

**SUPPLEMENTARY MEASURES BY THE  
GOVERNMENT OF JAPAN AND THE GOVERNMENT  
OF THE UNITED STATES REGARDING INSURANCE**

December 24, 1996  
Washington, D.C.

Representatives of the Government of Japan and the Government of the United States met from December 1995 through December 1996 regarding the interpretation and application of the Measures by the Government of Japan and the Government of the United States Regarding Insurance, dated October 11, 1994 ("Measures"). As a result of these consultations, each Government has decided to implement these supplementary measures described herein ("Supplementary Measures") as an integral part of the Measures.

The two Governments note that on November 11, 1996, the Prime Minister of Japan instructed the Ministry of Finance to prepare and undertake fundamental reform and deregulation of Japan's financial system including the insurance sector by the year 2000. The Government of the United States welcomes this initiative and looks forward to its implementation. The two Governments share the view that implementation of the Measures and the Supplementary Measures is intended to be consistent with the Prime Minister's initiative to reform Japan's financial system.

/s/  
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/s/  
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Representative Designate

## I. Deregulation in the Primary Sectors

(1) The Ministry of Finance publicly announced on October 1, 1996 its decision to implement the following measures. The Government of the United States welcomes this decision by the Ministry of Finance,

- a. A direct response system (*Tsushin-Hanbai*) for automobile insurance is a distribution method whereby insurance providers offer their products to consumers through advertising media, such as newspapers and magazines, and through direct mail or telephone calls; accept applications of consumers delivered via mail or telephone calls; and enter into contracts with consumers through an exchange via mail or telephone calls, without meeting the consumers.

The Ministry of Finance decided to approve applications for a direct response system for automobile insurance as of October 1, 1996. At the same time, the Ministry of Finance decided to approve payment of premiums through the use of credit cards, with the policy effective from the date when the Insurance provider accepts credit card payment.

As of December 15, 1996, two insurance providers already have received approval of their applications to provide automobile insurance through a direct response system. The Ministry of Finance intends to approve other such applications, provided that they meet the relevant legal criteria.

- b. The Ministry of Finance decided to expand the scope of the advisory rate system for loading rates of commercial fire insurance effective April 1, 1998, by lowering the minimum amount per contract to 15 billion yen.
- c. The Ministry of Finance decided to add effective April 1, 1997, the following ten products to the list of products to which the notification system applies with respect to the rates and riders for such products:
  - medical malpractice liability insurance (*Ishi Baisho Sekinin Hoken*)
  - advanced loss of machinery profit insurance (*Sogyo Kaishi Chien Hoken*)
  - delayed start of construction insurance (*Kaigyo Chien Hoken*)
  - civil engineering completed risks insurance (*Doboku Kozobutsu Hoken*)
  - nuclear energy insurance (*Genshiryoku Hoken*)
  - umbrella liability insurance (*Kigyo Hokatsu Baisho Sekinin Hoken*)
  - environment liability insurance (*Kankyo Osen Baisho Sekinin Hoken*)
  - erection insurance (*Kumitate Hoken*)
  - moveable comprehensive insurance (*Dosan Sogo Hoken*)
  - computer comprehensive insurance (*Konpyuta Sogo Hoken*)

(2) The Ministry of Finance is prepared to make further efforts toward deregulation in the primary insurance sectors, and will take the following measures:

- a. The Ministry of Finance will expand the scope of the advisory rate system for loading

rates of commercial fire insurance effective January 1, 1997, by lowering the minimum amount per contract to 20 billion yen and to 7 billion yen effective April 1, 1998.

- b. The Ministry of Finance will add effective January 1, 1997, the products described in subsection (1) c. above as well as the following products to the list of products to which the notification system applies with respect to the rates and riders for such products:
- boiler and turbo-set insurance (*Boiler Turbo-set Hoken*)
  - transit insurance (*Unsoh Hoken*)
  - credit card theft insurance (*Credit Card Tonan Hoken*)
  - general liability insurance (*Baisho Sekinin Hoken*)
  - construction all-risk insurance (*Kensetsu Koji Hoken*)
  - surety bonds (*Hosho Shoken*)

### (3) Rating organizations

- a. To benefit Japanese consumers through greater innovation and competition in the insurance market, the Ministry of Finance has decided to take actions to undertake fundamental reform of the rating organization system, with a view toward achieving maximum liberalization through elimination of obligations for members of a rating organization to use rates calculated by the rating organization, while allowing members of a rating organization to use, for the purpose of calculating rates, the statistical data collected by the rating organization.
- b. The Government of Japan intends to submit to the Diet as early as possible in 1998 legislation which will achieve the objectives mentioned in paragraph a. above. All measures pertaining to domestic legislative action are subject to, and do not prejudge, deliberations by the Japanese Diet.
- c. When the legislative changes and their accompanying administrative measures are implemented, the Ministry of Finance will approve, within the standard processing period of 90 days after submission, applications allowing insurance providers to differentiate, on the basis of the risk insured, the rates, forms and distribution of products, without regard to whether such applications use statistical rates calculated by the rating organization.
- d. In the interim before the legislative changes and their accompanying administrative measures are implemented, the Ministry of Finance welcomes, and will approve within the standard processing period of 90 days after submission, applications for products in major product categories in the life and non-life sectors which provide for the flexibility to differentiate, on the basis of the risk insured, the rates, forms and distribution of products. (The timing for approval of differentiated auto insurance is addressed in subsection (4) below.)
- e. In the event that an application in paragraph d. involves differentiation beyond the rates or products approved within rating organizations, the following procedures will apply:

- i. When an insurance provider files the application, it can design the product with fully differentiated rates by utilizing the data collected by the relevant rating organization, since it is still a member of the rating organization at the time of application.
- ii. An insurance provider may, without having to withdraw from the rating organization:
  - (A) offer a product at a "special rate" "*Tokubetsu-ryoritsu*" as provided for in Section 4 of Article 10-5 of the Rating Organizations Law) approved by the Ministry of Finance; and
  - (B) offer a new product not governed by the requirements of Articles 10-5 and 10-6 of the Rating Organizations Law, subject to approval by the Ministry of Finance under Article 123 of the Insurance Business Law.
- iii. If a rating organization concludes in general or in a particular case that an insurance provider should withdraw from the organization to some degree, the Ministry of Finance will pursue resolution of technical issues that arise in connection with withdrawal, in a manner that facilitates withdrawal without undue restrictions or burdens on the insurance provider.
- iv. When, in order to offer a product at differentiated rates, an insurance provider has to leave the rating organization with respect to that product as well as other products for which the insurance provider does not intend to offer differentiated rates beyond the banded rates, the Ministry of Finance will approve the applications for such other products at the time the insurance provider is required to leave the rating organization, provided that the applications use rates calculated by the rating organization for those products.

#### (4) Automobile insurance with differentiated rates

- a. With a view to enhancing further the benefits to Japanese consumers, the Ministry of Finance will approve applications for automobile insurance with the flexibility to differentiate, on the basis of the risk insured, the rates, forms and distribution of products, including a direct response system for automobile insurance with differentiated rates (collectively, "differentiated auto insurance") effective September 1, 1997.
- b. Differentiation on the basis of the risk insured includes differentiation of rates outside the banded rates based on the following risk factors: age, sex, driving history, usage (e.g., commercial, personal) and pattern of use (e.g., mileage per year), geography (by region, i.e., Hokkaido, Shikoku, Kyushu, and Honshu, which will be divided into Tohoku, Kanto-Koshinetsu, Hokuriku-Tokai, and Kinki-Chugoku), vehicle type, vehicle safety features, multi-car ownership.

## **II. Entry into the third sector by subsidiaries**

### (1) Non-life subsidiaries of life insurance providers

- a. Non-life subsidiaries of life insurance providers will be permitted to sell personal accident insurance from January 1, 1997, subject to the following measures to avoid radical change in the third sector for small to medium and foreign insurance providers:
- i. protection of existing sales networks currently utilized by small to medium and foreign insurance providers, i.e., not allowing sales by the subsidiaries of:
    - (A) personal accident insurance based on a single policy written for and/or endorsed by non-profit inter-industry associations or foundations for managers of corporations;
    - (B) domestic and overseas travel accident insurance through travel agents;
    - (C) personal accident insurance for students marketed through or endorsed by schools (including all levels of schools, and including public and private schools), or scholastic, student or parent organizations or associations (i.e., *gakusei-dantai*, *dosokai*, and PTA); and
    - (D) personal accident insurance through direct response methods (*tsushin-hanbai* ),
  - ii.
    - (A) in the case of co-insurance, not allow the subsidiaries to sell group personal accident insurance, when they are not acting as lead managers among co-insurers; and
    - (B) in the case of sole underwriting or when a subsidiary is a lead manager among co-insurers, not allow the subsidiaries to sell group personal accident insurance to a group, inclusive of companies, associations, or other organizations capable of purchasing group personal accident insurance, that has had in effect in the preceding six months a policy for the same or a substitutable group personal accident insurance product by a small to medium and/or foreign insurance provider.
  - iii. not allow the subsidiaries to sell maturity refund personal accident insurance.

## (2) Life subsidiaries of non-life insurance providers

In order to avoid radical change in the business environment in the third sector, life subsidiaries of non-life insurance providers will not be allowed to sell stand-alone cancer insurance and stand-alone medical insurance, and the Ministry of Finance will maintain the limit regarding the ratio of rider benefits to base policy benefits that was in existence before implementation of the new Insurance Business Law on April 1, 1996.

## (3) Criteria for terminating measures to avoid radical change

The Ministry of Finance will terminate the measures to avoid radical change in the third sector

in subsections (1) and (2) above two and one-half years after all the following criteria are met. The Ministry of Finance intends for the date of termination of the measures described in subsections (1) and (2) to be no later than 2001. To accomplish this end, the Ministry of Finance intends to implement the measures described in section I by no later than July 1, 1998. The criteria are:

- a. whether the Ministry of Finance approved, within the standard processing period of 90 days, applications for differentiated auto insurance as described in section I (4);
- b. whether the Ministry of Finance has lowered the minimum insured amount per contract required for application of the advisory rate system for commercial fire insurance as described in section I (2) a,
- c. with respect to the notification system, whether the Ministry of Finance
  - i. has put into effect the notification system as described in section I (2) b; and
  - ii. allowed, within the standard period of 90 days, marketing of the products notified to the Ministry of Finance (i.e., did not reject the notifications);
- d. whether the Ministry of Finance has implemented the necessary legal changes (including administrative measures) to eliminate obligations for members of a rating organization to use rates calculated by the rating organization, as described in section I (3); and
- e. with respect to applications for differentiated products or rates, whether the Ministry of Finance approved, within the standard processing period of 90 days, the applications submitted.

### **III. Other issues**

- (1) The Ministry of Finance immediately will make a public announcement of the changes in its policies as provided for in section I.
- (2) If an insurance provider has submitted documents to the Ministry of Finance related to insurance products or rates, which the insurance provider considers to be an application, the insurance provider may make a request to the Ministry of Finance to determine its status. The Ministry of Finance will respond without undue delay to such requests and indicate whether it considers the documents to constitute a formal application.
- (3) The Ministry of Finance recognizes the concerns raised by the Government of the United States that a substantial increase in the Ministry of Finance staff dedicated to the processing of applications for insurance products and rates is necessary to achieve broad primary sector deregulation, and will take immediate steps to increase the number of staff in charge of processing applications.

## NOTES

1. Technical issues that will be resolved under section I (3) c. iii. include the following:

If an insurance provider withdraws from a rating organization with respect to voluntary automobile insurance, there will be no change in the insurance provider's operations with respect to compulsory automobile liability insurance (CALI). Accordingly, the insurance provider will continue to be allowed to:

- a. sell CALI within the rating organization system; and
- b. coordinate claims adjustment with other companies and settle claims as per current practice.

2. The seven regions mentioned in section I(4)b. consist of the following prefectures:

Hokkaido: Hokkaido

Tohoku: Aomori, Iwate, Akita, Miyagi, Yamagata, and Fukushima

Kanto-Koshinetu: Tokyo, Kanagawa, Saitama, Chiba, Ibaragi, Tochigi, Gunma, Yamanashi, Nagano, and Niigata

Hokuriku-Tokai: Toyama, Ishikawa, Fukui, Shizuoka, Aichi, Gifu, and Mie

Kinki-Chugoku: Osaka, Kyoto, Shiga, Nara, Wakayama, Hyogo, Okayama, Hiroshima, Tottori, Shimane, and Yamaguchi

Shikoku: Kagawa, Ehime, Tokushima, and Kochi

Kyushu: Fukuoka, Nagasaki, Saga, Oita, Kumamoto, Miyazaki, Kagoshima, and Okinawa

3. "Endorsement" which appears in section II (1) a. i. (A) and (C) means recommendation (*suisho*) and/or back-up (*koen*).
4. Non-profit inter-industry associations or foundations for managers of corporations which appears in section II (1) a. i. (A) means the *Zenkoku Hojinkai Sorengo*, *Kyokuren Hojinkai*, *Kenhojinkai Rengokai*, *Tan-i Hojinkai*, *Nozeikyokai Rengokai*, *Burokku-kai*, and *Nozeikyokai*.
5. In the event that no applications or notifications have been submitted by ninety days before the date of an assessment of whether the criteria in section II (3) are met, the criteria in section II (3) c. ii. , and e. will be considered to have been met.

6. The two Governments understand that whenever this document states that the Ministry of Finance will approve an application or will not reject a notification, the application or notification must meet the applicable legal criteria. The Ministry of Finance will apply the legal criteria in a fair and transparent manner, and will interpret them with a view toward allowing insurance providers to differentiate, on the basis of the risk insured, the rates, forms, and distribution of products.
7. The measures to avoid radical change in section II (1) do not apply to group long-term disability insurance (*dantai choki shogai shoioku hoshō hoken*) and income indemnity insurance (*shotoku hoshō hoken*), inclusive of individual long term disability insurance (*choki shogai tokuyaku*).