Q1:
Please explain scheme of residential earthquake insurance (covering buildings for residential use and personal property contained therein).

A1:
Residential earthquake insurance in Japan is provided jointly by the public and private sectors. Major earthquakes can result in massive insurance payouts. As a precaution against such an event, both private-sector companies and the government share the potential insurance liabilities through reinsurance. Firstly, all earthquake insurance policies directly underwritten by non-life insurance companies are ceded to Japan Earthquake Reinsurance Co., Ltd.* Japan Earthquake Reinsurance then homogenizes the risk exposure and partially retrocedes it back to non-life insurance companies and to the government up to predefined liability limits for each. Any remaining exposure is retained by Japan Earthquake Reinsurance.

*Japan Earthquake Reinsurance Co., Ltd. was established under the Act on Earthquake Insurance, which was enacted in May 1966 forming the basis of Japan’s system of residential earthquake insurance. At the centre of Japan’s residential earthquake reinsurance system, Japan Earthquake Reinsurance arranges reinsurance with the government and non-life insurers and also manages and invests insurance premiums as the only earthquake reinsurer in Japan.

■ Flowchart of residential earthquake insurance

Treaty A: Reinsurance by non-life insurance companies to JER
Japan Earthquake Reinsurance reinsures the total amount of all earthquake insurance policies underwritten in accordance with the Act on Earthquake Insurance by non-life insurers operating within Japan.

Treaty B: Retrocession by JER back to non-life insurance companies
Under Treaty A, Japan Earthquake Reinsurance takes on insurance liabilities by entering into individual reinsurance contracts with non-life insurers. It partially retrocedes those insurance liabilities back to non-life
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insurers. The proportion of liabilities accepted by each non-life insurer depends on factors such as the balance of
earthquake insurance catastrophe loss reserves held.

**Contract C: Retrocession by JER to Japanese Government**

Japan Earthquake Reinsurance has entered into an excess-of-loss reinsurance agreement with the Japanese
government for earthquake insurance. Under the agreement, Japan Earthquake Reinsurance retrocedes insurance
liabilities that it assumes under Treaty A to the government up to a liability limit approved by the Japanese Diet.

**Q2:**

**What is the maximum liability that Japan Earthquake Reinsurance, nonlife insurers, and the
government can each assume through reinsurance, and how are the insurance liabilities
apportioned?**

**A2:**

The total amount of claims payable under the system is limited to 5.5 trillion yen. Liabilities are
apportioned up to predetermined liability limits in the manner shown below.

1. Liability Limits

<table>
<thead>
<tr>
<th>Liability Source</th>
<th>Liability Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Earthquake Reinsurance</td>
<td>605.60 bn yen</td>
</tr>
<tr>
<td>Nonlife insurers (in aggregate)</td>
<td>593.15 bn yen</td>
</tr>
<tr>
<td>Japanese government</td>
<td>4,301.25 bn yen</td>
</tr>
<tr>
<td><strong>Total (maximum amount of claims payable)</strong></td>
<td><strong>5,500.00 bn yen</strong></td>
</tr>
</tbody>
</table>

2. How Liabilities are Apportioned

<table>
<thead>
<tr>
<th>Claims payable</th>
<th>Japan Earthquake Reinsurance</th>
<th>Nonlife insurers (in aggregate)</th>
<th>Japanese government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 115.0 bn yen</td>
<td>905.0 bn yen</td>
<td>503.8 bn yen</td>
<td></td>
</tr>
<tr>
<td>Up to 1,122.6 bn yen</td>
<td>401.2 bn yen</td>
<td>89.35 bn yen</td>
<td></td>
</tr>
<tr>
<td>Up to 1,925.0 bn yen</td>
<td>89.4 bn yen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 3,712.0 bn yen</td>
<td>3,396.25 bn yen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 5,500.0 bn yen</td>
<td>95%</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

(1) Japan Earthquake Reinsurance
(2) Nonlife insurers
(3) Japanese government

**Example 1:**

If the total amount of claims payable is 500 billion yen, Japan Earthquake Reinsurance pays 115 billion yen, and
the remaining 385 billion yen is split 50-50 between non-life insurers and the government so that each pays 192.5
billion yen.
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Example 2:
If the total amount of claims payable is 1 trillion yen, Japan Earthquake Reinsurance pays 115 billion yen, and the remaining 885 billion yen is split 50-50 between non-life insurers and the government so that each pays 442.5 billion yen.

For further details on residential earthquake insurance, visit Japan Earthquake Reinsurance’s website.

http://www.nihonjishin.co.jp/disclosure/index.html