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Insurance & Reinsurance 2022

Japan: Law & Practice
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Law and Practice

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CONTENTS

1. Basis of Insurance and Reinsurance Law	p.3	8. Interpreting an Insurance Contract	p.10
1.1 Sources of Insurance and Reinsurance Law	p.3	8.1 Interpretation of Insurance Contracts and Use of Extraneous Evidence	p.10
2. Regulation of Insurance and Reinsurance	p.3	8.2 Warranties	p.10
2.1 Insurance and Reinsurance Regulatory Bodies and Legislative Guidance	p.3	8.3 Conditions Precedent	p.10
2.2 The Writing of Insurance and Reinsurance	p.4	9. Insurance Disputes	p.10
2.3 The Taxation of Premium	p.4	9.1 Insurance Disputes over Coverage	p.10
3. Overseas Firms Doing Business in the Jurisdiction	p.4	9.2 Insurance Disputes over Jurisdiction and Choice of Law	p.11
3.1 Overseas-Based Insurers or Reinsurers	p.4	9.3 Litigation Process	p.11
3.2 Fronting	p.6	9.4 The Enforcement of Judgments	p.11
4. Transaction Activity	p.6	9.5 The Enforcement of Arbitration Clauses	p.11
4.1 M&A Activities Relating to Insurance Companies	p.6	9.6 The Enforcement of Awards	p.11
5. Distribution	p.7	9.7 Alternative Dispute Resolution	p.11
5.1 Distribution of Insurance and Reinsurance Products	p.7	9.8 Penalties for Late Payment of Claims	p.11
6. Making an Insurance Contract	p.9	9.9 Insurers' Rights of Subrogation	p.11
6.1 Obligations of the Insured and Insurer	p.9	10. Insurtech	p.12
6.2 Failure to Comply with Obligations of an Insurance Contract	p.9	10.1 Insurtech Developments	p.12
6.3 Intermediary Involvement in an Insurance Contract	p.9	10.2 Regulatory Response	p.12
6.4 Legal Requirements and Distinguishing Features of an Insurance Contract	p.9	11. Emerging Risks and New Products	p.12
6.5 Multiple Insured or Potential Beneficiaries	p.9	11.1 Emerging Risks Affecting the Insurance Market	p.12
6.6 Consumer Contracts or Reinsurance Contracts	p.9	11.2 New Products or Alternative Solutions	p.13
7. Alternative Risk Transfer (ART)	p.9	12. Recent and Forthcoming Legal Developments	p.13
7.1 ART Transactions	p.9	12.1 Developments Impacting on Insurers or Insurance Products	p.13
7.2 Foreign ART Transactions	p.10	13. Other Developments in Insurance Law	p.14
		13.1 Additional Market Developments	p.14

1. BASIS OF INSURANCE AND REINSURANCE LAW

1.1 Sources of Insurance and Reinsurance Law

The Insurance Business Act is the basis for regulation of insurance businesses in Japan, providing a contractual relationship surrounding insurance products. Although Japan is not a common law country, the judicial precedent, especially that established by the Supreme Court, should be referred to when interpreting insurance contracts.

2. REGULATION OF INSURANCE AND REINSURANCE

2.1 Insurance and Reinsurance Regulatory Bodies and Legislative Guidance

The Financial Services Agency (FSA) is the regulatory authority for insurance and reinsurance businesses in Japan. Life and non-life insurers are regulated by the Insurance Business Act. Reinsurers are regulated in the same way as non-life insurers. Based on the Insurance Business Act, the regulatory authorities have the power to issue administrative dispositions to insurance companies, including orders for business improvement, orders for suspension of business, and/or orders for cancellation of licenses.

In fact, broad discretion is given to the regulatory authorities, and those administrative dispositions against insurance companies invoked by the regulatory authorities are not necessarily based on the assumption that violations of law by insurance companies have taken place.

Against this background, entities targeted for supervision not only have to make sure that laws

and regulations are being observed but must also follow the guidelines officially promulgated by the regulatory authorities (Comprehensive Guidelines for the Supervision of Insurers).

Underwriting Life and Non-life Insurance

Underwriting life insurance and non-life insurance entails obtaining the necessary business licences from the regulatory authorities. Such licences for life insurance and non-life insurance business cannot be acquired by the same company, and companies are prohibited from running both businesses concurrently. However, both life insurers and non-life insurers are at liberty to offer insurance such as medical care insurance, accident insurance, or overseas travel accident insurance, ie, insurance from the so-called “third sector” insurance market.

Nevertheless, life insurance companies – whether operating in the form of a *kabushiki kaisha* or mutual company – must have board of directors’ meetings, auditors’ meetings, audit and other committee meetings, and meetings such as nominating committee meetings, and accounting auditors. Foreign companies intending to enter into the Japanese market through their subsidiaries are required to acquire the licenses mentioned above. Foreign companies planning to enter through their branch offices must obtain foreign insurer’s licences.

During the licence application procedure, the “basic documents” (articles of incorporation, business plan, standard policy provisions and documents showing the method to calculate insurance premiums and policy reserves) must be submitted to the regulatory authorities. Furthermore, insurance companies cannot operate their businesses while being in violation of the basic documents, and, in order to develop and offer new insurance products, must procure approval for corresponding changes to the basic documents from the regulatory authorities

(“Insurance Product Approval” – regular processing takes 90 days, standardised 45 days). However, regarding certain types of insurance, such as fire insurance where there is little concern of insufficient policyholder protection, a notification system to the regulatory authorities has been adopted; nevertheless, notification may not be required in cases where insurance companies state in the statement of business procedures that special provisions related to business insurance are to be established or modified without notifications (“Flexible Provision System”).

Other Business and Subsidiaries

Insurance companies are not permitted to conduct any business other than the insurance business (underwriting insurance) and business incidental thereto (restriction on other business). Furthermore, insurance companies are not allowed to own subsidiaries that perform businesses other than as legally stipulated, or obtain voting rights in domestic companies in excess of 10% of their total voting rights. However, with the approval of the regulatory authorities, insurance holding companies may have companies as their subsidiaries that insurers themselves may not own.

With respect to prescribed matters (which are quite extensive), such as customer explanations, or information control, insurance companies are obligated to have a system in place to secure soundness of operations and appropriate management. The minimum amount of capital of an insurance company is JPY1 billion.

Policy Reserves

Insurance companies are required to accumulate policy reserves and it is necessary for them to appoint an insurance administrator with a pre-determined actuary’s licence who gets involved in work related to actuarial science. In 1996, regulations on the solvency margin ratio were introduced. The solvency margin index has

become an assessment standard for the supervisory authorities to execute early corrective actions with broad supervisory reach against targeted companies, including orders to submit an improvement plan.

At present, the solvency margin ratio on a consolidated basis has been introduced. The European Union announced in March 2016 adoption of the equivalence recognition between Solvency II with temporary equivalence and the Japanese reinsurance supervision and group solvency. In June 2020, the Council of Experts on Economic Value-Based Solvency Regulations, etc, which was established at the Financial Services Agency, published a report. In light of that report, the FSA compiled issues and directions for institutional design, focusing in particular on the ideal standard model and the validation of insurance liabilities, etc, and published them in June 2021. In the future, it is expected that ongoing deliberations will be conducted regarding the economic value-based solvency regulations, with the aim of tentatively deciding and publishing the basic content of the system in 2022.

2.2 The Writing of Insurance and Reinsurance

See **2.1 Insurance and Reinsurance Regulatory Bodies and Legislative Guidance.**

2.3 The Taxation of Premium

This is not applicable in Japan.

3. OVERSEAS FIRMS DOING BUSINESS IN THE JURISDICTION

3.1 Overseas-Based Insurers or Reinsurers

Under the Insurance Business Act, the regulations that apply to Japanese insurance companies also apply to local subsidiaries of overseas-

based insurers. Nevertheless, the Act allows foreign insurance companies to conduct insurance business without establishing such local subsidiaries.

Foreign insurance companies may conduct insurance business in Japan only if they have opened a branch in Japan and obtained the applicable license from the FSA, the body overseeing insurance companies (Article 185-1 of the Insurance Business Act). This requirement allows the FSA to effectively execute administrative power over such foreign insurers. With some exceptions, Article 185-6 of the Insurance Business Act requires such licenced foreign insurers to conclude insurance contracts with persons having an address or residence in Japan, property located in Japan, or vessels or aircrafts with Japanese nationality inside Japan. The procedure to apply for the licence is mostly the same as that for Japanese insurance companies. Since foreign insurance companies do not have capital inside Japan, they are required to deposit a minimum of JPY200 million to the deposit office to protect policyholders.

Restrictions on Unlicensed Foreign Insurance Companies

Unlicensed foreign insurance companies may not conclude insurance contracts with persons having an address or residence in Japan, property located in Japan, or vessels or aircrafts with Japanese nationality (Restriction on Foreign Direct Insurance; Article 186-1 of the Insurance Business Act) other than the insurance contracts listed below:

- reinsurance contracts;
- marine insurance contracts pertaining to objects such as vessels with Japanese nationality used for international maritime transportation;
- aviation insurance contracts pertaining to aircrafts with Japanese nationality used for commercial aviation;
- insurance contracts pertaining to launching into outer space;
- certain insurance contracts covering cargo located within Japan which is in the process of being shipped overseas; and
- overseas travel insurance.

Exceptions and permissions

The restriction does not apply when an applicant wishing to purchase insurance from unlicensed insurance companies has obtained a permission from the FSA in advance of their applications for insurance as set forth in Article 186-2 of the Insurance Business Act. This exception is provided for policyholders' benefit to purchase insurance products that are most beneficial to them. That permission may not be provided in the following cases:

- the insurance product in question violates laws or is unfair;
- it is easy to conclude insurance contracts with licensed Japanese or foreign insurers for comparable insurance products on equal or more advantageous conditions;
- the terms and conditions of the insurance product in question are significantly unbalanced compared to the typical terms and conditions of the same type of insurance products with licenced Japanese or foreign insurers;
- concluding such insurance contracts would unjustly deprive the insured and other related persons of their benefits; and
- concluding such insurance contracts would likely negatively impact the development of the Japanese insurance business or be harmful to the public interest.

In a recent trend, the government of Tokyo is pursuing a policy to attract overseas financial

business providers to the Japanese market by providing assistance to cope with complicated financial regulations in Japan, such as opening a one-stop service centre for financial start-ups. It is expected that such a move will attract more overseas insurance companies and revitalise the Tokyo financial markets.

3.2 Fronting

Fronting is not expressly prohibited nor permitted in Japan and there are no explicit expectations with regard to the cedent's retention.

4. TRANSACTION ACTIVITY

4.1 M&A Activities Relating to Insurance Companies

Existing insurance businesses may be acquired in several ways, such as through obtaining shares of Japanese insurance companies, a merger of insurance companies, or sale and purchase of insurance business. The Insurance Business Act provides a regulatory framework for these M&A activities of insurance businesses.

Obtaining Shares

Under the Japanese regulatory framework, shareholders who own a certain percentage of voting rights in insurance companies are subject to oversight of the regulator.

- A shareholder with more than 50% voting rights in an insurance company is required to obtain an approval from the Financial Services Agency (FSA) in advance of acquisition of such voting rights (Insurance Holding Company; Article 271-18-1 of the Insurance Business Act). Insurance holding companies are subject to strict regulations including those regulating the scope of business and imposing subsidiary restrictions, and, in certain instances, reporting obligations. As of 26

March 2019, 14 insurance holding companies have been approved by the FSA.

- Except for insurance holding companies, a shareholder with 20% or more voting rights in an insurance company needs approval from the FSA in advance of acquisition of such voting rights (Major Shareholder of Insurance Companies; Article 271-10-1). Such approval is required even if the investor resides overseas. The FSA oversees major shareholders of insurance companies by imposing reporting obligations and taking administrative dispositions.
- A shareholder with more than 5% voting rights in an insurance company is required to report such acquisition of voting rights within five days (in case of foreign investors, one month) to the FSA (Shareholders with Large Voting Rights in Insurance Company; Article 271-3-1 of the Insurance Business Act). Such shareholder has to submit a report if the shareholder's percentage of voting rights changes by 1% or more (either as an increase or decrease). The FSA may take administrative dispositions against shareholders with large voting rights in an insurance company if the FSA finds the report submitted includes false, or lacks important or necessary information, thus causing potential misunderstanding.

Mergers

A merger with an insurance company requires approval by the FSA. Article 167-2 of the Insurance Business Act provides the following standards/checkpoints that the FSA could use in determining whether to give an approval:

- the merger is appropriate in light of the protection of policyholders;
- the merger will not hinder fair competition among insurance companies; and
- it is certain that the surviving insurance company after the merger will be capable of

operating the insurance business appropriately, fairly and effectively.

Sale and Purchase

A sale and purchase of insurance business also requires approval from the FSA pursuant to Article 142 of the Insurance Business Act. Purchasers of insurance businesses must be licenced insurance companies. Such sale and purchase also requires a separate approval to transfer insurance contracts from the FSA pursuant to Article 139 of the Insurance Business Act. Petitions for approval to transfer insurance contracts are reviewed according to the following standards/checkpoints:

- the transfer of insurance contracts is appropriate in light of the protection of policyholders;
- it is certain that the transferee will be capable of operating the insurance business precisely, fairly and effectively; and
- the transfer does not unjustly affect the benefit of the creditors of the transferor.

The Insurance Business Act does not require policyholders' approvals for transfers of insurance contracts to another insurance company. Instead, the transferor must make a public notice and notify each policyholder, and provide policyholders a chance to file objections to the transfer.

5. DISTRIBUTION

5.1 Distribution of Insurance and Reinsurance Products

Unless otherwise allowed by any other law, the Insurance Business Act prohibits any person from acting as an agent or intermediary to conclude insurance contracts, an activity that falls within the definition of "insurance solicitation" under the Act.

In the case of a life insurance company, only registered life insurance agents (officers and employees of a life insurer; life insurance agencies (agents) as well as their officers, employees and other personnel) may conduct "insurance solicitation." A characteristic feature of Japanese selling channels is for life insurance companies to utilise a high rate of salespeople who have long belonged to those companies (mostly female employees known as "Sei-ho ladies") among their overall salespersons. Put simply, every person selling insurance contracts has to be registered to do so. In principle, in the current legal system, life insurance agents may deal with insurance products of only one insurance company. In other words, they operate within the so-called "one-company exclusive system". However, by fulfilling the prescribed legal requirements (such as enrolling two or more life insurance agents) it is possible to deal with insurance products of multiple insurance companies – in fact, quite a number of independent agencies currently do this.

Non-life Insurance Companies

The situation involving non-life insurance companies (including a reinsurance company) is as follows:

- It is recognised that officers (other than auditors) and employees of a non-life insurer may engage in "insurance solicitation," not only without being registered but also, similarly to officers and employees of below-mentioned non-life insurance agencies, without any obligation to give notice thereof. In many cases employees of a non-life insurance company engage in "non-face-to-face" offerings of their products (by such means as telephone, mail or internet) and tend to transfer business opportunities with large-scale companies to their head office for handling.
- Registered non-life insurance agencies, their officers (with the exception of auditors) and

their employees may engage in “insurance solicitation”. No officers or employees of non-life insurance agencies are required to be registered, however, they are required to give notice of such a fact.

The majority of non-life insurance sales are carried out by agencies, which account for 90.9% of the total on a direct-net-premiums-written basis, while sales by officers and employees of insurance companies (through their direct sales) and insurance brokers account for only around 8.4% and 0.7% respectively.

Dedicated insurance agencies account for 19% (based on the number of entities involved) of non-life insurance agencies. Around 54% of non-life insurance agencies involved in another business are automobile dealers/repair shops, and around 10% are entities within the real estate industry – with both figures indicating high ratios.

Insurance Brokers

Registered insurance brokers may also engage in “insurance solicitation” (limited to mediating conclusions of insurance contracts). The Insurance Business Act has assigned special duties to such insurance brokers, including the duty to deposit a security guarantee (JPY20 million at the time of commencement of their business, which can be exchanged for an insurance broker’s liability insurance policy), the duty to disclose fees and commissions, the duty to prepare bought and sold notes, the duty of loyalty (the duty of “best advice”), and other special duties that have not been imposed on insurance agents. The number of insurance brokers in Japan is comparatively low (53 companies). While most of them focus on large-scale businesses, handling products for consumers is extremely rare.

Sales through Banking Channels

Insurance sales through banking channels in Japan commenced in 2001 but the number of products they could sell was severely restricted. The range of insurance products available for sale by banks has since expanded multiple times, and the restrictions were totally removed in 2007.

Banks function as insurance agents in the selling process. In this respect it is worth mentioning that additional special regulations have been applied to banks in order to avoid circumstances of insufficient consumer protection, which could result from improper use of the banks’ information-gathering ability in relation to customers’ funds or their improper influence over customers.

Strict regulations have been imposed on banks, including measures/regulations for the protection of non-public information (pursuant to which customer information obtained through their banking business cannot be used in connection with insurance solicitation without customers’ consent) or the regulations concerning soliciting of borrowers (where certain types of insurance products cannot be sold to customers who are granted business loans). While these additional regulations have been imposed for the protection of consumers, in essence they function to protect the traditional channels of insurance distribution.

Recently, “open-for-visitor” agencies have strengthened their presence. Out of the insurance products of multiple insurance companies, these agencies make – on their own initiative – proposals of insurance products that conform to customers’ actual needs, which open-for-visitor agencies call consultative selling.

6. MAKING AN INSURANCE CONTRACT

6.1 Obligations of the Insured and Insurer

The Insurance Business Act imposes on a policyholder or the insured a duty to disclose material matters regarding risks requested to be disclosed by the insurer (the duty of answering the question).

This is a unilaterally mandatory provision (a provision that makes void those agreements that, contrary to this provision, adversely affect policyholders); however, in the field of non-life insurance – for example, maritime insurance contracts, aviation insurance contracts, nuclear energy insurance contracts and non-life insurance contracts – the coverage of damages arising from business activities conducted by a juridical person or some other organisation or an individual who operates a business is excluded from the scope of the application of the foregoing provision.

6.2 Failure to Comply with Obligations of an Insurance Contract

If a policyholder or the insured violates the aforementioned duty, the insurance company may cancel the insurance contract and, except for damages not arising from violation of the duty of disclosure, will be discharged from liability for making insurance payments. An insurance company's right of cancellation will be extinguished one month after it learns the cause of the cancellation, or five years after the conclusion of the contract.

6.3 Intermediary Involvement in an Insurance Contract

While insurance agents act on behalf of insurance companies, insurance brokers act on behalf of customers independent from insurance companies (buyer's agents).

6.4 Legal Requirements and Distinguishing Features of an Insurance Contract

Insurance contracts may be concluded verbally but, in practice, it is commonly done in writing so that the conditions of the contracts are clarified. The existence of insured benefits (economic benefits that may be disadvantaged by the occurrence of insured events) is required as a condition to effectuate a non-life insurance contract. The insured is the person to whom the insured benefit belongs.

The reason for the existence of insured benefits is to prohibit gambling and prevent moral hazards. However, this requirement for the existence of insured benefits tends to be applied fairly moderately and flexibly.

6.5 Multiple Insured or Potential Beneficiaries

In non-life insurance, only the insureds may be the beneficiaries of an insurance contract. Insurance benefits are paid to the insureds and/or parties authorised by the insureds to receive the benefits.

6.6 Consumer Contracts or Reinsurance Contracts

This is not applicable in Japan.

7. ALTERNATIVE RISK TRANSFER (ART)

7.1 ART Transactions

It should be determined based on the content of the product whether such product is subject to Japanese regulation. Certain products may be subject to regulation as reinsurance products.

In June 2018, an interim report of the Financial System Study Group was published, indicating the need to consider a functional financial regu-

latory system. In this report, it was pointed out that “Credit guarantees, derivative transactions and insurance have functionally similar aspects. However, there are no special business regulations for credit guarantees, and engagement in derivative transactions business are subject to registration. On the other hand, insurance businesses are subject to license requirement and are required to obtain approval on each insurance product from the competent authorities”.

It is possible that function-based regulations will be introduced in the future, and attention should be paid to future discussions.

7.2 Foreign ART Transactions

This is not applicable in Japan.

8. INTERPRETING AN INSURANCE CONTRACT

8.1 Interpretation of Insurance Contracts and Use of Extraneous Evidence

There are no laws or regulations on how to interpret contracts specific to insurance contracts.

In general, the courts interpret insurance contracts objectively, taking into account their comprehensibility by average, reasonable customers. Nonetheless, the courts tend to recognise agreements between insurance companies and customers that differ from explicit policy conditions, taking into consideration the way in which insurance companies and customers negotiated and concluded their insurance contracts, and seek reasonable solutions while ordering compensation for damages.

At the time of solicitation of an insurance contract, the Insurance Business Act requires insurance companies to deliver documents (contract

outline) containing the following items to fulfil their obligation to provide information:

- the structure of the insurance policy/coverage;
- matters concerning insurance benefits (including giving typical examples of payment conditions of insurance benefits and explaining cases where insurance benefits are not paid);
- duration of the insurance policy;
- the amount of insurance and other conditions for underwriting of insurance contracts;
- the payment of insurance premiums;
- cancellation of insurance contracts and refunds thereof;
- cooling-off procedures;
- matters concerning the notification to be made by the policyholder or the insured;
- the timing of commencement of insurance liability;
- the grace period for payment of insurance premiums; and
- the invalidation and reinstatement of insurance contracts after their expiration.

8.2 Warranties

This is not applicable in Japan.

8.3 Conditions Precedent

This is not applicable in Japan.

9. INSURANCE DISPUTES

9.1 Insurance Disputes over Coverage

Insurance disputes are generally resolved in district courts or summary courts, depending on the value of the dispute. There are no special courts for resolving commercial insurance disputes and therefore the same procedure is applicable to both consumer contracts and reinsurance contracts. In practice, a jurisdiction clause in an insurance policy determines which

court will hear disputes in relation to the insurance policy.

9.2 Insurance Disputes over Jurisdiction and Choice of Law

See 9.1 Insurance Disputes over Coverage.

9.3 Litigation Process

Generally, a first hearing date is scheduled around one month after the filing of a lawsuit. It usually takes six months to one year to reach a judgment.

The losing party may appeal to the upper court based on any grounds if such party is not satisfied with the decisions of the court of first instance. There are two stages of appeal.

9.4 The Enforcement of Judgments

A foreign judgment is required to be recognised in Japanese courts. To be capable of recognition and enforcement, a foreign judgment must satisfy the requirements of Article 118 of the Code of Civil Procedure. Whether these requirements are satisfied will be determined by the court in an action for “execution judgment” under Article 24 of the Civil Execution Act.

9.5 The Enforcement of Arbitration Clauses

This is not applicable in Japan.

9.6 The Enforcement of Awards

The Arbitration Act provides that an arbitration agreement must be in writing but does not require any specific wording. Parties to the arbitration may not appeal to the courts from the decision of the arbitral tribunal. However, the Arbitration Act provides that the parties may file a petition to set aside the arbitral award to the court in some situations, such as invalidity of the arbitration award due to the limited capacity of a party.

Japan is party to the New York Convention, and arbitration awards received in the member countries can be enforced in Japan.

9.7 Alternative Dispute Resolution

Insurance alternative dispute resolutions (ADRs) are common especially in the field of consumer contracts. An increasing number of insurance related disputes are resolved through ADRs.

9.8 Penalties for Late Payment of Claims

Japan has not introduced the concept of punitive damages. Late payment interest is recoverable in respect of claims; 5% per annum for non-commercial claims and 6% per annum for commercial claims. A revision of those interest rates to 3% per annum with subsequent reviews every three years to reflect market interest rates will be introduced from 1 April 2020.

9.9 Insurers' Rights of Subrogation

For non-life insurance, Article 24 of the Insurance Act provides that, where insured property is totally lost or destroyed, an insurer that has paid an insurance proceeds payment shall be subrogated to ownership and any other real right that the insured holds over the insured property, in accordance with the ratio of the amount of the insurance proceeds payment thus paid to the insured value (or the agreed insured value if there is any such amount).

Article 25 of the Act provides that, when an insurer has made an insurance proceeds payment, the insurer shall be subrogated with regard to any claim acquired by the insured due to the occurrence of any damages arising from an insured event up to the smaller of:

- the amount of the insurance proceeds payment made by the insurer; or
- the amount of the insured's claim.

10. INSURTECH

10.1 Insurtech Developments

In Japan, the emergence of fintech was, at first, most pronounced in the banking sector. Indeed, the Japanese government first responded to fintech by amending the Banking Act so that banks could own technology companies as their subsidiaries, which was previously restricted to some extent (the “Amended Banking Act”). The Amended Banking Act came into force on 1 April 2017.

Adoption of New Technologies

Japanese insurance companies are gradually adopting new technologies such as IoT (Internet of Things), Big Data and Artificial Intelligence to their services. For example, Tokio Marine & Nichido Anshin Life Insurance Co Ltd has introduced a medical insurance policy where an insured might obtain cash back of insurance fees if they walked certain average number of steps, daily. The insured would be required to use a wearable instrument to monitor their activities and record their health data.

Another example is Sony Assurance Inc’s automobile insurance, where an insured has a “driving counter” installed in their car to monitor the insured’s driving. If it shows safe driving on the part of the insured, the insurer will provide cash back toward the insurance fees.

Alliance with Tech Companies

Insurance companies alone may not be able to create new insurtech products because they do not have enough resources/knowledge to develop new technology. An alliance with tech companies or telecom companies is therefore necessary. Another question has been whether insurance companies are allowed to own tech companies or telecom companies as their subsidiaries to take full control of the new technologies.

In response, an amendment to the Insurance Business Act enacted in June 2020 allows insurance companies to own technology companies as their subsidiaries, similar to banks under the Amended Banking Act.

The Fintech Support Desk

The FSA regards the fintech trend quite positively. One example of such positive attitude of the FSA can be seen in the Fintech Support Desk, which was established to provide a streamlined process for fintech businesses. Indeed, the FSA appears to be watching developments regarding insurtech with a high degree of interest.

10.2 Regulatory Response

See **10.1 Insurtech Developments**.

11. EMERGING RISKS AND NEW PRODUCTS

11.1 Emerging Risks Affecting the Insurance Market

Cyber-attacks have come to pose a severe and present risk, which Japanese companies have to cope with. Even though countermeasures are being introduced, they can easily be rendered ineffective. The Ministry of Economy, Trade and Industry of Japan (the METI) issued the Cybersecurity Management Guideline, which clarifies that cybersecurity is a business challenge and that Japanese companies have to take appropriate protective actions.

To respond to such situations, insurance companies have developed insurance products to cover the costs of information leakage or damages caused by a cyber-attack. However, considering the survey conducted by the General Insurance Association of Japan in 2019 showing that only 6.9% of SMEs respondents have purchased cyber-insurance, the cyber-insurance market in Japan still has enough room to grow.

11.2 New Products or Alternative Solutions

With advancements in autonomous car technology, it is being debated who should bear legal responsibilities in case of accidents involving self-driving cars. A project team of the General Insurance Association of Japan published a paper discussing legal responsibilities involving autonomous driving in June 2016.

In the paper, the project team gave its opinion that the current legal framework is basically applicable to level 3 autonomous driving, where an automated driving system performs entire driving tasks with the expectation that human drivers will respond appropriately to a driving system's request to intervene. Tokio Marine & Nichido Fire Insurance Co Ltd has added protection to cover accidents arising from malfunctions in autonomous driving systems in order to provide prompt relief to victims of such accidents.

Increased longevity may affect the strategy of insurance companies. Recently, the Institute of Actuaries of Japan published the Standard Longevity Table 2018 (previously amended in 2007), indicating significant decreases of projected death rates. With this trend, it is reported that insurance companies will lower fees for life insurance by 5%-10% for newly entered insurance contracts. It is also reported that demand is gradually shifting away from life insurance to products covering living costs when the insureds become unable to work, reflecting increased longevity.

12. RECENT AND FORTHCOMING LEGAL DEVELOPMENTS

12.1 Developments Impacting on Insurers or Insurance Products COVID-19

On 10 April 2020, as the impact of COVID-19 continued to expand, the FSA requested that the insurance industry consider a more flexible interpretation and application of policy conditions from the viewpoint of protecting policyholders, regardless of any precedents.

As of today, the insurance companies' policy is to pay insurance benefits by taking that request into consideration. For example, insurance companies have paid hospitalisation benefits to COVID-19 patients with mild or no symptoms who were given treatment at lodging facilities or at home in order to secure the availability of the medical system to severely ill patients.

The Financial Services Agency monitors insurance companies on issues they should address and the status of responses to them in order to build a sound and sustainable business model in light of changes in the business environment, including changes due to the COVID-19 pandemic, as well as the resulting changes in customer needs (digitalisation of sales activities, product development in response to the pandemic, etc).

On 5 June 2020, the "Act on Sales, etc, of Financial Instruments" was amended and renamed as the "Act on the Provision of Financial Services," which went into effect on 1 November 2021, as a part of the legislation on cross-sectional financial services intermediaries.

New Intermediary Business Category

The new law introduces a new category of "Financial Services Intermediary Businesses,"

a category which entails a registration system that allows for a one-stop mediation service in all financial areas for a single registration, covering banking, securities, insurance, and loans (ie, cross-sectional legislation for the provision of financial services).

Today, while the employment and the household arrangements have diversified, the progress of ICT has enabled the provision of various financial services online. In this context, the new law puts emphasis on allowing users of financial services more freedom of choice in obtaining financial services that satisfy their individual needs.

Belonging to Financial Institutions

It is not required to belong to a specific financial institution to start business of a financial services intermediary. However, a security deposit is mandatory to secure financial resources to pay potential compensation in the future. Furthermore, a financial services intermediary is not allowed to accept users' assets, handle certain types of services, or concurrently run an insurance agency or a brokerage business.

Scope of Insurance Products

The scope of insurance products that can be handled by financial services intermediaries is stipulated by a government decree, but financial service intermediaries are not allowed to handle insurance policies with strong investment potential, fire insurance, reinsurance, business-oriented insurance, group insurance, and non-life insurance with insurance amounts exceeding JPY20 million.

Insurance Brokers

Each individual insurer has to decide how to deal with financial services intermediaries and what attitude to adopt toward this new sales channel. The insurance sector already has a long-standing market player in the form of an insurance broker which is independent from insurers. To

determine what stance to take toward financial services intermediaries, insurers are advised to analyse their own relationships with brokers, bearing in mind the different functions served by brokers and intermediaries.

13. OTHER DEVELOPMENTS IN INSURANCE LAW

13.1 Additional Market Developments General Principles of Customer-Centric Business Operation (Comparable Common KPIs for Foreign-Currency-Denominated Insurance)

On 30 March 2017, the FSA published the "General Principles of Customer-Centric Business Operation". If financial undertakers running a financial company attempt to adopt these general principles (although it is up to financial undertakers whether to adopt them, in practice, however, it is difficult for insurers to choose not to do so), they are required, for example, to develop and make public clear guidelines to achieve the customer-centric business operation and then regularly make public announcements on how their efforts in relation to such guidelines are progressing.

The FSA Strategic Priorities for the fiscal year 2021 are as follows:

- The FSA will monitor the use of the Important Information Sheet, the product selection process for proposing the best product to customers, the sales and proposal process, and the efforts of the sales representative performance evaluation system.
- The FSA will disclose the status of initiatives taken by financial businesses in a comparable manner on its website and strengthen the dissemination of information through such means as the introduction of good practices.

- The FSA will encourage financial companies to engage in a dialogue with financial business operators, focusing on whether their policies of engagement with financial business operators reflect the content and spirit of (a) the Customer-Oriented Principles, and (b) the specific actions that sales representatives, etc, should take.
- The FSA will encourage financial institutions to prepare and publish “Comparable Common KPIs at Investment Trust Sales Companies” (Customer Ratio by Investment Profit/Loss, etc) that are introduced in investment trusts on the same basis for foreign currency-denominated insurance.

Policy for Insurance Supervision

On 31 August 2021, the FSA announced the “The JFSA Strategic Priorities July 2021-June 2022 - Overcoming COVID-19 and Building the Financial System for Greater Vibrancy.” Based on these JFSA Strategic Priorities the following policy of insurance supervision administration for fiscal year 2021 which was formulated.

Insurance companies are required to respond to changes in the business environment, such as the continuation of population decline and low interest rate environment, the intensification of natural disasters, the shrinkage of the automobile insurance market, and the advancement of digitisation, both now and in the post-COVID-19 scenario. In response to these changes in the business environment, it is important to build a sustainable business model and develop products in line with changes in customer needs.

IT

Currently, amid the growing need for non-face-to-face and efficient business operations, there are issues such as human resource development in response to digitalisation.

Group governance

As insurance companies expand overseas, it is important to advance the sophistication of governance on a group basis. Accordingly, cooperative efforts through dialogue with overseas authorities will be encouraged so that the sophistication of governance on a group basis can be steadily advanced.

Natural disasters

Regarding responses to natural disasters, amid a severe situation in which reinsurance premiums are soaring, it is an urgent issue to manage risks while striking a balance between capital, risk, and return at the management level. Monitoring of the efforts of each company will continue. Furthermore, the financial company will engage in dialogue with the non-life insurance industry, etc, regarding appropriate and prompt payment of insurance claims and the optimal fire insurance premium rate in line with the risk.

ESG

In addition, in response to the environmental changes referred to above, financial companies will, on an ongoing basis, examine appropriate protections of policyholders, etc, and make preparations for the smooth transition to a policy of soundness based on economic value-based solvency regulations, and will also constantly review financial indicators and regulations.

Chuo Sogo Law Office, P.C. specialises in the following insurance matters: legal advice and opinions relating to insurance laws and regulations; incorporations, mergers and acquisitions, company restructurings and liquidations for insurance companies; and litigation, mediation, ADR and other dispute resolutions involving insurance claims and insurance products. Since 2005, the firm has been loaning its attorneys

to work at the Financial Services Agency (FSA) – an agency overseeing the insurance sector in Japan. This experience has given Chuo Sogo insights into and a better understanding of the workings of this complex governmental agency, allowing it to better deal with complex insurance-related regulations to the benefit of its clients.

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