
CHAMBERS GLOBAL PRACTICE GUIDES

Insurance & Reinsurance 2025

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comparative analysis from top-ranked lawyers

Japan: Law and Practice

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Chuo Sogo LPC



JAPAN



Law and Practice

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Chuo Sogo LPC specialises in the following insurance matters: legal advice and opinions relating to insurance laws and regulations; incorporations, M&A, company restructurings and liquidations for insurance companies; and litigation, mediation, ADR and other dispute resolution remedies related to insurance claims and insurance products. Since 2005, the firm

has been loaning its attorneys to work at the Financial Services Agency (FSA) – an agency overseeing the insurance sector in Japan. This experience has given Chuo Sogo LPC insight into and a better understanding of the workings of this complex governmental agency, allowing it to better deal with complex insurance-related regulations to the benefit of its clients.

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CHUO SOGO LPC

1. Basis of Insurance and Reinsurance Law

1.1 Sources of Insurance and Reinsurance Law

The Insurance Business Act is the basis for the regulation of insurance businesses in Japan, providing a contractual relationship surrounding insurance products. Although Japan is not a common law country, the judicial precedent, especially that established by the Supreme Court, should be referred to when interpreting insurance contracts.

2. Regulation of Insurance and Reinsurance

2.1 Insurance and Reinsurance Regulatory Bodies and Legislative Guidance

The Financial Services Agency (FSA) is the regulatory authority for insurance and reinsurance businesses in Japan. Life and non-life insurers are regulated by the Insurance Business Act. Reinsurers are regulated in the same way as non-life insurers. Based on the Insurance Business

Act, the regulatory authorities have the power to issue administrative dispositions to insurance companies, including orders for business improvement, orders for suspension of business and/or orders for cancellation of licences.

In fact, broad discretion is given to the regulatory authorities, and those administrative dispositions against insurance companies invoked by the regulatory authorities are not necessarily based on the assumption that violations of law by insurance companies have taken place.

Against this background, entities targeted for supervision not only have to make sure that laws and regulations are being observed but must also follow the guidelines officially promulgated by the regulatory authorities (the “Comprehensive Guidelines for the Supervision of Insurers”).

Underwriting Life and Non-Life Insurance

Underwriting life insurance and non-life insurance entails obtaining the necessary business licences from the regulatory authorities. Licences for life insurance and non-life insurance business cannot be acquired by the same company, and companies are prohibited from running

both businesses concurrently. However, both life insurers and non-life insurers are at liberty to offer insurance such as medical care insurance, accident insurance or overseas travel accident insurance, ie, insurance from the so-called “third sector” insurance market.

Nevertheless, insurance companies – whether operating in the form of a *kabushiki kaisha* or mutual company – must have board of directors’ meetings, auditors’ meetings, audit and other committee meetings, meetings such as nominating committee meetings and accounting auditors. Foreign companies intending to enter into the Japanese market through their subsidiaries are required to acquire the licences mentioned above. Foreign companies planning to enter through their branch offices must obtain a foreign insurer’s licence.

During the licence application procedure, the “basic documents” (articles of incorporation, business plan, standard policy provisions and documents showing the method to calculate insurance premiums and policy reserves) must be submitted to the regulatory authorities. Furthermore, insurance companies cannot operate their businesses while being in violation of the basic documents, and, in order to develop and offer new insurance products, must procure approval for corresponding changes to the basic documents from the regulatory authorities (“Insurance Product Approval” – regular processing takes 90 days, standardised 45 days). However, regarding certain types of insurance, such as fire insurance where there is little concern of insufficient policyholder protection, a notification system to the regulatory authorities has been adopted; nevertheless, notification may not be required in cases where insurance companies state in the statement of business procedures that special provisions related to business insur-

ance are to be established or modified without notifications (the “Flexible Provision System”).

Conducting Other Business and Owning Subsidiaries

Insurance companies are not permitted to conduct any business other than the insurance business (underwriting insurance) and business incidental thereto (restriction on other business). Furthermore, insurance companies are not allowed to own subsidiaries that perform businesses other than as legally stipulated or obtain voting rights in domestic companies in excess of 10% of their total voting rights. However, with the approval of the regulatory authorities, insurance holding companies may have companies as their subsidiaries that insurers themselves may not own.

With respect to prescribed matters (which are quite extensive), such as customer explanations or information control, insurance companies are obligated to have a system in place to secure the soundness of operations and appropriate management. The minimum amount of capital of an insurance company is JPY1 billion.

Policy Reserves

Insurance companies are required to accumulate policy reserves and appoint an insurance administrator with a predetermined actuary’s licence to be involved in work related to actuarial science. In 1996, regulations on the solvency margin ratio were introduced. The solvency margin index has become an assessment standard for the supervisory authorities to execute early corrective actions with broad supervisory reach against targeted companies, including orders to submit an improvement plan.

At present, the solvency margin ratio on a consolidated basis has been introduced. In March

2016, the EU announced the adoption and enforcement of the equivalence recognition between Solvency II with temporary equivalence and the Japanese reinsurance supervision and group solvency. In June 2020, the Advisory Council on the Economic Value-Based Solvency Framework, which was established at the FSA, published a report in light of which the FSA is currently deliberating the economic value-based solvency regulatory framework ahead of its implementation in 2025. So far, the FSA has reported on the progress of these deliberations in the following publications: a report (dated 30 June 2022) entitled “Tentative decisions on the fundamental elements of the economic value-based solvency regulation”, a report (dated 30 June 2023) on the current status of the FSA’s deliberations on the finalisation of standards for the economic value-based solvency regulatory framework (mainly for insurance companies), and a publication (dated 29 May 2024) addressing other outstanding issues related to the economic value-based solvency regulatory framework.

2.2 Writing of Insurance and Reinsurance

See 2.1 Insurance and Reinsurance Regulatory Bodies and Legislative Guidance.

2.3 Taxation of Premium

This is not applicable in Japan.

3. Overseas Firms Doing Business in the Jurisdiction

3.1 Overseas-Based Insurers or Reinsurers

Under the Insurance Business Act, the regulations that apply to Japanese insurance companies also apply to local subsidiaries of overseas-based insurers. Nevertheless, this Act allows

foreign insurance companies to conduct insurance business without establishing such local subsidiaries.

Foreign insurance companies may conduct insurance business in Japan only if they have opened a branch in Japan and obtained the applicable licence from the FSA, the body overseeing insurance companies (Article 185-1 of the Insurance Business Act). This requirement allows the FSA to effectively execute administrative power over such foreign insurers. With some exceptions, Article 185-6 of the Insurance Business Act requires such licensed foreign insurers to conclude insurance contracts with persons having an address or residence in Japan, property located in Japan, or vessels or aircrafts with Japanese nationality inside Japan. The procedure to apply for the licence is mostly the same as that for Japanese insurance companies. Since foreign insurance companies do not have capital inside Japan, they are required to deposit a minimum of JPY200 million to the deposit office to protect policyholders.

Restrictions on Unlicensed Foreign Insurance Companies

Unlicensed foreign insurance companies may not conclude insurance contracts with persons having an address or residence in Japan, property located in Japan or vessels or aircrafts with Japanese nationality (Restriction on Foreign Direct Insurance; Article 186-1 of the Insurance Business Act), other than the insurance contracts listed below:

- reinsurance contracts;
- marine insurance contracts pertaining to objects such as vessels with Japanese nationality used for international maritime transportation;

- aviation insurance contracts pertaining to aircrafts with Japanese nationality used for commercial aviation;
- insurance contracts pertaining to launching into outer space;
- certain insurance contracts covering cargo located within Japan which is in the process of being shipped overseas; and
- overseas travel insurance.

Exceptions and Permissions

The restriction does not apply when an applicant wishing to purchase insurance from unlicensed insurance companies has obtained a permission from the FSA in advance of their applications for insurance as set forth in Article 186-2 of the Insurance Business Act. This exception is provided to enable policyholders to purchase insurance products that are most beneficial to them. That permission may not be provided in the following cases:

- the insurance product in question violates laws or is unfair;
- it is easy to conclude insurance contracts with licensed Japanese or foreign insurers for comparable insurance products on equal or more advantageous conditions;
- the terms and conditions of the insurance product in question are significantly unbalanced compared to the typical terms and conditions of the same type of insurance products with licensed Japanese or foreign insurers;
- concluding such insurance contracts would unjustly deprive the insured and other related persons of their benefits; and
- concluding such insurance contracts would likely negatively impact the development of the Japanese insurance business or be harmful to the public interest.

In a recent trend, the government of Tokyo is pursuing a policy to attract overseas financial business providers to the Japanese market by providing assistance to cope with complicated financial regulations in Japan, such as opening a one-stop service centre for financial start-ups. It is expected that such a move will attract more overseas insurance companies and revitalise the Tokyo financial markets.

3.2 Fronting

Fronting is not expressly prohibited or permitted in Japan and there are no explicit expectations with regard to the cedent's retention.

4. Transaction Activity

4.1 M&A Activities Relating to Insurance Companies

Existing insurance businesses may be acquired in several ways, such as through obtaining shares of Japanese insurance companies, a merger of insurance companies, or sale and purchase of insurance business. The Insurance Business Act provides a regulatory framework for these M&A activities of insurance businesses.

Obtaining Shares

Under the Japanese regulatory framework, shareholders who own a certain percentage of voting rights in insurance companies are subject to oversight of the regulator.

- A shareholder with more than 50% voting rights in an insurance company is required to obtain an approval from the FSA in advance of acquisition of such voting rights (Insurance Holding Company; Article 271-18-1 of the Insurance Business Act). Insurance holding companies are subject to strict regulations including those regulating the scope of busi-

ness and imposing subsidiary restrictions, and, in certain instances, reporting obligations. As of 1 August 2022, 15 insurance holding companies have been approved by the FSA.

- Except for insurance holding companies, a shareholder with 20% or more voting rights in an insurance company needs approval from the FSA in advance of acquisition of such voting rights (Major Shareholder of Insurance Companies; Article 271-10-1). Such approval is required even if the investor resides overseas. The FSA oversees major shareholders of insurance companies by imposing reporting obligations and taking administrative dispositions.
- A shareholder with more than 5% voting rights in an insurance company is required to report such acquisition of voting rights within five days (in case of foreign investors, one month) to the FSA (Shareholders with Large Voting Rights in Insurance Company; Article 271-3-1 of the Insurance Business Act). The shareholder has to submit a report if the shareholder's percentage of voting rights changes by 1% or more (either as an increase or decrease). The FSA may take administrative dispositions against shareholders with large voting rights in an insurance company if the FSA finds the report submitted includes false information or lacks important or necessary information, thus causing potential misunderstanding.

Mergers

A merger with an insurance company requires approval by the FSA. Article 167-2 of the Insurance Business Act provides the following standards/checkpoints that the FSA could use in determining whether to give an approval:

- the merger is appropriate in light of the protection of policyholders;
- the merger will not hinder fair competition among insurance companies; and
- it is certain that the surviving insurance company after the merger will be capable of operating the insurance business appropriately, fairly and effectively.

Sale and Purchase

A sale and purchase of insurance business also requires approval from the FSA, pursuant to Article 142 of the Insurance Business Act. Purchasers of insurance businesses must be licensed insurance companies. Such sale and purchase also requires a separate approval to transfer insurance contracts from the FSA, pursuant to Article 139 of the Insurance Business Act. Petitions for approval to transfer insurance contracts are reviewed according to the following standards/checkpoints:

- the transfer of insurance contracts is appropriate in light of the protection of policyholders;
- it is certain that the transferee will be capable of operating the insurance business precisely, fairly and effectively; and
- the transfer does not unjustly affect the benefit of the creditors of the transferor.

The Insurance Business Act does not require policyholders' approvals for transfers of insurance contracts to another insurance company. Instead, the transferor must make a public notice and notify each policyholder, and provide policyholders a chance to file objections to the transfer.

5. Distribution

5.1 Distribution of Insurance and Reinsurance Products

Unless otherwise allowed by any other law, the Insurance Business Act prohibits any person from acting as an agent or intermediary to conclude insurance contracts, an activity that falls within the definition of “insurance solicitation” under this Act.

In the case of a life insurance company, only registered life insurance agents (officers and employees of a life insurer; life insurance agencies (agents) as well as their officers, employees and other personnel) may conduct “insurance solicitation.” A long-standing characteristic feature of Japanese selling channels is for life insurance companies to utilise a large number of salespeople who belong to those companies and are hence categorised as “employees of a life insurer” described above (mostly female employees known as *Sei-ho ladies*) among their overall sales staff. Put simply, every person selling insurance contracts has to be registered to do so. In principle, in the current legal system, life insurance agents may deal with insurance products of only one insurance company. In other words, they operate within the so-called one-company exclusive system. However, by fulfilling the prescribed legal requirements (such as enrolling two or more life insurance agents), it is possible to deal with insurance products of multiple insurance companies – in fact, quite a number of independent agencies currently do this.

Non-Life Insurance Companies

The situation involving non-life insurance companies (including a reinsurance company) is as follows.

- It is recognised that officers (other than auditors) and employees of a non-life insurer may engage in “insurance solicitation”, not only without being registered but also, similarly to officers and employees of below-mentioned non-life insurance agencies, without any obligation to give notice thereof. In many cases, employees of a non-life insurance company engage in “non-face-to-face” offerings of their products (by such means as telephone, mail or internet) and tend to transfer business opportunities with large-scale companies to their head office for handling.
- Registered non-life insurance agencies, their officers (with the exception of auditors) and their employees may engage in “insurance solicitation”. No officers or employees of non-life insurance agencies are required to be registered, however, they are required to give notice of such a fact.

The majority of non-life insurance sales are made by agencies, accounting for 90.2% of total sales on a direct-net-premiums-written basis, while sales by officers and employees of insurance companies (through their direct sales) and insurance brokers account for only around 8.9% and 0.9% respectively.

Of all non-life insurance agencies, dedicated insurance agencies account for 17% (based on the number of entities involved). The rest is run as side business by entities engaged in other businesses, including entities in the automobile industry (dealers and repair shops), accounting for 55%, and the real estate industry, accounting for 9.3%.

Insurance Brokers

Registered insurance brokers may also engage in “insurance solicitation” that is limited to mediating conclusions of insurance contracts. The

Insurance Business Act has assigned special duties to these insurance brokers, including:

- the duty to deposit a security guarantee (JPY20 million at the time of commencement of their business, which can be exchanged for an insurance broker's liability insurance policy);
- the duty to disclose fees and commissions;
- the duty to prepare bought and sold notes;
- the duty of loyalty (the duty to provide "best advice"); and
- other special duties that have not been imposed on other insurance agents.

There are only 65 insurance brokers in Japan. While most of them focus on large-scale corporate clients, handling insurance products for individual clients is extremely rare.

Sales Through Banking Channels

Insurance sales through banking channels in Japan commenced in 2001 but the number of products they could sell was severely restricted. The range of insurance products available for sale by banks has since expanded multiple times, and the restrictions were completely removed in 2007.

Banks function as insurance agents in the selling process. In this respect, it is worth mentioning that additional special regulations have been applied to banks in order to avoid circumstances of insufficient consumer protection, which could result from improper use of the banks' information-gathering ability in relation to customers' funds or their improper influence over customers.

Strict regulations have been imposed on banks, including measures/regulations for the protection of non-public information (pursuant to which

customer information obtained through their banking business cannot be used in connection with insurance solicitation without customers' consent) and regulations concerning soliciting of borrowers (where certain types of insurance products cannot be sold to customers who are granted business loans). While these additional regulations have been imposed for the protection of consumers, they essentially function to protect the traditional channels of insurance distribution.

Recently, "open-for-visitor" agencies have strengthened their presence. Out of the insurance products of multiple insurance companies, these agencies make – on their own initiative – proposals for insurance products that conform to customers' actual needs, which open-for-visitor agencies call "consultative selling".

6. Making an Insurance Contract

6.1 Obligations of the Insured and Insurer

The Insurance Business Act imposes on a policyholder or the insured a duty to disclose material matters regarding risks requested to be disclosed by the insurer (the duty of answering the question).

This is a mandatory provision unilaterally imposed (ie, a mandatory provision that voids agreements entered into in contravention of that provision and thus adversely affecting policyholders); however, the provision is not applicable to the following types of non-life insurance:

- maritime insurance contracts;
- aviation insurance contracts;
- nuclear energy insurance contracts; and

- non-life insurance contracts for the coverage of damages arising from business activities conducted by a juridical person or some other organisation or an individual who operates a business.

Therefore, for these exceptional contracts, it is possible to stipulate special provisions.

6.2 Failure to Comply With Obligations of an Insurance Contract

If a policyholder or the insured violates the aforementioned duty, the insurance company may cancel the insurance contract and, except for damages not arising from violation of the duty of disclosure, will be discharged from liability for making insurance payments. An insurance company's right of cancellation will be extinguished one month after it learns the cause of the cancellation or five years after the conclusion of the contract.

6.3 Intermediary Involvement in an Insurance Contract

While insurance agents act on behalf of insurance companies, insurance brokers act on behalf of customers independent from insurance companies (buyer's agents).

6.4 Legal Requirements and Distinguishing Features of an Insurance Contract

Insurance contracts may be concluded verbally but, in practice, they are committed to writing so that the conditions of the contracts are clearly memorialised on paper. The existence of insured benefits (economic benefits that may be disadvantaged by the occurrence of insured events) is required as a condition to effectuate a non-life insurance contract. The insured is the person to whom the insured benefit belongs.

The reason for the existence of insured benefits is to prohibit gambling and prevent moral hazards. However, to meet the convenience of everyday operations, this requirement for the existence of insured benefits tends to be applied fairly moderately and flexibly.

6.5 Multiple Insured or Potential Beneficiaries

In non-life insurance, only the insureds may be the beneficiaries of an insurance contract. Insurance benefits are paid to the insureds and/or parties authorised by the insureds to receive the benefits.

6.6 Consumer Contracts or Reinsurance Contracts

From the viewpoint of protecting policyholders, the mission of the Insurance Act has been, in large measure, to impose a duty on insurers to insert certain mandatory provisions into the insurance contract (ie, provisions whose absence would ipso facto adversely affect policy holders and consequently render the insurance contract void). However, in view of the fact that unilaterally imposed mandatory provisions are not applicable to the following types of non-life insurance: (i) maritime insurance contracts, (ii) aviation insurance contracts, (iii) nuclear energy insurance contracts, and (iv) non-life insurance contracts (including reinsurance contracts) for the coverage of damages arising from business activities conducted by a juridical person or some other organisation or an individual who operates a business, for these exceptional contracts, it is possible to separately stipulate special provisions.

7. Alternative Risk Transfer (ART)

7.1 ART Transactions

Based on the content of the product, it should be determined whether such product is subject to Japanese regulation. Certain products may be subject to regulation as reinsurance products.

7.2 Foreign ART Transactions

This is not applicable in Japan.

8. Interpreting an Insurance Contract

8.1 Interpretation of Insurance Contracts and Use of Extraneous Evidence

There are no laws or regulations on how to interpret contracts specific to insurance contracts.

In general, the courts interpret insurance contracts objectively, taking into account their comprehensibility by average, reasonable customers. Nonetheless, the courts tend to recognise agreements between insurance companies and customers that differ from explicit policy conditions, taking into consideration the way in which insurance companies and customers negotiated and concluded their insurance contracts, and seek reasonable solutions while ordering compensation for damages.

At the time of solicitation of an insurance contract, the Insurance Business Act requires insurance companies to deliver documents (contract outline) containing the following items to fulfil their obligation to provide information:

- the structure of the insurance policy/coverage;
- the matters concerning insurance benefits (including giving typical examples of payment

conditions of insurance benefits and explaining cases where insurance benefits are not paid);

- the duration of the insurance policy;
- the amount of insurance and other conditions for underwriting of insurance contracts;
- the payment of insurance premiums;
- the cancellation of insurance contracts and refunds thereof;
- the cooling-off procedures;
- the matters concerning the notification to be made by the policyholder or the insured;
- the timing of commencement of the insurance liability;
- the grace period for payment of insurance premiums; and
- the invalidation and reinstatement of insurance contracts after their expiration.

8.2 Warranties

This is not applicable in Japan.

8.3 Conditions Precedent

This is not applicable in Japan.

9. Insurance Disputes

9.1 Insurance Disputes Over Coverage

Insurance disputes are generally resolved in district courts or summary courts, depending on the value of the dispute. There are no special courts for resolving commercial insurance disputes and, therefore, the same procedure is applicable to both consumer contracts and reinsurance contracts. In practice, a jurisdiction clause in an insurance policy determines which court will hear disputes in relation to the insurance policy.

9.2 Insurance Disputes Over Jurisdiction and Choice of Law

See 9.1 Insurance Disputes Over Coverage.

9.3 Litigation Process

Generally, a first hearing date is scheduled around one month after the filing of a lawsuit. It usually takes six months to one year to reach a judgment.

The losing party may appeal to the upper court if it is not satisfied with the decisions of the court of first instance. There are two stages of appeal.

9.4 Enforcement of Judgments

A foreign judgment is required to be recognised in Japanese courts. To be capable of recognition and enforcement, a foreign judgment must satisfy the requirements of Article 118 of the Code of Civil Procedure. Whether these requirements are satisfied will be determined by the court in an action for “execution judgment” under Article 24 of the Civil Execution Act.

9.5 Enforcement of Arbitration Clauses

This is not applicable in Japan.

9.6 Enforcement of Awards

The Arbitration Act provides that an arbitration agreement must be in writing but does not require any specific wording. Parties to the arbitration may not appeal to the courts regarding the decision of the arbitral tribunal. However, the Arbitration Act provides that the parties may file a petition to set aside the arbitral award to the court in some situations, such as invalidity of the arbitration award due to the limited capacity of a party.

Japan is a party to the New York Convention; arbitration awards received in the member countries can be enforced in Japan.

9.7 Alternative Dispute Resolution

Insurance alternative dispute resolution (ADR) is common, especially in the field of consumer contracts. An increasing number of insurance-related disputes are resolved through ADR.

9.8 Penalties for Late Payment of Claims

Japan has not introduced the concept of punitive damages. Late payment interest is recoverable in respect of claims. Before 31 March 2020, the rates for late payment interest were 5% per annum for non-commercial claims and 6% per annum for commercial claims. As of 1 April 2020, the amendment of the Civil Code became effective and a new structure for late payment interest was introduced, ie, 3% per annum with subsequent reviews every three years to reflect market interest rates. The current rate of 3% per annum is effective from April 2023 to March 2027.

9.9 Insurers' Rights of Subrogation

For non-life insurance, Article 24 of the Insurance Act provides that, where insured property is totally lost or destroyed, an insurer that has paid an insurance proceeds payment shall be subrogated to ownership and any other real right that the insured holds over the insured property, in accordance with the ratio of the amount of the insurance proceeds payment thus paid to the insured value (or the agreed insured value if there is any such amount).

Article 25 of the Act provides that, when an insurer has made an insurance proceeds payment, the insurer shall be subrogated with regard to any claim acquired by the insured due to the occurrence of any damages arising from an insured event up to the smaller of:

- the amount of the insurance proceeds payment made by the insurer; or
- the amount of the insured's claim.

10. Insurtech

10.1 Insurtech Developments

In Japan, the emergence of fintech was, at first, most pronounced in the banking sector. In fact, the Japanese government first responded to fintech by amending the Banking Act so that banks could own technology companies as their subsidiaries, which was previously restricted to some extent (the “Amended Banking Act”). The Amended Banking Act came into force on 1 April 2017. In 2021, the Insurance Business Act was amended in the same way for insurance companies to own subsidiaries that provide IT and other technology to enhance insurance activities and benefit the insurance companies’ customers.

Adoption of New Technologies

Japanese insurance companies are incorporating new technologies such as IoT (internet of things), big data and AI into their services. For example, Tokio Marine & Nichido Anshin Life Insurance Co Ltd has introduced a medical insurance policy where an insured might obtain cashback on the insurance fees if they walked a certain average number of steps on a daily basis. The insured would be required to use wearable technology to monitor their activities and record their health data.

Another example is Sony Assurance Inc’s automobile insurance, where an insured has a “driving counter” installed in their car to monitor the insured’s driving. If it shows safe driving on the part of the insured, the insurer will provide cashback towards the insurance fees.

The Fintech Support Desk

The FSA regards the fintech trend quite positively. One example of the positive attitude of the FSA is the Fintech Support Desk, which was

established to provide a streamlined process for fintech businesses. Indeed, the FSA appears to be watching developments regarding insurtech with a high degree of interest.

10.2 Regulatory Response

See 10.1 Insurtech Developments.

11. Emerging Risks and New Products

11.1 Emerging Risks Affecting the Insurance Market

Cybersecurity Risk

Cyber-attacks have come to pose a severe and present risk, which Japanese companies have to cope with. Even though countermeasures are being introduced, they can easily be rendered ineffective. The Ministry of Economy, Trade and Industry of Japan (METI) issued the Cybersecurity Management Guideline, which establishes that cybersecurity is a business challenge and Japanese companies have to take appropriate protective actions.

To respond to such situations, insurance companies have developed insurance products to cover the costs of unauthorised disclosures of information or damages caused by a cyber-attack. The survey conducted by the General Insurance Association of Japan in 2023 shows growing recognition of cyber-risk as an important management issue. Compared to the 2022 survey, awareness of “cyber insurance” increased by 5.0 points. Compared to 2021, awareness increased by 10.3 points.

Enhanced Focus on Natural Disaster Risk

With the increasing frequency of natural disasters in Japan, insurance companies are strengthening their products to address disaster risks. This

includes enhancing coverage for earthquakes, typhoons and other events, along with streamlining claims processes for faster payouts. In 2024, Japan experienced several natural disasters, prompting insurance companies to implement swift responses and innovative measures. For the Noto Peninsula Earthquake which occurred on 1 January 2024, it is reported that the insurance payout reached approximately JPY91 billion as of 31 May 2024, the sixth largest amount on record.

11.2 New Products or Alternative Solutions

Health-Promoting Insurance Products

Due to Japan's aging population and increasing health consciousness, insurance products encouraging healthier lifestyles are gaining social attention. For example, products offering discounts or rewards based on health check results or daily activity data are becoming more popular. It usually utilises wearable devices or mobile applications to track fitness, diet and sleep patterns, providing data directly to insurers.

Embedded Insurance

Embedded insurance, where insurance is integrated into other products and services, is expanding through collaborations with other industries. For instance, automakers are including car insurance in their car-sharing services, allowing customers to benefit from coverage seamlessly. Embedded insurance offers customer convenience and effective solutions while ensuring that users receive appropriate and timely protection.

12. Developments in Insurance Law

12.1 Significant Legislative or Regulatory Developments

There have been but few significant legislative or regulatory developments in the field of insurance and reinsurance during the last two years.

On 30 August 2024, the FSA announced "The JFSA Strategic Priorities July 2024–June 2025." According to these JFSA Strategic Priorities, the policy for administering insurance supervision for fiscal year 2024 can be summarised as follows.

- Based on a June 2024 report regarding a summary of discussions of meetings held by the "Expert Panel on Structural Issues and Competition in the Non-Life Insurance Sector" (provisional English title), the FSA will revise its supervisory guidelines and formulate or revise guidelines for the industry after conducting necessary investigations and analyses regarding the following issues: (i) the improvement of the effectiveness of FSA's guidance for large-scale agents of non-life insurers through, for example, the implementation of a third-party evaluation system, (ii) the elimination of the provision of conveniences from insurers to their agents that induce the agents' prioritised merchandising of the respective insurers' products, (iii) the securing of an appropriate management system for each insurer's insurance claim payment, and (iv) the enhancement of business capabilities and independence of in-house insurance agents.

With regard to the issues such as (v) the tightening of the enforcement of rules on framework development directed at large-scale insurance

agents, (vi) the promotion of the use of insurance brokers, and (vii) the reality of deficits in fire insurance for businesses, the Financial System Council will deliberate on specific measures that may need to be taken, including the need for revising the relevant schemes.

Regarding business improvement plans of major non-life insurers, the FSA will provide follow-up advice to ensure the implementation of the plans and their effective improvement. For life insurers, on the other hand, the FSA aims to further enhance agency supervision.

- Along with the provision of high-quality insurance services that cater to the customer needs, in view of the changes in the medium- and long-term business climate, such as the aging society, intensifying natural disasters and the shrinking automobile insurance market, insurance companies are required to achieve the establishment of sustainable business models by taking measures to consolidate the customer base and supplement revenue.
- As the insurance companies continue to expand their business overseas and establish subsidiaries, it is important that they enhance the sophistication of their internal audit and of their group governance on a global basis.

The FSA will facilitate the steady progress of these initiatives in co-operation with overseas authorities.

- In addition, the FSA will ensure the seamless implementation of the economic value-based solvency regulatory framework.
- The FSA will monitor the soundness of insurers' finance and business operations, as well as the performances of their asset management, with an eye on the economic trends and the financial market movements.
- With regard to natural disasters, due to their high frequency and severity, insurance payouts have increased and insurance rates are rising. In this context, in order to allow non-life insurers to more appropriately fulfil their function as insurance for natural disasters, the FSA will encourage non-life insurers to enhance their enterprise risk management (ERM70), take actions to support disaster prevention and mitigation, and address the risks associated with the climate change.
- With regard to small-amount and short-term insurance providers, the FSA will, in co-operation with local finance bureaux, continue to encourage them to effectively manage their business framework to ensure the financial strength and appropriateness of their business operations.

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