

2020 Annual Report

Introduction to Earthquake Reinsurance in Japan





Japan Earthquake Reinsurance

Management philosophy

JER will aim to be a respected company that contributes to the sustainable development of a prosperous and safe society through the appropriate management of the earthquake insurance system.

Management policy

**Based on our initiative and spirit of challenge,
We will establish a fair and highly transparent management system.
We will also respond promptly and decisively to changes in the social environment.**

We will prepare the reinsurance payment system to enable prompt and proper actions after a large earthquake.

We focus on liquidity and safety in asset management.

Contents

- 1 **Message from the President**
- 2 **Japan Earthquake Reinsurance Co., Ltd.**
- 4 **Topics**
- 5 **Earthquake Insurance in Japan**
- 13 **Reinsurance of Earthquake Insurance**
- 17 **Statistics**
- 20 **Financial Section**
- 28 **Corporate Data**

MESSAGE FROM THE PRESIDENT



Chairman:
Yoshihiko Murase

President:
Shoji Ito

This is a great privilege for me to lead Japan Earthquake Reinsurance Co., Ltd. (“JER”). I would like to begin this message by expressing my sincere gratitude to all our stakeholders for their continued support.

Since 1966, when the earthquake insurance system was established, JER, the only company in Japan specializing in household earthquake insurance, has held to its management philosophy and management policy, and continues to work to realize them.

JER has been making an effort to promptly and reliably make earthquake reinsurance payouts, such the 1995 Great Hanshin-Awaji Earthquake, the 2011 Great East Japan Earthquake, and the 2016 Kumamoto Earthquakes.

The earthquake reinsurance scheme is managed through public-private cooperation with the Japanese government, private non-life insurance companies and JER working together.

However, the quick recovery of private-sector reserves has become an urgent issue due to numerous earthquake disasters. The Japanese government adopted and implemented a special measure to distribute reinsurance premiums in a special account budget for earthquake reinsurance. This led to the establishment of a stable mechanism for earthquake reinsurance, marking a significant step forward towards building a strong and sustainable earthquake reinsurance system.

I am committed to continuing our efforts to execute our duties with the support of all of our employees. We aim to be a respected company.

July 2020

Shoji Ito
President
Japan Earthquake Reinsurance Co., Ltd.

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.

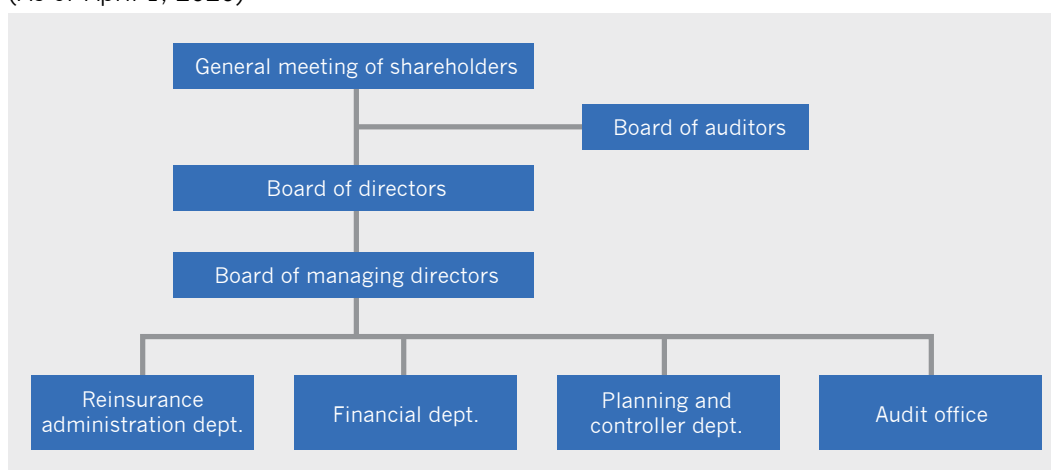
Earthquake insurance on dwelling risks depends on this reinsurance system (which is a safety net, as it were), in which the government, non-life insurance companies and JER participate to ensure that insurance claims can be paid to policyholders without fail.

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.

ORGANIZATION

(As of April 1, 2020)



SHAREHOLDERS

(As of March 31, 2020)

Shareholder	No. of shares owned (1,000 shares)	Percentage of shares owned (%)
Tokio Marine & Nichido Fire Insurance Co., Ltd.	537	26.9
Sompo Japan Insurance Inc.	529	26.5
Mitsui Sumitomo Insurance Co., Ltd.	338	16.9
Aioi Nissay Dowa Insurance Co., Ltd.	255	12.8
AIG General Insurance Company, 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
Rakuten General Insurance Co., Ltd.	8	0.4
SECOM General Insurance Co., Ltd.	7	0.4

BOARD MEMBERS (FULL-TIME)

(As of July 1, 2020)

Post	Name
Chairman (representative director)	Yoshihiko Murase
President (representative director)	Shoji Ito
Managing director (representative director)	Motomi Ikeda
Managing director (representative director)	Hiroyuki Hata
Corporate auditor	Tsuyoshi Suzuki

TOPICS

MAJOR EARTHQUAKES IN THE PAST YEAR

Earthquakes that registered a maximum intensity of a strong five or above on the Japanese seismic scale in the period from June 18, 2019 to June 18, 2020 are shown in the following table. We express its heartfelt sympathies to all those affected by the earthquakes.

Date of occurrence	Name	Magnitude (M)	Maximum seismic intensity
June 18, 2019	Earthquakes centered offshore from Yamagata	6.7	Strong 6: Murakami-shi
March 13, 2020	Earthquake centered in the Noto Region of Ishikawa Prefecture	5.5	Strong 5: Wajima-shi

(Prepared by JER based on the results of a search of a seismic intensity database published on the official website of the Meteorological Agency)

EARTHQUAKE INSURANCE IN JAPAN

ESTABLISHING THE EARTHQUAKE INSURANCE SYSTEM

Japan is well known for its frequent earthquakes. Traditionally, the thinking has been that it is difficult to provide insurance coverage for damage caused by earthquakes. One reason for this is that nobody can be sure when an earthquake will strike. Another reason is that there is a risk that a major earthquake could cause tremendous damage. Earthquake insurance was for many years the subject of a great deal of research and discussion, to little avail. Despite this, there was considerable public demand for a system of earthquake insurance on dwelling risks to enable victims of an earthquake who have lost their homes or property to rebuild their life. Responding to this demand, the non-life insurance business continued to study ways to build such a system.

The Niigata Earthquake of June 1964 prompted efforts to establish the system. The government and the non-life insurance industry conducted a detailed examination of the earthquake insurance system, ultimately leading to the Law concerning Earthquake Insurance. The system for earthquake insurance on dwelling risks was built based on this law and Japan Earthquake Reinsurance Co., Ltd. (JER) was established. We play a key role in taking on full responsibility with the reinsurance of earthquake insurance contracts entered into by non-life insurance companies.

MECHANISM OF THE EARTHQUAKE INSURANCE SYSTEM

Earthquake insurance is arranged as an optional rider to fire insurance which covers buildings for residential use and/or personal property. Earthquake insurance cannot be purchased on its own. If you conclude a fire insurance contract without earthquake insurance, you are required to seal the earthquake insurance check column of the fire insurance contract application form.

If you have entered into a fire insurance contract without earthquake insurance, you will be able to purchase earthquake insurance while your fire insurance contract is valid. In some areas, however, if an announcement warning of an earthquake has been made, you may not be able to purchase earthquake insurance.



INSURANCE COVERAGE

Loss of or damage to buildings for residential use and/or personal property through fire, destruction, burial or flooding caused directly or indirectly by any earthquake or volcanic eruption, or resulting tsunami (hereinafter referred to as an earthquake, etc.).

Fire insurance* does not cover

1. any losses caused by fire (including the spread thereof, and expanded loss) resulting from an earthquake, etc., and
2. any fire that has spread because of an earthquake, etc. Earthquake insurance is needed to compensate for these kinds of losses.

INSURABLE INTERESTS

Buildings for residential use and/or personal property

None of the following is insurable:

A building used as a plant or office, and not used for dwelling purposes, precious metals, gems or antiques valued at 300,000 yen or more per piece, currency, securities (checks, share certificates, gift certificates), certificates of deposit, revenue stamps, postal stamps, automobiles and certain other items.

TERM INSURED

Short-term, one year and long-term (two to five years)

AMOUNT INSURED

The policyholder is required to set the amount insured under earthquake insurance within a range of 30-50% of the amount of insurance provided by his/her fire insurance. However, the amount insured is limited to a maximum of 50 million yen for a building** and 10 million yen for personal property.

* Fire insurance

Ordinary fire insurance, long-term comprehensive insurance, deposit life comprehensive insurance, dwelling fire insurance, householders' comprehensive insurance, storekeepers' comprehensive insurance and certain other types of insurance.

** The amount insured of a condominium building such as apartment building is limited to 50 million yen, totaling exclusive areas and common areas.

PAYMENT OF INSURANCE CLAIMS

Insurance claims are paid according to the policyholder's earthquake insurance to cover total, half or partial loss of the policyholder's residential building and/or personal property.

(Table 1-1) <Policies the inception date of which is on or after January 1, 2017>

Insurable objects	Degree of loss	Amount of insurance claim paid
Residential buildings, personal property	Total loss	100% of amount insured (up to the current price* of the insurable objects)
	Large half loss	60% of amount insured (up to 60% of the current price of the insurable objects)
	Small half loss	30% of amount insured (up to 30% of the current price of the insurable objects)
	Partial loss	5% of amount insured (up to 5% of the current price of the insurable objects)

(Table 1-2) <Policies the inception date of which is on or before December 31, 2016>

Insurable objects	Degree of loss	Amount of insurance claim paid
Residential buildings, personal property	Total loss	100% of amount insured (up to the current price* of the insurable objects)
	Half loss	50% of amount insured (up to 50% of the current price of the insurable objects)
	Partial loss	5% of amount insured (up to 5% of the current price of the insurable objects)

Note: If the degree of damage is judged to be less than a partial loss, insurance claims will not be paid.

CASES WHEN NO INSURANCE CLAIM IS PAYABLE:

- Loss or damage due to willful acts or gross negligence or violation of law
- Loss or theft of the objects of the insurance
- Loss or damage due to war or insurrection
- Loss or damage occurring ten days or more after the earthquake
- Loss or damage caused only to gates, walls, fences, and other parts that are not major structural parts.

* *Current price*

The current price is such that the amount of depreciation according to the service year is deducted from the price of a new building.



AUTHORIZATION CRITERIA OF LOSSES

Major loss assessment standards by degree of loss are as follows.

(Table 2-1) <Policies the inception date of which is on or after January 1, 2017>

	Residential building		Personal property
Degree of loss	Amount of loss of major structural parts	Area of floor burnt down or washed away (partial loss applies when the residential building is flooded above floor level)	Degree of loss of or damage to the personal property
Total loss	50% or more of the current price of the residential building	70% or more of the total floor area of the residential building	80% or more of the current price of the personal property
Large half loss	From 40% to less than 50% of the current price of the residential building	From 50% to less than 70% of the total floor area of the residential building	From 60% to less than 80% of the current price of the personal property
Small half loss	From 20% to less than 40% of the current price of the residential building	From 20% to less than 50% of the total floor area of the residential building	From 30% to less than 60% of the current price of the personal property
Partial loss	From 3% to less than 20% of the current price of the residential building	The residential building was damaged but the damage is not as much as total, large half, small half or partial loss, although it was flooded above the floor level or above 45 cm from the ground level.	From 10% to less than 30% of the current price of the personal property

(Table 2-2) <Policies the inception date of which is on or before December 31, 2016>

	Residential building		Personal property
Degree of loss	Amount of loss of major structural parts	Area of floor burnt down or washed away (partial loss applies when the residential building is flooded above floor level)	Degree of loss of or damage to the personal property
Total loss	50% or more of the current price of the residential building	70% or more of the total floor area of the residential building	80% or more of the current price of the personal property
Half loss	From 20% to less than 50% of the current price of the residential building	From 20% to less than 70% of the total floor area of the residential building	From 30% to less than 80% of the current price of the personal property
Partial loss	From 3% to less than 20% of the current price of the residential building	The residential building was damaged but the damage is not as much as total, half or partial loss, although it was flooded above the floor level or above 45 cm from the ground level.	From 10% to less than 30% of the current price of the personal property

* *Current price*

The current price is such that the amount of depreciation according to the service year is deducted from the price of a new building.

LIMIT OF TOTAL AMOUNT OF INSURANCE CLAIMS TO BE PAID

Limit of total amount of insurance claims to be paid* is limited to 11,700 billion yen as revised in April 1, 2019 per earthquake, etc. In the event the total amount of insurance claims payable exceeds the limit, law allows insurance claims per contract to be reduced.

PREMIUM RATE

The premium rate for earthquake insurance is calculated by the General Insurance Rating Organization of Japan** on the basis of the Law concerning General Insurance Rating Organizations. The basic rate of insurance premiums consists of a risk premium rate applicable to or appropriate for the future payment of insurance claims and a loading premium rate applicable to or appropriate for non-life insurance company expenses and agency commissions.

$$\text{Premium rate} = \text{Risk premium rate} + \text{Loading rate}$$

The Headquarters for Earthquake Research Promotion***, a government organization, published the Probabilistic Seismic Hazard Maps. The risk premium rate is calculated based on the latest revised damage projection method to cover all earthquakes used in the preparation of the maps that are assumed to have the potential to cause damage in the future.

The premium rate actually applied is calculated by multiplying the basic rate of the insurance premium that is set according to the structure of the residential building and the residential building to accommodate personal property that are subject to insurance and the building location, by a discount rate set according to the earthquake-resistance capability (for which certain confirmation documents are required).

* *Limit of total amount of insurance claims to be paid*

The Law concerning Earthquake Insurance stipulates that the limit to the total insurance claims payable by the government and private insurance company per earthquake, etc.. For details, see page 23 Insurance liabilities held by JER, non-life insurance companies and the government.

** *General Insurance Rating Organization of Japan*

An organization established in accordance with the Law concerning General Insurance Rating Organizations, which aims to provide a fair basis premium rate applicable to non-life insurance.

*** *The Headquarters for Earthquake Research Promotion*

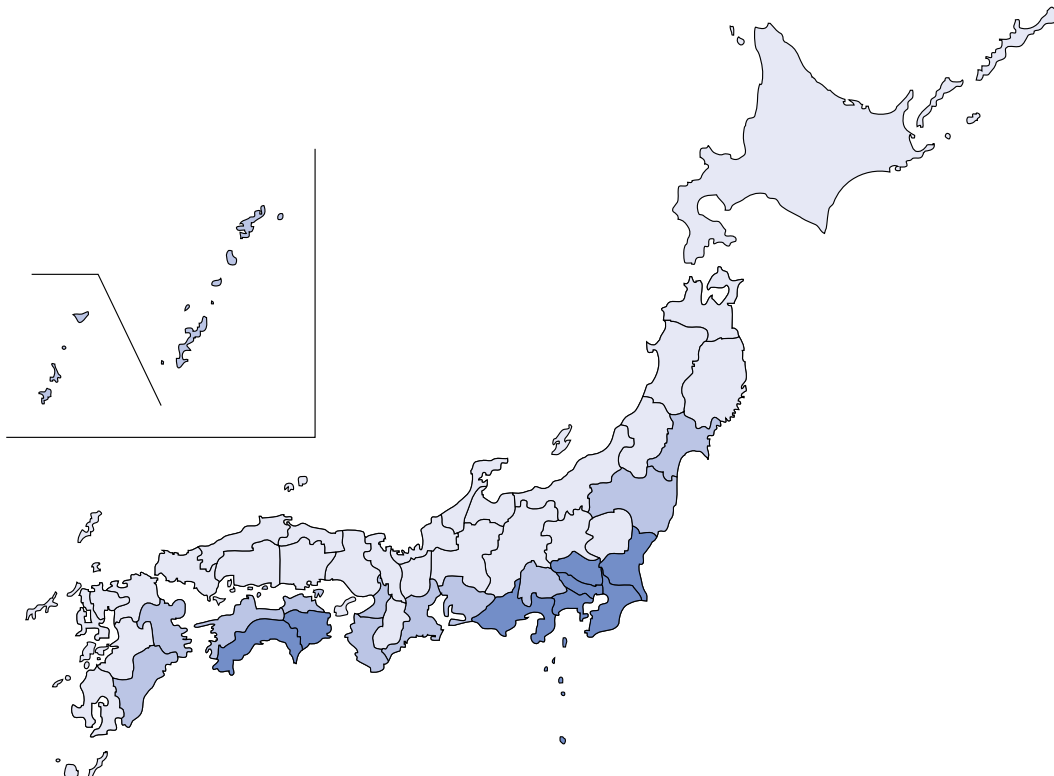
Following on the lessons learned from the Great Hanshin-Awaji Earthquake Disaster, the Special Measure Law on Earthquake Disaster Prevention was enacted to develop a system to facilitate research and study on earthquakes, and based on this Law, the Headquarters for Earthquake Research Promotion was founded in July 1995. In March 2005, the Headquarters for Earthquake Research Promotion published two kinds of maps as the National Seismic Hazard Maps for Japan: the Probabilistic Seismic Hazard Map and the Scenario Earthquake Shaking Map. The National Seismic Hazard Maps are subject to an annual review.



**BASIC RATE (APPLICABLE TO BUILDINGS AND PERSONAL PROPERTY)
EXAMPLES OF PREMIUMS**

Per one year insurance period and 10 million yen of amount insured (Unit: yen)

Location classification	Prefecture	Non wooden	Wooden
1	Iwate-ken, Akita-ken, Yamagata-ken, Tochigi-ken, Gunma-ken, Toyama-ken, Ishikawa-ken, Fukui-ken, Nagano-ken, Shiga-ken, Tottori-ken, Shimane-ken, Okayama-ken, Hiroshima-ken, Yamaguchi-ken, Fukuoka-ken, Saga-ken, Nagasaki-ken, Kumamoto-ken, Kagoshima-ken	7,100	11,600
	Hokkai-do, Aomori-ken, Niigata-ken, Gifu-ken, Kyoto-fu, Hyogo-ken, Nara-ken	7,800	13,500
2	Fukushima-ken	8,500	17,000
	Miyagi-ken, Yamanashi-ken, Kagawa-ken, Oita-ken, Miyazaki-ken, Okinawa-ken	10,700	19,700
	Ehime-ken	12,000	22,400
	Osaka-fu	12,600	22,400
3	Aichi-ken, Mie-ken, Wakayama-ken	14,400	24,700
	Ibaraki-ken	15,500	32,000
	Saitama-ken	17,800	32,000
	Tokushima-ken, Kochi-ken	15,500	36,500
	Chiba-ken, Tokyo-to, Kanagawa-ken, Shizuoka-ken	25,000	38,900



DISCOUNT RATE

Either discount rate will apply to the foregoing basic premiums rate when the building and personal property come under any of the following:

- Discounts cannot be claimed more than once.

(a) Seismic isolated building* discount

When the building is a seismic isolated building constructed in accordance with related laws and accommodated personal property

Discount rate	50%
---------------	-----

(b) Earthquake-resistance class** discount rate

When the building corresponds to the earthquake-resistance class as provided for by law and accommodated personal property

Earthquake-resistance class	1	2	3
Discount rate	10%	30%	50%

(c) Earthquake-resistance diagnosis discount

When the building was assessed as having an earthquake-resistance capacity*** equivalent to that stipulated by related laws as a result of an earthquake-resistance diagnosis or an earthquake-resistance refurbishment, and accommodated personal property

Discount rate	10%
---------------	-----

(d) Building age discount rate

When the building was constructed during or after June 1981 and accommodated personal property

Discount rate	10%
---------------	-----

* *Seismic isolated building*

A seismic isolated building is a building that is assessed to be a seismic isolated building in accordance with the related indicators in the Japanese Housing Performance Designation Standards under the Housing Quality Guarantee Law.

** *Earthquake-resistance class*

The earthquake-resistance class of a residential building is an indicator of earthquake resistance as stipulated in the Japanese Housing Performance Designation Standards based on the Housing Quality Guarantee Law. It is also used to evaluate a building for earthquake resistance as provided for in the assessment guidelines for earthquake-resistance diagnosis based on the earthquake-resistance class (as to the body of the building) established by the Ministry of Land, Infrastructure and Transport. A description of the classes is as follows.

Earthquake-Resistance Class 3

A class suggesting that the building will not topple or collapse against a force that is 1.5 times stronger than the force of an earthquake (as provided for in Paragraph 3, Article 88, Enforcement Order of the Construction Standard Act) that occurs very rarely (once every some hundred years)

Earthquake-Resistance Class 2

Class suggesting that the building will not topple or collapse against a force 1.25 times stronger than the force of an earthquake that occurs very rarely

Earthquake-Resistance Class 1

Class suggesting that the building will not topple or collapse against that force of earthquake that occurs very rarely

*** *Earthquake-resistance capacity*

Earthquake-resistance capacity is a seismic capacity that conforms to the current earthquake-resistance standards set out in the Building Standards Law.



PREMIUM RATE OF A LONG-TERM CONTRACT

Premium rate of a long-term contract (a two-to-five year contract with special conditions for premiums) is calculated as follows:

Contract period	2 years	3 years	4 years	5 years
Coefficient	1.90	2.80	3.70	4.60

An example of insurance premiums calculated

A wooden residential building constructed in January 2000 in Hyogo-ken:

Fire insurance (principal contract) amount insured: Building 20 million yen; personal property 10 million yen

Period of insurance: One year

- Setting the amount insured of earthquake insurance: In this case, the proportion insured (*) will be 50%.
Residential building: 20 million yen x 50% = 10 million yen
Personal property: 10 million yen x 50% = 5 million yen
- Confirming the premium rate applicable: Hyogo-ken, wooden
→ 1.35 (premium per 1,000 yen insurance)
- Confirming the discount rate applicable: Building constructed in and after June 1981
→ 10%

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on residential building} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 12,200 \text{ (yen)} \\ \text{(1,000 yen)} \qquad \qquad \qquad \underbrace{\qquad \qquad \qquad}_{1.22}$$

$$\begin{array}{l} \text{Earthquake insurance premium} \\ \text{on personal property} \end{array} = \begin{array}{l} \text{Earthquake} \\ \text{amount insured} \end{array} \times \begin{array}{l} \text{Earthquake insurance} \\ \text{premium rate} \end{array} \times \begin{array}{l} \text{Discount rate} \\ (100\% - 10\%) \end{array} = 6,100 \text{ (yen)} \\ \text{(1,000 yen)} \qquad \qquad \qquad \underbrace{\qquad \qquad \qquad}_{1.22}$$

* Proportion Insured
The insured earthquake amount as a percentage of the insured fire amount. The insured earthquake amount should be 30-50% of the insured fire amount.

INCOME TAX CREDIT SYSTEM FOR EARTHQUAKE INSURANCE

In the tax system revision in fiscal 2006, the old income tax credit for non-life insurance was revised, and an income tax credit for earthquake insurance was established to support self-help efforts of the public in preparation for earthquake damages. As the revision enables deductions of up to 50,000 yen and 25,000 yen from the gross income, etc. for the purposes of income tax and the local inhabitant tax, respectively, the purchase of an earthquake insurance policy became easier.

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.

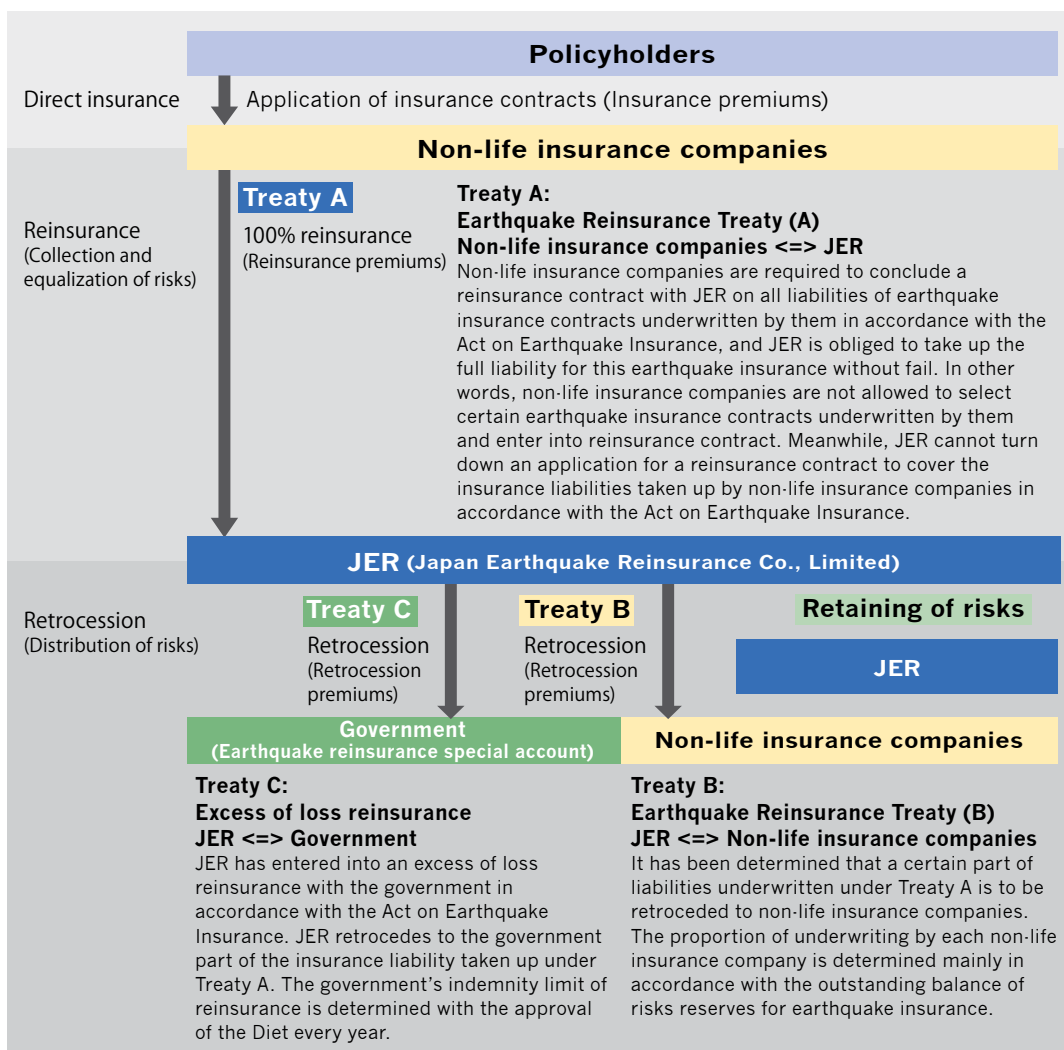
When a major earthquake occurs, a non-life insurance company must make a large amount of money ready so that it can pay a large number of insurance claims. To avoid problems in paying insurance claims, the government has set forth a ministerial ordinance that covers the payment of reinsurance claims 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.

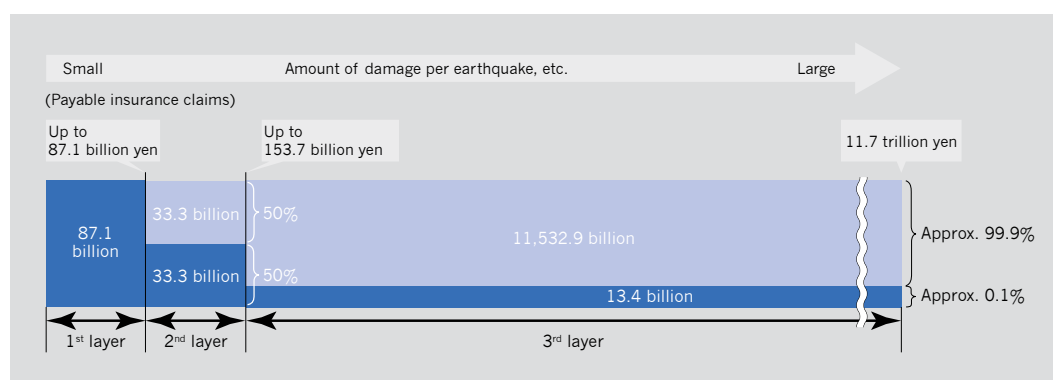
JER first reinsures earthquake insurance contracts that were underwritten by non-life insurance companies, and then divides the risks evenly. After excluding the risks held by JER, JER implements retrocession against the government and non-life insurance companies in accordance with the burden of risks 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 11.7 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 APRIL 1, 2019)



LIABILITY LIMIT

JER and non-life insurance companies	133.8 billion yen
The government	11,566.2 billion yen

JER and non-life insurance companies pay insurance claims up to 87.1 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 87.1 billion yen, up to 153.7 billion yen (2nd layer). The government pays a majority of insurance claims (approximately 99.9%) for the portion exceeding 153.7 billion yen (3rd layer).

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	A person of burden			Total
	Portion up to 87.1 billion yen	Portion over 87.1 billion yen, and up to 153.7 billion yen	Portion over 153.7 billion yen, and up to 2,000 billion yen	
JER and Non-life insurance companies	87.1	33.3	About 2.1	About 122.5
The government	—	33.3	About 1,844.2	About 1,877.5
Total	87.1	66.6	1,846.3	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 2019

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 reinsurance 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	222.8 billion yen
Non-life insurance companies	31.6 billion yen
The government	1,897.0 billion yen
Total	2,151.5 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 2019 is approved by the Diet.

STATISTICS

REINSURANCE CLAIMS PAID IN FISCAL 2019

Reinsurance claims paid in fiscal 2019 amounted to 33.3 billion yen, including earthquake reinsurance claims paid to cover the 2018 Hokkaido Eastern Iburi Earthquake and the 2018 Northern Osaka Earthquake. In terms of numbers, 52,551 claims were paid (on the basis of insurance policies). See below for claims paid for major earthquakes.

Earthquake (Region name)	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. The 2018 Hokkaido Eastern Iburi	September 6, 2018	6.7	18,046	10,772
2. The 2018 Northern Osaka	June 18, 2018	6.1	15,122	9,065
3. Central Eastern Part of Iburi	February 21, 2019	5.8	4,551	3,280
4. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	3,982	2,839
5. The 2016 Kumamoto	April 14, 2016	7.3	2,729	2,404
Other earthquakes	—	—	8,121	5,014
Total	—	—	52,551	33,378

THE PERCENTAGE OF HOUSEHOLDS PURCHASING EARTHQUAKE INSURANCE IN AREAS AT RISK OF MAJOR EARTHQUAKES

Earthquake (Region name)	No. of households (A) (1,000 households)	No. of policies (B) (1,000 policies)	Percentage of households with insurance (B/A) (%)	Probability that an earthquake could occur within the next 30 years
Great Kanto	26,770	9,333	34.9	Nearly 0%–6%
Tokyo metropolitan	18,970	6,663	35.1	About 70%
Nankai trough	45,112	15,218	33.7	70%–80%

Note 1: Number of households is prepared based on data of the Ministry of Internal Affairs and Communications (as of January 1, 2019).

2: JER prepared the number of policies, assuming that major prefectures were stricken, based on the preliminary figures as of the end of 2018 from the General Insurance Rating Organization of Japan.

3: The probability that an earthquake could occur within the next 30 years is based on the 2020 version of the National Seismic Hazard Maps for Japan of the Headquarters for Earthquake Research Promotion of the Japanese government.

The probability of a Great Kanto Earthquake is that of a magnitude 8 earthquake along the Sagami Trough. The probability of an inland earthquake in Tokyo metropolitan area is that of a magnitude 7 earthquake to be caused by a sinking plate along the Sagami Trough.



TOP 20 EARTHQUAKES AS TO REINSURANCE CLAIMS PAID

See the table below for the top 20 earthquakes with respect to reinsurance claims paid since the earthquake insurance system was established.

(As of March 31, 2020)

Earthquake (Region name)	Date of occurrence	Magnitude	No. of policies	Reinsurance claims paid (million yen)
1. The 2011 off the Pacific coast of Tohoku	March 11, 2011	9.0	821,205	1,286,152
2. The 2016 Kumamoto	April 14, 2016	7.3	212,316	388,308
3. The 2018 Northern Osaka	June 18, 2018	6.1	145,664	116,217
4. Hyogo-ken Nanbu	January 17, 1995	7.3	65,427	78,346
5. The 2018 Hokkaido Eastern Iburi	September 6, 2018	6.7	66,493	49,443
6. Miyagi-ken-oki	April 7, 2011	7.2	31,018	32,408
7. Fukuoka-ken Seiho-oki	March 20, 2005	7.0	22,066	16,973
8. Geiyo	March 24, 2001	6.7	24,453	16,942
9. Niigata-ken Chuetsu	October 23, 2004	6.8	12,609	14,897
10. Niigata-ken Chuetsu-oki	July 16, 2007	6.8	7,873	8,251
11. Fukuoka-ken Seiho-oki	April 20, 2005	5.8	11,338	6,430
12. Tokachi-oki	September 26, 2003	8.0	10,553	5,990
13. Iwate-Miyagi Nairiku	June 14, 2008	7.2	8,276	5,545
14. Tottori-ken Chubu	October 21, 2016	6.6	7,110	5,515
15. Suruga-wan	August 11, 2009	6.5	9,546	5,190
16. Shizuoka-ken Tobu	March 15, 2011	6.4	5,450	4,742
17. Iwate-ken Engan Hokubu	July 24, 2008	6.8	7,756	3,973
18. Fukushima-ken Hamadori	April 11, 2011	7.0	2,382	3,683
19. Nagano-ken Chubu	June 30, 2011	5.4	2,992	3,337
20. Central Eastern Part of Iburi	February 21, 2019	5.8	4,551	3,280

Note 1: After the 2011 off the Pacific coast of Tohoku, in accordance with our reinsurance scheme at the time, the government paid 585,576 million yen and JER and non-life insurance companies paid 700,576 million yen.

2: After the 2016 Kumamoto Earthquake, in accordance with our reinsurance scheme at the time, the government paid 136,504 million yen and JER and non-life insurance companies paid 251,804 million yen.

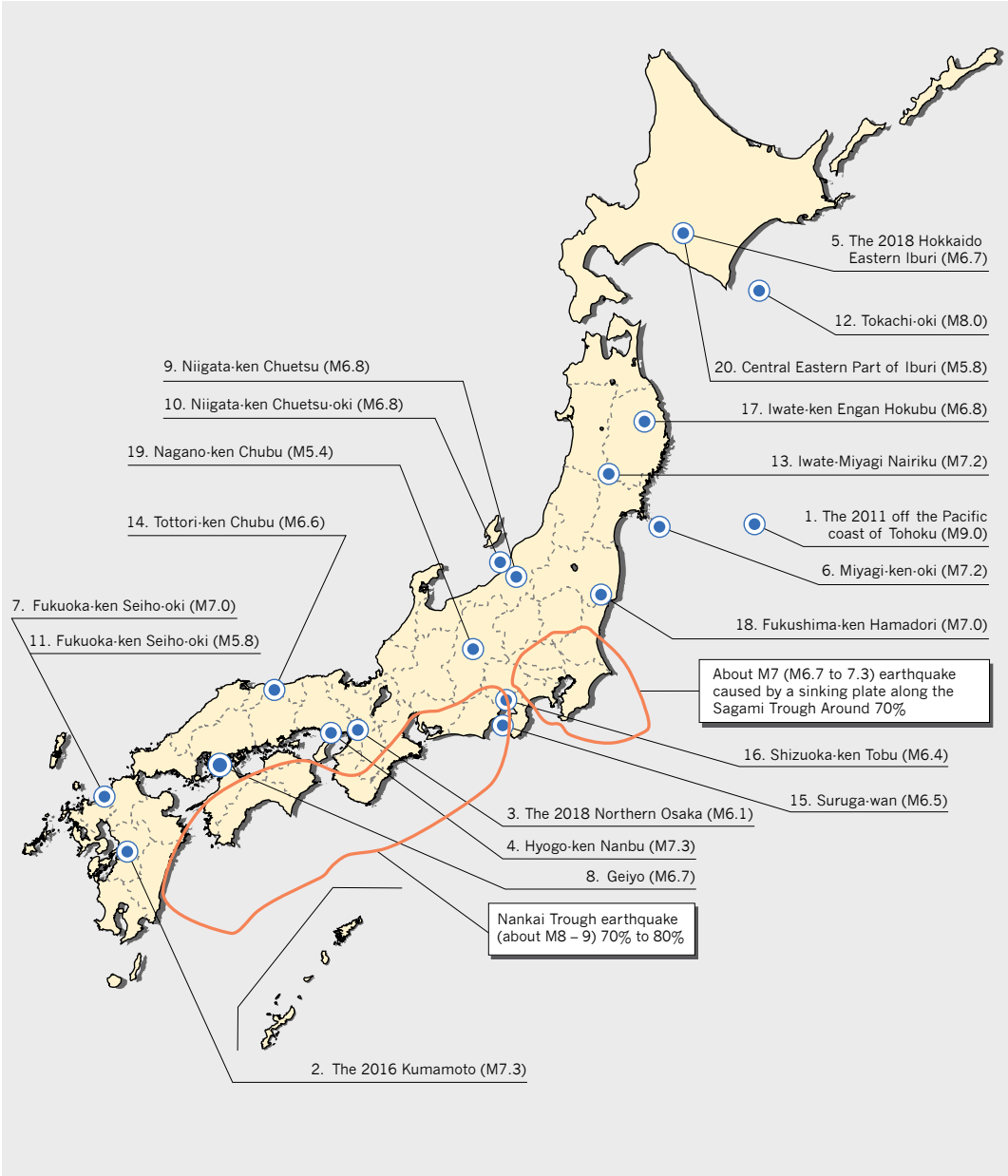
3: After the 2018 Northern Osaka Earthquake, in accordance with our reinsurance scheme at the time, the government paid 13,908 million yen and JER and non-life insurance companies paid 102,308 million yen.

4: After the Hyogo-ken Nanbu Earthquake in 1995, in accordance with our reinsurance scheme at the time, the government paid 6,173 million yen and JER and non-life insurance companies paid 72,173 million yen.



Below are the epicenters and magnitudes of the top 20 earthquakes for which we paid reinsurance claims in the past. The number attached to the name of the earthquake is in order of payment amount.

As a reference, the epicenter area and the probability that an earthquake with a magnitude of about 7 in southern Kanto, the Nankai Trough earthquake could occur within the next 30 years announced by the Headquarters for Earthquake Research Promotion of the government are also included.



Financial Section

Financial Statements

1. Balance Sheets
2. Statements of Income
3. Statements of Cash Flow
4. Statement of Changes in Shareholders' Equity

FINANCIAL STATEMENTS

1. Balance Sheets

(ASSETS)

Item	Fiscal Year	(Yen in millions)	
		2018 (As of March 31, 2019)	2019 (As of March 31, 2020)
Cash and deposits		211,842	231,608
Deposits		211,842	231,608
Call loans		141	404
Monetary receivables bought		9,999	9,999
Securities		228,248	250,648
Government bonds		52,578	29,935
Municipal bonds		13,416	18,632
Corporate bonds		128,435	167,384
Foreign securities		33,818	34,695
Tangible fixed assets		90	66
Buildings		23	22
Other tangible fixed assets		66	44
Intangible fixed assets		209	142
Software		208	141
Other intangible fixed assets		1	1
Other assets		17,892	17,928
Reinsurance accounts receivable		17,408	17,517
Accounts receivable		3	2
Uncollected income		280	227
Deposits		46	45
Suspense payments		1	9
Derivatives		152	125
Total assets		468,425	510,798

(LIABILITIES)

Item	Fiscal Year	(Yen in millions)	
		2018 (As of March 31, 2019)	2019 (As of March 31, 2020)
Underwriting funds		428,289	470,107
Outstanding claims		11,589	3,633
Underwriting reserves		416,700	466,474
Entrusted reserves		23,759	25,050
Other liabilities		12,928	13,278
Reinsurance accounts payable		11,903	12,605
Income taxes payable		189	189
Deposits payable		5	2
Accrued amounts payable		666	187
Derivatives		163	292
Reserve for retirement benefits		152	163
Reserve for directors' retirement benefits		13	13
Reserve for bonus payments		23	23
Reserves under the special law		1	0
Reserve for price fluctuation		1	0
Net unrealized gains on available-for-sale securities of earthquake insurance		1,711	623
Deferred tax liabilities		0	-
Total liabilities		446,881	509,261

(NET ASSETS)

Item	Fiscal Year	(Yen in millions)	
		2018 (As of March 31, 2019)	2019 (As of March 31, 2020)
Common stock		1,000	1,000
Retained earnings		546	545
Legal reserve of retained earnings		1	1
Other legal reserve of retained earnings		545	544
Special reserves		17	17
Special price fluctuation reserves		39	39
Retained earnings carried forward		489	487
Treasury Stock		(5)	(5)
Total shareholders' equity		1,541	1,540
Net unrealized gains on available-for-sale securities		1	(2)
Total valuation and translation adjustments		1	(2)
Total net assets		1,543	1,537
Total liabilities and net assets		468,425	510,798

Notes for fiscal 2019

1. Matters relating to accounting policies are as follows.

- (1) Appraisal standards and method of securities and method of indication are as follows.
 - (i) Of available-for-sale securities, those to which the market price is applicable is appraised according to the market price at term end.
 - (ii) With respect to the unrealized gain of assets corresponding to the underwriting reserves and entrusted reserves of earthquake insurance, the amount before tax effect deduction is shown as Net unrealized gains on other securities of earthquake insurance in Liabilities on the form attached to the Enforcement Rules of Insurance Business Act. For other unrealized gains, the amount after tax effect deduction is processed entirely according to the direct capital injection method and indicated in Shareholders' Equity. The calculation of the sales price is based on the moving average method.
- (2) The appraisal of derivatives is done on the basis of market price.
- (3) Although depreciation of tangible fixed assets is calculated using the declining balance method, buildings (excluding equipment attached to buildings) that were acquired on or after April 1, 1998 and equipment attached to buildings and structures that were acquired on or after April 1, 2016 were depreciated using the straight-line method.

- (4) Software for in-house use that is recorded as an intangible fixed asset is amortized using the straight-line method over the estimated usable life (five years).
- (5) The conversion of foreign currency assets and liabilities into Japanese currency is processed according to the accounting standards for foreign currency transactions.
- (6) Reserve for bad debts is written as follows against losses from bad debts in accordance with the self-appraisal standard of assets and depreciation and reserve standards.
- In connection with claims against debtors who have gone bankrupt legally and formally, including bankruptcy, special liquidation or disposition by suspension of business at a clearing house, or debtors who are effectively bankrupt, the rest of any of the claims deducting an estimated amount of disposable mortgage and a deductible amount by guarantee was appropriated for such reserves. In connection with the other claims, the rate of bad debts calculated according to past bad debts and other factors is multiplied by the amount of claims to appropriate for reserves.
- In addition, all claims are written after the finance department appraises the assets, and the result is audited by the planning and controller department independent of the finance department to appropriate the appraisal for reserves.
- There are no assets in the current term that are to be appropriated for reserves and no reserve is required.
- (7) For employees' retirement and severance benefits, reserve for retirement benefits is appropriated according to estimated retirement allowance liabilities at the end of the term.
- Retirement allowance liabilities are calculated using a simple method on the basis of the allowance to be supplied at the end of the term for any employee who retires for his/her own reasons.
- (8) For reserve for directors' retirement benefits, the benefits to be paid at the end of the term are recorded according to the relevant in-house rules.
- (9) Reserve for bonus payments is calculated according to the standards for the estimated bonuses payable as of the end of the fiscal year under review.
- (10) To prepare for a loss from price changes of shares and others, reserve for price fluctuation is appropriated according to Article 115, Insurance Business Law.

2. Financial instruments and fair values of financial instruments

(1) Situation of financial instruments

We mainly hold highly rated short- and medium-term Japanese and foreign bonds and short-term financial instruments in preparation for reinsurance payouts. We manage assets by attaching top priority to liquidity and safety and giving additional consideration to profitability. It is our policy to engage in derivatives trading or forward exchange contracts to reduce the market risks of foreign-currency receivables associated with exchange fluctuations, within the limits of actual demand. In addition, we maintain an understanding of market risks, credit risks and liquidity risks and manage current quotations and credit information on a regular basis in this regard.

(2) Fair values of financial instruments

The table below shows the balance sheet amounts and fair values of financial instruments and the differences between them as of March 31, 2020.

(Yen in millions)

	Balance sheet amount	Fair value	Difference
(i) Cash and deposits	231,608	231,608	-
(ii) Call loans	404	404	-
(iii) Monetary receivables bought	9,999	9,999	-
(iv) Securities			
Available-for-sale securities	250,648	250,648	-
Total assets	492,661	492,661	-
(v) Derivatives* to which hedge accounting is not applied	(167)	(167)	-
Derivatives total	(167)	(167)	-

*Derivatives recorded in other assets and other liabilities.
Net claims and debts derived from derivatives represent the net amounts, and items whose net balance becomes debts are stated in brackets.

Note: Methods for calculating the fair values of financial instruments

- (i) Cash and deposits
Cash and deposits are settled in the short term and their fair values are based on their carrying values as their fair values and carrying values are similar.
- (ii) Call loans
Call loans are settled in the short term and their fair values are based on their carrying values as their fair values and carrying values are similar.
- (iii) Monetary receivables bought
Monetary receivables bought are settled in the short term and their fair values are based on their carrying values as their fair values and carrying values are similar.
- (iv) Securities
The fair values of securities are based on their market prices at term end, which are reference prices in the trading statistics of the Japan Securities Dealers Association or market prices obtained from outside vendors or brokers.
- (v) Derivatives
The fair values of derivatives are determined by prices offered by correspondent financial institutions.

3. Taxes are included when preparing accounts for consumption tax and other items.
4. Risk reserves contained in Underwriting reserves have been deposited based on instructions for the calculation of underwriting reserves by accumulating the amounts that result from subtracting an amount equivalent to corporate taxes from the net premiums written and profit from operating the assets.
5. The accumulated depreciation of tangible fixed assets is 171 million yen.
6. See below for a breakdown of outstanding claims.

(Yen in millions)	
Outstanding claims (before the deduction of outstanding reinsurance claims)	5,017
Outstanding reinsurance claims related to the above claims	1,384
Net outstanding claims	3,633

7. Total deferred tax assets amount to 635 million yen. Deferred tax assets are all deducted from the total amount for a valuation reserve. A breakdown of deferred tax assets reveals tax loss carried forward of 525 million yen, a reserve for retirement benefits of 45 million yen, unpaid business taxes of 37 million yen and unpaid special local corporate tax of 15 million yen.
8. No event that could have a material impact on assets or profits or losses in or after the next fiscal year has arisen since the last day of the fiscal year under review.
9. Net assets per share are 773.32 yen. The basis for this calculation is that net assets are 1,537 million yen, net assets accrued from ordinary shares are 1,537 million yen and the number of ordinary shares at the end of the term is 1.988 million.
10. Each amount is rounded down to the nearest whole unit.

2. Statements of Income

Item	(Yen in millions)	
	Fiscal Year	2018 (from April 1, 2018 to March 31, 2019)
	Amount	Amount
Ordinary income	199,942	138,413
Underwriting income	197,716	137,376
Net premiums written	118,679	129,298
Investment income on savings premiums	103	121
Reversal of outstanding claims	-	7,955
Reversal of policy reserve	78,933	-
Investment income	2,212	1,028
Interest and dividend income	1,107	872
Gains on sales of securities	80	184
Gains on derivatives	-	91
Foreign exchange gains	1,124	-
Other investment income	3	1
Transfer of investment income on savings premiums	(103)	(121)
Other ordinary income	13	7
Ordinary expenses	199,940	138,415
Underwriting expenses	196,641	136,265
Net claims paid	124,276	26,223
Loss adjustment expenses	9,874	5,338
Commissions and brokerage fees	52,675	54,929
Provision of outstanding claims	9,815	-
Provision of underwriting reserves	-	49,773
Investment expenses	1,890	712
Loss on sales of securities	14	40
Losses on derivatives	1,863	-
Foreign exchange losses	-	660
Other investment expenses	12	11
Operating, general and administrative expenses	1,409	1,437
Other ordinary expenses	-	0
Ordinary profit (loss)	1	(2)
Extraordinary income	-	1
Reversal of reserve for price fluctuation	-	1
Extraordinary losses	0	-
Provision of price fluctuation reserves	0	-
Net income (loss) before income taxes	1	(0)
Income taxes	0	0
Total income taxes	0	0
Net income (loss)	1	(1)

Notes for fiscal 2019

1. See below for a breakdown of net premiums written.

(Yen in millions)	
Premiums written:	311,255
Reinsurance premiums ceded:	181,956
Net premiums written:	129,298

2. See below for a breakdown of net claims paid.

(Yen in millions)	
Claims paid:	33,378
Reinsurance claims recovered:	7,155
Net claims paid:	26,223

3. See below for a breakdown of the provision of outstanding claims (figures in parentheses are the reversal of outstanding claims).

(Yen in millions)	
Provision of outstanding claims (before the deduction of outstanding reinsurance claims)	(9,932)
Provision of outstanding reinsurance claims related to the above claims	(1,976)
Net provision of outstanding claims	(7,955)

4. The interest and dividend income are given below by category:

(Yen in millions)	
Deposits:	4
Call loans:	0
Monetary receivables bought:	0
Securities:	867
Total:	872

5. Paper profit/loss involved in the gains on derivatives is a loss of 167 million yen.

6. Net loss per share is 0.59 yen.

The basis for this calculation is such that net loss is 1 million yen, net loss accrued from common stocks is 1 million yen and the term average number of common stocks amount to 1.988 million.

7. The legal effective tax rate at the end of the term is 28.00%, and the corporate tax burden after applying the tax effect is (32.86%) The difference is explained by the following breakdown: valuation reserve (11,533.36%) the amount of the write-off carried from publicity expenses related to risk reserves 11,531.39%

8. Each amount is rounded down to the nearest whole unit.

3. Statements of Cash Flow

Item	(Yen in millions)	
	Fiscal Year	2018 (from April 1, 2018 to March 31, 2019)
	Amount	Amount
Cash flow from operating activities		
Net income (loss) before income taxes	1	(0)
Depreciation	115	96
Increase (decrease) in outstanding claims	9,815	(7,955)
Increase (decrease) in underwriting reserves	(78,933)	49,773
Increase (decrease) in entrusted reserves	(13,740)	1,291
Increase (decrease) in reserve for retirement benefits	(1)	11
Increase (decrease) in reserve for directors' retirement benefits	4	(0)
Increase (decrease) in reserve for bonus payments	1	(0)
Increase (decrease) in reserve for price fluctuation	0	(1)
Interest and dividend income	(1,107)	(872)
Losses (gains) on investment in securities	(66)	(144)
Foreign exchange losses (gains)	(1,110)	371
Decrease (increase) in other assets (other than investment and financial activities related)	(3,176)	(115)
Increase (decrease) in other liabilities (other than investment and financial activities related)	1,327	220
Others	803	156
Subtotal	(86,065)	42,830
Interest and dividends received	1,645	1,337
Income taxes paid	(0)	(0)
Net cash provided by operating activities	(84,419)	44,167
Cash flow from investing activities		
Purchase of monetary receivables bought	(19,999)	(27,999)
Proceeds from sales and redemption of monetary receivables bought	9,999	27,999
Purchase of securities	(73,760)	(123,665)
Proceeds from sales and redemption of securities	46,907	99,532
Total investment assets activities	(36,852)	(24,132)
Total operating activities and investment assets activities	(121,272)	20,035
Acquisition of tangible fixed assets	-	(2)
Others	(28)	(3)
Net cash provided by investing activities	(36,880)	(24,139)
Cash flow in financing activities		
Effect of exchange rate changes on cash and cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	(121,300)	20,028
Cash and cash equivalents at the beginning of the year	319,284	197,983
Cash and cash equivalents at the end of the year	197,983	218,012

Notes for fiscal 2019

1. Relationship of cash and cash equivalents at the end of the year with the amounts mentioned in the relevant balance sheet item.

	(Yen in millions)	
	(As of March 31, 2019)	(As of March 31, 2020)
Cash and deposits	211,842	231,608
Call loans	141	404
Monetary receivables bought	9,999	9,999
Securities	228,248	250,648
Deposits of a depository period over three months	(14,000)	(14,000)
Monetary receivables bought other than cash equivalents	(9,999)	(9,999)
Securities other than cash equivalent	(228,248)	(250,648)
Cash and cash equivalents	197,983	218,012

2. Cash flow in investing activities includes cash flow from the investment assets operations in the insurance business.

4. Statement of Changes in Shareholders' Equity

Fiscal 2018 (from April 1, 2018 to March 31, 2019)

(Yen in millions)

	Shareholder's equity							Valuation and translation adjustments:		Total net assets	
	Common stock	Retained earnings					Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities		Total valuation and translation adjustments
		Legal reserve of retained earnings	Other legal reserve of retained earnings		Retained earnings carried forward	Total retained earnings					
		Special reserves	Special price fluctuation reserves								
Balance at the beginning of the period	1,000	1	17	39	487	545	(5)	1,539	0	0	1,540
Changes during the period											
Net income (loss)					1	1		1			1
Net changes other than shareholders' equity									1	1	1
Total changes					1	1		1	1	1	2
Balance at the end of the period	1,000	1	17	39	489	546	(5)	1,541	1	1	1,543

Fiscal 2019 (from April 1, 2019 to March 31, 2020)

(Yen in millions)

	Shareholder's equity							Valuation and translation adjustments:		Total net assets	
	Common stock	Retained earnings					Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities		Total valuation and translation adjustments
		Legal reserve of retained earnings	Other legal reserve of retained earnings		Retained earnings carried forward	Total retained earnings					
		Special reserves	Special price fluctuation reserves								
Balance at the beginning of the period	1,000	1	17	39	489	546	(5)	1,541	1	1	1,543
Changes during the period											
Net income (loss)					(1)	(1)		(1)			(1)
Net changes other than shareholders' equity									(4)	(4)	(4)
Total changes					(1)	(1)		(1)	(4)	(4)	(5)
Balance at the end of the period	1,000	1	17	39	487	545	(5)	1,540	(2)	(2)	1,537

Notes for fiscal 2019

- Matters related to the types and total number of stocks outstanding and the types and number of treasury stock

(Stock)

		Balance as of the end of fiscal 2018	Increase in fiscal 2019	Decrease in fiscal 2019	Balance as of the end of fiscal 2019
Issued stock	Ordinary stock	2,000,000	–	–	2,000,000
	Total	2,000,000	–	–	2,000,000
Treasury stock	Ordinary stock	11,400	–	–	11,400
	Total	11,400	–	–	11,400

- Each amount is rounded down to the nearest whole unit.

CORPORATE DATA (as of March 31, 2020)

Established:	May 30, 1966
Capital:	1 billion yen
Total assets:	510.7 billion yen
Address:	Hulic Kobuna-cho Building, 8-1, Nihonbashi-kobuna-cho, Chuo-ku, Tokyo Japan 103-0024
Phone:	03-3664-6078
URL:	https://www.nihonjishin.co.jp/



Japan Earthquake Reinsurance