



The regulation of Mutual Aid Societies (*Kyosai*) in Japan

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Kyosai are mutual aid societies traditionally formed by groups of individuals – labour unions, agricultural workers, for example – who have a common interest or profession. *Kyosai* collect premiums from their members, pool the collected premiums, and reimburse members facing economic loss resulting from predicted risks such as death, injury, accidents and fire.

Kyosai are major players in Japan's insurance market. It is estimated that *kyosai* account for circa 22% of the sum insured in the life-insurance market (including Japan Post's *Kampo* insurance business), and circa 17% of the sum insured in the non-life insurance market in Japan.

Despite the fact that many *kyosai* conduct business in ways similar to their private-sector counterparts, *kyosai* are treated differently than private-sector insurers in terms of the taxes they pay (generally lower than for commercial companies), the protection they provide their policy holders in the event of bankruptcy (no obligation to pay into industry "policy holder protection funds"), the rules and regulations they must abide by (not regulated by the Insurance Business Law), and how they are supervised (not supervised by the Financial Services Agency, the main financial regulator in Japan).

There are two types of *Kyosai* in Japan: "regulated" and "unregulated".

"Regulated *kyosai*" are *kyosai* whose business is regulated by a specific law governing the operation of their business and/or related co-operative organization. Examples include JA *Kyosai*, part of the Japan Agricultural Cooperative, which is regulated by the Agricultural Cooperative Association Law supervised by the Ministry of Agriculture, Forestry and Fisheries, and the *Zenrosai*, regulated by the Consumers' Livelihood Co-operative Society Law supervised by the Ministry of Health, Labour and Welfare.

Many of these *kyosai* are moving away from the original purpose of providing mutual aid to their members and becoming more and more like private insurers, with fewer and fewer restrictions on membership, and active solicitation of business outside the group "core". JA *Kyosai*, for example, is now allowed to hire independent agents to solicit business for JA *Kyosai* products and act as an intermediary for private insurance companies following changes to the Agricultural Co-operative Society Law in June 2004.

"Unregulated *kyosai*" refer to *kyosai* that are not regulated by any specific law, nor subject to any government supervision. It is estimated that over 400 such



societies exist in Japan, accounting for over 50 billion yen in premium revenue. Many of these organizations do not have a membership that is strictly specified and over 30% do not disclose any financial data, a basic requirement of any well-functioning financial market. A lack of supervision means lack of accountability, which undermines stability of the financial system as a whole.

The Financial System Council is currently reviewing the treatment of “unregulated *kyosai*” to decide whether “unregulated *kyosai*” with unspecified membership should be subject to the Insurance Business Law and FSA supervision, or softer regulations than what current apply to private insurers (e.g. no payments to an industry safety net, no approval needed for new products, no licensing requirements, etc.).

The basic position of the EBC is that *kyosai*, both regulated and unregulated, should be subject to the same capital, solvency margin, taxation and policyholder protection funding requirements as private insurers to ensure consumer protection and create a level playing field in the life insurance market. Since *kyosai* provide the same services as insurance companies, all should be subject to the same legal and regulatory requirements, including the Insurance Business Law and FSA supervision. This is especially important for *kyosai* whose client base is not strictly specified.

In this context, the EBC does not support the introduction of simplified regulations for “un-regulated *kyosai*”. The EBC feels that all “un-regulated *kyosai*” should be subject to the Insurance Business Law and the supervision of the FSA.