

# V Distribution System

The general insurance distribution system in Japan is agency, brokerage and direct distribution by officers or employees of insurance companies.

Agents and brokers must be registered with the Prime Minister\* in accordance with the Japanese Insurance Business Law (Officers and employees of insurance companies are not required to be registered in order to solicit insurance contracts.). Therefore, only registered agents and brokers, as well as staff members of insurance companies, are authorized to engage in insurance distribution.

As part of the registration process, the supervisory authority must ascertain whether there are grounds for refusing an application: for example, from applicants who have been declared bankrupt and who have not yet been rehabilitated, who have been imprisoned in the preceding three years, or whose previous registration had been revoked within

the preceding three years. Under the Insurance Business Law and its related regulations, agents and brokers are prohibited from such conduct as giving rebates or premium discounts, making false representations or failing to represent important matters regarding insurance contracts to their clients. If the registered agents or brokers violate relevant laws and regulations, the supervisory authority shall implement administrative penalties, including the revocation of the registration and the suspension of business.

In fiscal 2004, agents collected 92.9% of all general insurance premiums including domestic and foreign insurers. The remainder, 6.9% and 0.2%, was collected through direct distribution and brokerage, respectively.

(Note) Under the Insurance Business Law, the Prime Minister delegates his authority concerning the registration of agents and brokers to the Commissioner of the Financial Services Agency.

## Direct Premiums by Distribution Channel

(in millions of yen & %)

	Fiscal 2003		Fiscal 2004	
	Premium	Share	Premium	Share
Agents	8,533,149	92.9%	8,477,339	92.9%
Brokers	15,553	0.2%	17,268	0.2%
Direct Distribution	632,823	6.9%	630,635	6.9%
<b>Total</b>	<b>9,181,543</b>	<b>100.0%</b>	<b>9,125,256</b>	<b>100.0%</b>

(Note) "Direct Distribution" includes sales through employed sales staff.

## 1 General Insurance Agency System

The agency is the main channel for general insurance distribution in Japan. The function of an agency is as follows:

- Consulting for insurance.
- Soliciting (suggesting plans for) and concluding insurance contracts with customers.
- Calculating insurance premiums, accepting application forms from customers and reporting contracts to the insurance company.
- Receiving insurance premiums and issuing receipts to customers.
- Keeping insurance premiums received from customers and adjusting those premiums and commissions with the insurance company.
- Delivering insurance policies to customers.
- Maintaining insurance contracts including the procedures for changing contract terms and cancellations.
- Accepting notifications of claims from customers

and reporting those claims to the insurance company, including collecting claims documents from customers.

The number of general insurance agents regis-

tered as of the end of March 2005 stood at 286,576, and the total number of sales staff engaged in agency business in domestic and foreign general insurers amounted to 1,797,510.

### Number of Agency and Sales Staff

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of Agency	476,217	623,741	592,126	593,872	570,919	509,619	342,191	323,139	305,836	286,576
Number of Agency Sales Staff	1,086,264	1,181,865	1,170,497	1,180,784	1,154,511	1,145,252	1,575,195	1,642,271	1,716,006	1,797,510

(Note) The above figures stand for the total of domestic and foreign insurance companies.

### Number of Agents by Type of Business

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Full-time	96,931	90,567	85,544	79,126	73,353	60,264	58,557	55,438	51,283	47,436
Share (%)	(20.4)	(14.5)	(14.4)	(13.3)	(12.8)	(11.8)	(17.1)	(17.2)	(16.8)	(16.6)
Part-time	379,286	533,174	506,582	514,746	497,566	449,355	283,634	267,701	254,553	239,140
Share (%)	(79.6)	(85.5)	(85.6)	(86.7)	(87.2)	(88.2)	(82.9)	(82.8)	(83.2)	(83.4)
Corporate	133,152	136,682	135,529	132,361	128,630	127,019	124,190	121,190	119,042	116,969
Share (%)	(28.0)	(21.9)	(22.9)	(22.3)	(22.5)	(24.9)	(36.3)	(37.5)	(38.9)	(40.8)
Individual	343,065	487,059	456,597	461,511	442,289	382,600	218,001	201,949	186,794	169,607
Share (%)	(72.0)	(78.1)	(77.1)	(77.7)	(77.5)	(75.1)	(63.7)	(62.5)	(61.1)	(59.2)
Exclusive	372,061	494,376	465,402	476,860	438,950	382,152	261,597	254,255	240,952	226,947
Share (%)	(78.1)	(79.3)	(78.6)	(80.3)	(76.9)	(75.0)	(76.4)	(78.7)	(78.8)	(79.2)
Multi-representative	104,156	129,365	126,724	117,012	131,969	127,467	80,594	68,884	64,884	59,629
Share (%)	(21.9)	(20.7)	(21.4)	(19.7)	(23.1)	(25.0)	(23.6)	(21.3)	(21.2)	(20.8)

(Notes) 1. The above figures stand for the total of domestic and foreign insurance companies.

2. "Multi-representative" agents mean agents who have been commissioned to act as an agent of two or more general insurance companies.

3. Figures above are as of the end of each Fiscal Year.

The general insurance agency system was reviewed at the end of March 2001. The administrative guidelines concerning personal qualifications and agency classifications, as well as the level of agency commissions which depend upon agency classifications, were abolished. Subsequently, each general insurance company takes its own measures to promote further development of agency qualifications.

As the GIAJ regards agency education as integral to the industry's social responsibility to ensure proper sales of insurance products and the protection of pol-

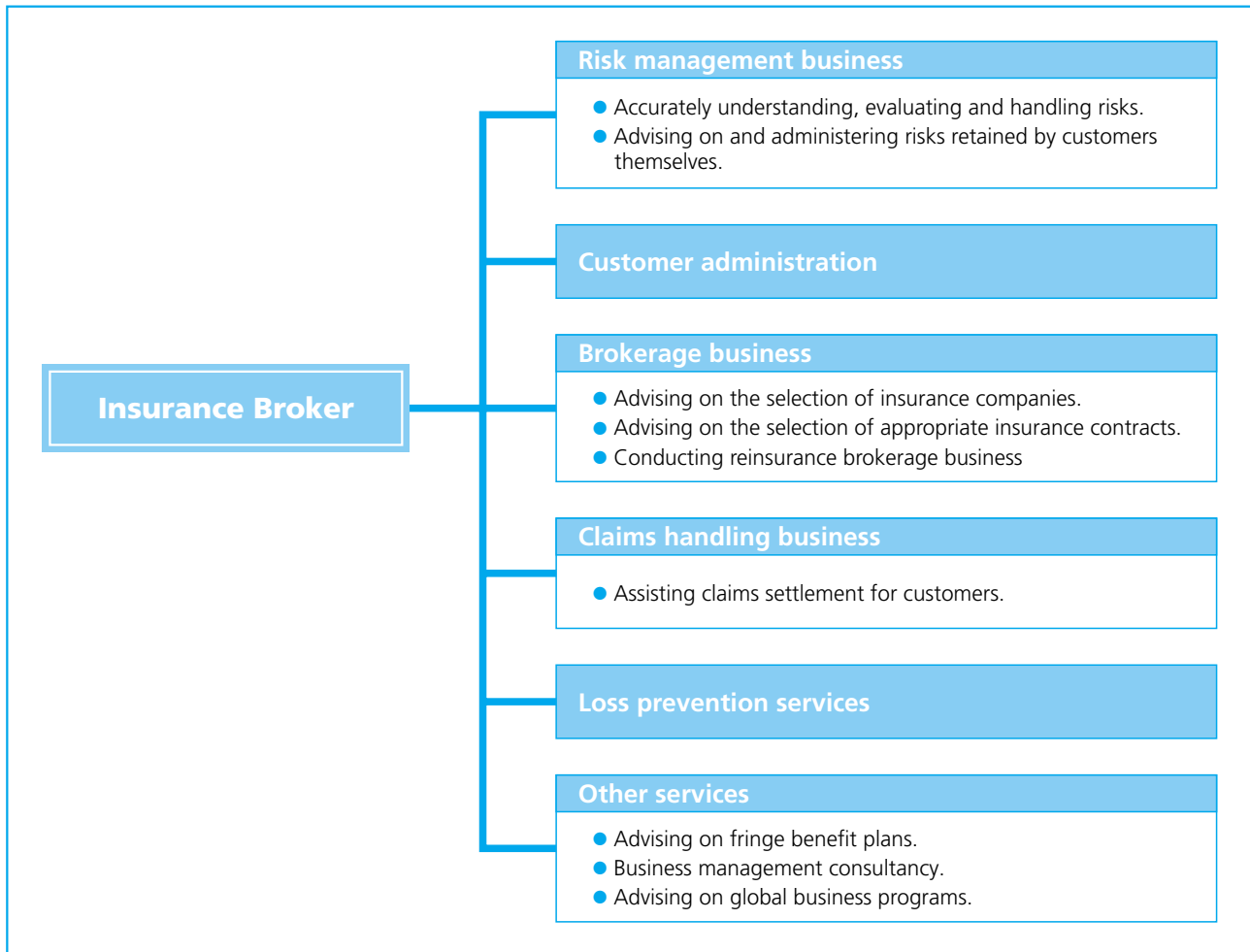
icyholders, it launched a new agency education system common to the industry in April 2001. Two kinds of examinations are available under the system; one for people who wish to be engaged in general insurance distribution so that they can better equip themselves as general insurance agents, and the other for general insurance agents who have already been engaged in distributing general insurance products. The subjects of the latter examination consist of legal compliance, laws and regulations, and taxation.

## 2 Insurance Brokerage System

An insurance brokerage system was introduced to the Japanese insurance market in April 1996 by the enforcement of the new Insurance Business Law.

Examples of services that insurance brokers may provide are as follows:

### Example of Services provided by Insurance Brokers



Insurance brokers are not allowed to start their operations until they are registered with the Prime Minister. At the time of registration, insurance brokers must prove that they are fit to conduct insurance distribution, their ability being judged by means of an examination by the Insurance Brokers Association of Japan, based on the Administrative Guidelines issued by the Financial Services Agency. As of October 1, 2005, a total of 36 insurance brokers are registered with the Prime Minister.

In order to clarify the roles or functions which insurance brokers take, the Insurance Business Law prohibits them from concurrently acting as general

insurance agents or life insurance solicitors. In addition, an insurance broker is legally bound to act with the utmost good faith (the so-called "duty of best advice"). Furthermore, insurance brokers differ from general insurance agents in that they are not empowered by insurance companies to conclude insurance contracts, to accept applicants' representations, or to receive insurance premiums.

Since insurance brokers are independent from insurance companies, they are liable for loss or damage to policyholders resulting from their insurance brokerage. Whereas in the case of general insurance agents, the insurance companies concerned ultimate-

ly assume, in principle, the responsibility for such losses.

Therefore, from the viewpoint of protecting policyholders, insurance brokers are legally obliged to make a cash deposit which endorses their financial means to cover their liability. The minimum cash deposit required is 40 million yen and the maximum 800 million yen.

Insurance brokers are allowed to act as intermediaries for the conclusion of insurance contracts on condition that they deal with the insurance products of insurance companies licensed in Japan. However, regarding reinsurance, ocean marine hull insurance, ocean marine cargo insurance, commercial aircraft insurance, etc., they are allowed to mediate for unlicensed foreign insurers directly.

### 3 Direct Distribution

A distribution system where officers or employees of general insurance companies distribute insurance products directly is called "Direct Distribution" and includes the following different forms.

#### a. Special Trainees System

To strengthen their distribution network, individual insurance companies have their own "Special Trainees System" to train their exclusive and full-time agents.

The purpose of the Special Trainees System is to give staff members selected courses to enable them to acquire knowledge of and practice in general insurance soliciting within a certain period. Although the organization of this system varies from company to company, a common stipulation is that trainees will work for the company as its exclusive agents in the future. As of the end of March 2005, the number of "undergraduate" special trainees reported was

3,900 (incl. figures of foreign insurance companies.).

#### b. "Chokuhan-Shain" System

Direct distribution, known as the "chokuhan-shain" or the "direct salesperson" approach, is the method where staff members of general insurance companies are engaged directly in the distribution of general insurance products. As of the end of March 2005, the number of "chokuhan-shain" reported was 5,774 (incl. figures of foreign insurance companies.).

#### c. Others

Direct response markets insurance products through advertisements on mass media, direct mail, telephone and the Internet. Some foreign insurers and newly established insurance companies adopt it as their distribution channel and use it to sell automobile and personal accident insurance policies.

### Insurance Sales through the Internet

Insurance sales through the Internet are usually operated by either insurance companies or their agents. Irrespective of the operator, insurance sales through the Internet are categorized into the following two types.

#### a. Off-line transaction

Booking an insurance contract on a Web site, and then meeting a sales person from an insurance company or an agent to conclude a con-

tract, or requesting materials for insurance products on Web sites, and then returning the application form with his/her seal to the insurance company to finalize a contract.

#### b. On-line transaction

From application to premium payment, everything is electronically processed on the Web site. The premium payment is usually settled with a credit card.