JAPAN EARTHQUAKE REINSURANCE CO., LTD.

PROFILE

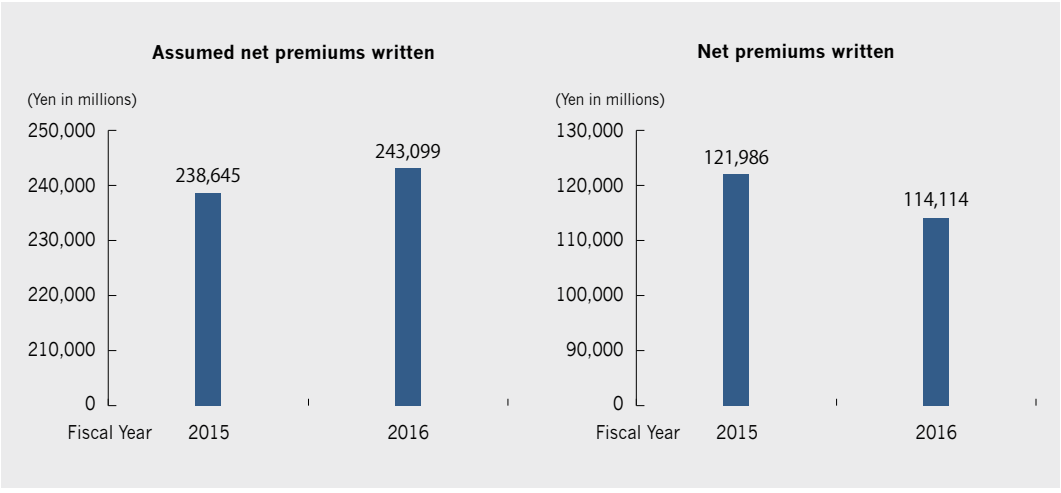
In accordance with the introduction of the Law concerning Earthquake Insurance (Law No. 73, May 18, 1966) and following the launch of sales of earthquake insurance on dwelling risks to be written in conjunction with dwelling and shop-owners comprehensive insurance policies, JER was established with share capital of 1 billion yen by 20 domestic Japanese non-life insurance companies on May 30, 1966. The Company was licensed for the earthquake insurance business and started its operation on June 1, 1966.

Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

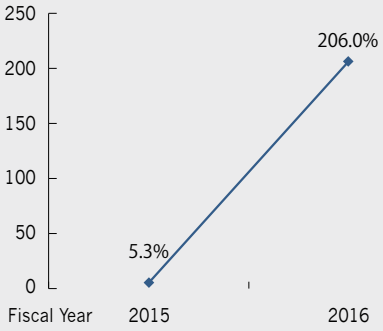
The insurance premiums paid by policyholders are separated from non-life insurance companies, and are managed and operated by the government and JER.

JER is thus at the center of a reinsurance system, and undertakes reinsurance procedures with the government and non-life insurance companies, while managing and operating the insurance premiums paid by policyholders as the sole earthquake reinsurance company in Japan.

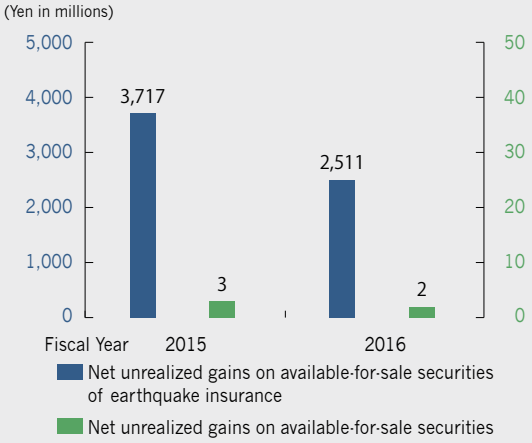
FINANCIAL HIGHLIGHTS



Net loss ratio



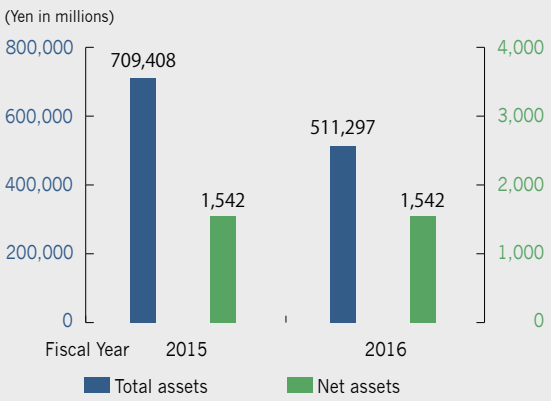
Net unrealized gains on available-for-sale securities of earthquake insurance and net unrealized gains on available-for-sale securities



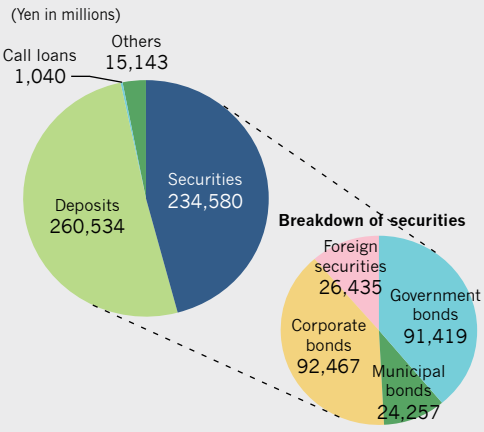
Non-consolidated solvency-margin ratio

Items	FY2015	FY2016
(A) Total amount of non-consolidated solvency-margin	469.3 billion yen	282.6 billion yen
(B) Total amount of non-consolidated risk	239.3 billion yen	188.9 billion yen
Non-consolidated solvency-margin ratio (A) / {1/2x(B)} x 100	392.1%	299.1%

Total assets and net assets

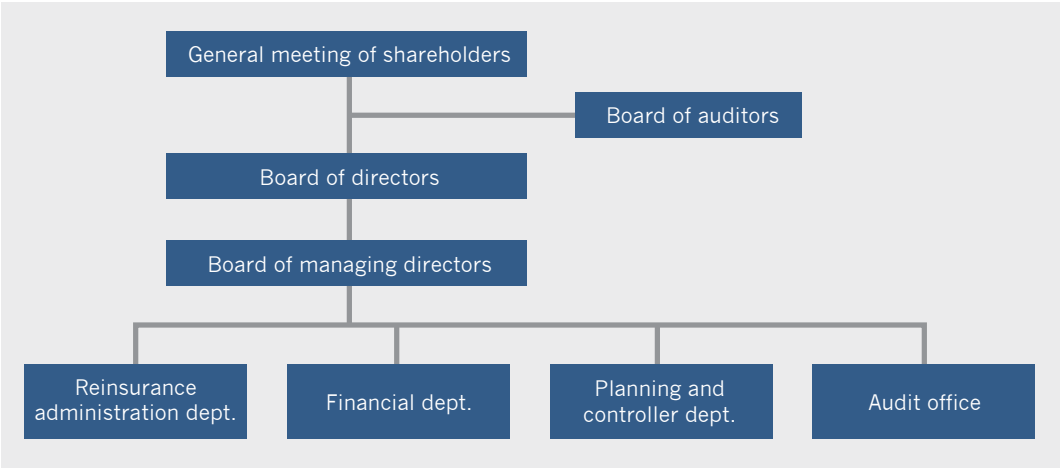


Breakdown of total assets



ORGANIZATION

(As of April 1, 2017)



SHAREHOLDERS

(As of March 31, 2017)

Shareholder	No. of shares owned (1,000 shares)	Percentage of shares owned (%)
Tokio Marine & Nichido Fire Insurance Co., Ltd.	537	26.9
Sompo Japan Nipponkoa Insurance Inc.	529	26.5
Mitsui Sumitomo Insurance Co., Ltd.	338	16.9
Aioi Nissay Dowa Insurance Co., Ltd.	255	12.8
The Fuji Fire and Marine Insurance Co., Ltd.	123	6.2
The Toa Reinsurance Co., Ltd.	93	4.7
Nisshin Fire & Marine Insurance Co., Ltd.	61	3.1
The Kyoei Fire & Marine Insurance Co., Ltd.	34	1.7
The Asahi Fire and Marine Insurance Co., Ltd.	8	0.4
SECOM General Insurance Co., Ltd.	7	0.4

BOARD MEMBERS (FULL-TIME)

(As of July 1, 2017)

Post	Name
Chairman (representative director)	Yoshihiko Murase
President (representative director)	Makoto Sugimachi
Managing director (representative director)	Shinji Okazaki
Managing director (representative director)	Shoichiroh Takemoto
Corporate auditor	Katsuhiko Murata

RESPONSES TO MAJOR EARTHQUAKES

We consider prompt earthquake reinsurance payouts to be our most important mission. Based on this view, we have established a standing Task Force Against Earthquake Disaster that deals exclusively with earthquake disaster responses. Consisting of our full-time directors and division managers, the Task Force oversees system development in preparation for major earthquakes and carries out periodic earthquake response drills.
We also manage and operate the assets we have accumulated for the purpose of earthquake reinsurance payouts by paying the utmost attention to their liquidity (cashability) and safety so that reinsurance payouts are made without delay in the event of a major earthquake.

Task Force Against Earthquake Disaster

Our Task Force Against Earthquake Disaster is working to make business continuity management (BCM) more effective in preparation for an inland earthquake in the Tokyo metropolitan area, with the view that this activity is of the utmost importance.
Immediately after the Great East Japan Earthquake, the Task Force reformed system infrastructure and relocated important systems to data centers that are more resistant to earthquakes to ensure business continuation in the event of an office disaster. In addition, the Task Force substantially reduced the risk of simultaneous disaster damage by establishing a backup system in Okinawa. The Task Force also established a system that enables directors and employees to continue undertaking important business from home, even in cases where traveling to the office becomes impossible, by building a system that can be accessed from external locations. The Task Force confirms the effectiveness of this system through regular work-at-home exercises.
In fiscal 2016, the Task Force Against Earthquake Disaster took steps to respond to the 2016 Kumamoto Earthquakes that struck in April 2016, establishing the “Project Team (PT) Against Earthquake Disaster” consisting of working-level employees to continuously discuss and examine issues for JER in earthquake disasters from a company-wide and cross-sectional perspective. We are working to increase the effectiveness of our readiness for earthquake disasters, raising the awareness of individual employees about BCM and disaster prevention by increasing opportunities for working-level employees to be involved in measures against earthquake disasters through their participation in the PT.

Drills by Department (drills at home and using a temporary office)

From November 2016 to February 2017, the Task Force Against Earthquake Disaster conducted drills by department, based on the assumption that employees were working at home or in a temporary office, as an initiative to strengthen BCM. The Planning and Controller Department reconfirmed the initial operation based on the assumption that an earthquake strikes outside working hours and the operation that responses need to be made for systems at a time when the persons in charge are absent. The Reinsurance Administration Department

then ran drills for reinsurance claim payments based on rough estimates. In addition, members of the Financial Department checked the operation to raise funds in the temporary office immediately after a major earthquake.

Drills for all employees (drills for processing loss assessment expenses)

The number of claims for loss assessment expenses increases significantly when a major earthquake strikes, making it impossible for the department in charge to handle them.
To address this problem, the Task Force Against Earthquake Disaster conducted drills every year for checking and inputting the loss assessment expenses, with all JER employees participating, to secure processing personnel. In fiscal 2016, the employees showed the results of their routine drills by actually checking and inputting the loss assessment expenses in the claims for loss assessment of the 2016 Kumamoto Earthquakes. During normal conditions, the Task Force will work to secure personnel that can make prompt payments to prepare JER for an inland earthquake in the Tokyo metropolitan area and an earthquake in the Nankai Trough, both of which are expected to produce claims outnumbering those made at the time of the Great East Japan Earthquake.

Management Based on Highly Liquid Assets

Should a disaster such as an inland earthquake in the Tokyo metropolitan area strike, we would have to pay a tremendous amount of reinsurance claims in a short period of time. For this reason, we always manage assets safely commensurate with our responsibilities, centered on highly rated bonds such as highly liquid government bonds. We also hold mainly short- and medium-term bonds to reduce the risk of price fluctuations at the time of their liquidation.

Preparations for Earthquakes

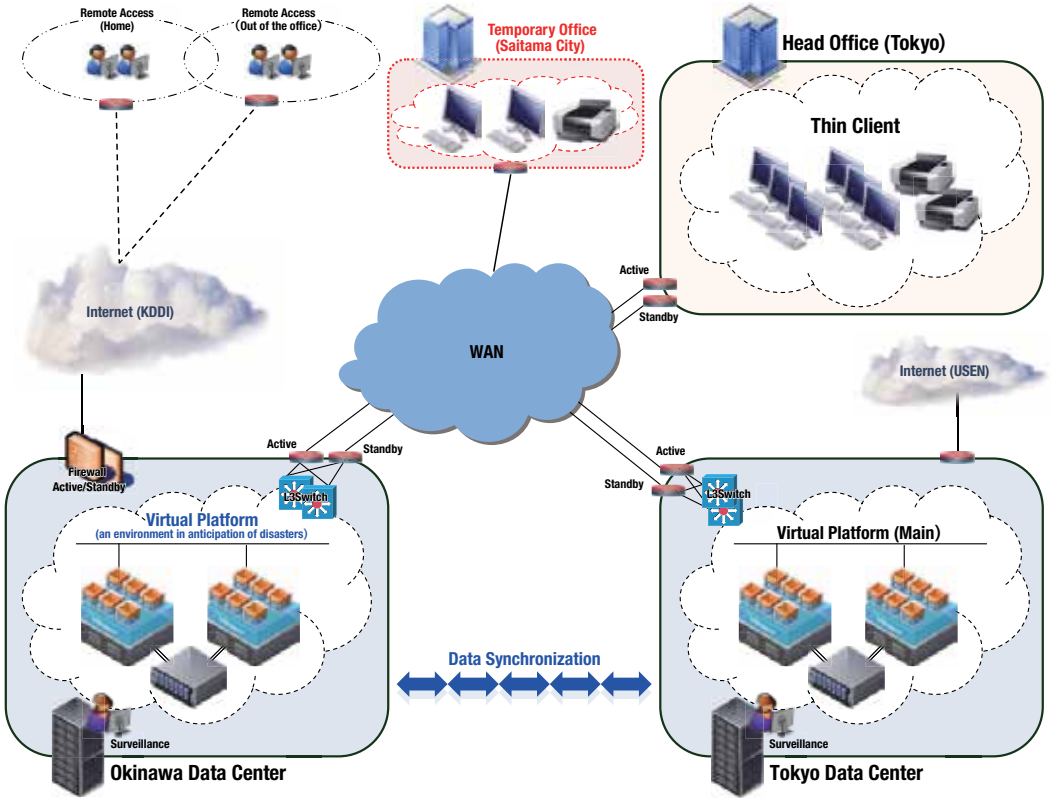
We have installed a terminal for receiving early earthquake warnings from the Japan Meteorological Agency at our head office. We use this terminal to ensure the safety of visitors, directors and employees. We are proceeding with a program for making business facilities, equipment and the like at our head office earthquake-proof as well. In accordance with the part of the Tokyo metropolitan ordinance related to measures for dealing with commuters who are unable to get home, we store sufficient drinking water, food, daily necessities and other items to enable employees to stay in the office if an earthquake occurs during working hours.

System Infrastructure in Anticipation of an Inland Earthquake in the Tokyo Metropolitan Area

To ensure business continuity in the case of the feared inland earthquake in the Tokyo metropolitan area, in March 2013 we renovated all of our important systems and moved them onto a virtual platform at a cutting-edge data center in Tokyo, which has Japan's highest-level earthquake-resistance capacity and energy utilization efficiency. To make doubly sure, we have established a backup system at our data center in Okinawa, which is unlikely to be affected by an earthquake at the same time as Tokyo, and have built a system for data synchronization between Tokyo and Okinawa using a communications line.

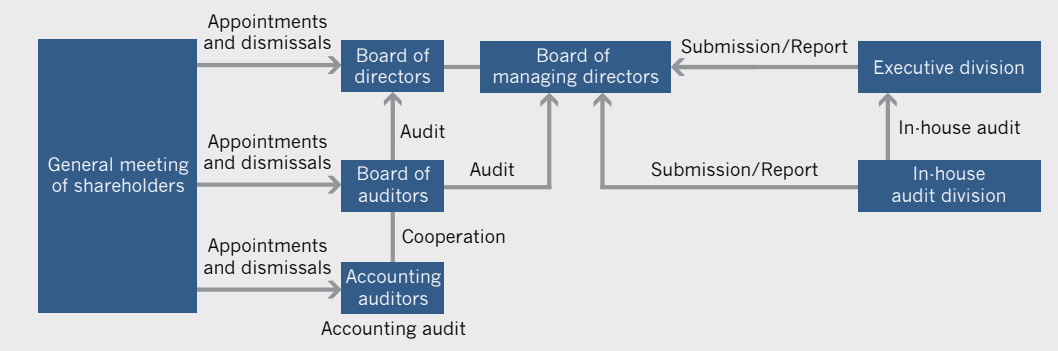
Moreover, we have made our terminals thin clients and concentrated data on the virtual platform to reduce the risk of data loss and information leakage. Combined with a remote access system whereby users outside the company can access the company's system via the Internet, we have created an environment that enables employees to use the same systems as usual if they have access to the Internet, even if the transportation network is disrupted by an inland earthquake in the Tokyo metropolitan area and they are unable to come to the office.

We will continue to focus on strengthening our business continuity management in anticipation of an inland earthquake in the Tokyo metropolitan area.



CORPORATE GOVERNANCE

We believe that establishing corporate governance is an important management issue, and are endeavoring to manage our business in a sound and appropriate manner by establishing a transparent management system with verification functions.



Auditing and Inspection Systems

Outside Auditing and Inspection

We are subject to inspection by the Financial Services Agency under the Insurance Business Act and inspection by the Ministry of Finance under the Act on Earthquake Insurance. We also undergo accounting audits by PricewaterhouseCoopers Aarata LLC in accordance with the Companies Act.

In-house auditing

Corporate auditors conduct audits and the Audit Division of JER, which is independent from other divisions, conducts in-house audits. The corporate auditors and the Audit Office work closely with each other in a bid to ensure effective audits.

The purpose of an in-house audit is to develop and establish an internal control system. This is done by conducting an audit to examine and evaluate various in-house systems and the execution of various internal activities fairly and objectively from the standpoint of lawfulness and rationality. It also requires the provision of the necessary advice and recommendations based on the examination and evaluation.

The Audit Office conducts regular audits of the internal control conditions of all divisions as well as audits on priority themes based on the “In-house Audit Plan” for each fiscal year adopted by resolution of the Board of Directors, and the results of in-house audits are reported to the Board of Directors, etc.

Risk management system

We have developed a structure in which risk management is appropriately carried out to ensure sound and safe management. This organizational framework and important risk management issues are defined in our Risk Management Rules and Integrated Risk Management Rules. Specific ways of managing various risks—namely, asset management risks, liquidity risks, and operational risks—are defined in our management rules for each type of risk and our annual risk management policies. Based on these rules, the planning and controller department, which is the integrated risk management department, manages risks in an integrated manner by monitoring the risk management situation. We have also established a company-wide Risk Management Committee as an advisory board for officers in charge of risk management to make proposals for various risk management issues.

ASSET MANAGEMENT RISKS

Risks relating to asset management are classified into “market risks” and “credit risks” for risk management, and the management standards are stipulated in the “Standards for Management of Investment Risks” for each fiscal year.

Market risks

Market risks include interest-rate risk, foreign exchange risk, and price volatility risk. These are the risks of losses that investors may sustain with fluctuations in the value of assets or debt, or in income, due to changes in a number of risk factors in the market. We manage overall market risks both quantitatively and qualitatively. We measure the value at risk (VaR) of interest rates and currency exchange as the amount of risk, while also monitoring the unrealized gain/loss and price changes (sensitivity). We also apply an upper limit of retention or a loss-cut rule if necessary. In addition, we have separate divisions for executing transactions and for handling administrative processes, respectively, thereby enabling the supervisory and checking functions to work effectively.

Credit risks

Credit risks are the risks of a reduction in value or the disappearance of assets, which results when the credit standing of the borrower has weakened, for example.

When purchasing securities, we limit their issuers to those with high credibility with reference to the credit rating made by rating agencies. We always check securities held to determine credibility, and conduct individual controls to avoid a concentration on a specific group of companies or type of business. We also measure the credit VaR based on the default rate, etc. for managing credit risks.

Stress test

The VaR that statistically measures the amount of risks has a limit in circumstances when financial market is fluctuating greatly. The stress test is used to complement monitoring in such circumstances. The stress test examines the amount of potential losses by assuming a situation in which risk factors, such as interest rates and exchange rates, fluctuate considerably.

LIQUIDITY RISKS

Liquidity risks are the risks of losses that may be caused by failure to ensure the liquidity of assets against debt or by being forced to execute transactions at a disadvantageous price due to market turmoil, etc. These risks are important in fulfilling our social mission. We own sufficient liquid assets by keeping in mind the possibly of having to dispose of all assets in the event of a major earthquake. We also strive to accurately assess cash flows, thereby managing funds appropriately.

OPERATIONAL RISKS

Operational risks are classified into "Administrative risks," "IT system risks," and "other operational risks," and we manage these risks as appropriate given the characteristics of each.

Administrative risks

Administrative risks are the risks of losses that may be caused by the failure of officers, employees, or any other members of an organization to do accurate paperwork, or by accidents, fraud, or any other improper acts. We constantly examine the rules and regulations of authority and paperwork procedures and manuals and strive to improve our training programs and educational system, to ensure exact and perfect paperwork. We also regularly check the rules and regulations through in-house auditing for conformity with related laws and regulations.

IT system risks

IT system risks are risks of losses that may be caused by IT system problems such as computer system failures or glitches or by unauthorized use of a computer.

We strive to protect our information assets appropriately under our Security Policy and Safety Measure Standards, which we established for preventing leaks of internal information, etc., and as safety measures for our information system. In addition, we have clarified our measures for handling crises by developing the Information System Contingency Plan for disasters and other emergency situations.

Other operational risks

As other operational risks, we are aware of such risks as "human resource risks" (the risks of losses that may be caused by outflows or losses of human resources) and "reputational risks." We strive to manage these risks with each responsible division playing the leading role.

* Underwriting risks are excluded from risks to be managed, because earthquake insurance on dwelling risks has been managed under the legal system.