

Q1:

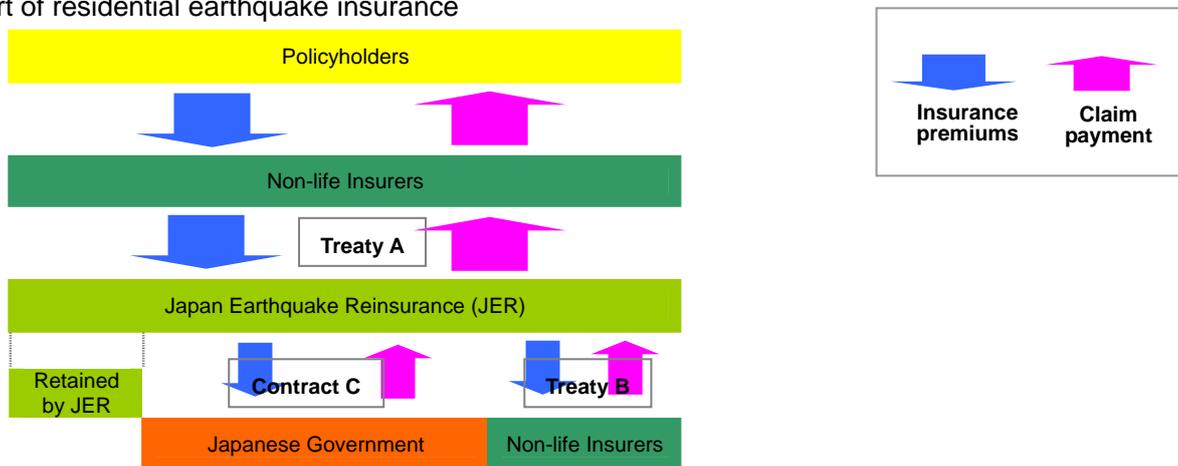
Please explain scheme of residential earthquake insurance (covering buildings for residential use and personal property contained therein) .

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

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?

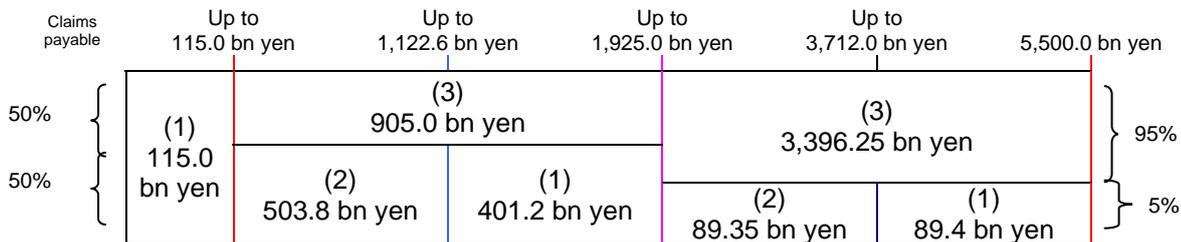
A2:

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

Japan Earthquake Reinsurance	605.60 bn yen	Sum of (1) below
Nonlife insurers (in aggregate)	593.15 bn yen	Sum of (2) below
Japanese government	4,301.25 bn yen	Sum of (3) below
Total (maximum amount of claims payable)	5,500.00 bn yen	—

2. How Liabilities are Apportioned



- (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.

Frequently asked questions related to the Tohoku Pacific Earthquake (March 2011)

■ 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>