THE GENERAL INSURANCE ASSOCIATION OF JAPAN
Non-Life Insurance Building, 9 Kanda Awajicho 2-Chome, Chiyoda-Ku, Tokyo 101-8335, Japan
Tel: ＋81-3-3255-1703 Fax: ＋81-3-3255-1234 E-mail: kokusai@sonpo.or.jp

16 March 2012

Comments on the Consultative report on Principles for the supervision of financial conglomerates

The General Insurance Association of Japan (GIAJ) would like to thank the Joint Forum for the opportunity to provide its views on the "Principles for the supervision of financial conglomerates". The GIAJ is an industry organization whose 25 member companies account for around 95 percent of the total general insurance premiums in Japan.

General

We basically support the Joint Forum's efforts to address the "loopholes in sectoral supervision". We strongly support the Joint Forum's idea that the Principle is "supplementary to, does not replace, banking, insurance or securities supervisory frameworks". Supervisory systems in each sector are established under different business models, and those differences should be taken into consideration in the supervision of financial conglomerates. On that basis, it is reasonable for the Joint Forum to focus on "complexities and gaps resulting from cross-sectoral activities".

Meanwhile, there are various types in financial conglomerates depending on legal regime of the jurisdiction where they are located, their business practices, and the sector where they originated. In particular, with regard to corporate governance, it is important to ensure that their functions are fulfilled, and thus, due consideration should be given to uniformly requiring specific detailed requirements.

For individual paragraphs, we would like to ask for some clarification and make some suggestions as follows.

Scope of application

The first paragraph of "Scope of application" states, "any financial holding company, which conducts material financial activities". It is unclear how "material" would be assessed, and it should be explained in this Principle.

1(c)

We understand the importance for supervisors to require transparent group structures of financial conglomerates (financial groups), but at the same time, those structures are built on each group's business strategies, and thus, supervisors should not force financial conglomerates to change their structures without sufficient and prudent discussions.

5.2

It is stated "which is responsible for the largest part of the conglomerate" in paragraph 5.2, but clarification should be provided regarding what the meaning is of "the largest part of the conglomerate" and how it is measured.

6(c), 8(e)

In on-site and off-site supervision of financial conglomerates, supervision conducted in other sectors should be taken into consideration, relevant information should be sufficiently shared among supervisors and supervision should focus on the inherent risks of financial conglomerates.

It may be efficient to conduct on-site/off-site supervision at the financial conglomerate level and sector level in parallel.

9.2

There could be more examples of sanctions or corrective actions provided in paragraph 9.2. In order to ensure predictability of financial conglomerates, as many examples as possible of sanctions and corrective actions should be given.

10.5

If entities within a conglomerate have to meet corporate governance requirements which are stricter than those for local entities not belonging to conglomerates and not subject to this Principle, due care should be given to ensure the level playing field between them.

12.5

The ability and suitability of board members, senior managers and key persons in control functions cannot be assessed only on professional or formal qualification. If such qualifications are overly required, financial conglomerates may have difficulty in finding and utilizing suitable persons. Thus, we suggest revising the second sentence of paragraph 12.5 as follows, which is consistent with the IAIS's ICP 5.2.2.

> "Competence can generally be judged from the level of an individual's professional or formal qualifications and knowledge and/or pertinent experience within financial industries or other businesses."

14.5

While we understand the idea that the financial crisis is related to remuneration policy which encourages them to pursue short-term interests, remuneration policy for board members, senior manager and key persons in control functions should also reflect short-term interests in some cases. Thus, we suggest revising paragraph 14.5 as follows.

> ".......should be measured against performance criteria tied not only to the short-term, but also to the long-term interest of the financial conglomerate as a whole."

16.2

Paragraph 16.2 states that "in situations where their assessment is that the total requirement for the conglomerate ought to be higher sum of that for individual component businesses". In addition, this paragraph states that "Such situations would include, for example, complexity of the group structure, which could lead to contagion risk across entities".

However, we are not sure if such a case exists. More specific examples should be provided, if there are any. Capital is not always the best solution to ensure the soundness of financial conglomerates and unnecessary additional capital requirements should not be imposed.

17(b)

Paragraph 17(b) is difficult to understand. It needs to be explained more clearly. While this paragraph can be read that all of the entities within the group should be taken into account in terms of double and multiple gearing, it should be made clear that the scope of consolidation should be based on the principle of proportionality. We would like the Joint Forum to ensure that all of the entities within a group are not automatically included.

26(c)

We understand the importance of stress tests in light of assessing entities' soundness and robustness in severe, adverse times. However, there may be cases where the implications expected can not be taken sufficiently from the designated stress scenarios.

Therefore, in order to carry out effective group-wide stress tests, sufficient communication between supervisors and entities should be made in setting a stress scenario.

Thank you in advance for your kind consideration of the comments above.

<END>