Insurance Market and Regulatory Developments in Japan

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Recent macro-financial developments

- Insurers in Japan remain profitable and well-capitalized despite recent macro-financial developments
  - Inflation: picking up but still significantly lower than some of the other economies
  - JPY Interest rate: have been rising gradually, while BoJ continues monetary easing
  - Foreign interest rates: some impacts on investments to foreign currency-denominated bonds
  - Banking sector events: direct impact on insurance sector appears negligible
- Having said that, those developments underscore the importance of forward-looking supervision both from micro- and macro-prudential standpoints
  - Investment management: need to carefully monitor not just the impacts of external developments (e.g. equity, interest rate, credit spreads, FX rates) but also the investment strategies and behaviors going forward
  - Interest rate risk: Robust ALM is the key, could be better captured through economic (or market-consistent) approach
  - Liquidity risk: limited at this point, but vigilance is needed

Key supervisory/regulatory initiatives (1)

Insurers business models

- Japanese insurers face significant changes in business environment
  - Demographic change and shifting consumers' needs
  - Digitalization: potential impacts on operational efficiency, insurance products and distribution channels
- Strategic vision on the mid- to long-run business model is the key – JFSA has been conducting dialogues in this regard

Group-wide governance

- Major insurance groups in Japan have been gradually expanding overseas operations
- Supervisory Guideline was revised in 2020 to articulate key elements of group-wide governance and risk management framework
- JFSA has been monitoring their strategic plans on overseas businesses, and effectiveness of group-wide governance framework

Key supervisory/regulatory initiatives (2)

Intensifying natural catastrophes

- Intensification of natural catastrophes has posed challenges to Japanese insurers' property businesses (e.g. wind and floods)
- JFSA has been monitoring insurers' NatCat risk management (incl. reinsurance strategies), as well as products and pricing

Economic value-based solvency framework

- JFSA has been working intensively towards introduction of new economic value-based solvency (ESR) framework in FY 2025
  - Based on the Insurance Capital Standard (ICS) by the IAIS
  - Field tests (FTs) have been conducted annually in recent few years
- Not just a new minimum standard on solvency (i.e. Pillar 1) – will significantly change the entire prudential framework through Pillar 2 and 3
- JFSA continues working on finalization of remaining elements, while having close dialogue with the industry and other stakeholders

Thank you