

# 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.

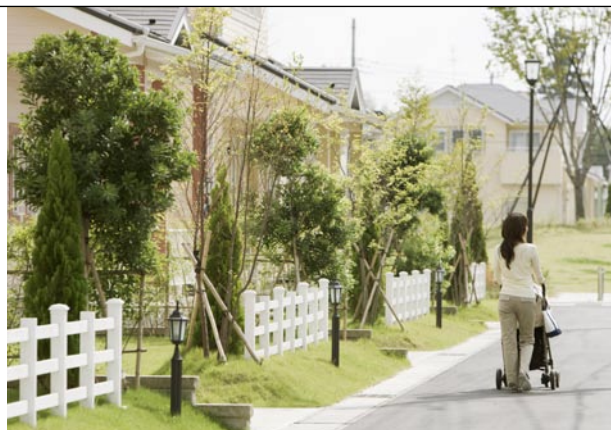
## MECHANISM OF PAYMENT OF INSURANCE CLAIMS

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.

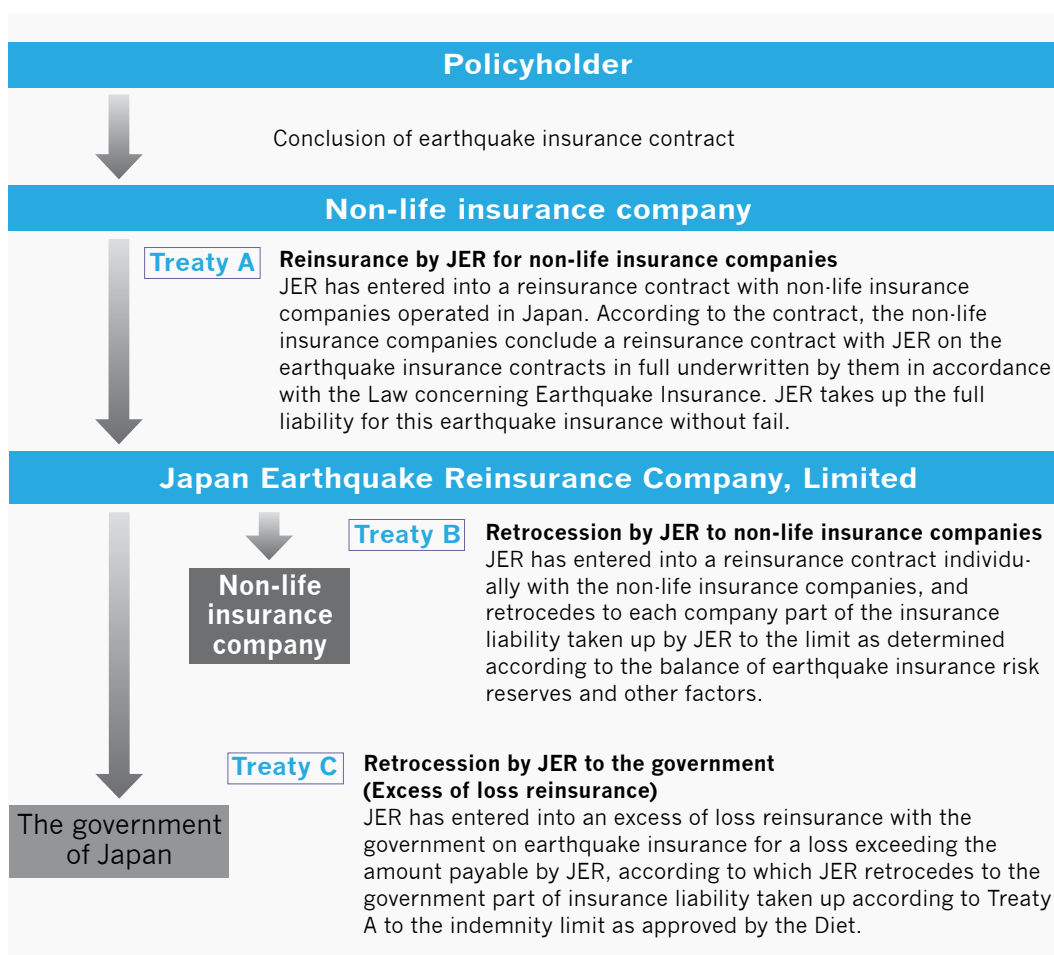
The non-insurance company which paid an insurance claim to the policyholder will claim the full amount from JER through reinsurance. JER will pay the reinsurance claim in full to the non-life insurance company.

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 nonlife 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 the Company.



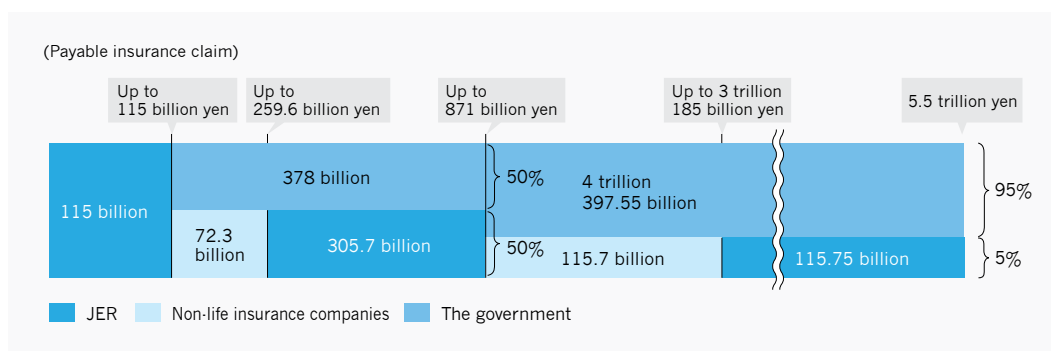
## FLOWCHART OF REINSURANCE OF EARTHQUAKE INSURANCE



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

The following is the reinsurance scheme, showing how JER, non-life insurance companies and the government share insurance liabilities, and the way each handles the shared liabilities. Revised as follows on May 2, 2011, in response to the Great East Japan Earthquake that took place on March 11 of the same year.

### REINSURANCE SCHEME

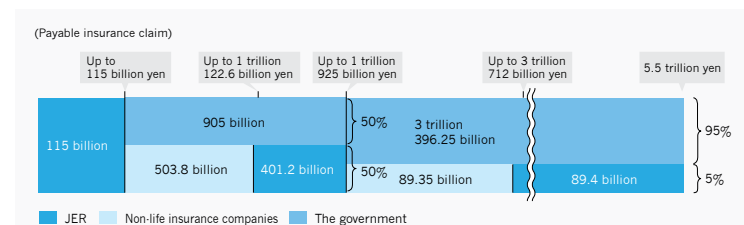


### LIABILITY LIMIT

JER	536.45 billion yen
Non-life insurance companies	188.00 billion yen
The government	4,775.55 billion yen
<b>Total</b> (limit amount of payable insurance claims)	<b>5.50 trillion yen</b>

The previous reinsurance scheme that was effective from April 1, 2009 until May 1, 2011

\*This scheme has been applied to the payment of reinsurance claims for losses or damages caused by the Great East Japan Earthquake.



JER	605.60 billion yen
Non-life insurance companies	593.15 billion yen
The government	4,301.25 billion yen
<b>Total</b> (limit amount of payable insurance claims)	<b>5.50 trillion yen</b>



## THE BALANCE OF RISK RESERVES AT JER AND NON-LIFE INSURANCE COMPANIES AND THE GOVERNMENT LIABILITY RESERVES AT THE END OF FISCAL 2010

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. 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	424.4 billion yen
Non-life insurance companies	489.1 billion yen
The government	1,342.7 billion yen
<b>Total</b>	<b>2,256.3 billion yen</b>

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

## 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 over 115 billion yen, and up to 871 billion yen			Total
	Portion up to 115 billion yen	Portion over 115 billion yen, and up to 871 billion yen	Portion over 871 billion yen, and up to 2,000 billion yen	
A person of burden				
JER	115.0	305.7	—	420.7
Non-life insurance companies	—	72.3	56.45	128.75
The government	—	378.0	1,072.55	1,450.55
<b>Total</b>	<b>115.0</b>	<b>756.0</b>	<b>1,129.0</b>	<b>2,000.0</b>