

# REINSURANCE OF EARTHQUAKE INSURANCE

## MECHANISM OF REINSURANCE

In the event that a major earthquake happens, it can result in large payouts of insurance claim by insurance companies. Because there is a certain limit, however, to the ability of these companies to make payments, the government shares insurance responsibility with them through reinsurance.

JER reinsures the earthquake insurance contracts underwritten by non-life insurance companies to take on full liability, which we homogenize before we pass on the risk proportionally to the non-life insurance companies and the government by retrocession according to the limit indemnity. We take up the remaining indemnity.

## MECHANISM OF PAYMENT OF INSURANCE CLAIMS

The policyholder claims insurance money to the non-life insurance company when the policyholder suffers a certain loss or damage as a result of an earthquake, etc., and the company will pay insurance claim to the policyholder.

The non-insurance company which paid an insurance claim to the policyholder will claim the full amount from JER through reinsurance. JER will pay the reinsurance claim in full to the non-life insurance company.

This means that the amount of reinsurance claim paid by JER is the same as the amount of the insurance claim paid to the policyholder by the non-life insurance company.

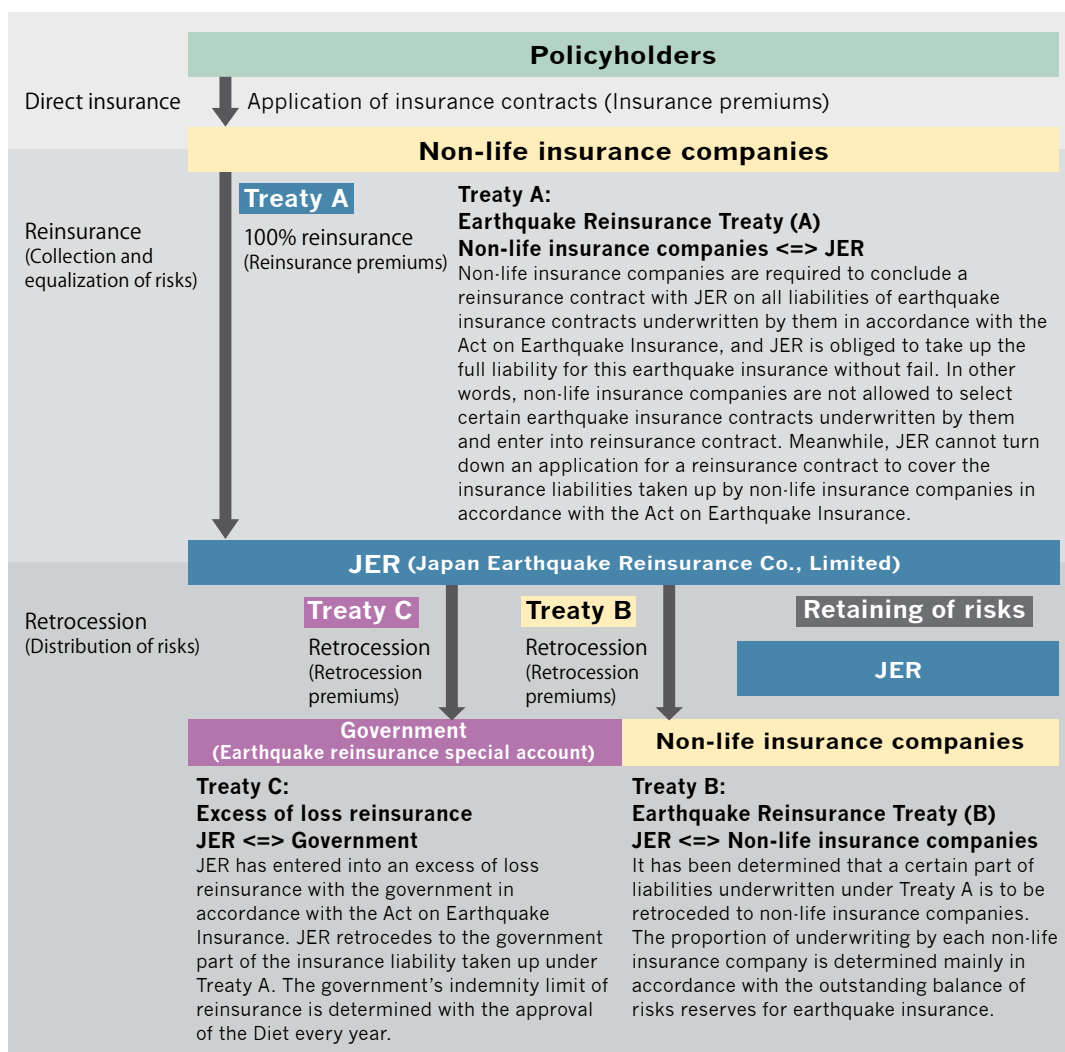
When a major earthquake occurs, a non-life insurance company must make a large amount of money ready so that it can pay a large number of insurance claims. To avoid problems in paying insurance claims, the government has set forth a ministerial ordinance that covers the payment of reinsurance claims pertaining to earthquake insurance based on a rough estimate, and promptly pays reinsurance claims based on a rough estimate (makes a provisional payment) through JER.



## FLOWCHART OF REINSURANCE

To enable the government, non-life insurance companies and JER to share insurance liabilities in an equitable manner, it is necessary to first collect and standardize evenly the risks non-life insurance companies underwrote, and then distribute them to the relevant organizations. It is also necessary to receive insurance premiums (reinsurance and retrocession premiums) as compensation for taking on insurance liabilities. To collect, evenly standardize and distribute risks and to give and take insurance premiums (reinsurance and retrocession premiums), reinsurance transactions are conducted, centered on JER.

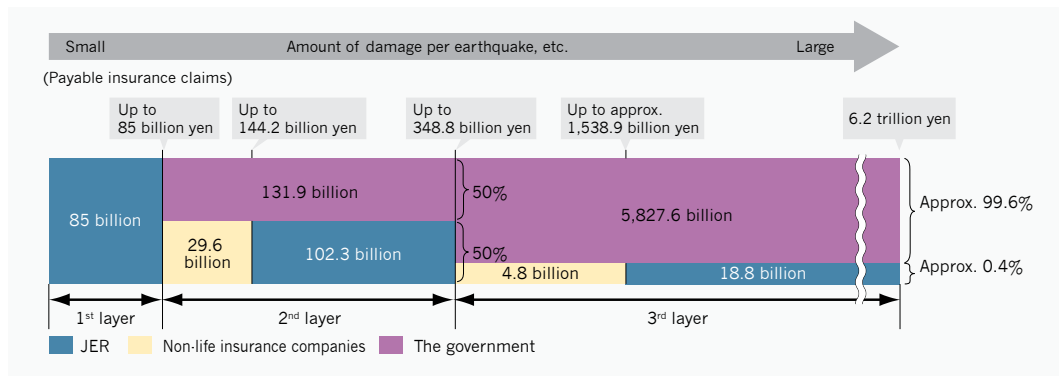
JER first reinsures earthquake insurance contracts that were underwritten by non-life insurance companies, and then divides the risks evenly. After excluding the risks held by JER, JER implements retrocession against the government and non-life insurance companies in accordance with the burden of risks taken on by each organization.



## INSURANCE LIABILITIES HELD BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

The limit of the total amount of insurance claims to be paid per earthquake, etc. is set in advance. This system is designed so that, even in the event of an earthquake as devastating as the Great Kanto Earthquake, insurance claims can be paid without problems. The current limit of total amount of insurance claims to be paid is set at 6.2 trillion yen. This is the reinsurance scheme that shows how JER, non-life insurance companies and the government share and limit insurance liabilities within the limit of the total amount of insurance claims to be paid per earthquake.

### REINSURANCE SCHEME (APPLICABLE TO EARTHQUAKE, ETC. THAT TAKE PLACE AFTER MAY 16, 2013)



### LIABILITY LIMIT

|                              |                     |
|------------------------------|---------------------|
| JER                          | 206.1 billion yen   |
| Non-life insurance companies | 34.4 billion yen    |
| The government               | 5,959.5 billion yen |

JER pays insurance claims up to 85 billion yen (1st layer) per earthquake, etc. The government and others (non-life insurance companies and JER) share equally insurance claims for the portion exceeding 85 billion yen, up to 348.8 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.6%) for the portion exceeding 348.8 billion yen (3rd layer). In portions of insurance claims to be paid by non-life insurance companies in the 2nd and 3rd layers, the first part represents insurance claims to be paid by non-insurance companies and the second part by JER.

In this way, in cases where insurance claims per earthquake, etc. exceed a certain amount, excess liabilities are shared by the relevant organizations. This is called the excess of the loss reinsurance.



## EXAMPLES OF INSURANCE CLAIMS TO BE PAID BY JER, NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT

Suppose that insurance claims amounting to 2 trillion yen for losses or damages associated with a single earthquake are to be paid. JER, non-life insurance companies and the government will pay each in the following amount:

(Unit: billion yen)

| Claims paid                  |                              |  |   |               |
|------------------------------|------------------------------|--|---|---------------|
|                              | Portion up to 85 billion yen | Portion over 85 billion yen, and up to 348.8 billion yen | Portion over 348.8 billion yen, and up to 2,000 billion yen | Total         |
| A person of burden           |                              |  |   |               |
| Non-life insurance companies | 85.0                         | 131.9  | About 6.7   | About 223.6   |
| The government               | —                            | 131.9  | About 1,644.5   | About 1,776.4 |
| Total                        | 85.0                         | 263.8  | 1,651.2   | 2,000.0       |

## THE BALANCE OF RISK RESERVES AT JER AND NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT LIABILITY RESERVES AT THE END OF FISCAL 2012

JER and non-life insurance companies save the risk premium of insurance premiums paid by policyholders as earthquake insurance risk reserves for the possible payment of earthquake insurance claims while the government saves government reserves in the earthquake insurance special account under law. Additionally, it is necessary for all investment profits from these accumulated liability reserves to also be accumulated as liability reserves. In the event that an earthquake occurs and causes losses or damages, each of JER, non-life insurance companies and the government pays an insurance claim according to each liability as stipulated in the reinsurance scheme by withdrawing from reserves.

|                              |                     |
|------------------------------|---------------------|
| JER                          | 352.8 billion yen   |
| Non-life insurance companies | 68.7 billion yen    |
| The government               | 962.3 billion yen   |
| Total                        | 1,383.8 billion yen |

Note 1: The risk reserves by the non-life insurance companies include the amount equivalent to deferred tax assets due to tax effect accounting.

2: Government reserves will be finalized when the settlement for fiscal 2012 is approved by the Diet.