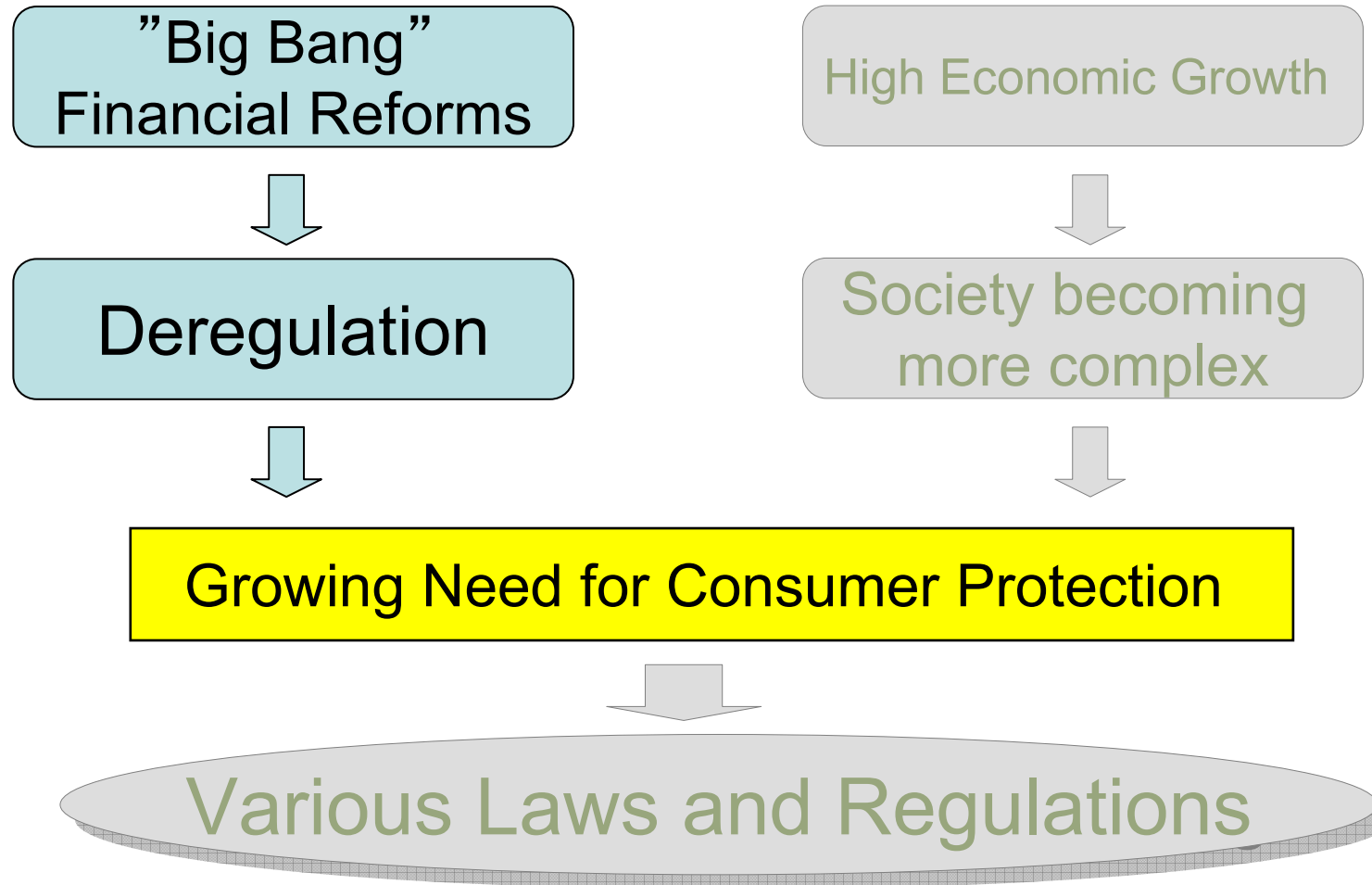
**Last Topic:**  
Just for your reference

**Non-Payment Problem and  
Lessons Leaned**

# Outline of First-Half of Today's Lecture



# Outline of First-Half of Today's Lecture



# ”Big Bang” Financial Reforms

- Objective: Revitalization of post-bubble Japanese economy
- Contents: **Deregulation and Liberalization** based on the following 3 pillars:

- “Free”

A free market where market principles are at work

- “Global”

A global market ahead of its time

- “Fair”

A fair and transparent market

# The Industry before the “Big Ban” Financial Reforms

Former Ministry of Finance’s policy

## The Convoy-Fleet Approach



To prevent bankruptcy of financial institutions, the following steps were taken:

- Restriction of competition among financial institutions
- Public administration keeping pace with the slowest ship (i.e. weakest company) when navigating the whole convoy
- Should any ship plunge into a financial crisis, Ministry of Finance would act as an intermediary in merger to avoid bankruptcy

# The Introduction of the Principle of Competition

The convoy system inherently fails to fit in with the essential capitalism economy where “through free competition, those who provide better products & services survive”.

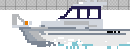
Collapse of Bubble Economy (since around 1990)



Bank Failures

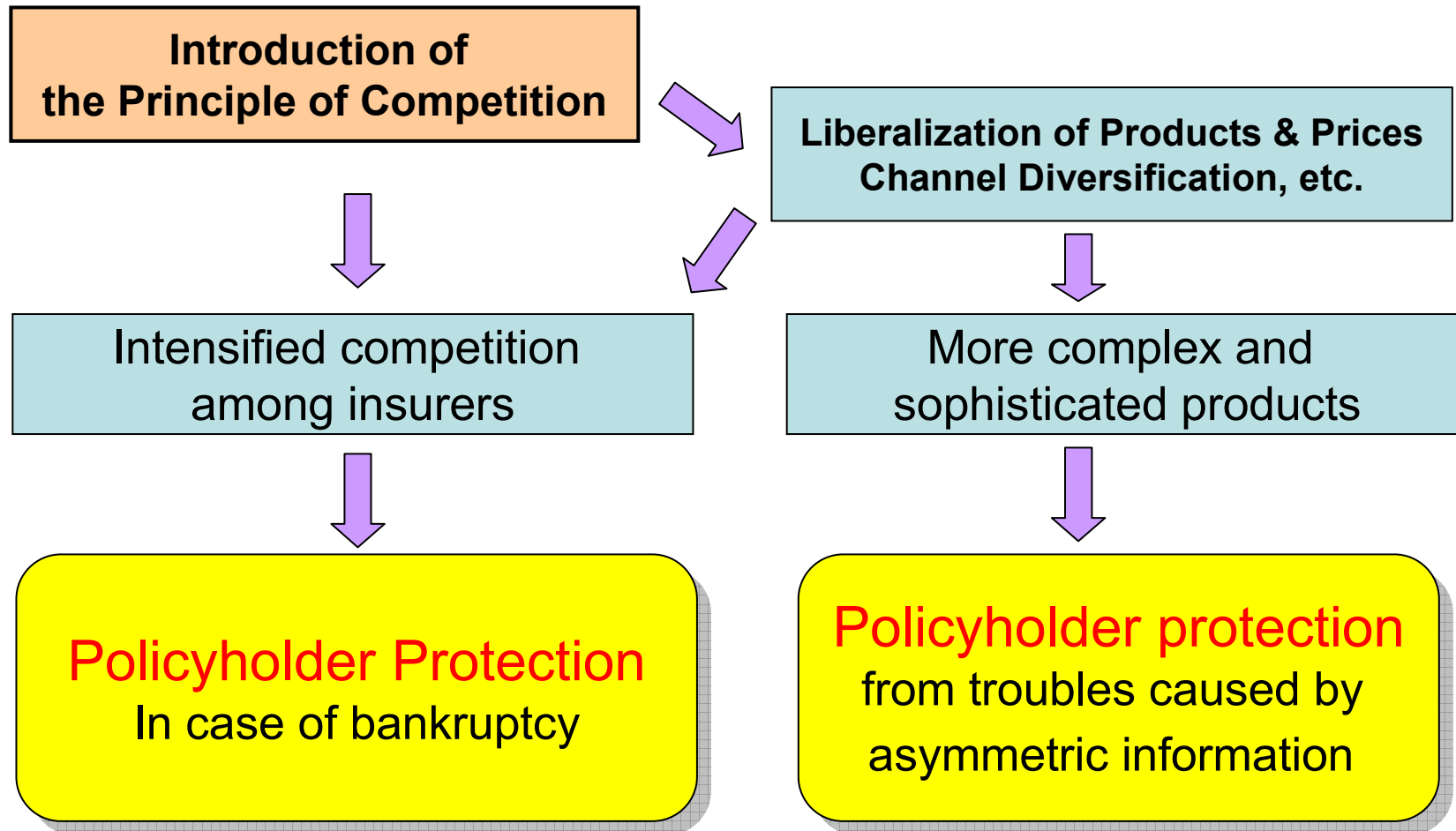


The demise of convoy system and introduction of the principle of competition

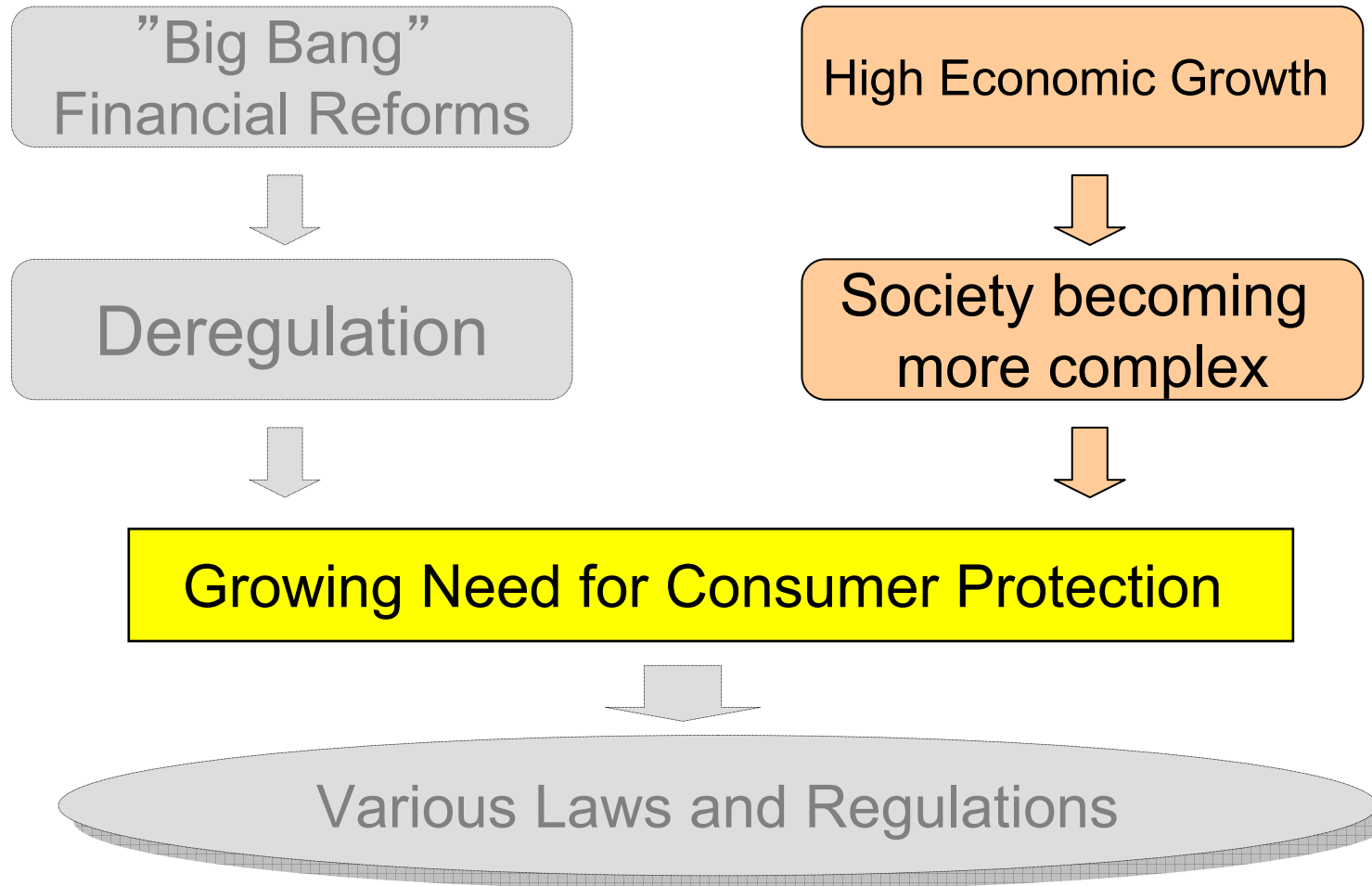




# Deregulation and Liberalization



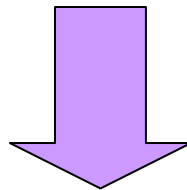
# Outline of First-Half of Today's Lecture



# Consumers Protection Basic Act

Distortion resulting from  
post-war high economic growth  
leading to expansion of consumer issues

- Pollution problems
- Overproduction of inferior goods



**Enactment of  
Consumers Protection Basic Act (1968)**



# Limits of “Protection” of Consumers

**Rapid increase of consumer troubles**

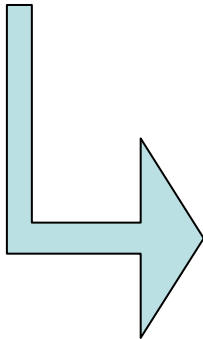
The volume of complaints received at consumer affairs bureau quadrupled from 1992 to 2002

**A series of scandals**

Improper food labeling, concealment of vehicle recalls, and the like

**Advance of sophisticated information-communications society**

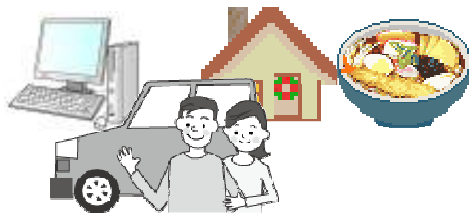
Cross-border movement of people, goods, and services  
Penetration of the Internet



As the society has become increasingly complex, it became difficult to “protect” consumers by the law

# General Products vs. Financial Products

## General Products



### **Respect for the consumer rights and self support**


through the Consumer Basic Act  
(Amendment of the Consumers Protection Basic Act)

## Financial Products



### **Consumer protection by laws**

including Insurance Business Law and Insurance Law  
rather than the respect for rights and self support



How do financial products,  
especially the life insurance  
products, differ from general  
products?

# Characteristics of Life Insurance #1

## Long-term Nature

- Life insurance policies last for a long time, over a span of 20 to 30 years
- Insurer's solvency needs to be guaranteed for a long period of time

# Characteristics of Life Insurance #2

## Asymmetry of Information

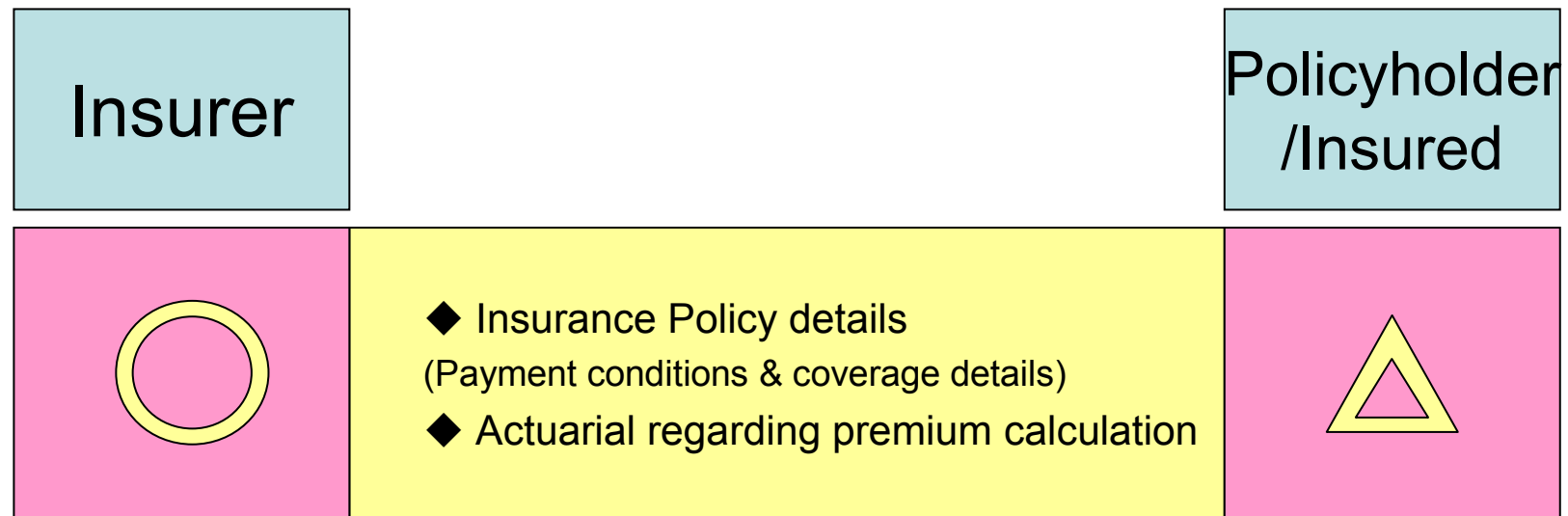
What the  
Policyholders  
should know

- Insurance Policy details (= policy provisions)  
Claim payment conditions & coverage details
- Premium calculation mechanism
- Insurer's business status



# Characteristics of Life Insurance #2

## Asymmetry of Information



# Characteristics of Life Insurance #3

## Huge Impact on Household Budgets

- Annual premium payment per household amounts to JPY454,000 (Japan Institute of Life Insurance)
- Over a 30-year premium payment period, a whopping total of JPY13.6 million is paid!
- Tremendous impact on national economy

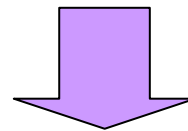
# To summarize,

Characteristics  
of Life  
Insurance

Long-term nature

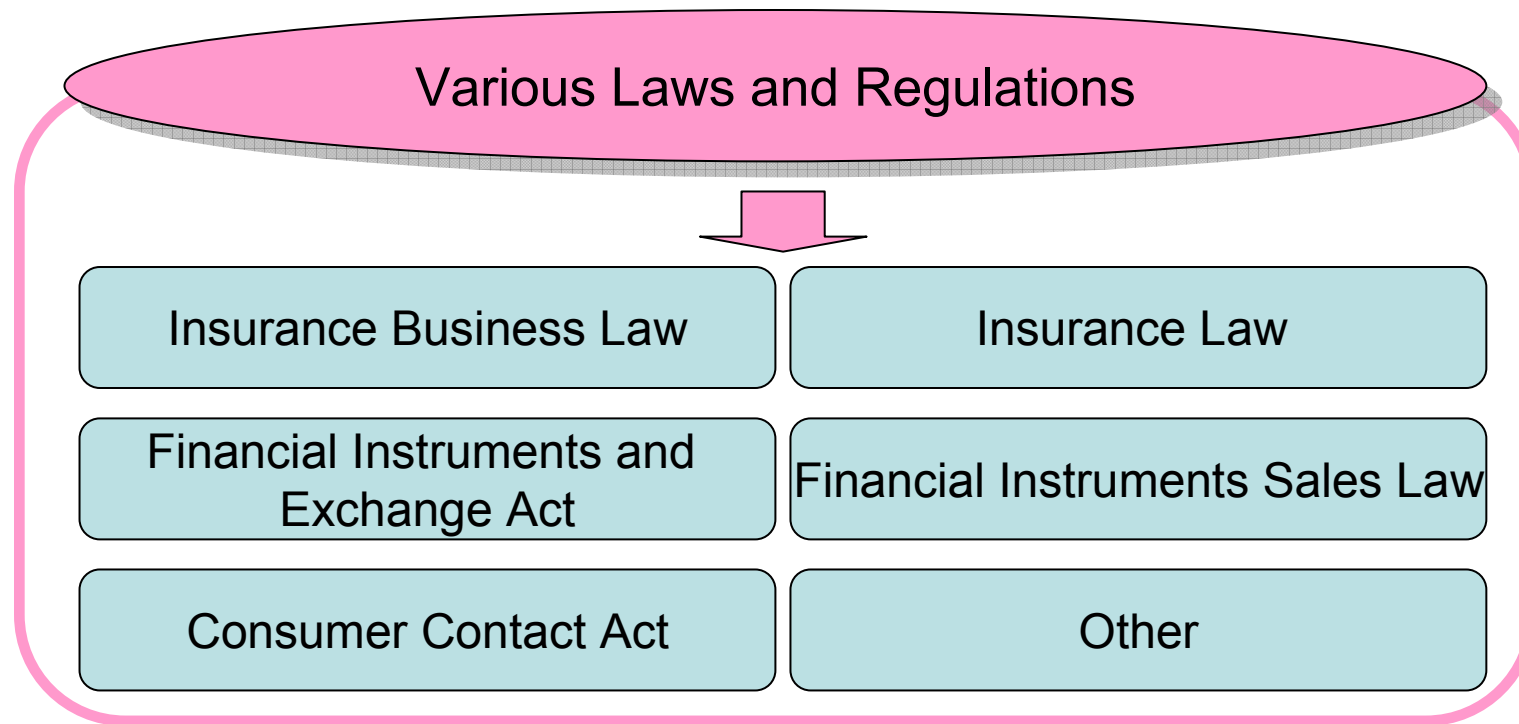
Asymmetry of Information

Huge impact on household budget



**To protect policyholders, strong regulations are required**

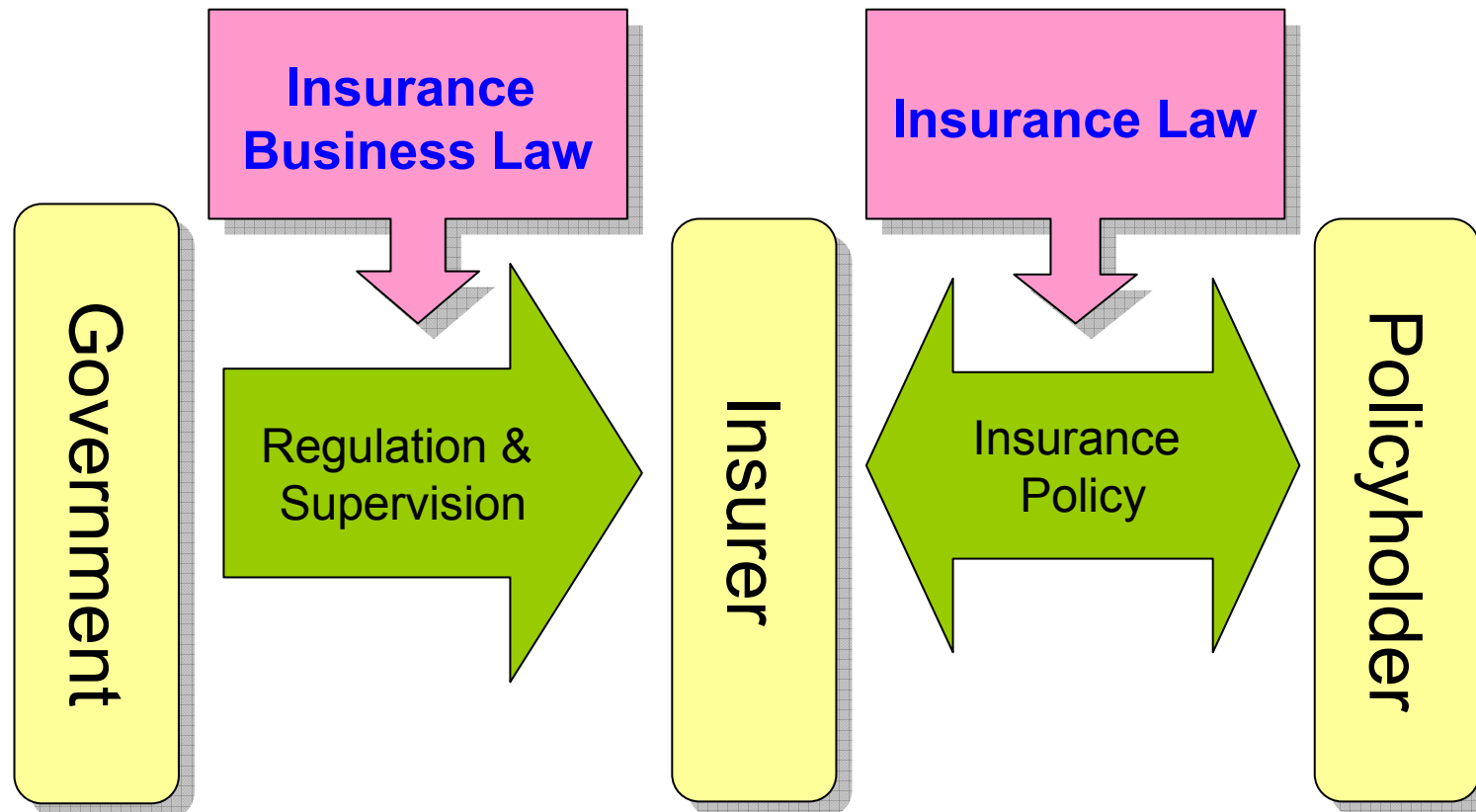
# Outline of Second-Half of Today's Lecture



Last Topic: (FYI)

**Non-Payment Problem  
and Lessons Leaned**

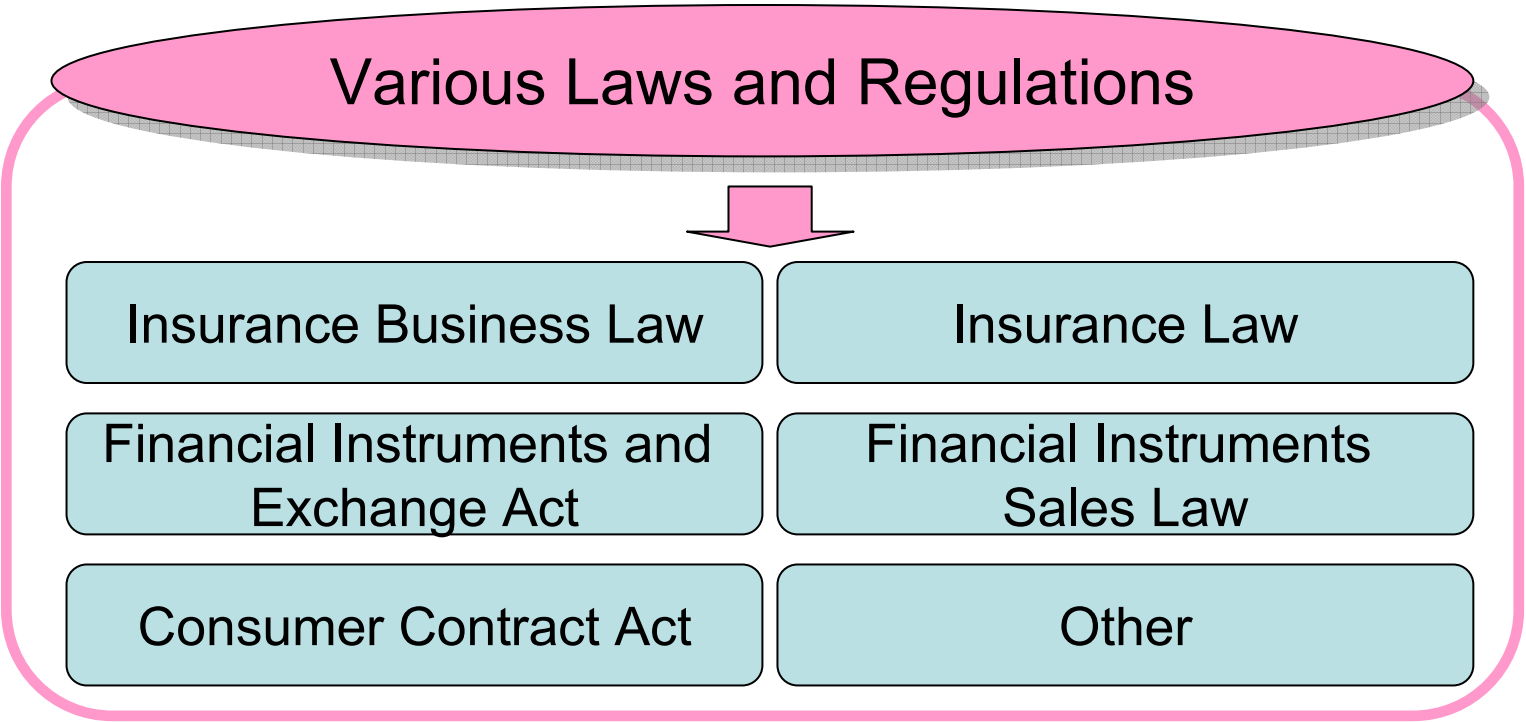
# Relationship between Insurance Business Law and Insurance Law



# The Concepts behind the Legislation in Different Countries

	Government ⇒ Insurer	Insurer ⇔ Policyholder
Japan	Insurance Business Law	Insurance Law
China	Insurance Law	
Taiwan	Insurance Law	
Germany, France, Sweden	Insurance Business Law	Insurance Law

# Outline of Second-Half of Today's Lecture



**Last Topic: (FYI)**

**Non-Payment Problem and Lessons Leaned**

# Insurance Business Law

- Significance
  - Basic law governing insurance
  - Provides for all matters concerning supervision of insurers and insurance solicitation
- History
  - Proclamation in 1900
  - Complete amendment in 1939
  - Complete amendment in 1995



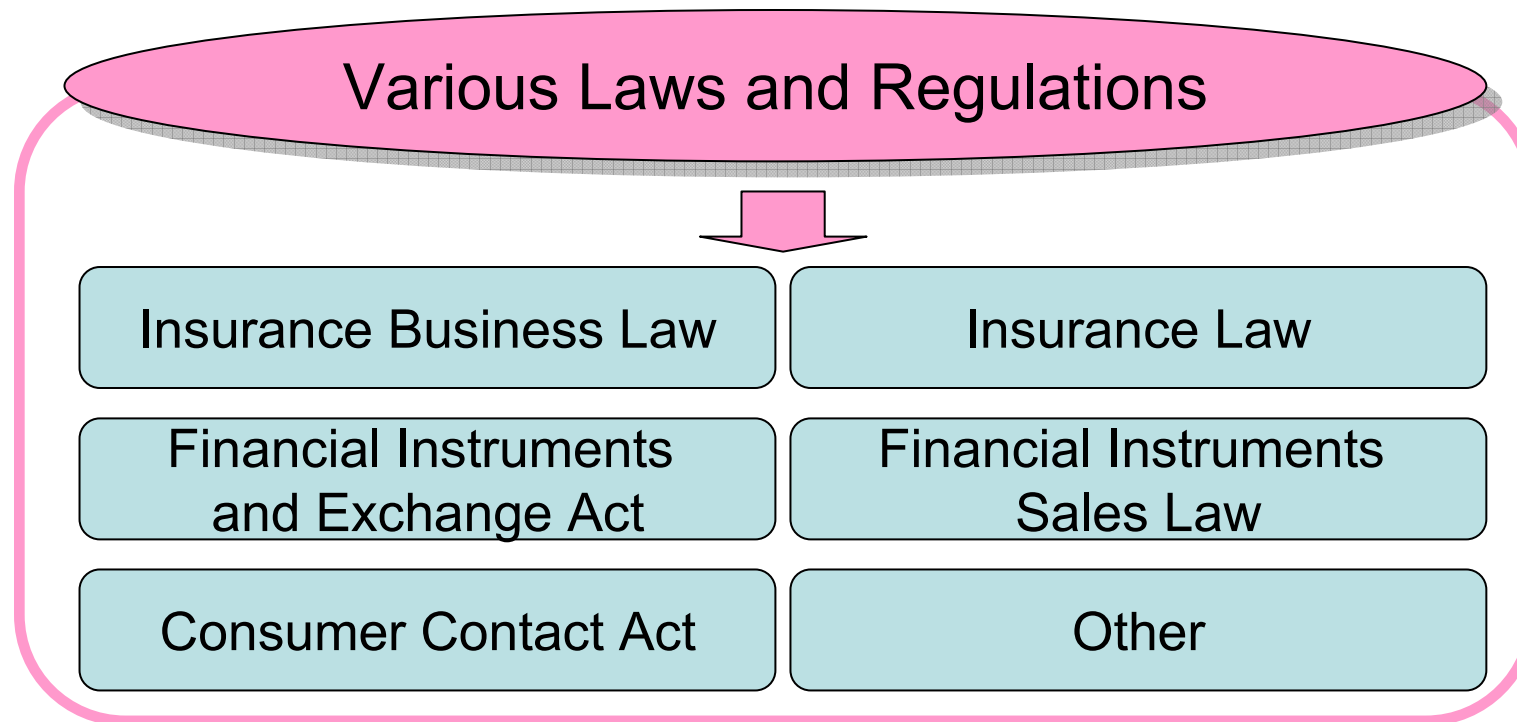
# Prohibited Acts defined by Insurance Business Law

- Prohibited acts pertaining to sales (Article 300)
  - False explanation / Failure to explain important matters
  - Advising customers to make false statements / preventing customers from telling material facts
  - Solicitation through inappropriate replacements
  - Provision of special interests
  - Explanation / indication of misleading messages in comparison with other contracts
  - Explanation / indication of definitive judgments or misleading messages concerning uncertain matters
  - Application or termination of insurance policy by assault / exploitation of business position
  - Indication that may mislead insurers' creditworthiness or solvency
  - Unregistered solicitation

# Inappropriate Acts defined by Insurance Business Law

- Other Inappropriate Acts (Article 307)
  - No interview
  - Completing the application form on behalf of the policyholder and/or insured
  - Embezzlement
  - Posting a policy solicited by other sales agent as if one's own performance
  - Solicitation activities that may deviate from the original spirit of insurance

# Outline of Second-Half of Today's Lecture

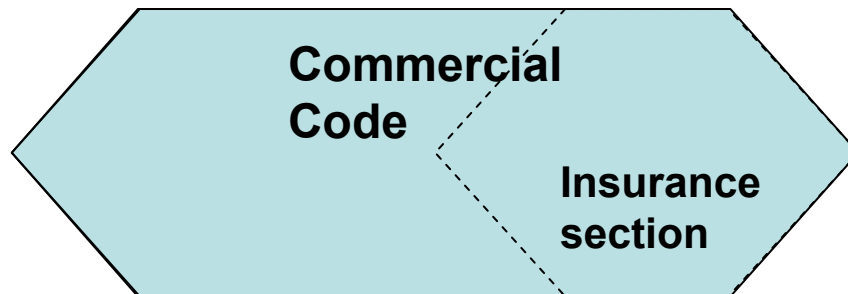


**Last Topic: (FYI)**

**Non-Payment Problem and  
Lessons Leaned**

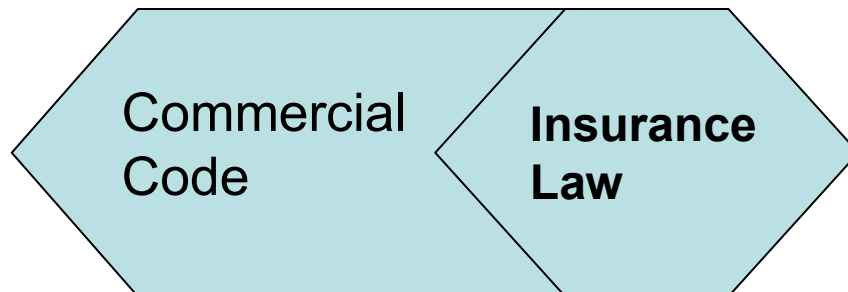
# Insurance Law

- The rules for insurance policies in private laws were stipulated as a part of the Commercial Code about 100 years ago
- Then, in April 2010, the rules were enacted as an independent law in light of changing social landscape particularly from the perspective of consumer protection



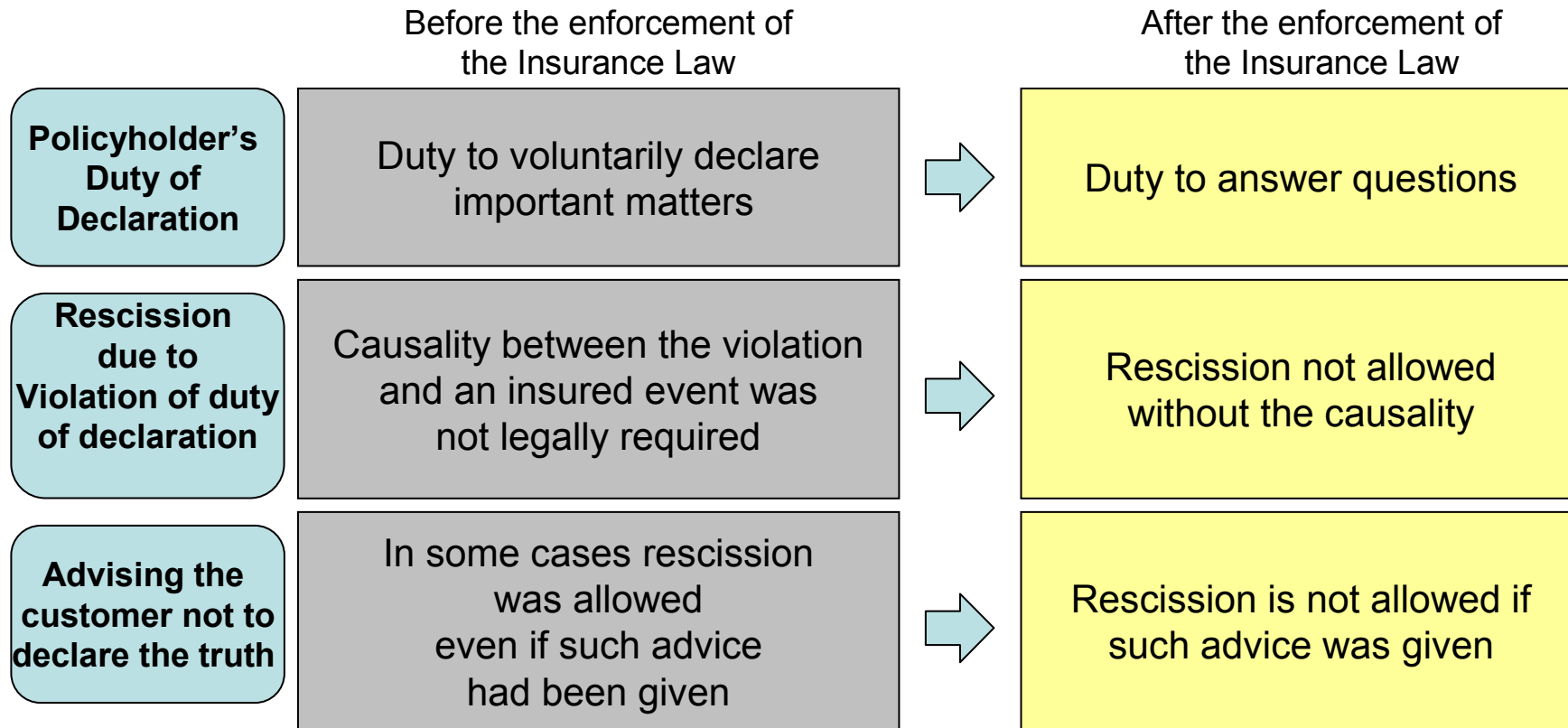
# Insurance Law

- The rules for insurance policies in private laws were stipulated as a part of the Commercial Code about 100 years ago
- Then, in April 2010, the rules were enacted as an independent law in light of changing social landscape particularly from the perspective of consumer protection



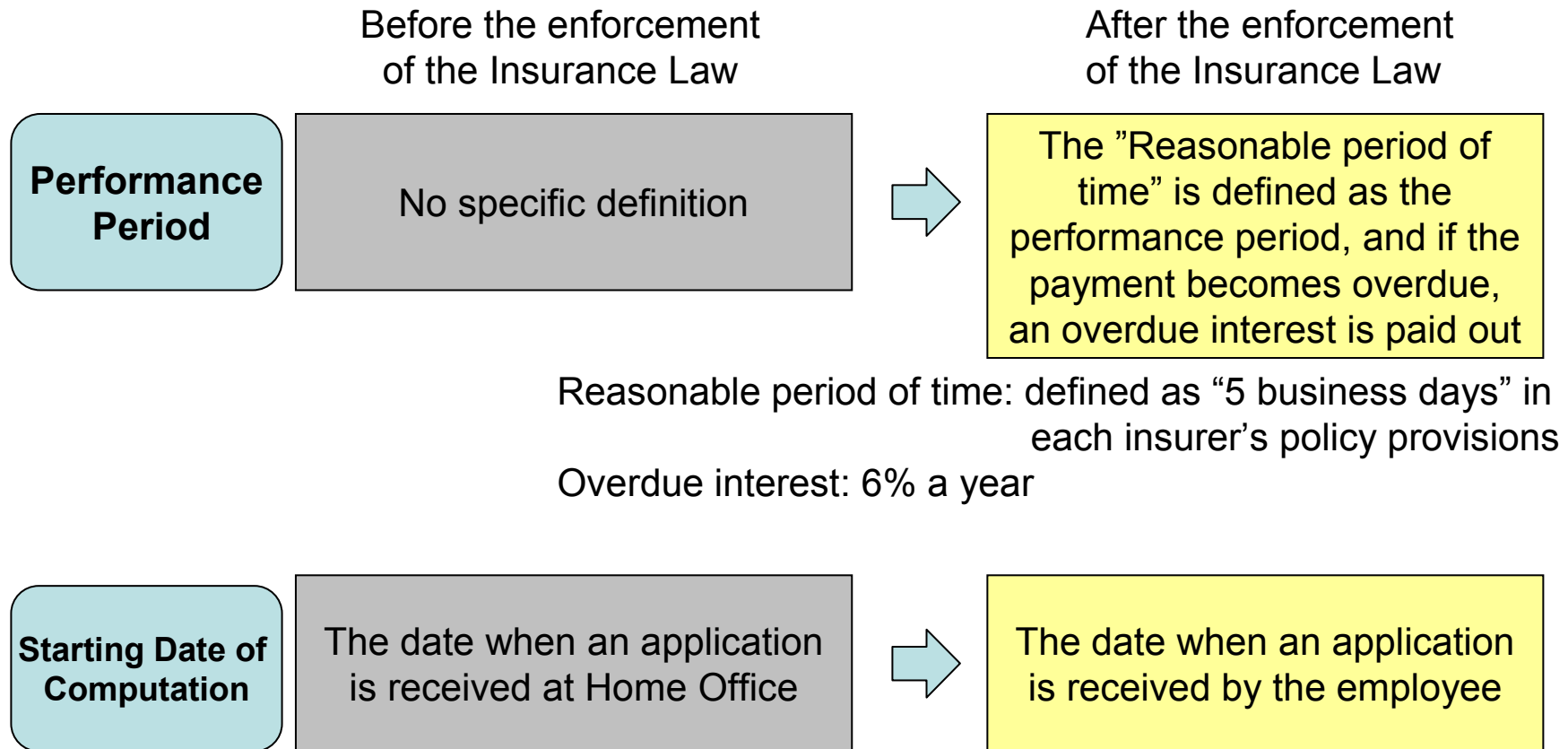
# Key Aspects of the Insurance Law

## ◆ Duty of Declaration



# Key Aspects of the Insurance Law

## ◆ Performance Period for Claim Payment



# Key Aspects of the Insurance Law

## ◆ Change of Beneficiary

Before the enforcement  
of the Insurance Law

After the enforcement  
of the Insurance Law

**Requirement  
for Perfection**

New beneficiary  
must be stated on the  
policy certificate



Notification of new  
beneficiary to the insurer

The insured's consent is still required

**Date of  
Notice**

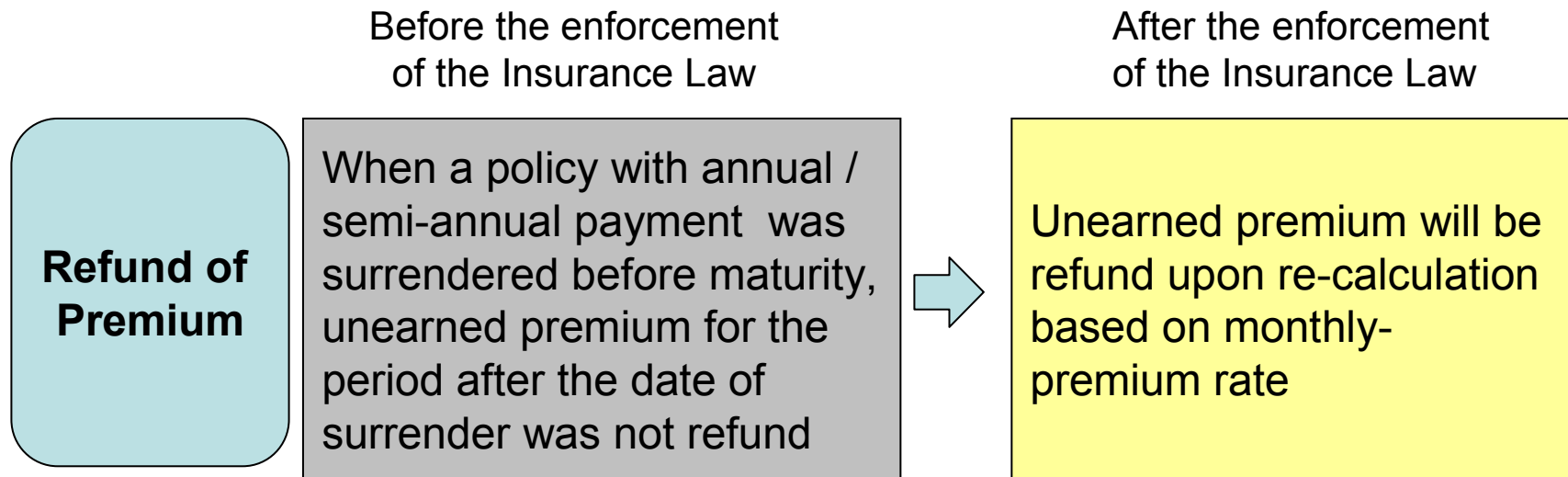


Hand-delivery: the date when  
the notice is received by the  
employee  
By mail: date of the postmark



# Key Aspects of the Insurance Law

## ◆ Refund of Unearned Premium

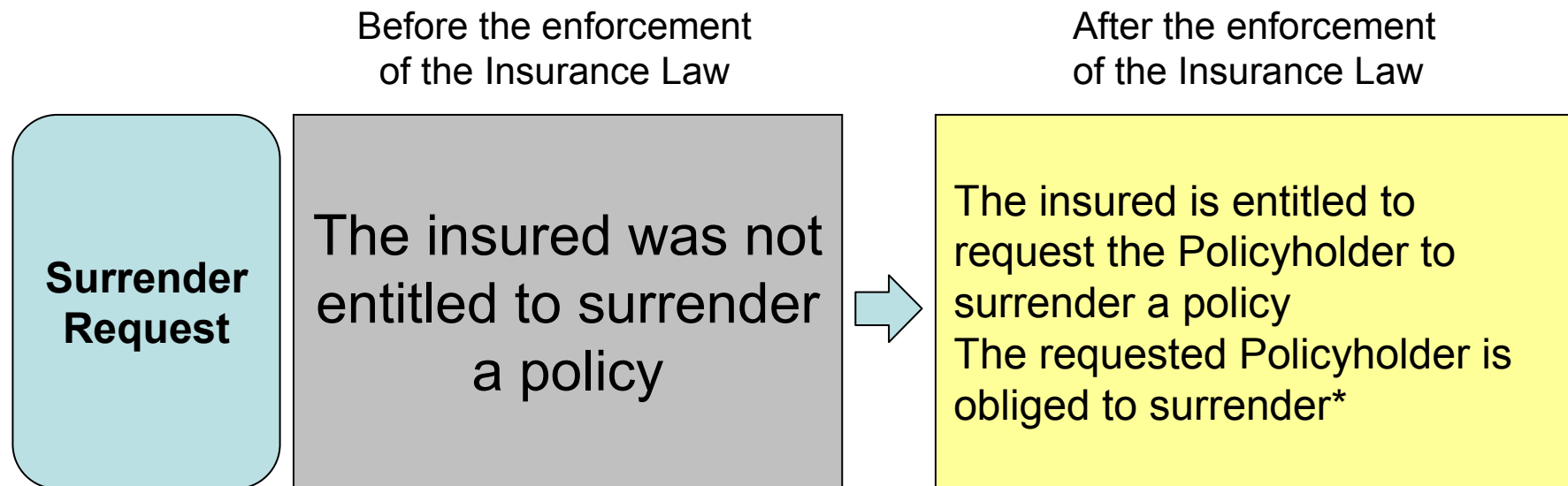


Conventionally, annual / semi-annual premium was not divided into monthly premium basis due to “the principle of indivisibility of premium”

# Key Aspects of the Insurance Law

## ◆ Surrender Request by the Insured

\*The objective is to prevent moral hazard



\*This does not constitute the insured's entitlement to make a surrender request directly to the Insurer

# Key Aspects of the Insurance Law

## ◆ Introduction of Unilateral Forcible Provision

	Default Provision	Unilateral Forcible Provision		Forcible Provision
The articles in the Policy Provisions that go against the Insurance Law	Valid	From the standpoint of the Policyholder:		Invalid
		Advantageous	Disadvantageous	
		Valid	Invalid	

# Key Aspects of the Insurance Law

## The Example of Default Provision

The Article 40 (the delivery of a document at time of conclusion of a contract) provides for an issuance of a policy certificate, stating "A document shall be delivered without delay that contains the following matters." Since this is a default provision, it is left to the judgment of the insurer as to whether a policy certificate is issued, let alone what is contained in the description.

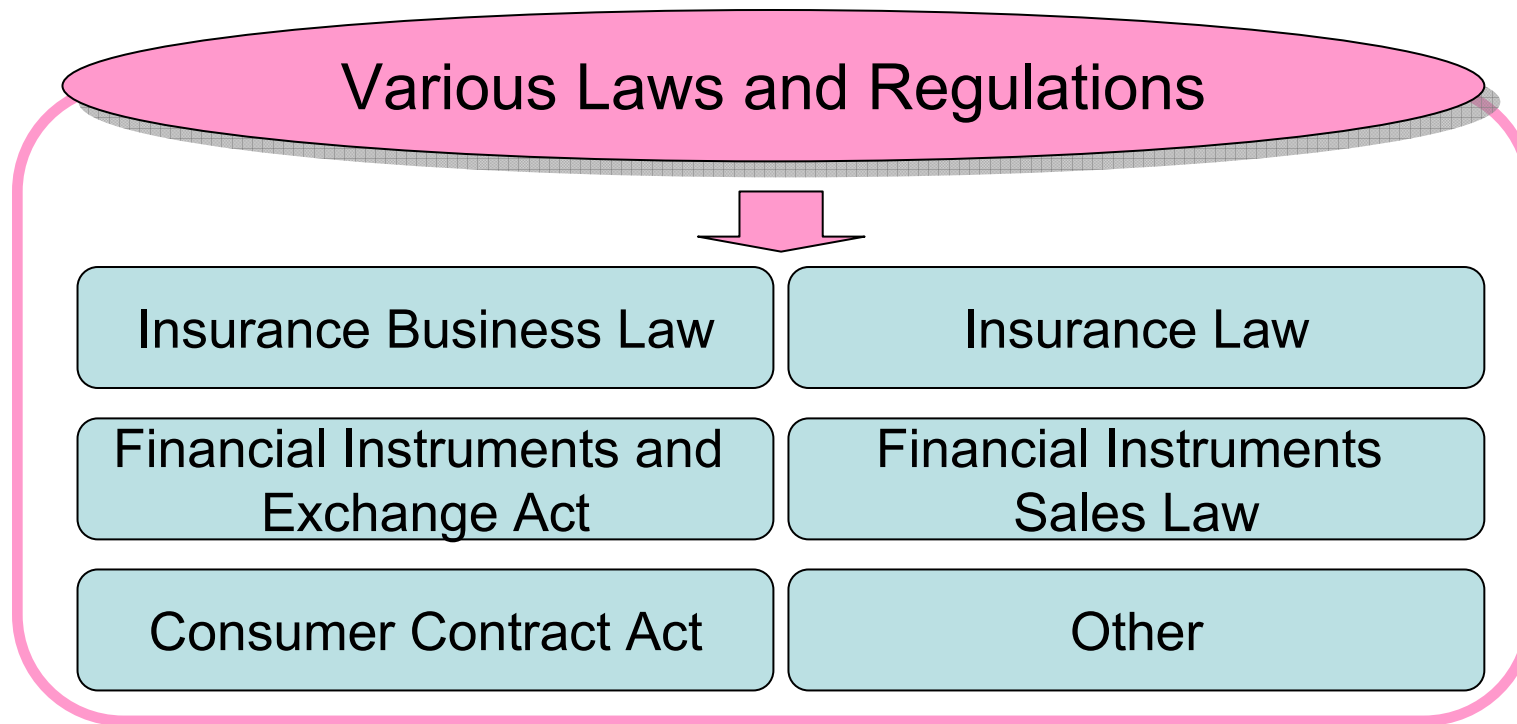
## The Example of Unilateral Forcible Provision

The Article 37 states, "Among all the important matters, the policyholder / the insured shall declare those matters requested by the insurance company." This provision is deemed Unilateral Forcible Provision. If the insurance company states in its policy provisions, "important matters shall be declared voluntarily", then it would put the policyholder at a disadvantage. In such cases, those provisions are deemed invalid. If, on the contrary, the policy provisions stipulate, "No declaration is required at all", then the provisions would remain valid, given that it is advantageous to policyholders.

## The Example of Forcible Provision

The Article 38 states, "Death Insurance shall not take effect....unless the insured provides his/her consent. ", thereby mandating the insured's consent at the time of signing the contract. Since the provision is deemed Forcible Provision, any policy provision that eliminates the need for the insured's consent is invalidated

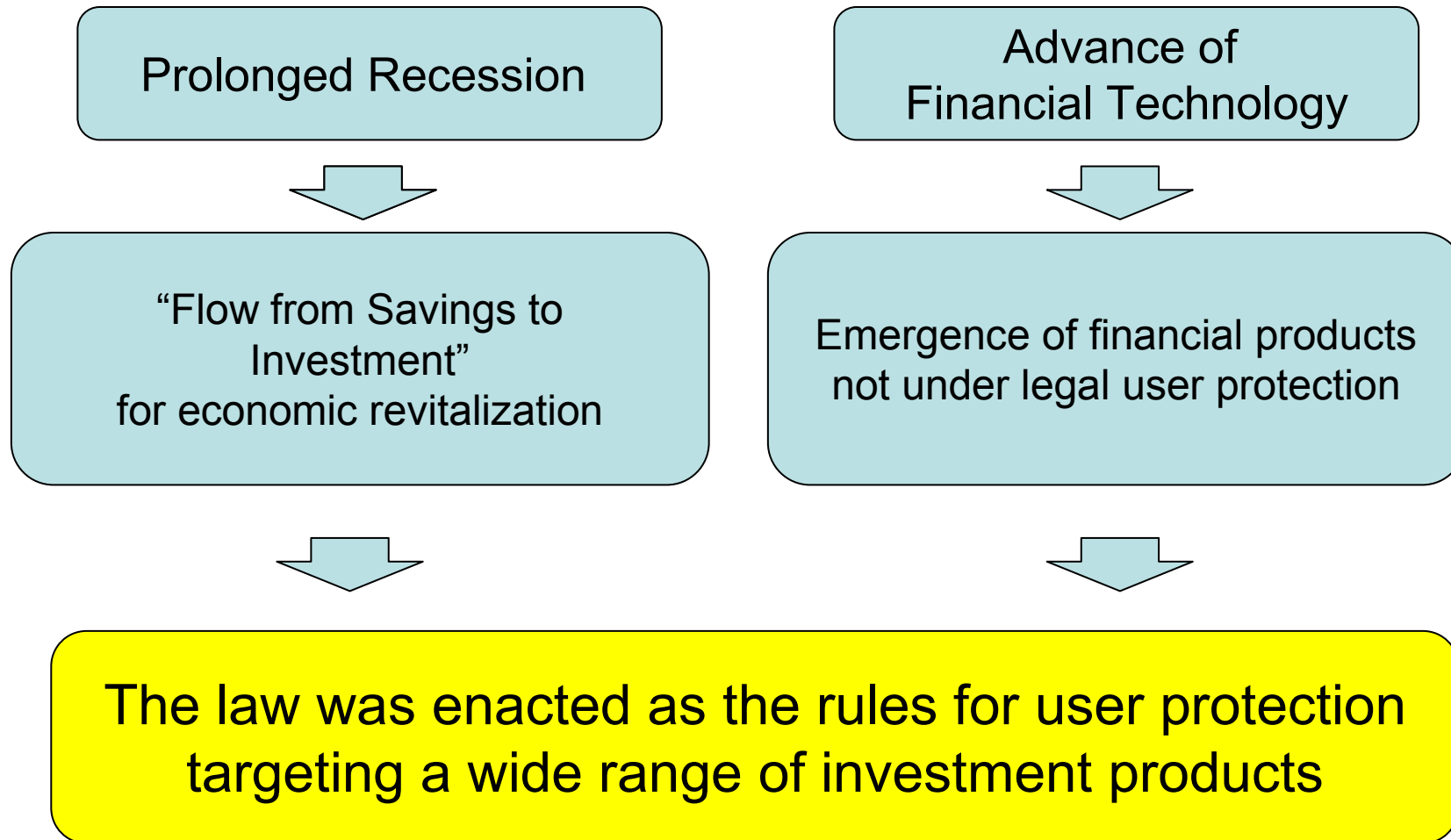
# Outline of Second-Half of Today's Lecture



**Last Topic: (FYI)**

**Non-Payment Problem and  
Lessons Leaned**

# Financial Instruments and Exchange Act



# Financial Instruments and Exchange Act

The contents of the Financial Instruments and Exchange Act were incorporated into “business laws” defined for each industry, regulating products and transactions in each area.

Industry	business laws	Applicable products & transactions
Life Insurance business	Insurance Business Law	Foreign-currency insurance & annuities, Variable Insurance & annuities
Banking	Banking Act	Foreign-currency deposit, derivative deposit
Trust business	Trust Business Act	Designated money in trust
Futures trade	Commodity Exchange Act	Transactions in which a loss is incurred by price fluctuations

# Financial Instruments and Exchange Act

## Regulation of Advertisement

- Clearly indicate risks and fees
- Display in large font size

## Regulation of Sales Solicitation

### **The principle of suitability:**

Sales of a product suitable to the customer

### **Obligation to deliver a document:**

Delivery of a document indicating product mechanisms, risks, and costs prior to conclusion of a contract

### **Prohibited acts:**

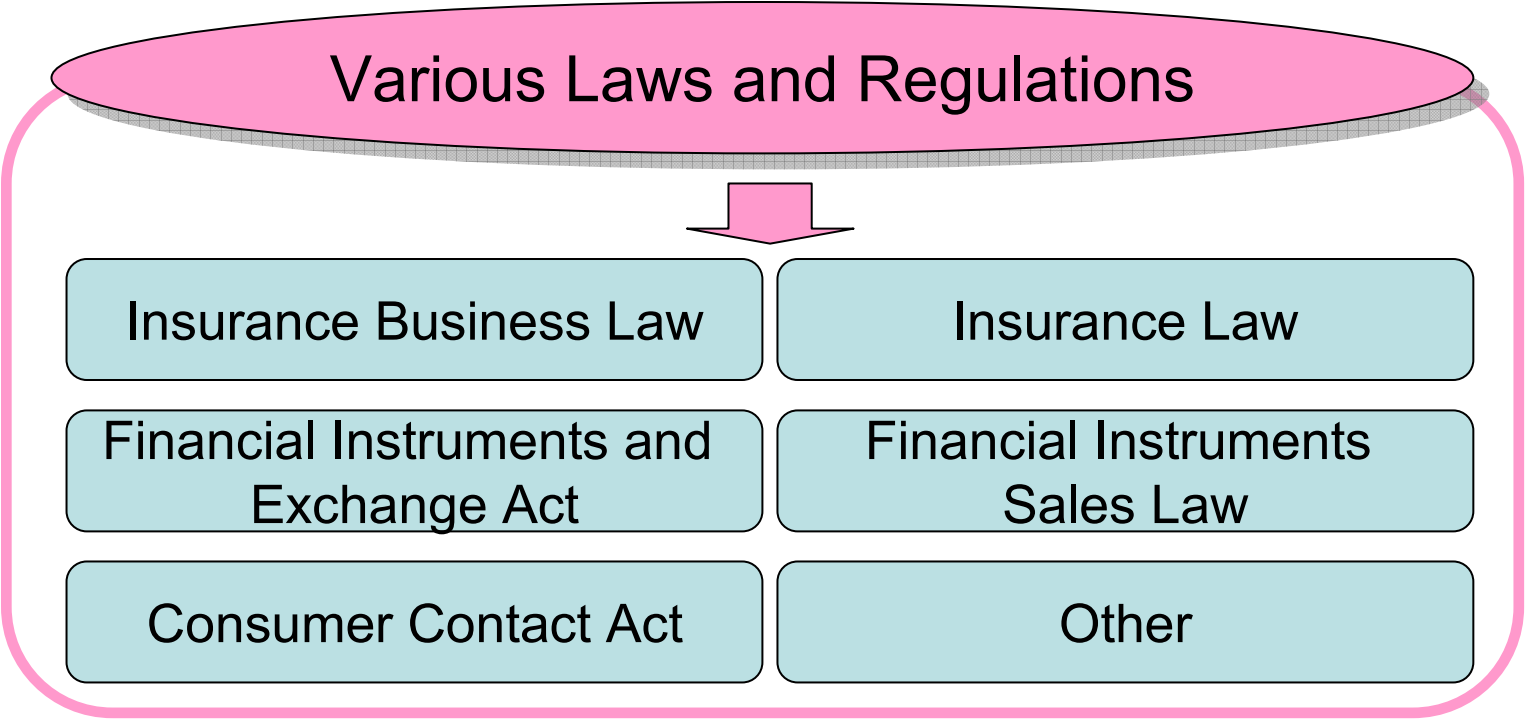
False explanation and provision of definitive judgments

### **Prohibition of loss compensation:**

Compensation of a loss incurred by transactions



# Outline of Second-Half of Today's Lecture



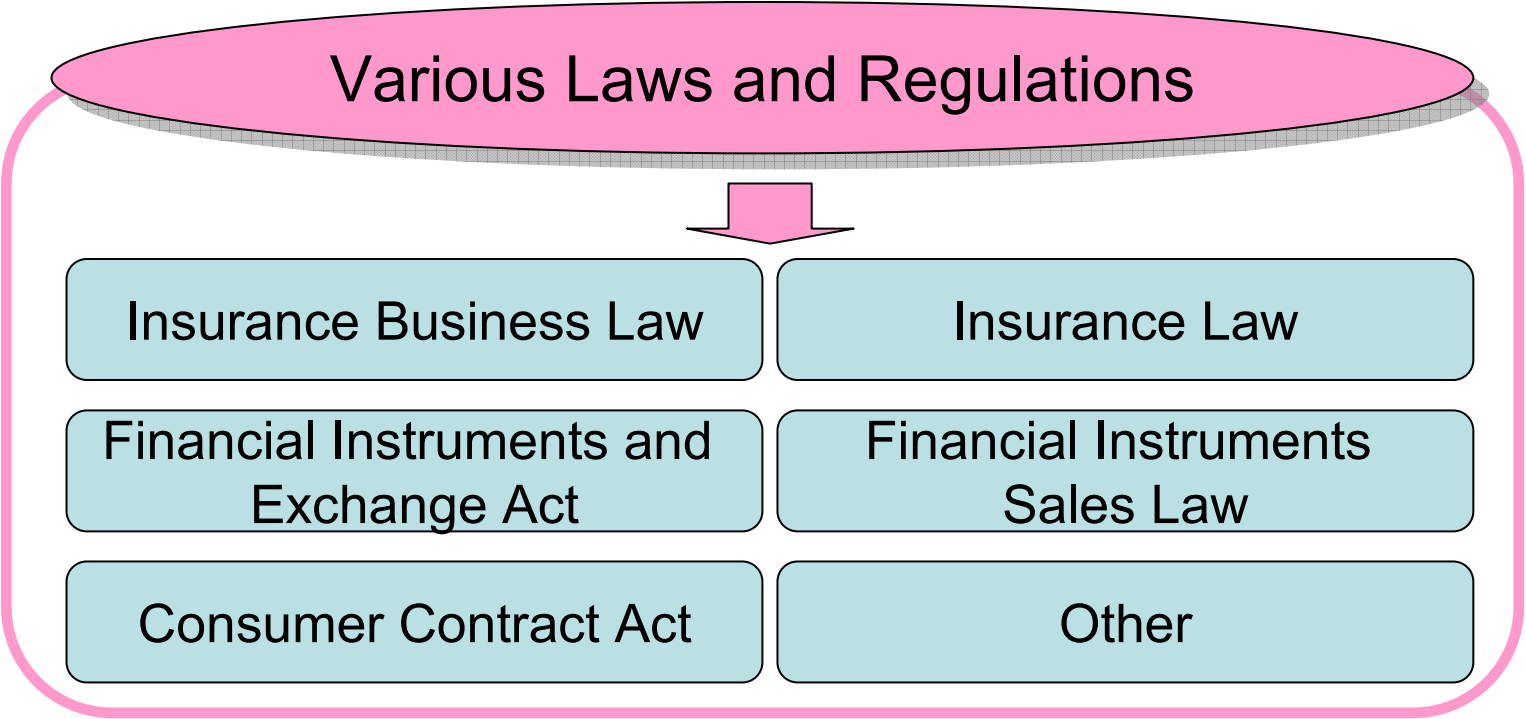
**Last Topic: (FYI)**

**Non-Payment Problem and Lessons Leaned**

# Financial Instruments Sales Law

	Financial Instruments Sales Law	Financial Instruments and Exchange Act
Target	All the life insurance products	Investment products Foreign-currency insurance / annuities Variable insurance / annuities
Key elements	<p>-Duty to explain important matters -Prohibition of giving definitive judgments</p> <p><b>The Law clearly states that the consumers suffering damages due to violation of the regulations are entitled to claim compensation from the enterprises.</b></p>	<ul style="list-style-type: none"> <li>•The principle of suitability</li> <li>•Duty to deliver a document</li> <li>•Prohibition of loss compensation</li> <li>•Various prohibited acts</li> </ul>

# Outline of Second-Half of Today's Lecture

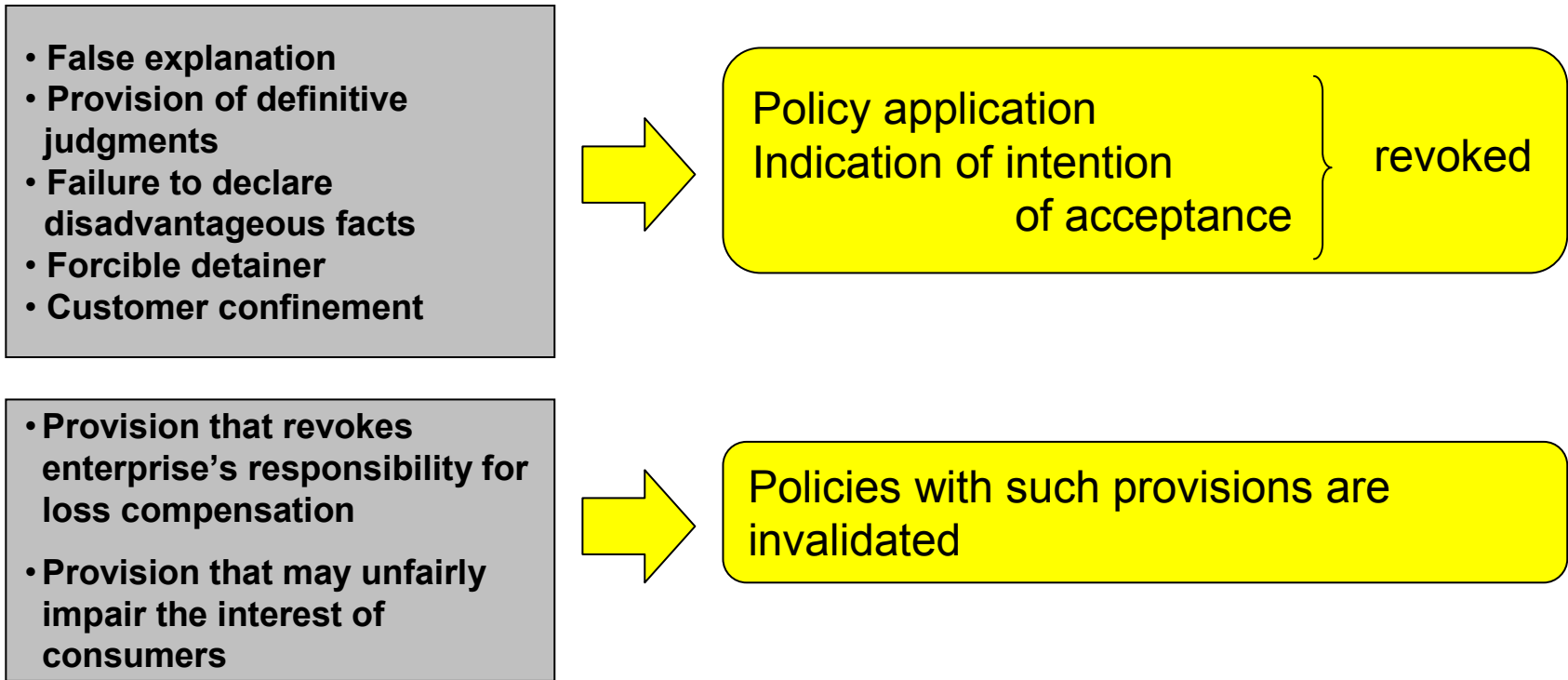


**Last Topic: (FYI)**

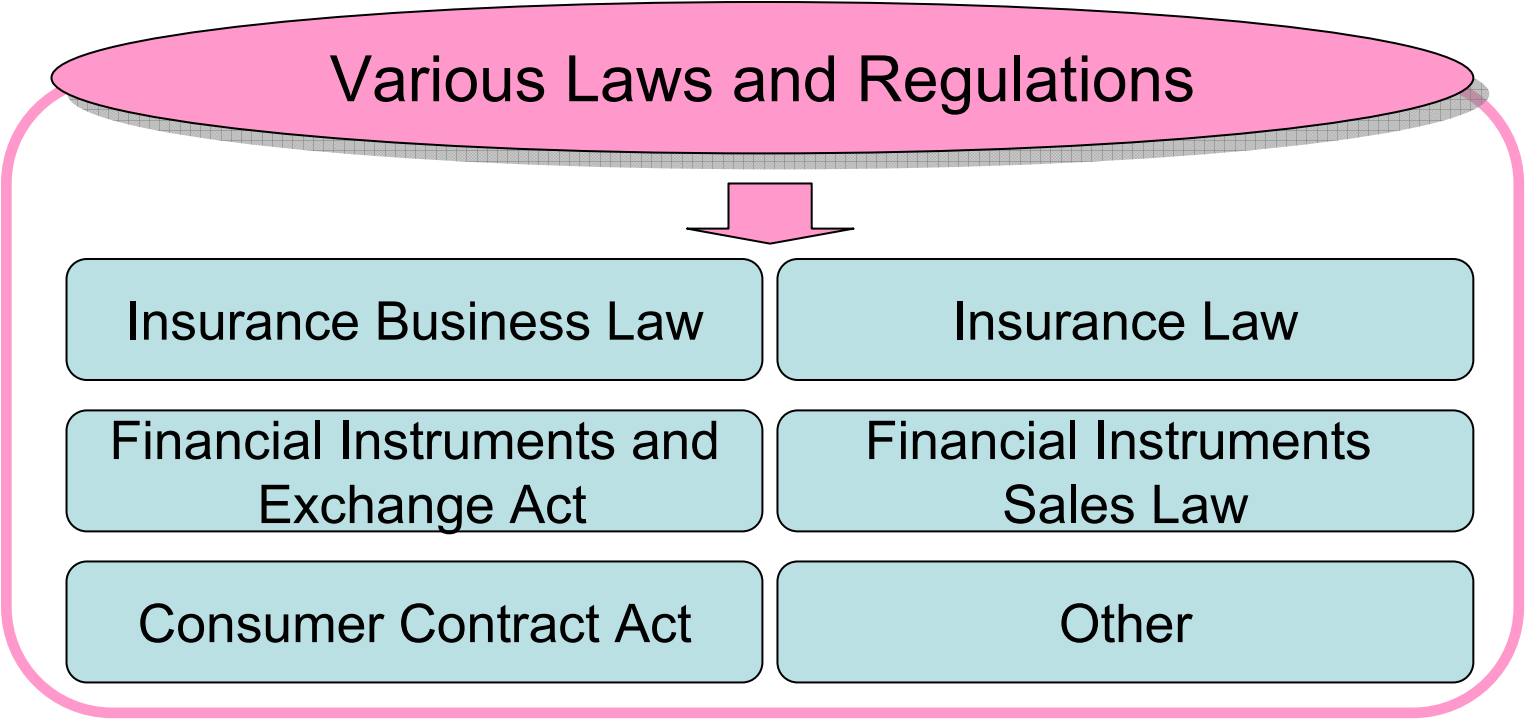
**Non-Payment Problem and Lessons Leaned**

# Consumer Contract Act

The Act premises the gap between Consumers and Enterprises in terms of “quality and quantity of information” and “bargaining power”



# Outline of Second-Half of Today's Lecture



**Last Topic: (FYI)**

**Non-Payment Problem and Lessons Leaned**

# Other Regulations

- Act on Prevention of Transfer of Criminal Proceeds
  - The objective is to prevent money laundering

- Identification of Customers
- Preservation of customer identification records
- Preservation of Transaction Records

# Other Regulations

- Personal Information Protection Law

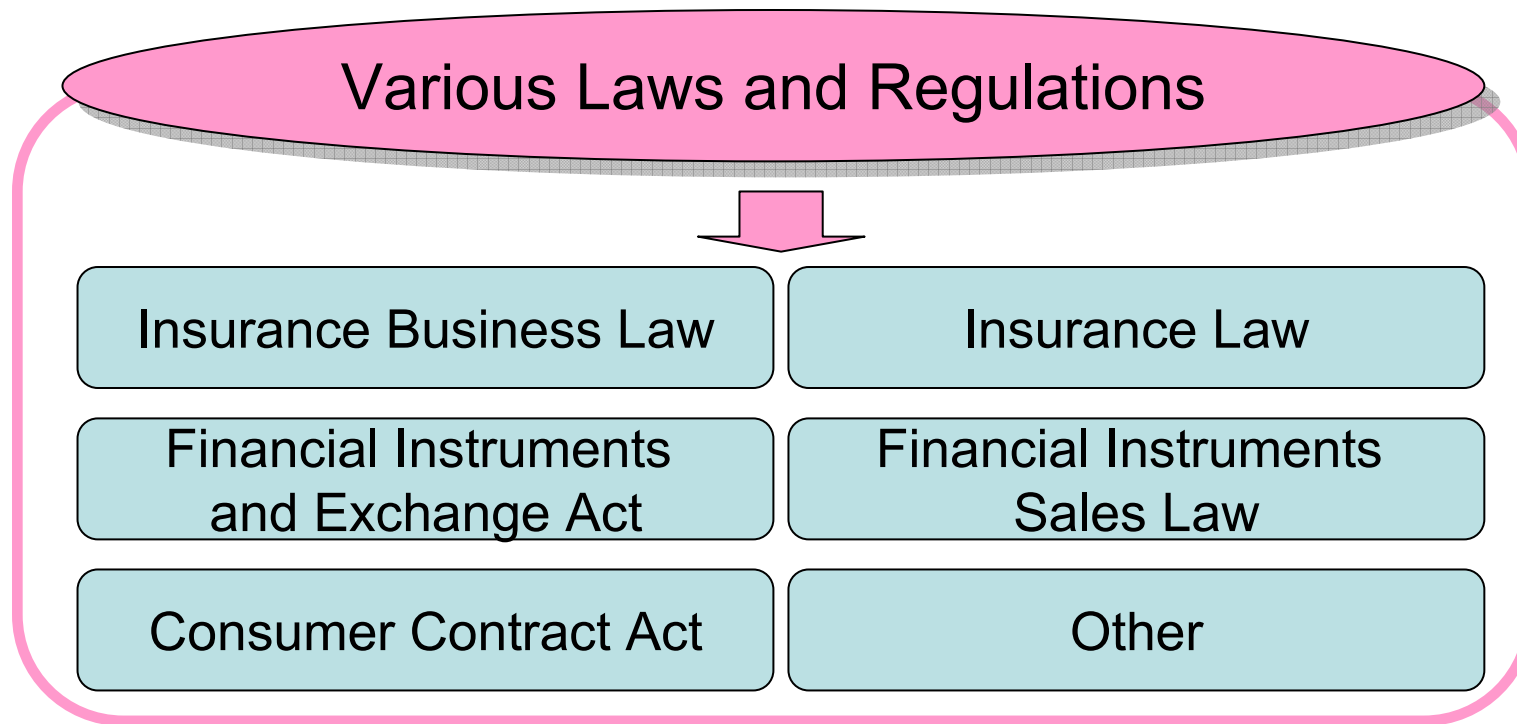
Sensitive information\*, handled by insurers, is particularly protected of all the personal information, thus requiring careful information management

**\*Sensitive Information: a person's health conditions**

Also included are information on thoughts, beliefs, or religions, as well as races, ethnicities, birthplace, criminal records, and participation in political activities

**Followed by overreactions and stretched interpretations that caused a great deal of confusion in people's lives**

# Last Topic for Today's Lecture



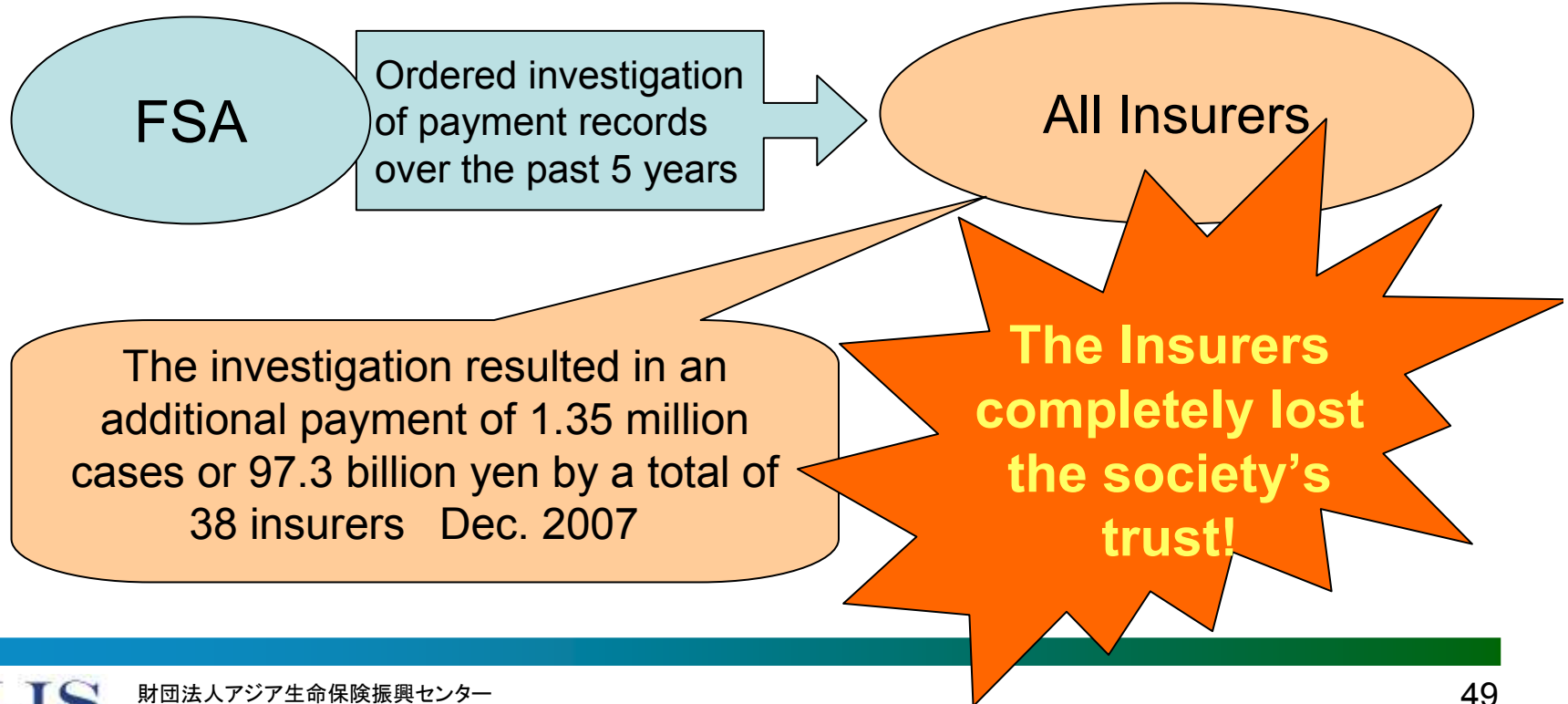
**Last Topic: (FYI)**

**Non-Payment Problem and  
Lessons Leaned**



# Non-Payment Problems

Huge social issue triggered by M Life's "unfair insurance payments" revealed in Feb. 2005



# What we mean by “Non-Payment” here is:

## Intentional and malicious non-payments

Identified only in the M Life where the problem was revealed for the first time

- ◆ Refusal to pay claims on the ground of fraud or invalidity even after the period when the insurers are allowed to rescind policies due to violation of declaration had passed
- ◆ Refusal to pay claims on the ground of violation of declaration duty while advising customers not to declare at time of solicitation

It tried to boost profits by withholding payments !

## Non-Payments due to the Insurer's Negligence and Lack of Measures

All other insurers fell under this category of non-payments

- ◆ Insurers failed to provide enough guidance regarding claim request
- ◆ Insurers failed to check medical certificates sufficiently

# Reflection on Non-Payment Problem #1

<Insurer's responsibilities>

What is the most fundamental and essential responsibility of an insurance company?

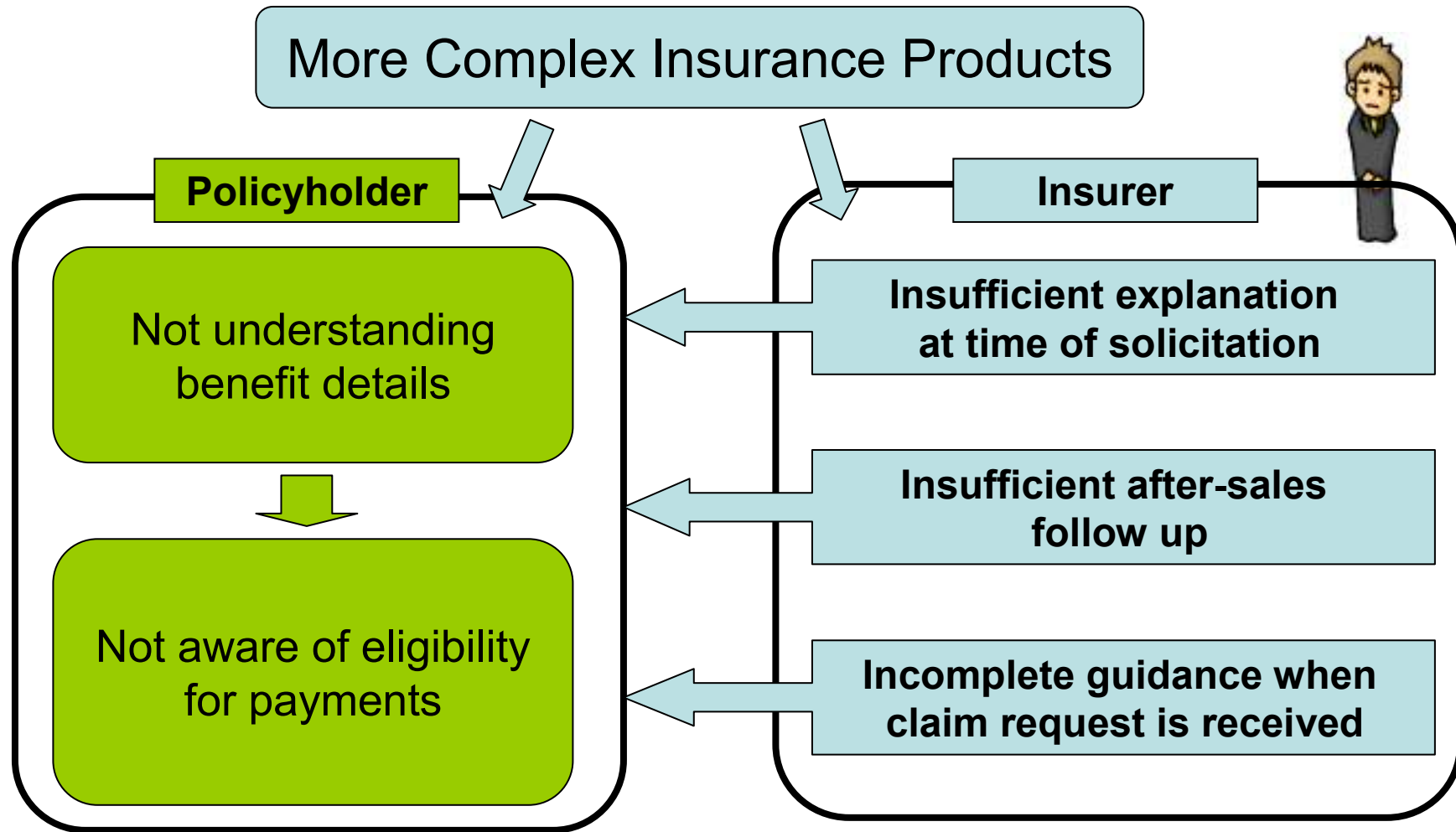
Payment of Claims

The Insurers lacked this recognition



# Reflection on Non-Payment Problem #2

## < Complex Products >

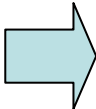


# Reflection on Non-Payment Problem #3

<Change of Mindset>

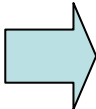
Need to move away from the habit of placing the policy provisions above anything else

~~Description in the policy provisions is enough~~



Make sure the customer fully understands contract details

~~Claims are paid out when it is requested~~



If there is even the slightest possibility of insured event, ask the customer about the fact for making payment request



# Preventive Measures #1

## Develop Easy-to-understand Products

- Simple and straightforward products for prevention of missed claim requests or overlooked payments

## Call on Existing Policyholder

- Provide an explanation of product details again including benefits
- Confirm if there have been any event eligible for payments such as hospitalization

## Enhance Services and Simplify Procedures for Claim Payment

- Expand contents of brochures regarding claim payment
- Create an environment for an easier claim request, such as insurers shouldering the costs of obtaining medical certificates

# Preventive Measures #2

## Employee Training

- Training of personnel responsible for claim examination for prevention of a misreading or an oversight of medical certificates
- Training of sales agents so as to provide sufficient explanation to customers

## Computerization of Medical Certificates

Computerization of medical certificates created by doctors is underway being led by Life Insurance Association

# Preventive Measures #3

## Establishment of Payment Examination Committee

When a customer complaint is filed, the Payment Examination Committee, an objective entity, verifies the result of claim examination performed by the Company

Consisting of external experts such as doctors and lawyers



# The Pros and Cons of the Non-Payment Problem

## Cons

- Insurers lost all at once the society's trust that had been fostered over a long period of time
- Failure to pay out claims caused many customers inconveniences

## Pros

- The problem took out in the open all related issues that had been hidden
- The problem allowed the insurers to go back to the principle that it is their mission to pay out claims and benefits to the policyholders
- A series of reforms for better customer usability and policyholder protection have been carried out

---

Thank you for your kind attention



# Koto-san's Homework

## Suspicious Transaction

- ◆ In the process of concluding any insurance contract, policyholder's identification is required. Passport #, driver's license # or other identification certificates are preserved in the application form.
- ◆ Following transactions are subject to report as "suspicious transaction"
  - When a policyholder offer a large amount of premium payment in cash.
  - When a policyholder require a large amount of surrender refund in cash
  - When a policyholder offer a large amount of policy loan refund in cash
  - When a policyholder offer a large amount of premium advance payment in cash  
etc.

Large amount: LIAJ's guideline indicates "more than **2 million yen**"

## Laws translated in English

- ◆ Please visit the FSA's website, where you can find out a lot of Japanese laws regarding finance translated in English

<http://www.fsa.go.jp/en/refer/legislation/index.html>

FSA (Financial Services Agency)

## Loss Compensation prohibited by “Financial Instrument and Exchange Act”

- ◆ The target of this law is investment products, which naturally have investment risk. Any company is NOT allowed to compensate the customer's loss incurred by the transaction.