Basic Knowledge about the Insurance Industry

We have prepared this section as reference material to help readers gain a better understanding of the insurance industry and The Company’s business operations and business strategies. We are striving to provide accurate and fair information, but we cannot guarantee the content of this section.

Non-Life Insurance Industry

### Market Overview

**About ¥8.8 Trillion**

The Japanese non-life insurance industry’s market scale in terms of net premiums written was ¥8,806.3 billion in FY2021 (based on member companies of the General Insurance Association of Japan).

**Automobile-Related Insurance Accounts for 60%**

Together, voluntary automobile insurance (48.0%) and compulsory automobile liability (8.8%) account for about 60% of the market.

**Market Share of the MS&AD Insurance Group**

As of July 2022, there were 55 companies engaged in the non-life insurance business in the Japanese domestic market (including 22 overseas non-life insurance companies). In terms of net premiums written, the MS&AD Insurance Group held a market share of approximately 33%.

### Types of Insurance and Related Trends

#### Covering Diverse Risks

We face diverse risks in our daily lives. Non-life insurance products can compensate for economic damages and human losses (e.g., the cost of treating injuries) caused by natural disasters and accidents.

#### Changing with the Times

Until the 1960s, the non-life insurance market was centered on fire and marine insurance products. With the subsequent rise in the number of automobiles in use, such automobile-related products as Voluntary Automobile Insurance and Compulsory Automobile Liability Insurance have become the main products in the market. In recent years, “others” insurance, such as Liability Insurance, has been growing strongly.

#### Trend of Increase in Earthquake Insurance

Residential earthquake insurance was developed in 1966, in response to the major earthquake that struck Niigata in Japan in 1964. The number of people obtaining residential earthquake insurance has been trending upward, and the penetration rate of earthquake insurance in residential fire insurance policies rose to 69.0% (at the end of FY2021).

#### Residential Earthquake Insurance Operated in Collaboration with Government

It is difficult to forecast the damage that will occur in the event of an earthquake, so fire insurance alone does not cover building fires and damage caused by earthquakes. To provide coverage for earthquake damage, the government and insurance companies collaborate to operate residential earthquake insurance, and there are no variations among insurance companies with respect to coverage of compensation and insurance premiums.

### Trends in Insurance Industry

#### Decline in Big-Ticket Death Benefit Needs

The amount of policies in force for individual insurance has been trending downward since peaking in FY1996. Behind this trend is a decline in big-ticket death benefit needs and a shift to third-sector products (medical and cancer insurance) needs.

#### Trends in Policies in Force (Individual Insurance)

### Online sales have become common due to COVID-19

As of the end of FY2021, the number of individual insurance policies in force was 193.01 million, up for the 14th consecutive year. Due to the impact of COVID-19, sales activities combining digital services such as e-mail and online interviews became common in addition to face-to-face sales, and both the number of new individual insurance policies and the volume of new policies increased.

The number of individual annuity insurance policies in force decreased for the fifth consecutive year to 20.39 million (down 1.9% year on year). Regarding the number of policies in force by insurance type, the percentage of variable annuities, which had been declining, increased from 9.1% in FY2020 to 9.5% in FY2021.

#### Trends in Policies in Force for Individual Annuity Insurance by Type

### Scale of Japan’s Life Insurance Market (Trends in Life Insurance Premiums)

The scale of the Japanese life insurance industry’s market in terms of life insurance premiums and others in total is approximately ¥32 trillion, making it the world’s third largest market.

## Life Insurance Industry

### Market Scale

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The Insurance Industry Trends and Changes in Japan

Environment of the Insurance Industry in Japan

Changes in the Macro Environment

The environment surrounding the insurance industry is changing dramatically. The largest such changes are “the falling birthrate and aging population,” “progress in digital technologies such as autonomous driving,” and “an increase in natural disasters.”

Response to climate change

The intensification of natural disasters in recent years has greatly affected the non-life insurance industry. Because climate change is a serious risk that threatens not only the non-life insurance industry but also people’s livelihoods, and the economy, a global public-private response is required.

The Insurance Industry Following Financial Regulatory Liberalization

Regulatory Liberalization of the Non-Life Insurance Industry

The 1996 revision of the Insurance Business Law brought a shift away from the “convey system” within the industry and toward liberalization offering the scope for new initiatives. In addition, in response to changes taking place in the insurance industry’s operating environment (insurance product diversification, solicitation channel diversification, and increasing number of agents), the Insurance Business Act revision, which went into full effect in May 2016, included as its main points “the establishment of basic rules for insurance soliciting” and “the introduction of an obligation to put in place a system with respect to insurance solicitors (agents).”

Birth of the Three Mega Insurance Groups

Following the regulatory liberalization of 1996, a progression of mergers and acquisitions by some large domestic insurance companies has been observed, which led to the birth of the Three Mega Insurance Groups. Major domestic insurance companies are expanding their business bases given the maturing of the domestic insurance market. In recent years, we have seen a trend toward international business bases.

Initiatives Regarding Overseas Insurance Markets

Expanding the Breadth of Products and Services

Selling insurance products and providing related services abroad is expected to result in an increase in new business, which is an important factor in the global environment. To respond to this trend, expansion of the breadth of products and services is required.

New Products and Services Related to Medical and Long-Term Nursing Care

Birth of the Three Mega Insurance Groups

The importance of people’s self-help efforts is expected to continue increasing, and the associated role of private-sector insurance companies is becoming large.

Japan’s Insurance Market Viewed from a Global Perspective

Japanese Market Smaller as a Share of GDP

Japanese insurance premiums as a share of GDP are only 2.2%, compared to the global average of 3.9%. This is because Japan has a relatively low life expectancy and a low life insurance penetration rate.

Non-Life Insurance

Expanding the Breadth of Products and Services

“Longevity Risk”

Economic risks related to longevity, such as securing long-term expenses and spending on medical expenses, are increasing.

Increasing Diversity of Insurance Companies and Sales Channels

Sales channels such as mail-order sales, marketing of insurance products via banks (OTC bank sales), and insurance storehouses have diversified, and the presence of insurance companies specializing in online sales has expanded. In addition, the number of non-life insurance agents has halved in the past 20 years due to the aging and increasing size of agents.

The Insurance Industry Going Forward

Accelerating Overseas Expansion

Major domestic insurance companies are expanding their international business bases given the maturing of the domestic insurance market in recent years. Among developed countries, the insurance penetration rate (total insurance premiums as a percentage of GDP) averages 9.7%. On the other hand, the insurance penetration rates of emerging markets are relatively low, at 3.0% on average, so those markets can be considered as having significant growth potential.

Initiatives Regarding Overseas Insurance Markets

Development of Principal Insurance Markets (2021 Total Life and Non-Life Insurance Premiums by Region)

Emerging Markets

Emerging regions such as Asia, Latin America, the Middle East, and Africa have the potential for significant growth as overseas insurance markets. Among developed countries, the insurance penetration rate (total insurance premiums as a percentage of GDP) averages 9.7%. On the other hand, the insurance penetration rates of emerging markets are relatively low, at 3.0% on average, so those markets can be considered as having significant growth potential.

Non-Life Insurance

Japan Has the World’s Sixth Largest Market Scale

According to the “sigma” newsletter of Swiss Re, the scale of the non-life insurance market in 147 countries and regions around the world was approximately $428 trillion in 2021. The largest market is that of the United States (approximately $343 trillion), and Japan’s market is the sixth largest (approximately $12 trillion).

Non-Life Insurance Premiums Top 20 Countries (2021)

The World’s Third Largest Market Scale

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Non-Life Insurance Premiums Top 20 Countries (2021)
underwriting balance ratio. Although the indicator is not adjusted to reflect outstanding claims and underwriting reserves, it reflects profitability for the fiscal year. Underwritten in the insurance industry, its concept is similar to that of the ratio of operating profit to sales of ordinary companies.

Commissions and Collection Expenses
The total of the net premium commission, sales expense, collection expense, reinsurance commissions, and ceded premium commissions. (Note that ceded premium commissions, which are commissions earned on reinsured business, are deducted from ceded reinsurance and retrocession premiums, are deductions.)

Compulsory Automobile Liability Insurance (CALI)
To provide relief to victims of traffic accidents, this compulsory insurance that all motor vehicles must be enrolled in under law. Motorized bicycles are also subject to this requirement. Compulsory automobile liability insurance provides compensation for damage or injury in traffic accidents, etc. Insurance claims are paid for loss compensation of the other parties.

Core Profit (Fundamental Profit)
Ordinary profit after adjustments for capital profits/losses and extraordinary income and losses, which represent profits and losses not stemming from the principal business of life insurance companies; so, Core Profit is an indicator of the profitability of the Company’s principal business operations during a fiscal year. The concept of Core Profit is close to that of ordinary companies’ “operating income” and bank’s “business income.”

Cross-Selling
Concurrent selling of life insurance and non-life insurance products, such as in the case of a non-life insurance agent that sells life insurance products.

Direct Insurance
A term used in contrast to reinsurance. When an insurance contract is reinsured, the original insurance that has been reinsured is called direct insurance. It can also be used to refer to all the insurance contracts directly entered into with policyholders by the insurance company.

Earned-Inurred Loss Ratio (EI Loss Ratio)
After adjusting for provisions and reversals of loss reserves and ordinary policy liability reserves = period-end period–end loss reserve – previous period-end loss reserve

Foreign Currency-Denominated Life Insurance
For foreign-currency-denominated life insurance calls for the use of a foreign currency (e.g., U.S. Dollars, Euros, Australian dollars) to pay insurance premiums and the use of a foreign currency to pay indemnity benefits and reimbursements upon policy cancellations. A portion of such life insurance products as whole life insurance, endowment insurance, and fixed variable individual annuities is sold as foreign currency-denominated products. When the foreign currency benefits from such products are converted into yen, they will be affected by foreign exchange rate fluctuations; so, there is a possibility that the yen-denominated benefit could end up being lower than the yen-denominated value of the premium paid. The impact of foreign exchange rate fluctuations is referred to as “foreign exchange risk,” and the exchange rate fluctuation rate risk is calculated in accordance with the firm’s foreign exchange risk management policy, and any gains and losses are recorded as foreign exchange risk in the income statement. The policyholders and beneficiaries of foreign currency-denominated policies are exposed to those risks.

Glossary of Insurance Terminology

Alternative Risk Transfer (ART) Business
A general term referring to the use of techniques other than traditional insurance policies to transfer risks, meaning to provide risk-bearing entities with coverage or protection. ART entails the use of financial technologies and capital markets to provide risk solutions. ART includes derivatives and securitized products, and the typical products include “weather derivatives” and “earthquake derivatives.”

Annualized Premiums
The insurance premium payment method differs depending on the insurance contract. An annualized premium is calculated by adjusting for these differences in payment methods and converting the premium into an annual premium. It indicates how much income an insurance company makes from insurance premiums in one year.

Asset Liability Management (ALM)
A general term for the comprehensive management of risks related to assets and liabilities. The value of most of the assets held by insurance companies and other financial institutions is affected by market prices (or market interest rates); in other words, they are at risk. A proper evaluation of risks and returns cannot focus on assets or liabilities alone; the ALM business management methodology seeks to maximize profit, while managing it in a way that pays comprehensive attention to the risk and return of both assets and liabilities.

Assumed Interest Rate
Insurance companies anticipate a certain level of profits from asset management and offer discounts on insurance premiums based on this. The discount rate is called the assumed interest rate.

CAPM (Capital Asset Pricing Model)
The capital asset pricing model is used to calculate the rate of return expected on investments in the capital market. The correlation of the target company’s stock with the market is determined by the β value (more precisely, the slope estimated by the linear regression equation that explains the fluctuations in the stock prices of the target companies in terms of market price fluctuations). The estimated cost of capital is calculated by adding the risk-free interest rate to the individual equity risk premium, which is the β value multiplied by the market risk premium (market risk – risk-free interest rate).

Catastrophe Reserves
Most non-life insurance premium reserves are set aside using the “law of large numbers,” but, in a given fiscal year, it is always possible that there will be a major natural disaster causing damages on a scale that cannot be absorbed using premium income for that year alone. The catastrophe reserve is provided to prepare to respond to such extraordinary surges in claims associated with such disasters. For more details, see page 112.

CAT Bond (Catastrophe Bond)
Securities sold by non-life insurance companies to investors to enable the insurance companies to avoid major losses owing to claims paid in connection with major disasters. If there is no occurrence of a disaster or if the premiums are subsequently stipulated, then the CAT bonds’ interest and principal will be paid to the investors, but, in the case of such a disaster, the principal will be partially or entirely reduced.

Combined Ratio
An indicator that is the sum of the net loss ratio and the net expense ratio; subtracting this ratio from one gives the evaluation of the current value of future profit expected from policies in force, it is a useful indicator that can be used to supplement statutory accounting practices for the purpose of evaluating companies’ performance and enterprise value. While the Company has disclosed its EV for some time, since FY2011, it has disclosed its EV calculated based on the European Embedded Value principles (EEV principles*), and this type of EV is measured as EEV. In addition, the Company assesses the value of EV by adopting an annualized EV calculation and conversion method and thereby promoting an increase in transparency.

Enterprise Risk Management (ERM)
A process for determining and evaluating the risks associated with companies’ objectives, emphasizing the objective of risk management (an integrated, comprehensive, and strategic manner). It is an integrated risk management method used for maximizing enterprise value.

Equity Ratio
The proportion of equity divided by total assets. Owing to the application of accounting standards concerning financial products and the inclusion of unrealized gains on securities with the balance sheet figures, the equity ratio is also stated based on market value.

ESG
Three concepts of environmental, social, and governance (ESG). In ESG investing, the investor does not focus exclusively on the profit to be earned from an investment, but goes on to consider the impact of the investment on the environment as well as on shareholders, customers, employees, local communities, and other stakeholders. ESG investing essentially entails carrying out CSR when making investment decisions.

Expected Mortality
Based on past statistics, gender-wise and age-wise mortality (or death rate) is calculated in accordance with the Act of Non-Life Insurance Companies. The calculation of EEV employs a market-consistent approach to valuing future profit expected from future insurance payments. The mortality rate used in these calculations is called the expected mortality.

Expected Operating Expense Ratio
Life insurance companies anticipate all the expenses required for business operations, including conducting contracts, collecting premiums, maintaining and managing policies, and so on. This is called the expected operating expense ratio.

Foreign Currency-Denominated Life Insurance
For foreign-currency-denominated life insurance calls for the use of a currency other than the home currency (e.g., U.S. Dollars, Euros, Australian dollars) to pay insurance premiums and the use of a foreign currency to pay indemnity benefits and reimbursements upon policy cancellations. A portion of such life insurance products as whole life insurance, endowment insurance, and fixed variable individual annuities is sold as foreign currency-denominated products. When the foreign currency benefits from such products are converted into yen, they will be affected by foreign exchange rate fluctuations; so, there is a possibility that the yen-denominated benefit could end up being lower than the yen-denominated value of the premium paid. The impact of foreign exchange rate fluctuations is referred to as “foreign exchange risk,” and the exchange rate fluctuation rate risk is calculated in accordance with the firm’s foreign exchange risk management policy, and any gains and losses are recorded as foreign exchange risk in the income statement. The policyholders and beneficiaries of foreign currency-denominated policies are exposed to those risks.

Full-Time Agents
Agents specializing in the sale of insurance. In the field of non-life insurance, in addition to specialized agents (full-time agents), there are sideline agents that sell insurance alongside their main line of business, such as automobile sales dealers, automobile repair shops, real estate agents, and travel agents.

General Insurance Rating Organization of Japan
An insurance rating organization formed by the merger in July 2002 of the Property and Casualty Insurance Rating Organization of Japan (established 1948) and the Automobile Insurance Rating Organization of Japan (established 1964), which were established in accordance with the Act of Life Insurance Rating Organizations. It collects data from member insurance companies and calculates the Reference Loss Cost Rates for automobile liability insurance, personal accident insurance, and nursing care expense insurance, as well as Standard Rates for compulsory automobile liability insurance and earthquake insurance. It also handles loss adjustment work for compulsory automobile liability, collects insurance data, and conducts research and analysis.

Gross Written Premiums
Premises written that were received from direct insurance contracts and reinsurance contracts during one fiscal year; they are the premiums written prior to the deduction of reinsurance premiums ceded via reinsurance contracts.

Group Adjusted ROE
Group Adjusted ROE, which is a numerical management target within the Next Challenge 2022 Medium-Term Management Plan, is calculated as follows:

Group Adjusted ROE = [Consolidated net income + provision for catastrophe reserve and others – other gains (net of goodwill and other intangible fixed assets)] / equity in earnings of the non-consolidated group companies

Group Adjusted Profit
Group Adjusted Profit, which is a numerical management target within the Next Challenge 2022 Medium-Term Management Plan, is calculated as follows:

Group Adjusted Profit = Consolarted net income + provision for catastrophe reserve and others – other gains (net of goodwill and other intangible fixed assets)

Group Core Profit
Group Core Profit, which is a numerical management target within the Next Challenge 2017 Medium-Term Management Plan, is calculated as follows:

Group Core Profit = Consolidated operating income – goodwill and other intangible fixed assets

Group Return on Equity (Group ROE)
Group ROE, which is a numerical management target within the Next Challenge 2017 Medium-Term Management Plan, is calculated as follows:

Group ROE = [Consolidated net income + provision for catastrophe reserve and others – other gains (net of goodwill and other intangible fixed assets)] / average of beginning and ending amounts on B/S

Group Return on Sales
Group Return on Sales, which is a numerical management target within the Next Challenge 2017 Medium-Term Management Plan, is calculated as follows:

Group Return on Sales = [Consolidated operating income – goodwill and other intangible fixed assets] / average of beginning and ending amounts on S/B

Home Office
A general term referring to the use of techniques other than traditional insurance policies to transfer risks, meaning to provide risk-bearing entities with coverage or protection. ART entails the use of financial technologies and capital markets to provide risk solutions. ART includes derivatives and securitized products, and the typical products include “weather derivatives” and “earthquake derivatives.”

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IEV
The current value of net assets plus the current value of future profit expected from policies in force (in force policies value). Under current statutory accounting practices, the recognition of costs is concentrated at the time of sales, while the related profits are recognized in subsequent years; so, using those accounting practices to accurately evaluate the corporate performance is difficult in some ways. As EV encompasses an
Income Guarantee Insurance
A type of insurance under which a pension can be claimed after the policyholder’s death for the full term of the insurance as decided at the time of contract. The number of times a pension can be claimed depends on the time of death of the policyholder. The minimum number of times a pension can be claimed is guaranteed. If the number of times the pension has been claimed before maturity is less than the guaranteed minimum, the remaining number of times can be claimed.

Incurred but Not Reported Losses (IBNR)
The portion of underwriting reserves corresponding to claims that have been incurred but had not been reported to the company at the end of the period. The IBNR is estimated using statistical methods.

Ordinary Outstanding Claims Reserve

Individual Annuity Insurance
Annuity insurance products used to save premiums and thereby fund the payment of future annuities, and individual annuity insurance is an annuity insurance product provided by private-sector life insurance companies. The annuities are received after the beneficiary reaches an age specified in the policy contract. There are several kinds of individual annuity insurance products defined based on the annuity receipt period, such as whole life annuity with a guarantee period, annuity certain, fixed-term annuity with a guarantee period, and a husband-and-wife annuity.

Insurance Business Act
A law that was enacted to promote the protection of policyholders through strengthening the business operations of insurance companies and fair solicitation of insurance policies. The act lays down organizational and operational rules for insurance business, as well as defining the criteria for the administration and supervision of insurance companies and determining the supervision standards and authorities of government units overseeing insurance business operations.

Insurance Claim (Benefit)
In the case of non-life insurance, the sum of money paid out by an insurance company to the insured based on the amount of damage incurred due to an insured event. (In the case of life insurance) the sum of money decided beforehand in the insurance contract paid at the maturity of the contract to the designated beneficiary, in the event of illness or death of the insured person.

Law of Large Numbers
If you roll a die (one die), a “one” may appear by chance, but if you continue to increase the number of times the die is rolled, the ratio of times that “one” appears will approach one time out of six. As in this case, when the number of trials is increased, the law of large numbers indicates that the results will approach a fixed value. When calculating the probability of accident occurrence, the probability can be broken down by analyzing large volumes of accident data rather than just looking at the accident percentages of a few cases.

Life Insurance Professional
An agent specializing in the life insurance or selling life insurance as its main business.

Lloyd’s Insurance Market
The most important insurance market established in London in the 17th century, having more than a 300-year history. On a day-to-day basis, huge and complex risks are brought to Lloyd’s, where that risk is assessed, premiums decided, and insurance underwritten by underwriters that have a high level of specialized expertise and that belong to individual syndicates (the risk underwriting bodies at Lloyd’s). Lloyd’s is supervised by the British authorities and has a strong management and supervisory system unique to Lloyd’s. It is not easy to become a Lloyd’s member (syndicate fund contributor) or establish a Lloyd’s syndicate and requirements must be satisfied.

As of the end of December 2022, it was underwritten by 77 Lloyd’s syndicates, and the gross written premiums for the whole of the Lloyd’s market amounted to approximately £46.7 billion.

Net Expense Ratio
The net expense ratio is obtained by adding the commissions and other expenses necessary to operating expenses and general administrative expenses incurred in the insurance underwriting business and dividing this by net premiums written. It is an indicator of the operational efficiency of an insurance company. The net expense ratio can also be called simply the “expense ratio.”

Net Loss Ratio
The net loss ratio is obtained by adding net claims paid and loss adjustment expenses, and dividing this by net premiums written, and it indicates the company’s insurance underwriting business performance. It can also be called the “published loss ratio” or the “loss ratio.” The net loss ratio is what is called a “written paid basis” indicator, as it can be calculated based simply on written premium and paid claims during the accounting period in question.

Ordinary Writing Underwriting Loss Ratio (IBNR)

Net Premiums Written
Net premiums written is obtained by totaling (adding or subtracting as indicated) items such as Direct premiums written, Reinsurance premiums written, and Retrospect premiums written.

Net Reinsurance Premiums
Net reinsurance premiums are written as a result of the reinsurance contract between the insurance company and another insurance company. Reinsurance is a type of insurance under which a pension can be claimed after the policyholder’s death for the full term of the insurance as decided at the time of contract.

Net Reinsurance Premiums Ceded
An insurance premium paid to another insurance company via a reinsurance contract in return for covering a part of the risk of the original insurance contract, for purposes such as risk diversification.

Reorganization by Function
An unprecedented business model made possible by the 2013 revision of Japan’s Insurance Business Act. Reorganization by Function for making the most of the strengths of each group insurance company while undertaking business reorganization. While enabling the bypassing of the negative aspects of simple corporate mergers—including temporary costs and the business impediments, time losses, and various other problematic factors that often arise at the time of mergers—Reorganization by Function is designed to realize smooth business integration without slowing the speed of business growth, and it concurrently enables the leveraging of individual companies’ strengths and the realization of efficiency in the pursuit of business scale and profitability.

Reinsurance
Reinsurance is a form of insurance that an insurance company purchases to transfer the risks of its insurance policies with another insurance company.

Reinsurance Premium
An insurance premium received from another insurance company in return for accepting reinsurance risks to other reinsurers, a reinsurance company pays a retrocession premium to other reinsurers based on the reinsurance contracts.

Reinsurance Premium Ceded
An insurance premium paid to another insurance company via a reinsurance contract in return for covering a part of the risk of the original insurance contract, for purposes such as risk diversification.

Risk
The policy clauses define the details of the insurance contract, including the policyholder’s provisions, the insurance premium and duty of disclosure, as well as the payment amount and terms and conditions of payment by the insurance company. There are two kinds of policy clauses: common policy clauses, which are common to all insurance contracts of the same type, and special policy clauses (clauses containing special policy conditions), which are customized for individual contracts by adding to or changing some of the provisions in the common policy clauses.

Risk Reserve
The risk reserve is a part of the insurance company at the period-end closing account that can be used by it to fulfill its obligation to pay insurance claims based on insurance contracts. It includes outstanding claims and underwriting reserves, and policyholder dividend reserves.

Long-Term Care Insurance (Nursing Care Insurance)
A kind of insurance that can provide benefits for the purpose of providing long-term nursing care. In Japan, there exists both public long-term care insurance and private long-term care insurance products. Among the latter type of products, there are programs that will provide a lump-sum benefit and/or annuities in case of disability, such as nursing care for bedridden or suffering dementia for a specified period. There are also policies that will provide a lump-sum benefit and/or annuity to the policyholder or to a specified person in case the nursing care system’s primary nursing care requirement authorization.

Loss Adjustment Expense
Personnel expenses and non-personnel expenses (including insurance company’s administrative and general expenses) for the loss adjustment and insurance claim payment operations.

Medical Insurance
Medical insurance provides benefits to policyholders when they are hospitalized due to illness or injury under specified types of surgical operations. Some medical insurance policies also provide death benefits (through decreases in the beneficiaries, but the amount of such benefits is generally small.

Motor Channel Agent
Sideline agents that sell insurance as a side business but are mainly automobile repair shops, used car dealers, or automobile-related service providers or motorbike shops. Automobile dealerships that also sell insurance are excluded from this category.

Net Claims Paid
Net claims paid is obtained by totaling (adding or subtracting as indicated) items such as Direct claims paid, Reinsurance claims paid, Retrospect claims paid, and Net claims paid.

Net Premiums Written
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Reorganization by Function
An unprecedented business model made possible by the 2013 revision of Japan’s Insurance Business Act. Reorganization by Function for making the most of the strengths of each group insurance company while undertaking business reorganization. While enabling the bypassing of the negative aspects of simple corporate mergers—including temporary costs and the business impediments, time losses, and various other problematic factors that often arise at the time of mergers—Reorganization by Function is designed to realize smooth business integration without slowing the speed of business growth, and it concurrently enables the leveraging of individual companies’ strengths and the realization of efficiency in the pursuit of business scale and profitability.

Reserve for Price Fluctuation
In accordance with the Insurance Business Act revised in 1996, this reserve is provided to cover losses incurred from future decreases in prices of assets such as stocks and bonds for which the value is likely to fluctuate.

Retrospect Premium
When a reinsurance company renews a certain portion of the insurance risks to other reinsurers, a reinsurance company pays a retrospect premium to other reinsurers based on the retrospect contracts.

Lines of Business
In insurance, the business segments handled by insurers, including property insurance, life insurance, health insurance, and pensions.

Insurers
Insurance companies that are mainly engaged in the business of selling insurance contracts to individuals and companies.

Insurers’ Reserves
Reserves that are set aside by insurers for paying the claims of their insurance policyholders.
Strategic Equity
Invesments in stocks with the intention of holding the stock over a long period to maintain and strengthen general business relationships with the issuer, while also securing a stable stream of investment income and improving asset value over the long run.

Telematics
A combination of “telecommunication” and “informatics.” Telematics refers to information services provided by equipping automobiles and other mobile objects with communications systems. Telematics automobile insurance refers to automobile insurance with the premium rates calculated based on the collected data that relate to the driver’s driving tendency such as miles driven and the driver’s use of accelerator and brake functions.

Term Insurance
A type of insurance where the term of the insurance is fixed and the insurance benefits can be claimed only if the policyholder dies during the term. There are no maturity proceeds. This is ordinarily a fixed-amount insurance, where the insurance amount is fixed and remains unchanged throughout the term of insurance. It could also be a decreasing term insurance, where the insurance premium is fixed and the insurance amount progressively decreases over the insurance term, and increasing term insurance, where the insurance amount increases over the duration of the insurance term.

Third Sector
The third “sector” of insurance, positioned somewhere between the first sector (life insurance) and second sector (non-life insurance), includes many different types of insurance, such as medical insurance, cancer insurance, nursing care insurance, and accident insurance.

Three Surplus Factors (Life Insurance)
The “three surplus factors” refer to these margins: the “administrative expense margin,” which is the difference between the planned administrative expense based on the planned expense ratio and the actual administrative expenses; the “risk margin (mortality margin),” which is the difference between the planned payment amounts from insurance, benefits, etc., based on the planned mortality rate and the actual payment amounts from insurance, benefits, etc.; and the “investment yield margin,” which is the difference between the planned investment income based on the planned interest rate and the actual investment income. If the investment yield margin is negative, it will be in a “negative spread” state. The three surplus factors are a breakdown of “core profit”, which is an indicator of the profit and loss situation of a life insurance company.

Tontine-Type Annuity
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