

AIDA WORLD CONGRESS

PARIS 2010

CLIMATE CHANGE

QUESTIONNAIRE

Foreword

1. Climate change has been chosen as one of the topics for the AIDA World Congress to be held in Paris in 2010. Thank you for accepting to prepare a national report.

2. This subject is obviously one of great importance, and very much has already been written on it. For an AIDA World Congress, the focus should naturally be on the impact on the insurance sector, and more precisely on the impact on insurance law – a domain in which AIDA can make a significant contribution. When preparing your report, please stress the legal aspects (legislation, regulation, policies, clauses, legal nature of new products, etc...) – even though describing the context will always be necessary.

3. National reports will be particularly useful for such a subject where perceptions of the phenomenon may vary, and mainly, where the feared consequences of climate change can be widely different in the different regions of the world. Please see that your report gives the necessary information about the local context in which it is written (see part A of the questionnaire below).

4. The questionnaire is indicative. Try to cover all points you find relevant for your country, but do not hesitate to include additional information and comments in part C below.

A. Your local context

In your country :

1. What is the degree of awareness of climate change and its consequences :

- in the general public

- > People feel some anxiety about climate change because of the phenomena such as hottest summer and heaviest snowfall for decades, recurrent local downpours, and so on which occur at each stage of the seasons. However, they do not become aware that it is their own problem.

- in the business sector

- > Although each company become increasingly aware that the matters of climate change can be its business opportunity, that have yet to become a major trend. Regarding the issue of greenhouse gas reduction, various efforts are made such as development and diffusion of alternative energy resources and electrical automobiles.

- in the insurance industry

- > They are, of course, concerned about climate change because it entails great risks. However, at this time, they are only observing a general trend. Some insurance companies are providing corporate risk consulting services.

- in public authorities ?

- > Recent situation will be described later.

2. Which are locally the main expected consequences of climate change (please specify : “not applicable”/”medium risk”/”high risk”) :

- floods (including flash floods)

- > High risk, because Japan has following geographical features.

- Japan is a mountainous country and its land area has a sharp inclination.

- Because most Japanese rivers are short and Japan is a mountainous country, rainwater gathers in a remarkably short time.

- rise of sea level

- > High risk, because Japan is an island country surrounded by sea.

- melting of ice, of snow, avalanches

- > Medium risk. Because Japan is located in the semitropical region, only limited areas will be affected.

- earthquakes

- > Not applicable. There is no direct relationship between earthquakes and climate change.

- storms, tornadoes

-> High risk. Heavy rains and gusts of wind are increasing.

- heat waves, draught, fires

-> Medium risk. Unlike China or Australia, Japan has not suffered droughts. However, it is predicted that some parts of Japan will be at high risk of droughts in the medium and long term.

- spread of diseases

-> It is predicted that with the rising of maximum temperature, patients with hyperthermic stresses or heat strokes will sharply increase, and the area of potential distribution of mosquito vectors of infectious diseases (such as dengue fever, malaria, and Japanese encephalitis) will expand.

- other adverse effects

-> It appears that global warming may affect a variety of things including an ecological system, foods, drinking water, and so on.

- any favourable consequences ?

-> Risk consulting businesses may develop. If individuals raise awareness of risks, it is possible that the level of loss-prevention will be higher, which may lead to a reduction in loss cost.

3. Which economic sectors, critical for your country, could be particularly affected :

- agriculture

-> Particularly affected.

- fisheries

-> Particularly affected.

- forestry

-> Particularly affected.

- energy

-> Particularly affected.

- industry (which ?)

-> Trading companies and food industries.

- tourism

-> In summer season, more people may go to summer resorts.

- others ?

-> Not applicable.

4. Have some concrete measures already been taken or envisaged (other than in insurance sector – see B below) :

- legislation, regulation

-> After the 3rd Session of the Conference of the Parties to the United Nations Framework Convention

on Climate Change held in December 1997, the "Law Concerning the Promotion of the Measures to Cope with Global Warming" was enacted in 1998. This law provides a framework within which the central government, local governments, businesses and citizens work together to cope with global warming. It is said that Japan enacted this sort of law for the first time in the world. This law has been amended frequently in accord with the schedule of the enforcement of the Kyoto Protocol.

- initiatives of economic agents

-> The Global Warming Prevention Headquarters was established inside the Cabinet in December 1997. In 2001, the Environment Agency was upgraded to the Ministry of the Environment. Recently, detailed prediction of probable effects of global warming was reported in May 2008. In August, the "Action Plan for Low-Carbon Society" was formulated and published. In October, a trial implementation of a domestic integrated market of emissions trading was started. And in November, the "Action Plan for Promoting the Introduction of Solar Power Generation" was formulated and published.

- others ?

-> Not applicable.

5. How much is your country involved in international efforts and initiatives related to climate change :

- Kyoto Protocol

-> Japan was committed as the conference chair to the COP3, which adopted the Kyoto Protocol. Japan also made an effort to encourage the countries to ratify the Kyoto Protocol toward the entry into force of it. Recently, in May 2007, the prime minister at that time, Mr. Shinzo Abe, proposed "Invitation to Cool Earth 50" and appealed the necessity for an international framework beyond the Kyoto Protocol. In January 2008, the prime minister at that time, Mr. Yasuo Fukuda, also presented the "Cool Earth Promotion Programme."

- International Strategy for Disaster reduction, Hyogo Framework

-> As for the situation after the adoption of the Hyogo Framework, we already mentioned.

- National Platforms

-> We already mentioned.

- Emission trading systems

-> In October 2008, a trial implementation of a domestic integrated market of emissions trading was started.

- others ?

-> Not applicable.

6. Please provide references to literature on climate change concerning your country.

B. Climate change and insurance *(please stress legal aspects)*

1. Which are the lines of insurance that could be affected ?

- Property

Agriculture (crops, forestry, livestock)

-> Although it is not covered by private non-life insurance, as a matter of course, it could be affected.

Buildings

-> In Japan, "fire insurance" covers the risks of natural disasters, too. Because local downpours and gusts of wind are increasing and typhoons are getting larger recently, these sorts of risks are becoming higher.

Business interruption

-> In conjunction with the above, it could be affected.

Others (specify)

-> Not applicable.

- Liability

-> Although climate change does not directly increase liability risks, it cannot be denied that liability claims resulted from omission may increase. Such risks may be higher especially for the central government, independent administrative institutions and local governments, e.g., defect in water control.

- Transport, marine

-> As is the case with fire insurance, it could be affected by the recent increase of local downpours and gusts of wind and the growing of the size of typhoons.

- Life, health

-> Hyperthermic stresses, heat strokes and infectious diseases, which we already mentioned, may affect the life and health of the people.

2. How are the risks linked to climate change to be defined ?

- Problems of interference of human and natural causes

(e.g. building in an area prone to being flooded)

-> We are looking at these sorts of risks from the perspectives of what kind of specific damage will be done to tangible things such as buildings, structures, plants, animals and people by the changes and increase of the risks of natural disasters caused by climate change, and what sort of measures can prevent or reduce such damage.

- Problems of causal links

(e.g. increase of losses often due to a combination of factors

– natural, but also demographic and economic)

-> The risk of the changes and increase of the risks of natural disasters is thought to be further increased by the factors such as concentration of population, land development and urbanization, decline of primary industries, downturn in infrastructure investment caused by economic stagnation, and so on.

3. Insurers' measures of protection against excessive exposures

- Improvement of statistics

- Cartography of risks

- > It requires a detailed analysis of the insurance money data and claim data. Those analyzed data need to be organically linked to the underwriting.

- Raising risk awareness (communication campaigns, lobbying, ...)

- > Although the effect of raising risk awareness will be indirect, it is thought to be a necessary effort for the insurance companies which ought to promote corporate social responsibility. Several years ago, the General Insurance Association of Japan made an effort to provide indirect support for the creation of flood hazard maps, because the administrative authorities could not create and distribute such hazard maps.

- Prevention

- > There are limitations to the insurance companies' efforts in terms of prevention, except for dealing with the insurance institution. However, it is effective to raise awareness in consumers and policyholders.

- Limits of indemnity

- > Being reduced.

- Deductibles

- > Spiraling.

- Exclusions

- > Before laying down a new exclusion clause, we need to discuss carefully taking into account the roles of the insurance.

- Premium increases

- >

- Cancellations

- Withdrawals from markets

- Adaptation of reinsurance agreements (or develop under point 4 below)

- Cover or climate risks on the financial market

(or develop under point 5 below)

- > It is difficult to comment on the above four topics right now. As for the reinsurance agreements, insurance companies have adapted them in accordance with their own risk judgments.

- Others

- > Increasing liability reserves and contingency reserves, or reexamining the calculation method of them.

3. Insurers' initiatives to develop « new products »

N.B. Climate change is seen as opening new opportunities by a growing number of insurers. Some examples are listed below, but they are far from exhaustive and new products keep appearing. Please investigate the situation

in your country and provide as much information as possible (obtaining models of clauses and policies would be extremely valuable).

- New policies to cover the consequences of climate change

- Coverage for producers of new energies (e.g. wind-mills)

- Liability of architects

- D & O environmental liability

- Micro-insurance products for developing countries

-> Abnormal weather insurance and weather derivatives, which cover a diminution in estimated sales caused by climate change, are becoming popular products. On the other hand, for now, there are no moves to pursue liability of architects or D & O liability which are resulted from climate change. As for micro-insurance products, we understand that weather insurance for the farmers in the developing countries is already prevalent.

- Climate risk management services, expertise

-> Major non-life insurance companies are offering various services by themselves or through their subsidiaries. For example,

- Risk management services utilizing abnormal weather insurance, weather derivatives, and so on.
- Sales of environment-friendly investment trusts.
- Providing support for obtaining ISO certification.
- Providing information on climate change and global warming.

- New policies as incentives to reduce greenhouse gas emissions

- “Pay as you drive” motor insurance

- “Energy saving”, “Green-building” insurance

-> Example of automobile insurance:

- Reflecting the mileage in the amount of insurance premium.
- Discount of insurance premium for electric cars and hybrid cars.
- Discount of insurance premium for the cars which complies with emission regulations.
- Discount of insurance premium for the cars in which recycled parts are used.

-> Example of fire insurance

- Discount of insurance premium for all-electric houses.
- Discount of insurance premium for organizations which have obtained ISO14001 certification.
- Special contract to indemnify for the expenses for rooftop gardening after an accident.

- Initiatives in the carbon market

- Carbon credit insurance (covering failure to deliver emission rights)

- Options to buy carbon credits to offset emissions (vehicles)

-> For now, there are no specific moves for that in Japan.

- Others

-> Not applicable.

4. Reinsurance

In your country, what is the role of reinsurance companies with respect to the above problems ?

-> Increase of local downpours and gusts of wind and the growing of the size of typhoons have the factors of

increasing the amount of claim payment of fire insurance, which have become the greatest concern for the management of non-life insurance companies in Japan. Therefore, for direct writing insurance companies, the roles of reinsurance companies are becoming more and more important for leveling of risks. In that case, it is hoped to utilize not only the traditional reinsurance markets but also the capital markets through the securitization.

5. ART (Alternative Risk Transfer)

Have any of the following techniques developed in your country in connection with climate change :

- Derivatives

-> Although weather derivatives are sold to the specific businesses, it is unclear how much impact climate change will have on the sales trends. Triggers used for weather derivatives are rainfall, snowfall, sunshine, and so on.

- Swaps

-> Unclear.

- Cat bonds

-> There is an example that a major non-life insurance company issued the cat bond in 2006 in order to cover the risk of typhoon.

- Others ?

-> Not applicable.

What is the legal nature of these different products ? Can they qualify as "insurance" ?

-> Under the Insurance Business Law, they cannot qualify as "insurance."

6. Cooperation or competition with public sector

What is the state of cooperation (or competition) between public authorities and the insurance sector in your country in issues related to climate change ?

-> We have not yet reached that stage.

Are there specific public schemes concerning some of the risks involved ?

-> We have not yet reached that stage.

C. Any additional information or comments

-> As for the increase of the risks caused by climate change, we think that the concept of prevention is crucially important in order to reduce such risks. Therefore, insurance companies should take a backseat, because their primary roles are to indemnify after such risks were actualized.

On the other hand, we have great hopes in the roles of risk analysis experts in providing risk consulting services for the businesses. Some insurance companies provide those risk consulting services on a commercial basis.

In terms of prevention, because in the future companies will have to make huge amount of capital investments, especially in infrastructure, it is highly likely that insurance companies will play a role in providing monetary supports such as financial guaranty. Much the same is true on the new emissions trading market.

In Japan, because of the frequent changes of government for the past three years, it is difficult for the Japanese government to lead an international initiative for coping with climate change. And what is worse, it is now doubted whether Japan can achieve the target of cutting down its annual emission of greenhouse gases by six percent by 2012 from 1990 levels, which was set by the Kyoto Protocol.

Thank you !

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