

Management System

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Corporate Governance

Aioi Insurance positions the realization of enhanced corporate governance as one of its high-priority management issues, and is working to improve the effectiveness of internal control systems, management efficiency through efficient utilization of management resources and transparency through the implementation of appropriate and timely disclosure.

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BASIC POLICY CONCERNING DEVELOPMENT OF INTERNAL CONTROL SYSTEMS

The company recognized construction of internal control systems as one of the important elements of enhanced corporate governance and formulated a basic policy concerning the development of internal control systems. The company is developing internal control systems in line with the policy outlined below.

1. System to ensure that directors perform their duties in compliance with laws, regulations and the company's articles of incorporation

- The company shall establish a code of conduct, based on its corporate philosophy and corporate vision. All of directors, executive officers and employees shall all share and comply with this code of conduct.
- The company shall establish regulations governing the Board of Directors' activities, and periodically review matters resolved at the board meeting.

2. System to record and manage information related to their execution of business duties by directors

- The company shall archive documents and minutes from Board of Directors' meetings and Executive Council's meetings in a easily accessible format.

3. Regulations on management of risk of loss and other systems

- The company shall clearly identify risks that need to be managed, determine where such risks lie and manage appropriately the risks in consideration of their nature.
- The Board of Directors shall adopt a resolution on the risk management policies, activities and issues, which are to be addressed every fiscal year.

- The company shall formulate concrete risk management regulations by categories of risk, and periodically revise them as required.
- The company shall establish a Risk Management Department to oversee risk management activities across the company and set up a Risk Management Committee which reports directly to the Board of Directors.
- The company shall establish a framework to ensure that the Risk Management Department centrally manage risk information and reports to the Board of Directors, as needed.
- The Internal Auditing Department shall cooperate with the Risk Management Department in order to practice highly effective business auditing based on risk information.
- The company shall establish systems to respond to crises such as major natural disasters.

4. System to ensure the efficient execution of function by directors

- The duties and authority of directors shall be clearly set forth.
- Regular meetings of the Board of Directors shall be held once a month and, when needed, extraordinary meetings shall be held. Important matters concerning management strategy, etc. shall be discussed first deliberated at a meeting of company executives, and then reported or submitted for consideration to the Board of Directors.

5. System to ensure that employees perform their duties in compliance with laws, regulations and the company's articles of incorporation

- The Board of Directors shall pass a resolution on the introduction of a compliance program, oversee its progress, make revisions and ensure rigorous in-house compliance.
- The company shall establish the Compliance Control Department to centrally manage compliance issues and assign Compliance Officers to each region.

- The company shall establish a structure to promote compliance across the company by establishing the Compliance Committee which reports directly to the Board of Directors, as well as a regional compliance committee in each region.
- The company shall educate employees to ensure full compliance by using a compliance manual and other materials.
- The company shall establish an internal notification system (Compliance Hotline 110) and develop regulations to protect those who disclose information in the public interest.
- The Internal Auditing Department shall conduct regular audits, including visits to branch offices and review auditing policies and items once a year.
- Directors shall promptly report to the Board and the Board of Corporate Auditors upon the discovery of serious compliance incident.

6. System to ensure that the Group engages in appropriate business activities

- The company shall develop regulations on the management of affiliated companies. Together, the Corporate Planning Department of the company and the administrative departments of the head office of each affiliated company shall efficiently oversee the management of affiliated companies.
- The Corporate Planning Department shall play a central role in instructing and supporting affiliated companies to establish compliance and risk management systems (with particular emphasis on crisis management systems).
- The company and affiliated companies shall share the company's internal notification system (Compliance Hotline 110) and the regulations to protect those who disclose information in the public interest.

7. Matters concerning employees that are asked by corporate auditors to assist them in their duties

- The company shall establish an Auditors' Office, and assign its employee(s) (hereinafter referred to as an assistant to corporate auditors) to assist the corporate auditors in their duties.

8. Matters concerning the independence of assistants to corporate auditors from directors

- An assistant to corporate auditors shall not be involved in the company's operations, or be subject to the orders of directors.
- An assistant to corporate auditors shall be evaluated solely by corporate auditors, and any personnel issues pertaining to the assistants, such as their appointment or dismissal, shall be approved by corporate auditors.
- The company shall establish regulations governing assistants to corporate auditors.

9. System to ensure that directors and employees report to corporate auditors and other auditors

- Directors and employees shall provide corporate auditors with reports on their activities on a regular or irregular base, and report any matter that may affect the operation of the company without delay.

10. System to ensure that corporate auditors perform their audits effectively

- The company shall enhance collaboration between all of its operations divisions, with a specific focus on collaboration between the Internal Auditing Department and the Corporate Planning Department to establish an effective auditing system.

CORPORATE GOVERNANCE SYSTEM

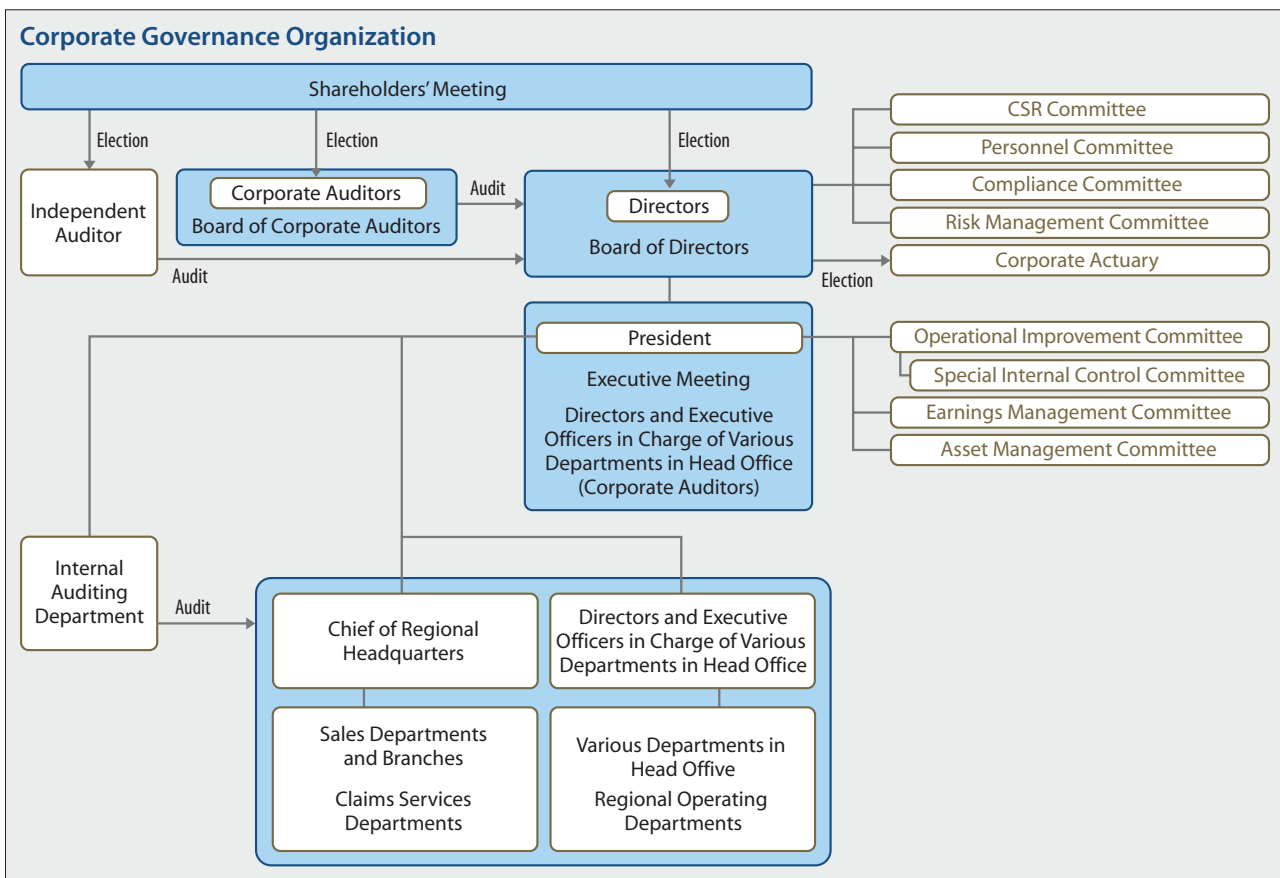
The company adopted a corporate auditing system and a management structure that clearly separates the decision-making and supervisory functions from the duty execution function. As of July 1, 2007, the management comprised of 12 directors, 5 auditors, and 24 executive officers. The term of office for directors and executive officers is set at one year to clarify the management's responsibility for business results for each fiscal year and to flexibly respond to changes in the operating environment.

The Board of Directors shall be comprised of 12 directors, including 1 external director. The board shall make

decisions on important matters concerning management policy and strategy, supervise operations of the company and meet at least once a month or any other time as needed.

The company has also established the CSR Committee, Personnel Committee, Compliance Committee and Risk Management Committee, which all report directly to the Board of Directors to strengthen the supervisory function and enhance the soundness and transparency of management.

The company has established the Executive Council which discusses important matters concerning business operations. The Executive Council consists of non-external



directors and executive officers who are in charge of the operational departments in the head office and meet at least once a month and any other time as needed. In addition, the company has established committees to examine specific important policy issues. These committees include the Operational Improvement Committee, the Earnings Management Committee, the Asset Management Committee and the Special Internal Control Committee. They deliberate issues in their specific area of responsibility and refer agenda items or report their findings to the Executive Council. The Operational Improvement Committee is particularly important, as it examines measures to improve operations, checks insurance payment management and supervisory capabilities and checks and improves the business process and system based on customer feedback in order to promote the quality of operations.

The Board of Corporate Auditors convenes regularly and supervises directors and executive officers who are performing their duties. They discuss auditing policies and methods, discuss and report on important matters concerning auditing and attend and submit opinions at important meetings such as those of the Board of Directors and the Executive Council. In addition, the company has established an Auditors' Office with a full-time staff to support the activities of corporate auditors.

The Board of Directors shall appoint a corporate actuary, who not only conducts actuarial operations, but also studies items stipulated in Insurance Business Law for each fiscal year and then submits written opinions on his/her findings to the Board of Directors.

RELATIONSHIP WITH EXTERNAL DIRECTORS AND EXTERNAL CORPORATE AUDITORS

The company's external director also serves as a director of Toyota Motor Corporation. Toyota Motor Corporation is a major shareholder of Aioi Insurance and held 34.59% of total voting rights as of March 31, 2007. The company conducts insurance transactions with Toyota Motor on a regular basis. In addition, the company has contracts with its external director and three external corporate auditors, based on Article 31 and Article 43, Paragraph 2 of the company's articles of incorporation, which limit liability to the maximum amount stipulated by Article 423, Paragraph 1 of the Corporate Law.

DISCLOSURE POLICY

In order to improve management transparency, the company shall disclose all material information in a timely, appropriate and fair manner.

The company aims to build a strong relationship of trust with customers, shareholders and other stakeholders, based on good communication and in the spirit of “empathy, joint creation, and coexistence” as stipulated in its Corporate Philosophy.

We believe that the timely and appropriate disclosure of important corporate information is a central element of effective corporate governance and an important responsibility for the management to maintain transparency. The company’s basic disclosure policy is as follows.

BASIC POLICY

The company shall disclose corporate information on the group in a prompt, appropriate and fair manner to give shareholders and other stakeholders a deeper understanding of the company and help them evaluate the company appropriately.

DISCLOSURE

The company shall disclose important corporate information as required under Japan’s Securities and Exchange Law, other laws and statutory regulations and the regulations of the stock exchanges where the company’s stock is listed. Furthermore, we shall be forthright in disclosing other useful information that helps to give a deeper understanding of the company.

DISCLOSURE METHOD

The company shall disclose information in a prompt, fair and appropriate manner, via the disclosure network maintained by the stock exchanges where its stock is listed, through press releases and on the company’s web site.

The company shall employ a wide range of means of conveying information, including publications such as disclosure journal and CSR Report to ensure that information is readily available to as many stakeholders as possible.

IN-HOUSE SYSTEMS

The company shall improve its in-house systems of disclosure, to ensure that information will be disclosed as outlined above.

IN-HOUSE DISCLOSURE SYSTEMS

The company believes that appropriate and timely disclosure of corporate information is an important obligation for the company in pursuing management transparency.

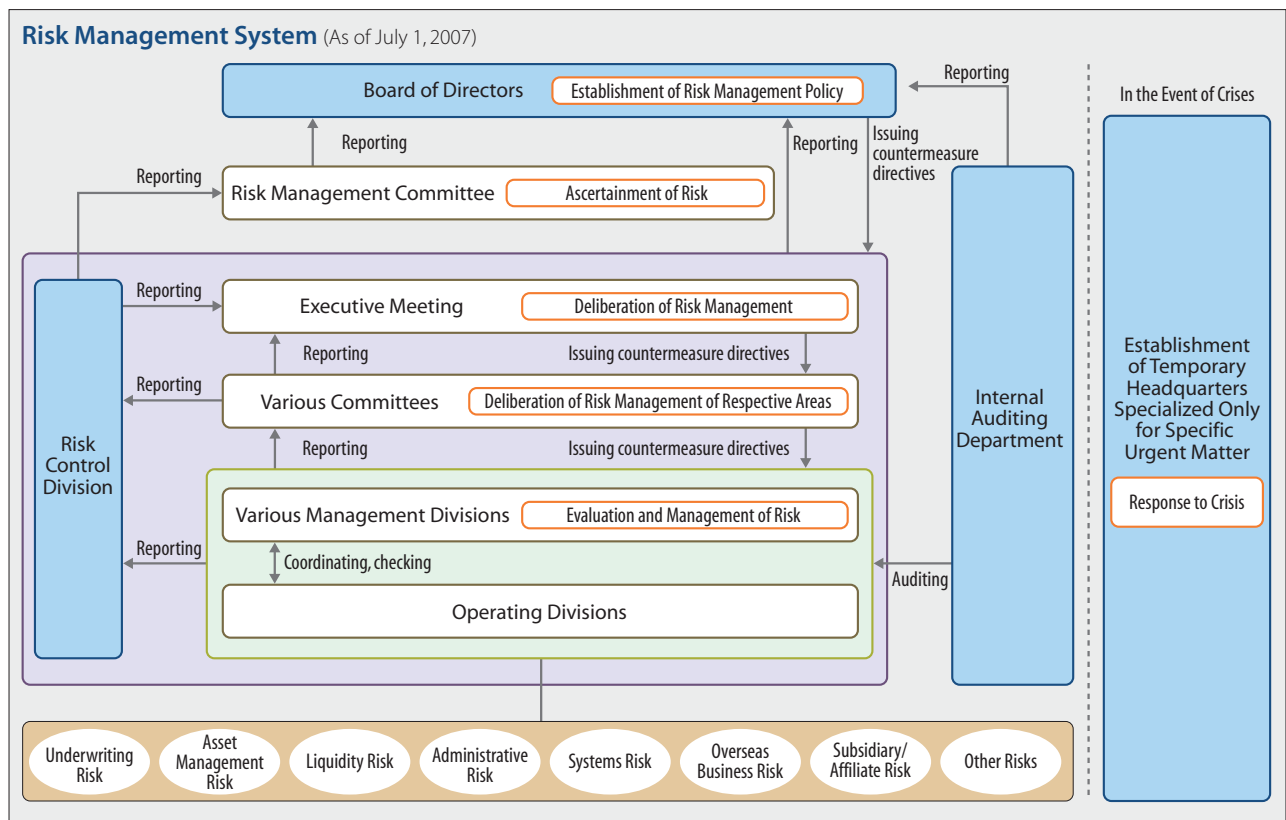
The Board of Directors shall set disclosure policy for the company and establish in-house standards for the disclosure of corporate information. The company has established the Disclosure Subcommittee, which consists of executive officers and general managers of departments that handle corporate information, in an effort to improve internal disclosure systems. The Disclosure Subcommittee works to ensure that information is disclosed in a prompt, appropriate and fair manner based on Japan’s Securities and Exchange Law and other regulations, as well as the rules for timely disclosure of corporate information by issuers of listed securities and other rules established by the stock exchange where its shares are listed.

Risk Management System

Aioi Insurance seeks to improve risk management by analyzing increasingly diverse and complex risk factors.

The operating environments surrounding companies are changing dramatically due to such factors as economic globalization, advancing deregulation, competition from new entrants from outside the industry and transformation of communication methods such as the advent of the Internet. As a result, a non life insurance company face increasingly diverse and complex risks. It is more important than ever to analyse these risks, analyze and evaluate their impacts and manage them appropriately, in order to ensure operational stability and enhance profitability.

The Board of Directors of the company formulated the appropriate Risk Management Policy and identified risks that should be managed. The company has also taken organizational, systematic and regulatory steps to ensure comprehensive monitoring of risks. As part of such efforts, the company has established the Risk Management Committee, which reports directly to the Board of Directors and Risk Management Department which controls overall risk. In addition the company formulated “risk management policies” for each risk category.



RISK MANAGEMENT POLICY

The company shall eliminate risks that may interfere with smooth business operations and manage risks by curbing any excessive risk-taking activities aimed at earning profits to ensure safe management, higher-quality service for customers and improved profitability.

RISK CAPITAL ALLOCATION

The company uses a risk capital allocation method to keep risk at an appropriate level. This method enables the company to measure various risks based on the standard criteria and allocate risk capital to operations and divisions based on the level of risk they have.

Risk capital allocation enables the company to utilize our capital efficiently. The company is working to ensure stable management and improve profitability and efficiency of investment by comparing its advantage with risk. The company tests its risk management systems by simulating various scenarios such as earthquakes, typhoons, other major natural disasters or a sudden decline in Japanese stock price comparable to the collapse the economic bubble and measuring the potential effect of these events on capital, to determine if the company has sufficient capital to withstand events that have material impacts on the company.

PRINCIPAL RISKS AND RELATED MANAGEMENT SYSTEMS

1. Underwriting Risk

Underwriting risk refers to the risk of suffering losses due to a significant difference in economic conditions or circumstances surrounding insured events that the company expected when it determined premiums. The company calculates appropriate premiums on the basis of adequacy, equitability and other factors to be included. In addition, it regularly identifies and manages risks based on the loss ratio

by products and concentrations of risk arising from natural disasters such as earthquakes. When it identifies an abnormal risk value, it will manage risks by analyzing the location of causes and factors of the risk, improving or eliminating the concerned products and reviewing its underwriting criteria and sales policies.

In addition, the company seeks to prevent excessive accumulation of risk by setting risk retention benchmarks for underwriting and diversifying risk through reinsurance or other methods.

2. Investment Management Risk

Investment management is principally exposed to three risks: market risk, credit risk and real estate investment risk. Aioi Insurance has adopted a risk limitation management strategy which calculates the estimated maximum loss for each risk to ensure that the loss will not exceed investment capital. Meanwhile the company manages risks as below.

(1) Market risk

Market risk refers to the risk of losses incurred by a decline in the value of assets due to fluctuations in interest rates, stock prices or currency exchange rates, etc. Aioi Insurance monitors the sensitivity of assets to changes in the market environment and uses a variety of tools to manage market risk, such as loss cut rule and stress test. To handle long-term insurance contracts such as savings insurance, the company uses asset-liability management (ALM) to maintain balance in the liability period while constructing a portfolio to ensure stable earnings.

(2) Credit risk

Credit risk refers to the risk of losses incurred by a decline in asset value or the loss of asset value due to deterioration in the financial position of a borrower. The company manages

credit risk by establishing and managing credit limits based on in-house ratings, using dynamic analysis to make its own credit assessments and determining credit screening policies.

(3) Real estate investment risk

Real estate investment risk refers to the risk of suffering a decline in income from properties due to changes in rental rates or a decline in real estate prices due to changing market conditions. Aioi Insurance manages this risk by establishing standards for the return on investment and the scale of unrealized gains or losses on real estate by setting a specified point for the company to take necessary action.

3. Liquidity Risk

Liquidity risk refers to the risk of opportunity losses due to the company's inability to secure capital, either due to capital outflows or market instability. Aioi Insurance manages this risk by maintaining appropriate liquid assets, precisely monitoring capital outflows and inflows and implementing appropriately cash management.

4. Administrative Risk

Administrative risk refers to the risk of losses incurred by deterioration of the quality of customer operations due to procedural negligence, accidents or impropriety on the part of executive officers, agents or employees, or confusion created by the introduction of new office systems which have not been developed properly or examined sufficiently.

To ensure that our nationwide sales offices and service centers provide consistent, high-quality service, the company provides employees and agents with manuals and training on administrative procedures and personal information protection.

In addition, each division of the parent company verifies the effectiveness of its risk management capabilities by monitoring the indicators of its administrative functions and conducting internal audits of sales branch offices and service centers.

SYSTEM FOR MANAGING ASSET MANAGEMENT RISK

As investment management risks become increasingly complex and diverse, Aioi Insurance recognizes the importance of pursuing continued improvement in risk management methods and strengthening our management systems.

Aioi Insurance calculates "VaR" (Value at Risk) to control market risk and credit risk within the bounds of allocated capital from the standpoint of integrated risk management across the board. Aioi Insurance specifies risk management policies from the allocation of capital to the monitoring and response to limit risk and endeavors to strictly enforce the said policies.

Aioi Insurance uses a stress test, position limit management and loss cutting rule to maintain market risks at an appropriate level for individual assets managed. In addition, the company strictly controls credit risks by setting credit limits based on internal credit ratings of borrowers, a close review of borrowers before investment or financing and monitoring of changes in business conditions after investment or financing.

5. Systems-Related Risk

Systems-related risk refers to the risk of losses or customer dissatisfaction, caused mainly by abnormal stop, malfunction, improper operations or unauthorized use of computer systems or any mistake or delay in system development. To mitigate systems risk, the company has established a basic policy concerning information management (“Security Policy”) to ensure that a new computer system will be thoroughly tested before its introduction. In addition, system operation has been outsourced to a specialty company that offers a high level of safety and reliability.

Since Aioi Insurance handles a large volume of important information on customers, it positions the prevention of leaks of personal information as one of the vital elements of the company’s risk management policy and takes all possible measures to protect customer information and network security.

In addition, the company has established a contingency plan to ensure that it will be able to swiftly respond to a natural disaster or unforeseen accident.

6. Overseas Business Risk

Overseas business risk refers to a multitude of risks associated with the company’s overseas operations including underwriting and administrative risk. The company endeavors to improve transparency and appropriateness of its overseas operations by appointing an Overseas Business Risk Manager, who is a member of the Compliance Control Department but acts independently from the department, with an eye to strengthening the supervisory function of its overseas operations.

7. Risks Related to Subsidiaries and Affiliates

This category of risk refers to the risk to suffer a decline in the quality of customer operations or the position of the Aioi Insurance Group, due to the manifestation of various risks such as underwriting and administrative risks at both home and abroad.

Group companies strive to maintain their own financial health, based on the principle of self-responsibility. Meanwhile, the company provides necessary support and guidance to its group companies to help them strengthen their risk management capabilities and ensure that the whole group will maintain its financial strength, with an eye to achieving the goals of the group, as a whole.

8. Other Risks

The company is aware of a variety of other risks including legal risk, natural disaster risk, risk of reputation of the company and risk associated with planning and development activities. Individual operating divisions strive to manage these risks.

Aioi Insurance has established a crisis response system to ensure that it can systematically respond to major risks such as a major disaster that requires a company-wide response in a swift and effective manner. In such event the company will immediately set up a Temporary Headquarters specialized only for specific urgent matter which gather unified information and systematically respond to that matters by way of transferring the authority to make a timely decision.

Auditing and Inspection System

Aioi Insurance conducts detailed and effective auditing and inspection for the realization of a “customer-oriented company.”

INTERNAL AUDITING AND INSPECTION SYSTEM

In addition to audits, which are carried out by corporate auditors pursuant to laws and regulations, the Internal Auditing Department, which operates independently from any of the company’s executive bodies, also conducts internal audits.

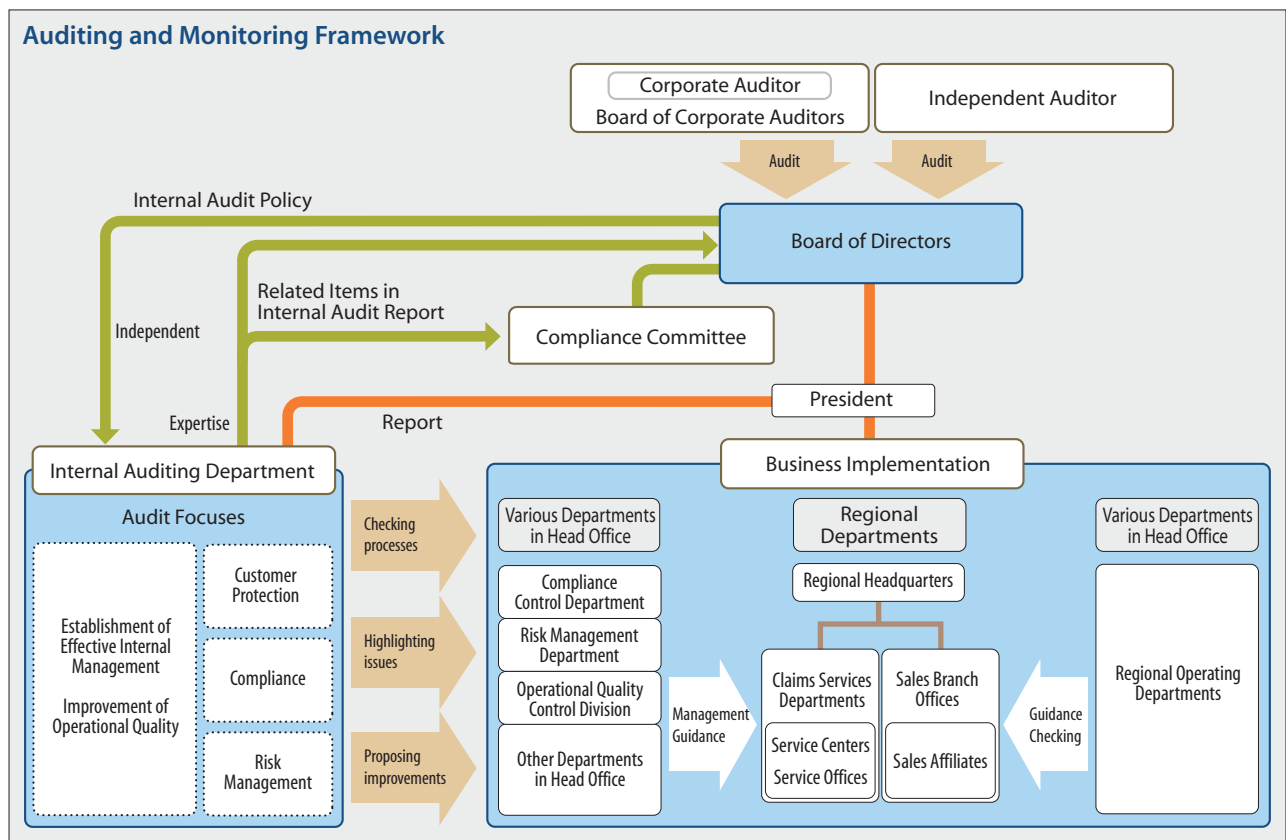
The Internal Auditing Department conducts audits to check the operations of each department with respect to internal control, internal management systems and operational quality, from the standpoint of customer protection, compliance and risk management. The department audits self assessments of the company’s assets to make its audits more practical and effective and to ensure the soundness of assets, by not only identifying deficiencies but also proposing

improvements. In addition, the department regularly reports the results of its audits to the management team and submits proposals for improvements to the respective departments.

THIRD-PARTY AUDITING AND INSPECTION SYSTEM

An independent auditor performs third-party audits of Aioi Insurance according to governing laws and regulations. The Inspection Bureau of the Financial Services Agency and the Finance Bureau of the Ministry of Finance carry out inspections of the company, as stipulated by Japan’s Insurance Business Law.

Furthermore, the independent auditor, corporate auditors and Internal Auditing Department work together to enhance the company’s auditing and inspection systems.



Compliance

Aioi Insurance views the accidental non-payment of insurance claims as a very serious matter. The company strives to ensure strict compliance to laws and regulations and promotes appropriate business practices and management by placing a specific focus on compliance initiatives as the basis of every operating procedure.

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COMPLIANCE POLICY

- Aioi Insurance shall seek to gain customer and public confidence by all executive officers and employees following a code of conduct.
- Aioi Insurance shall concentrate its efforts to establish sound, equitable operations based on a rigorous compliance policy, in order to offer customer security and satisfaction.

CODE OF CONDUCT

1. EARN SOCIETY'S TRUST THROUGH CORPORATE ACTIVITIES THAT CONSISTENTLY REFLECT COMMITMENT TO SOCIAL RESPONSIBILITY

- (1) Adherence to laws, social norms, and in-house rules
- (2) Stringent, appropriate management of information
- (3) Wide disclosure of corporate information
- (4) Confrontation with antisocial forces
- (5) Risk management and enhancement of operational efficiency
- (6) Social contribution

2. OFFER CUSTOMERS PEACE OF MIND AND SATISFACTION BY ALWAYS PUTTING CUSTOMERS FIRST

- (1) Provision of outstanding products and services
- (2) Provision of accurate, useful information
- (3) Sincere responses to customer feedback

3. ESTABLISH A FREE AND VIGOROUS CORPORATE CULTURE AND ENSURE ALL EMPLOYEES STRIVE TO ENHANCE THEIR PERSONAL QUALITIES, JUDGMENT, AND ABILITIES

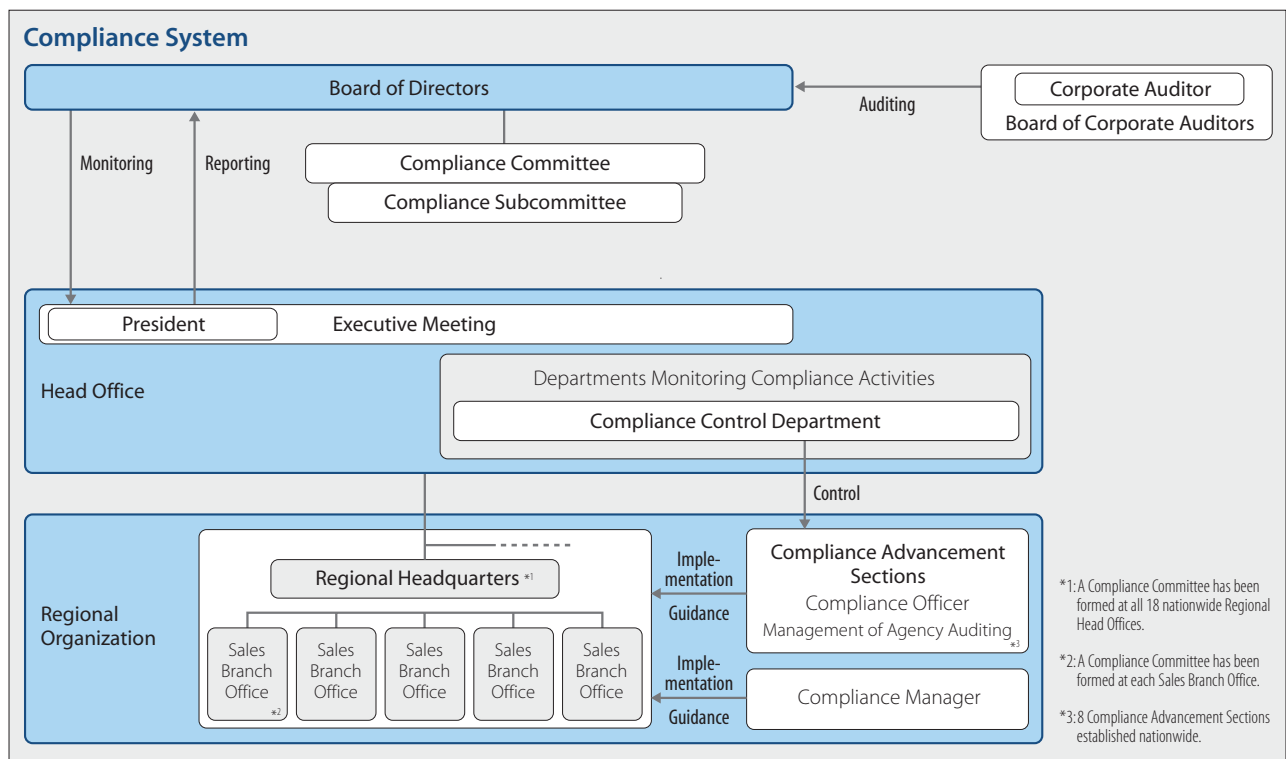
- (1) Respect for human rights and individuality
- (2) Training and utilization of a wide variety of personnel and realization of a free and vigorous corporate culture

COMPLIANCE PROMOTION

Compliance Promotion System

The company has set up the Compliance Committee, a committee that reports directly to the Board of Directors. Compliance-related departments address a wide range of compliance issues, including the company’s response to customer feedback and insurance sales activities by agents.

In addition, the company has set up a compliance committees at Regional Headquarters and Branches, as well as a Compliance Promotion Office which is under the direct authority of the Compliance Control Department, in an effort to supervise all compliance officers, compliance managers and agency personnel in charge of audits, and enhance mobility to ensure and promote strict compliance at regional levels.



Corporate Social Responsibility

The Aioi Insurance Group is conducting CSR activities based on its belief that it must fulfill its social responsibility by achieving a balance between its economic, social and environmental responsibilities while communicating with various stakeholders toward the realization of the spirit of “empathy, joint creation and coexistence” as stipulated in its corporate philosophy.

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DECLARATION ON PROMOTION OF CORPORATE SOCIAL RESPONSIBILITY

Aioi Insurance shall endeavor to achieve the following objectives in order to promote CSR management and its activity.

- Aioi Insurance shall endeavor to improve internal control and supervision systems in order to ensure sound, equitable and highly transparent operations.

Aioi Insurance is aware of the social and public nature of insurance business and its responsibility to conduct business operations in a sound and equitable manner. The company believes that it must fulfill the said responsibility in order to fulfill its corporate social responsibility. For this purpose, the company seeks continuous improvement of internal control and supervision systems, including those for corporate governance, compliance, risk management, disclosure and the protection of personal information.

- Aioi Insurance shall promote concrete CSR activities based on awareness of our responsibility to stakeholders and our role in society.

Aioi Insurance shall fulfill its responsibilities to various stakeholders who support its business activities. The company shall endeavor to improve the overall quality of the company by improving its ability and quality of personnel and constantly taking on the challenges of teamwork and communications improvement.

- Aioi Insurance shall aim to establish relationships of trust with our stakeholders and to achieve continuous growth based on good communication.

Aioi Insurance believes that good communication with various stakeholders is essential to fulfill its corporate social

responsibility. Therefore, the company shall continue to explain its business activities to its stakeholders, receive their feedback and reflect their opinions and requests in future activities. In addition, the company shall pursue continuous growth and improvement in corporate value by fostering a strong relationship of trust between the company, its stakeholders and society.

GLOBAL ENVIRONMENT PROTECTION EFFORTS

Environmental Policy

Basic Environmental Philosophy

In the spirit of “empathy, joint creation and coexistence” as stipulated in its Corporate Philosophy, Aioi Insurance shall constantly take environment-friendly actions in every field of its business activities and conserve the environment in which it operates for the creation of a global environment in which human beings can live in harmony with nature.

Guidelines for Environmental Action

1. We shall promote efforts that will contribute to the conservation of the global environment through our insurance products and related services (particularly our automobile insurance products) and in all of our business activities.
2. We shall promote energy and resource saving efforts and endeavor to prevent environmental pollution stemming from our business activities.
3. We shall pursue continuous and sustainable improvement by setting targets and conducting an assessment and review of our environmental efforts on a regular basis.
4. We shall comply with environmental laws, regulations and all agreements that have been concluded by the company to contribute to environmental conservation.

5. We shall make efforts to educate and enlighten the public on environmental conservation and contribute to local communities.

Aioi Insurance is working to protect the environment by developing and offering unique insurance products and related services.

SOCIAL ACTION PROGRAMS

Policy Concerning Social Action Programs

As a “good corporate citizen,” Aioi Insurance shall work for the realization of a safe, affluent society by serving as a secure foundation for aging society to be, while contributing to both local and international communities through the promotion of culture, arts, sports and international exchanges.

Social Action Programs Aimed at Promoting Zero Traffic Accidents

- Implementation of the “Zero Traffic Accidents Campaign” on a nationwide scale
- “Safety Support Bus” designed to offer safe driving assessment
- Donation of yellow flags to be used for pedestrian safety

Community-based Social Action Programs

- Implementation of community-based social action programs by offices across the country especially in “Month of Aioi” (October)
- The matching gift program called “Unizon Fund” supported by volunteer employees and the company
- System to support volunteer activities

Social Action Programs Aimed at Promoting Culture, Arts and Sports

- Holding of the “Japan’s Seasonal Photography Contest”
- Joint-hosting of the art show “Let’s Communicate by Paintings! A Treasure in My Town”
- Exhibition of arts and crafts from the company’s collection
- Aioi Insurance New Year’s Concert
- Official sponsor of the Japan Wheelchair Basketball Federation from 2006
- Supporter of the Osaka Jitsugyodan Ekiden Race

Government Administrative Measures Applied Against Aioi Insurance

On March 14, 2007, Aioi Insurance received an order from the Financial Services Agency based on the Insurance Business Law, Article 132, Paragraph 1, to suspend a portion of its business operations and to improve its business operations, following the discovery of problems such as the inappropriate nonpayment of claims submitted for third-sector insurance policies. In response to the order to improve its business operations, Aioi Insurance prepared a plan to improve its business operations and submitted it to the Financial Services Agency on April, 13, 2007. Aioi Insurance would like to express our sincere apologies to customers, shareholders, and those associated with the company, for any concern or inconvenience that the aforementioned incident caused. Aioi Insurance views this administrative order with the utmost seriousness and will make a concerted effort to steadily implement its plan to improve its business operations and ensure that such a situation will never happen again.

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1. OUTLINE OF ADMINISTRATIVE MEASURES

1) Operations related to applications for the approval of new third-sector products, notification of revisions to existing third-sector products and the approval of agency operations for other insurance companies and financial institutions must be suspended from March 15, 2007, to April 14, 2007.

2) Improvement and enhancement of management control (governance) system

- (1) The company must develop an appropriate business operation system that requires the active involvement of the management team and that prevents inappropriate nonpayment of claims.
- (2) The company must construct an effective internal auditing system that appropriately identifies and rectifies problems concerning the nonpayment of claims.

3) Improvement and enhancement of claim payment control system

- (1) The company must establish a system to control claim payment for third-sector products, including an equitable and accurate screening system and procedures.
- (2) The company must first examine all of its business operations concerning customer service including insurance solicitation operations for third-sector products, claim payment operations and make necessary changes and improvements to company regulations and manuals in order to ensure appropriate business operations.
- (3) The company must give thorough training to all employees involved in claim payment operations concerning third-sector products.
- (4) The company must develop a system to ensure that it can respond to customers in a swift and appropriate manner with regard to inappropriate nonpayment of claims that have been uncovered.

4) Improvement and enhancement of protection and convenience for policyholders

- (1) The company must establish a management system, regarding employees and sales agents, to ensure that they will solicit customers and give product descriptions appropriately with regard to third-sector products.
- (2) The company must develop an effective system to allow management to examine the appropriateness of sale, including complaints, after the sale is concluded.
- (3) The company must increase the transparency of information about complaints and other matters.

5) Improvement and enhancement of compliance system

- (1) The company must reorganize and improve its compliance system.
- (2) The company must implement thorough training and offer regular follow-up training to foster a corporate culture that promotes compliance with laws and regulations.

6) Identifying the responsibility of executive officers and employees

The company must clarify the responsibility of the executive officers and employees who were involved in the incidents that led to the issuance of the aforementioned order to suspend and improve its business operations.

7) Submission of an improvement plan and progress reports

- (1) The company must submit a plan for improving its business operations, by April 13, 2007, which clearly identifies specific measures and the implementation period to address the items in sections 2) to 6) above, as well as the items listed on the report submitted in response to the report-submission order of the Financial Services Agency.

The company must clearly state the system to implement the said plan and the responsibility of respective executive officers and employees in this improvement plan.

- (2) The company must issue its first report summarizing the progress of implementation efforts and improvements under the plan by July 13, 2007, and must submit follow-up reports every six months, until the plan for improving its business operations have been completed.

2. FACTS THAT LED TO ADMINISTRATIVE ACTION

After the company submitted a report to the Financial Services Agency on July 14, 2006, in accordance with the Insurance Business Law, Article 128, Paragraph 1, it was notified that there had been inappropriate nonpayment of claims for third-sector products, as specified below.

- 1) Regarding coverage for illness that existed prior to the commencement of coverage (hereafter, “pre-existing conditions”), the exemption clause shall be applied to the insurance company in cases in which a physician decided that the illness was a pre-existing condition. There were cases in which the exemption clause was applied inappropriately by company personnel who judged the applicability of the exemption clause without seeking physician’s diagnosis.
- 2) There were cases in which claims were not paid due to alleged breaches of notification obligations, despite the lack of a causal relationship between the reasons for claim and the history of illness or other matters that the policyholders did not report to the company when they took out the insurance policy. There were also cases in which claims were not paid due to alleged breaches of notification obligations, because the insurance company inappropriately terminated the policy after the statute of limitations had expired.

- 3) There were cases in which riders for non-coverage of certain diseases were inappropriately applied to policies, due to the erroneous assumption of personnel that such riders were included in policies, despite the fact that they were not included in the policies.
- 4) In addition, there were also cases in which claims were not paid because company personnel claimed that customers allegedly had expressed their intention to abandon a claim request, but there is no way to verify that that was truly the case.

With regard to the above cases, it was pointed out that the company had failed to conduct claim payment operations appropriately as required by business and service documents stipulated in the Insurance Business Law, Article 4, Paragraph 2, item 2, and by the items of the standard insurance policy stipulated in the Insurance Business Law, Article 4, Paragraph 2, item 3.

In addition, it was pointed out that these cases occurred due to the following reasons.

- 1) The company used an inadequate claim payment assessment manual that did not take into account elements that should have been considered (diagnosis of “pre-existing conditions,” approval of “notifications of health condition,” and other items) as they constitute characteristics of third-sector products. Standards and procedures for certifying nonpayment were not established and payment decisions were left to the sole discretion of managers.
- 2) There was the lack of sufficient cooperation between the products development division, the control division and other divisions when interpreting policy clauses and developing a claim payment assessment manual. For this reason, the company could not establish an appropriate administrative work flow for claim payment in due consideration of product characteristics.

- 3) The company's training, education, and instructions lacked consideration for characteristics of third-sector products. In addition, company personnel conducted payment operations without sufficient knowledge of products, because company personnel in charge of payment assessment were not trained properly.
- 4) The verification process used by the claim payment control division, in cases of nonpayment, did not function adequately, because it did not take into account characteristics of third-sector products. In addition, the company did not have an effective system to verify and improve its business procedures based on an analysis of customer complaints.

As stated above, the company did not have sufficient capabilities to verify the appropriateness of nonpayment of claims after the fact.

- 5) Internal audits to verify the nonpayment of third-sector policy claims did not function properly. Therefore, the internal auditing division was not aware of the fact that there were numerous cases in which claims were being rejected inappropriately.
- 6) The management team was unaware that there were numerous cases in which claims were inappropriately rejected, and that this was becoming an extremely serious issue, due to the lack of awareness of potential issues concerning characteristics of third-sector products.

3. OUTLINE OF PLAN TO IMPROVE BUSINESS OPERATIONS

1) Improvement and enhancement of management control (governance)

- (1) Review of management control system concerning claim payment operations

The company shall regularly submit following reports from the viewpoint of enhancing the supervision function of management.

- All reports, including those concerning progress in the reorganization of the claim payment control system and measures to prevent a recurrence of problems.
- Reports from the internal organization that monitors claim payment operations (Claims Payments Examination Department), reports on the status of operations of auditing unit established outside the company (Claim Payment Assessment Committee), and reports on customer dissatisfaction filed to the company's "Customer Dissatisfaction Center" and other contact points regarding the exemption clause.
- Reports on responses to customer feedback, complaints and progress reports, including those concerning claim payment that have been categorized and analyzed by the Business Operations Improvement Subcommittee established as an advisory body to the Board of Directors.

(2) Review of inter-department collaboration system

- The company shall develop a product development policy, which stipulates rules on inter-department collaboration at the company toward the launch of products.

(3) Establishment of department to control the quality of business operations

- The company shall establish the Business Operations Quality Control Department, a new business unit to promote an improvement in the quality of business operations, by examining the quality of business operations that have direct impact on customers, collecting information from every angle, identifying problems and issues, developing improvement plans and recommending improvements to respective departments.

(4) Review of internal auditing system

- The company shall establish a "Plan Assessment Group" within the Internal Auditing Department, to homogenize the level of audits by improving the effectiveness of audits and reviewing audit reports.

- The company shall review the existing auditing methods to improve the effectiveness of agency audits.
- The company shall make it obligatory to implement internal audits of all new business operations.
- The company shall increase the number of personnel in the Internal Auditing Department to support the aforementioned reviews (a total of 15 additional employees from 2006 to 2007).

2) Improvement and enhancement of claim payment control system

(1) Development of claim payment control system

- The company shall establish a Medical Claim Services Department to improve convenience and achieve uniform quality in customer service operations. The company must completely integrate its third-sector insurance service operations (illness claims) and increase the number of personnel assigned to these operations.
- The company shall establish a Policy Termination Control Center to ensure that policy termination rights—in cases where the insurer rejects liability due to the policyholder's failure to notify the insurer of pre-existing conditions—are exercised appropriately. The Center will assume central control of all related operations, including notification to customers.
- The company shall revise its operations manuals for non-life insurance business in order to establish clearer more specific criteria concerning claim assessments and termination of policies due to the policyholder's failure to notify the insurer of pre-existing conditions.
- The company shall review its criteria for evaluating claim payment managers and for commending division performance with a specific focus on factors such as customer response capability and the prevention of accidental non-payment of claims.

(2) Review of and improvements to insurance sales operations

- The company shall revise its policy application forms and policyholder notification of health condition document to make them easier to understand, to prevent misconceptions, to prevent policies from being concluded without an interview. The company shall also revise promotional brochures to ensure that customers receive a full explanation of the policies.
- The company shall establish a Notification Support Center that will provide responses and explanations to questions related to the handling of illness claims in an integrated manner.

3) Improvement and enhancement of protection of and convenience for policyholders

(1) Establishment of control systems for employees and agents involved in selling and explaining insurance products

- The Company shall implement confirmation tests to employees and strengthen training systems.
- The company shall establish a new qualification requirement for the sale of third-sector products, and shall only permit agents that have passed the qualification exam (on an individual basis) to sell third-sector products.

(2) Establishment of after-the-fact verification systems

- The company shall expand the scope of operations to be covered by the system to monitor third-sector insurance policies after the sale.
- The company shall establish a claim payment auditing committee, consisting of outside attorneys, to verify cases in which the company has applied the exemption clause.

- The company shall establish a new “Customer Dissatisfaction Center” where outside attorneys will review any complaints or documents submitted by policyholders whose claims were rejected.

(3) Improvement of transparency in responding to complaints

- The company shall disclose the number of customer comments including complaints, as well as representative examples.

4) Improvements and enhancement of compliance system

(1) Review and Improvements of compliance system

- The company shall review and reorganize its compliance structure in an effort to integrate the supervision, inspection and monitoring functions of compliance, and establish regional compliance sections in order to expand and improve compliance at the regional level.

(2) Cultivation of corporate culture that promotes compliance with laws and regulations and implementation of training

- The company shall develop a new medium-term management plan with a specific focus on compliance, customer creed, reliability and transparency in an effort to reform governance. The company shall also ensure that all executive officers and employees will follow the plan.
- The company shall establish a “compliance awareness month” and provide compliance training to all executive officers and employees according to their job classification.
- The company shall implement regular compliance checks for all employees, via online learning programs, in an effort to verify the effectiveness of compliance system.
- The company shall review the employee evaluation system with a specific focus on compliance.

4. Administrative action against executive officers and employees

Aioi Insurance has decided to punish those involved seriously, since the company viewed the fact that it failed to fulfill its fundamental responsibility of paying claims in a timely and appropriate manner as a very serious problem.

As a result, all executives including president of the company and auditors returned a portion of their executive compensation for the period in which the problems occurred.

In addition, the company has also severely punished the employees who were involved in the incidents, in accordance with the company regulations.