Captive Programs of the Japanese Corporate Insurance Buyers:

Why only few of them?

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日本企業のキャプティブ・プログラム

～何故かくも少数なのか？～

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Abstract

In the course of globalization of industrial economy and in ever-changing social environment, the circumstances surrounding the enterprises are deteriorating not only because of the property risks but also due to the litigation risks caused by products liability, errors and omission by officers and directors etc. In the case of North American and European countries, it is a generally observed business practice for the big enterprises to hedge various risks by establishing their own captive insurance companies as well as to utilize techniques of "alternative risk transfer". In Japan on the contrary, only few captive insurance companies are activating except big transnational corporations. The paper makes an analysis of the reasons and background from historical and institutional point of view and makes proposal for the future improvement.

Key words : insurance market, captive insurance, corporate risk management, taxation

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産業経済のグローバル化と社会情勢の複雑化に伴い、自然災害による財産・要員の損失リスクならびに生産物賠償責任、役員賠償責任などに関わる訴訟リスク等に直面して企業環境が急速に悪化している。欧米では諸種のリスクに対処するために、単に保険会社に依存するだけではなく、自社の利益を守り社会的責任を果たすためにも、保険以外への「代替的リスク移転」を試みると同時に、自家保険の一種としてキャプティブ保険会社を設立してリスクヘッジを行っている。しかし日本では一部の大企業を除き殆ど一般化されていない。この背景を歴史的・制度的側面から解明し、日本企業のリスク処理について将来への提言を行う。

キーワード： 保険市場、キャプティブ保険、企業のリスクマネジメント、税制

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1. Forword

General managerial environment surrounding Japanese enterprises is drastically changing day by day. Not only natural disasters such as earthquake, tsunami, typhoon, and localized torrential downpour are threatening their management, but also medical malpractice and misappropriation of corporate officers which often invite lawsuits by the litigious parties are of their great concern. In addition, the Japanese entrepreneurs in the borderless global economy are now encountering the new types of risks such as terrorism, kidnap, ransom and extortion in the course of becoming involved in their overseas operation.

Confronted with such new types of risks, almost all the enterprises have difficulties in compliance with the request made by various stakeholders. It is one of the reasons why they are seriously studying risk management and crisis management so as to cope with various losses arising from such extraordinary events.

Aon Global Risk Consulting Inc. (AGRC) being one of the group companies of AON Corporation has recently undertaken independent research into the proliferation of captives amongst their Global 1500 companies. According to AON, captive growth overall does not appear to be slowing and has not reached saturation point. It says more than half of G1500 companies do not have a captive at parent level. Furthermore it reports that there is considerable room for captive growth, even among the top 1500 companies globally, especially from companies in locations such as Asia. The report emphasizes that for example Japan has 243 G1500 companies but only 34 of these have captives. (i)

I regrettably admit the contention of AON report as there are only 70 to 80 Japanese captives including those formed by U.S. subsidiaries and rent-a-captive cells established so far while there are over 5000 captive insurance companies are now operating globally with captive parents of the United States and European countries. Although the Japanese Insurance Industry is ranked No.2 only next to that of U.S., the market structure and business practice are quite different from those of U.S. and European countries. On the other hand, the risk management practice of big corporate insurance buyers seems to be under a veil of mystery. Captive program of these enterprises is not an exception. In other words, any sophisticated ways of risk management and risk finance such as captive, derivative, finite and catastrophe bond are still considerably behind the times. (ii)

Under such circumstances, I am going to discuss firstly why the captive program is not so popular among Japanese enterprises while it is commonly utilized by the entrepreneurs of western countries, secondly why there is an absence of the risk awareness and risk sense among them, thirdly the institutional uniqueness of Japanese insurance market and lastly my own proposal for the solutions to improve the current situation.

2. What is Captive?

Captive program is defined as “a special insurance company to accept risks of a specialized parent organization including its group entities owned and managed by the parent organization”. The purpose of building up captive scheme is, generally speaking, to be a useful tool for strengthening the risk management system of an organization such as the following (iii)

① Tax merit (At the time of tax return, the premium paid to the captive is regarded as tax deductible.)

② Alternative risk hedging (In case commercial insurer cannot provide coverage for certain risks at an affordable premium, the policyholders can get it from their captives.)

③ Investment function (Premiums retained by the captive can be invested for the time before loss to be paid.)

④ Reinsurance market approachable (For the purpose of getting higher limit and broader cover, captive can directly make deal with international reinsurance market.)

3. Scale of National Economy and Insurance Market

According to Sigma No.3, 2008 published by Swiss Reinsurance Company, Japan is the second biggest “gross domestic products”(GDP) player with US$ 4.4 trillion in 2007 which is almost 32% of that of the United States and occupies the share of approximately 12% of the total GDP of top 10 nations. (#1)

Talking about the total premiums written in 2006 by regions, Europe including U.K. occupies the top position of US$1.48 trillion and the second biggest region is Americas North and South plus Caribbean countries. The third region is Asia and Middle East including Japan, China, and South Korea. Oceania is No.4 with US $58.3 billion. (#2)

According to Sigma of Swiss Re., the United States is by far the biggest insurance market in terms of the gross written premium generated in 2007 which is bigger than the total figure of Japan, UK. and France combined. Japan takes No.2 position next to the United States producing US$460 billion in 2007 (#3)

The size of Global Insurance Market in 2007 was approximately US$ 4.06 trillion and in 2006, 3.67 trillion with the growth of 10.5% increase after adjusted by inflation factor.

In the meantime, global non-life insurance premium in 2007 was US$1.67 trillion and that in 2006 was about US$ 1.55 trillion with the growth rate of 7.7%

4. Overview of Global Captive Market

Captive insurance market has no such detailed figures because of its rather esoteric business nature and professional specialty but we can estimate that the global captive market in 2007 had the size of approximately US$ 100~150 billion which is about 7% to 10% or less of the total of non-life insurance market.

Although the figures are a bit outdated, the chart #4 shows the global share of captive parent companies in 2003. More than 60% of the parent companies are of the United States and about 22% is coming from European countries. Canada has 3.3% share and Japan only 1.5%. Numbers include the captives established by the subsidiaries. For example, YKK Insurance Company of America is a subsidiary of YKK Corporation of America but a granddaughter company of Japan's well-known zipper manufacturing company, YKK Corporation. (#5)

The chart #6 shows the major domiciles by region. Bermuda is said to be a domicile where the concept of "captive" was created and established for the first time in the midst of 20th century. Bermuda, Europe and the United States are sharing slightly more than 20% each. Caribbean Islands have by far the biggest share of 33%. Other domiciles include Singapore, Labuan, Hong Kong and Mauritius.

You may see what is going on in each individual captive domicile at the chart #7. You may also find that more and more states in the United States are emerging as captive domiciles whereas Bermuda has slightly lost its status as the top domicile. Among the on-shore U.S, domiciles, Vermont and Hawaii are the frontrunners growing rapidly.

5. Status Quo of Japanese Captives

It is my regret to admit that only 70 to 80 captive companies with Japanese parents are now formed while there are more than 5000 captives are being established in the domiciles referred to before. Among Japanese captives, there are well known corporations like Hitachi, Toyota, Nissan, Honda, SONY and so on. Since the beginning of the 21st century, almost all captives with Japanese parents are formed in Hawaii. In the decade of 1990, Singapore and Dublin, Ireland were the two major domiciles accepting Japanese captives mainly because their corporate tax rate was slightly above 25%. While I will discuss it in details later, a Japanese Tax Law revised in 1992 and in case the corporate tax income in the captive domicile is 25% or below, the balance generated from the captive operation should be consolidated and subject to the domestic tax rate of over 40%. Therefore Hawaii is now considered to be a best feasible domicile with effective tax rate of around 32%.

The first Japanese captive was formed in Bermuda under the name of Cygnas Insurance

Company in 1974 by the then broker-manger Johnson and Higgins, Bermuda of which parent was Kawasaki Kisen Kaisha being generally called as K-Line Company. Through the decades of 1970 and 1980, the most popular domicile was Bermuda. Some others were in Luxemburg, Ireland and Singapore.

But in the decade of 1990, Singapore became the most attractive domicile for the Japanese entrepreneurs mainly because of the revision of Japanese tax laws and Singapore's luring efforts.

In the 21st century the general tendency has drastically changed because Singapore has gradually decreased corporate tax rate from 26% to 25.5% and then in 2002 it went down to 18%. On the other hand, Insurance Division of the State of Hawaii has been very active in promoting captive idea by holding a series of captive seminars inviting Japanese entrepreneurs regularly. The two factors are the reasons why Hawaii captives have recently been increasing dramatically in number.

The chart #8 shows the chronological change of domiciles where Japanese captives formed. Bermuda has the largest number of Japanese captives of 18 firms. The second biggest domicile for the Japanese is Hawaii as an emerging domicile and the third one is Singapore which vigorously flourished in the decade of 1990 by the reason stated above.

In the early days typical Japanese captive program has started with the shipping business like "K"Line and Mitsui-OSK line as well as manufacturers of audio-visual products and electronic components like SONY. In the second stage, main captive players were "Sogo Shosha" or General Trading Companies like Mitsubishi Corporation and Mitsui & Company, Ltd. etc. Also auto manufacturers such as Honda and Toyota were the leading firms activating captive programs worldwide. The third stage was represented by Singapore as domicile. Almost all businesses from chemical and pharmaceutical industries represented by Kao Corporation to travel agency firm like Nippon Travel Agency Co., Ltd. set up captive there.

In the 21st century, auto component manufacturers such as DENSO Corporation and Yazaki Corporation joined the race. On the other hand, finance and credit companies like Takefuji and JCB formed captives. In addition, insurance companies have been operating their captive reinsurers through almost four decades.

6. Japanese Market—Underwriters & Producers

In the Japanese Non-Life Insurance market, there are only 93 insurers in total as at August 25th 2008. There are three categories; the first one is 29 domestic insurers, the second one is 22 foreign insurers and the third one is 42 small amount short term insurers(SSI) .The number is no match against that of the United States market where approximately 2700 insurers are actively operating. In addition, SSI or what is called "mini-insurers" have received license only recently to do underwriting business for the policyholders with small insurance amount for a short period, and therefore they are still in a stage of being rocked in a cradle.

The premium share of foreign insurers in Japan is less than 5% and out of remaining 95%, the lion's share is in the hands of big three insurers namely Tokio Marine, Sompo Japan and Mitsui Sumitomo. The total share of these big three is over 60% and if you include Nippon Koa, Aioi and Nissay Dowa, the total share becomes 85.7% at the end of march 2008 (#9).

There are almost quarter million agency firms and independent agents soliciting non-life insurance of which sales staff is said to be approximately 2 million.

On the contrary, the broker firms are as small as 34 in number with approximately 300 individual brokers doing business mainly in the industrial and commercial business.

When it comes to the big industrial and commercial business as well as middle market, the big sales forces directly employed by the insurance companies are playing the main role of sales promotion.

It implies that it is very difficult for the corporate insurance buyers to explore the possibilities of planning captive scheme or using risk capital market etc. since their underwriting companies always keep watching how the brokers are approaching them and keep trying to dissuade their clients from getting another idea of exploring the way of risk financing other than utilizing traditional insurance.

According to the Fact Book of General Insurance in Japan, direct premiums by distribution channel in 2006 fiscal year (April 2006 to March 2007) are as follows:

2006 a/c	PREMIUM(million yen)	SHARE
Agents	8,584,926	93.1%
Brokers	24,834	0.3%
Direct	614,954	6.7%
Total	9,224,734	100.0%

Although over a decade passed since broker system was introduced, the market share by brokers in terms of premiums written remains very small. The main stream of insurance business is still in the hands of overwhelming majority of agencies and underwriters themselves.

There are professional brokers in the main streets. Kyoritsu IBJ is a broking affiliates of Kyoritsu Agency which has been doing insurance intermediary business since 1932. Kyoritsu Group has 10 branch offices in Japan and 3 overseas offices in Shanghai, Hong Kong and Singapore. Number of professional staff members is over 200. It is closely connected with Mizuho Financial Group. Kyoritsu Broker is the first broker registered on August 30th of 1996 to do business of Life & Non Life insurance broking.

MST Risk Consulting is a subsidiary of Mitsubishi UFJ/ NICOS Financial Group and Toyotsu Insurance is closely connected with Toyota Group. On the other hand I&T Risk Solutions has business connections with Itochu Corporation and Bluewell is an affiliate of Sumitomo Trading and Ginsen is connected with Mitsui Sumitomo Bank. These domestic brokers have been involved in the captive business mainly on consulting basis. Bluewell has been doing business of promoting rent-a-captive business.

Marsh Broker Japan was a little bit belated in registering as broker in 1998 but they are most active in soliciting and promoting captive idea to their prospective clients who are mainly transnational companies. Aon and Willis Broker Japan are also very active in trying to get hold of prospective clients for captives. The counterparts of these foreign brokers in various captive domiciles occasionally visit Japan to meet with clients and prospects.

7. Japanese Big Insurance Buyers

In 2007, InterRisk Research Institute & Consulting Inc. which is an affiliated research firm of Mitsui Sumitomo Insurance Co., Ltd. and its groupfirms published a report of research on status quo of risk information disclosure of leading Nikkei 225 companies which shows various risks being identified by business executives of Nikkei 225 being topmost firms representing Japan. According to the report, their most serious concern is “downfall of general economic conditions” Also “sharp rise of raw materials including oil” is an item of their grave concern. On the contrary, “general property risk” such as fire, loss of company properties and damage of company cars are not so much concerned. It implies that the management of enterprises does not pay so much attention to the property and casualty risks in comparison with price and legal risks. (#10)

The chart #11 shows the close financial relations between financial institutions including insurance companies and automobile manufacturing firms. Financial institutions have a substantial controlling power by holding big share of stock over manufacturers who are at the same time their policyholders.

In Japan, close direct relations between insurance underwriters and corporate insurance buyers are so significant. It is one of the reasons why corporate policyholders feel so difficult to get an idea of setting up captive program by overcoming the opposition of their insurers.

8. Comparison between Japanese and U.S. Market

It is said in the United States that one of the reasons for corporate insurance buyers to set up captive insurance company is the volatility of property-casualty insurance market. The chart #12 shows the comparison of combined ratio between U.S. and Japanese Market since 1997.

In U.S. Market, the ratio fluctuates from 115% in 2001 to 91.8% in 2006. On the contrary, Japanese market always shows below 100% and relatively stable between 97.87% in 1999 and 87.52% in 1997.

The stability of market cycle means that the Japanese underwriters provide their policyholders with stable rates and conditions as well as sizeable capacity with steady pace and that their clients have almost no other idea but to stay with the traditional commercial underwriters they have been dealing with for a long time.

Another significant feature is Workers' Compensation Insurance. You may be aware that some states in U.S. have State Compensation Funds taking care of workers' compensation insurance but almost all the other states have no such system. They say that it is one of the most pressing issues for U.S. entrepreneurs to set up captives writing workers' compensation insurance.

In Japan, the circumstances are quite different in that as early as 1947 right after WWII, Labor Standard Law and Workers' Compensation Insurance Law were enacted and the Japanese Government started writing the basic coverage of Workers' Compensation Insurance. In 1949, domestic commercial insurers started writing the excess portion of the government insurance protection.

In the circumstances, unlike the counterparts of the United States, Japanese entrepreneurs have not been worried about claims of workers' compensation insurance and I think it is another reason that the Japanese corporate insurance buyers feel unnecessary to set up captive scheme.

9. Experiment for Japanese On-Shore Captive

After Law #189 was enacted at the end of 2002 for activating "Special Economic Zone" concept spread among several local governments and enterprises, and under the leadership of the Ministry of Economy, Trade and Industry (METI) as well as Okinawa Prefecture, a study team was organized in 2003 at Nago City Okinawa. One of sub-committees named "Captive Study Team" had a series of meeting. (iv)

What I hear, however, is that no dramatic development is seen yet and so far no clear conclusion was reached as regards Japanese version of "On-Shore Captive Domicile" in Okinawa.

In my opinion, there will be two items of advantage in case "on-shore captive" once launched: Firstly, whole documentation can be provided in Japanese language except reinsurance and retrocession to be dealt with international market. Secondly the distance between parent firms and captives is much shorter than any of off-shore captive. In fact directors and officers of parent companies can do business trip to Okinawa without suffering from jet lag. Thirdly on-shore captive can avail themselves of the Japanese Generally Accepted Accounting Principle.

10. Taxation Issue

In the course of globalization of Japanese enterprises, their overseas subsidiaries have been actively operating their business. In principle, Corporate Tax Law of Japan has nothing to do with these off-shore subsidiaries but as an exception we have “Anti-Tax Haven Taxation” to control tax evasion of these off-shore companies.

The taxation applied to the off-shore captives has four exceptions which are:

a. Business Standards: To be applied to the firms of which principal purposes of business are ① not retaining stocks or securities ② not providing industrial ownership or copyrights and ③ not leasing of marine hull and/or aircraft.
b. Substantive Standards: In the domicile where head office is located, there should be independent office facilities, store, plant and/or other proper facilities.
c. Control Standards: The control, administration and management are being autonomously conducted by themselves.
d. Non-Related Standards: In case the principal items of business are wholesale, banking, trust, securities broking, insurance, ocean marine transport or air transport, more than 50% of business is being dealt with non-related parties. (In case the items of business are not under the category of those stated above, the business is principally being operated in the country where the principal office is located).

Special Tax Measures Law is also stated as Anti-Tax Haven Taxation Rule. The purpose of this rule is to prevent Japanese tax deferral by pooling income in low tax jurisdictions. A specific Foreign Subsidiaries being a foreign related company whose effective income tax rate is 25% or less than that. (v)

Since the Law and the enforcement order became effective in 1992, all the Japanese captive owners turned to be subject to the rule. It is the reason why Singapore and Ireland have eventually been popular among Japanese captives where the effective local tax was slightly over 25% respectively.

Back to the AON’s report mentioned before, page 15 thereof says “*The top domicile of choice for the Japanese is Singapore, not surprisingly, as it is in Asia and as there is vast* *room for growth of the captive concept amongst Japanese-owned companies, the numbers in Singapore should continue to grow.*" This statement is totally unrealistic so far as taxation is concerned because as mentioned before, Singapore has a couple of times changed the tax rate downwardly which means no more attractive for the taxation sensitive Japanese entrepreneurs.

11. A Small but Fresh Experiment

The Federated States of Micronesia (FSM) came up with an ACT to create a scheme for the introduction and regulation of a captive insurance industry in FSM. Their main target is the Japanese companies because the effective corporate tax is geared to 25.5% which clears Anti-Tax Haven Taxation Rule of 1992. At this time Hawaii is, as stated above, the best feasible captive domicile for the Japanese but if FSM launches into full scale sales promotion, it will be an effective alternative for the Japanese. But from the viewpoint of risk management and access to the reinsurance market, it might not be a first choice for the conservative Japanese entrepreneurs. We have to keep watching the future development of FSM. (vi)

12. Conclusion

Now I am going to make a proposal for the better future environment:

12-1 By referring to the relevant captive laws and regulations prevailing in such advanced domiciles as the states of Vermont and Hawaii as well as Bermuda, "Captive Insurance Law" should be enacted so that Japanese on-shore captive program can be activated. The proposed forms of captive would basically be stand-alone captive but rent-a-captive may be added.

12-2 The new legislation would include the ways of licensing procedure, qualification of captive owner, line of business, terms and conditions of insurance to be accepted, reporting formulae of accounting and business status report, details of internal audit, minimum capital and various types of reserves, rules on solvency margin ratio etc. which are supposed to be indispensable in enacting captive law.

12-3 Unlike the United States and Canada, we have a central government and therefore captive legislation should be formulated on nation-wide basis so that the supervising administration should be conducted with high efficiency.

12.4 Basically the education and enlightenment to risk managers and chief risk officers of insurance buying companies should also be most important. Various institutions including the Non-Life Insurance Institute of Japan (NLIIJ) [Songai Hoken Jigyou Sogo Kenkyujo] and the General Insurance Association of Japan (GIAJ) [Nihon Songai Hoken Kyokai] are quite enthusiastic to hold seminars and public lectures. Japan Risk Management Society (JARMS) initiated by Dr. Toshiaki Kamei, Professor Emeritus of Kansai University is also quite active in the public relations. At this time there is no such popular qualification system like Associate of Risk Management (ARM) or Chartered Property & Casualty Underwriter (CPCU) seen in the United States although JARMS has a qualification system of giving recognition of risk management adviser (RMA) and risk management consultant (RMC). To enhance know-how of risk management at the side of insurance buying corporations, such system of qualification should highly be advisable.

12.5 Chief Risk Officers and Risk Managers of big corporations should keep eyes open on what is going on in the insurance industry. At this time the big policy-holders seem to be blind at the fact that Japanese non-life insurers invest in their customers in exchange for profitable underwriting business. This kind of what is called “homogeneous investment” is rarely seen in the Western insurance market. In short, Japanese big corporate insurance buyers should loosen close ties with their insurance companies so that they can have freer hands to choose more effective means of risk finance and risk management.

12.6 Improvement of broker and agency system is also highly important. At this time there are some quarter million agencies doing business in Japan but some sophisticated lines of insurance like products liability, errors and omission (E&O) coverage, pollution liability etc. are in most cases negotiated directly between sales persons of insurance companies and insurance department of buying enterprises or through professional insurance brokers. By promoting the understanding of insurance policy wordings at the side of insurance agencies, the process of selling and buying of insurance will hopefully become more efficient. In addition, the more know-how the risk managers acquire, the more chance for them to be able to get smarter idea of utilizing risk financing means including captive insurance companies.

12.7 Last but not least, the stakeholders such as consumers, shareholders and loan providers should keep watching how the risk management is being implemented in the corporate insurance buyers and requesting improvement and development thereof directly or through their auditing firms and rating organization.

12.8 Although having stated above, this article only introduces what is going on about the captive insurance programs currently adopted and utilized by major Japanese enterprises, but does not discuss pros and cons of captive scheme itself. In other words, the writer does not intend to hastily conclude that the Japanese insurance market is worse than other advanced markets in providing captive and other sophisticated risk financing tools. It is up to each individual enterprise to select risk financing tools in building up its own style of risk management.

Note

(i) Ref.Captive Review October 2007 P6.
Aon Corporation is a world leading provider of risk management services, insurance and reinsurance brokerage, human capital and management consulting and specialty insurance underwriting based in Chicago. It was founded in 1982. The name Aon is the Gaelic term for "oneness". According to Business Insurance (July 21, 2008), Aon Corp. has 500 offices worldwide employing 35,900 staff and 2007 brokerage revenue was US$7.096 million only next to the top broker Marsh & McLennan Cos. Inc. which produced brokerage revenue of US$ 11,281 million.

(ii) According to the report by MMC Securities 2007, more than 200 contracts of CAT bonds were transacted during the period from 1997 and 2006 of which risks located were 27 for Japan, 37 for Europe and 138 for U.S. It shows that the CAT bond transactions on the risks located in Japan are less than 20% of the total number of transactions. The total accumulated risk capital involved during the period is shown below:

US Earthquake & Hurricane	European Windstorm	Japanese Earthquake & Typhoon	Other	Total
15,197.0	4,105.9	3,813.4	1.352.5	24,468.8
62.1%	16.7%	15.6%	5.6%	100.0%

(unit: USD million)

(iii) There are various kinds of definition of "CAPTIVE". According to one of the most classic and well-known textbooks of captive insurance titled "CAPTIVE INSURANCE COMPANIES—Establishment, Operation and Management" written by P.A.Bawcutt 1997 (Witherby & Co., Ltd.), it states as follows:

"The purist definition of a captive is probably:
An insurance company that only insures all or part of the risks of its parent. The key factor in this definition is that the insurance company is owned by the parent and

therefore has its own ‘captive’ business. Other definitions are available, and are probably clearer although less succinct. They include the following:

Insurance companies set up by individual or commercial groups primarily to insure some of the risks of their parent(s).

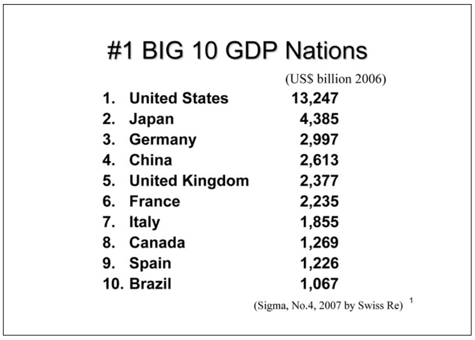
A limited purpose wholly owned insurance subsidiary of an organization not in the insurance business, which has as its primary function the insuring of some of the exposures and risks of its parent or the parent’s affiliates.” (p1 of CAPTIVE INSURANCE COMPANIES—Establishment, Operation and Management” written by P.A.Bawcutt 1997 (Witherby & Co., Ltd.)

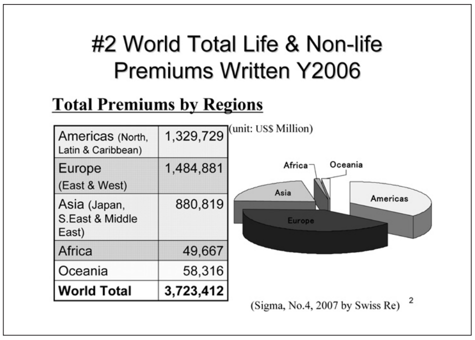
Traditionally, any reinsurance subsidiary of insurance companies does not fall into the category of captive but practically these special reinsurance subsidiaries set up in tax haven domiciles are also called as “CAPTIVE” in these days.

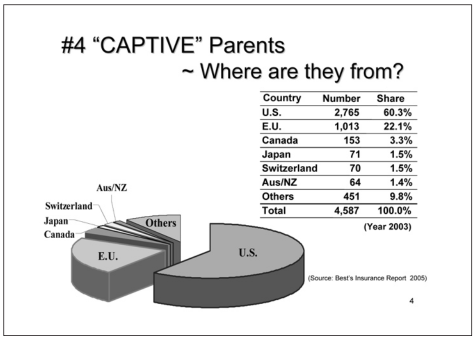
(iv) Risk Finance Kenkyukai Hokokusho by METI March 2006

(v) News Letter Oct. 2005 by KPMG

(vi) Congressional Bill #14-221 Public Law 14-88 2006







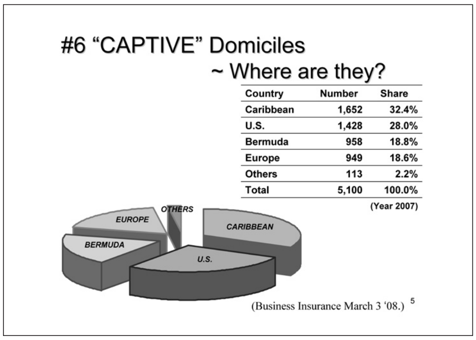
#5 LIST of JAPANESE CAPTIVE INSURANCE COMPANIES

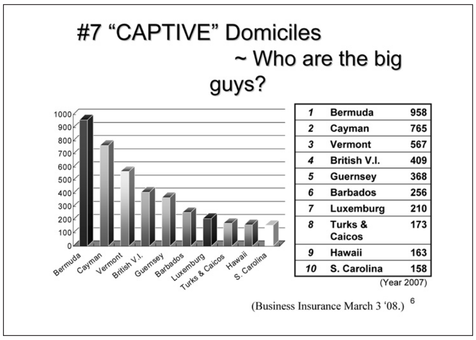
January. 2009

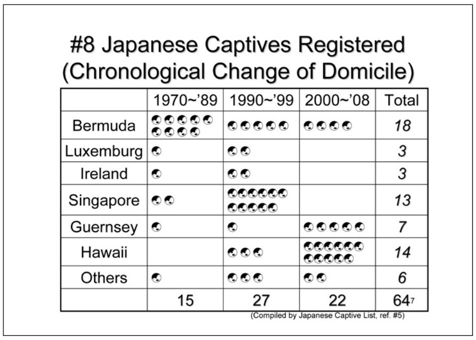
parent company	name of captive	business	domicile	manager	class	since
All Nippon Airways Co., Ltd.	Wingspan Insurance	airline	Guernsey	Willis	pure	2000
Alps Electric Co., Ltd.	Alps Insurance Pte. Ltd.	electric	Singapore	Interisk	single	1999
Astellas Pharma Inc.	Huntington International Ins.	pharmaceutical	Bermuda	Beecher Carlson	single	1989
Bridgestone Corporation	Xylos Assurance Ltd.	tire mfg.	Bermuda	Marsh	single	1991
Citizen Watch Co., Ltd.	Aquablue Insurance Co., Ltd.	precision	Hawaii	Marsh	single	2001
Cosmo Oil Co.	Dione Re. SA	energy	Luxemburg	Gecalux	single	1991
DENSO Corporation	Denso Reinsurance America	auto parts	Hawaii	Marsh	single	2006
Fujitsu Ltd.	Fujitsu Services	IT service	Isle of Man	Thomas Miller	single	1993
Hankyu Express International Co., Ltd.	CFH Insurance Pte. Ltd.	tourism	Singapore	Richard Oliver	single	1999
Heiwa Corp	Heiwa Insurance Inc.	machinery	Hawaii	Beecher Carlson	single	2001
Hitachi Credit U.K.	Hitachi Capital Reinsurance	finance	Ireland	Marsh	single	2001
Hitachi Ins. Services	Concord Enterprise Co., Ltd.	machinery	Bermuda	Marsh	single	1988
Honda Motor Co., Ltd.	New Atlantic Ins.	automobile	Bermuda	Marsh	single	1987
Honda North America	American Honda Insurance Corp.	automobile	Arizona	Beecher Carlson	single	2008
Idemitsu Kosan Co., Ltd.	Asia Sunrise Co. Pte. Ltd.	energy	Singapore	Self Managed	single	1991
Idemitsu Kosan Co., Ltd.	Idemitsu Sunrise Insurance Co.	energy	Guernsey	Heritage	pure	2008
Itochu Corporation	GT Insurance (HK) Co., Ltd.	general trading	Hong Kong	Self Managed	single	1999
Japan Air Lines Corporation	JLC Insurance Co., Ltd.	ailine	Guernsey	Aon	pure	2002
Japan Tobacco Corp.	Reyben Reinsurance	foodstuff	Ireland	AIG	single	1998
JCB Co., Ltd.	PermCore Insurance Co., Ltd.	finance	Hawaii	Marsh	single	2008
Kambara Kisen Kaisha	Sun God Ins.Co., Ltd.	shipping	Bermuda	AIG	single	1987
Kao Corporation	Crescent Insurance Pte. Ltd.	chemical	Singapore	Marsh	single	1989
Kashima Sekiyu K..K..	Pine Grove Luxemburg	energy	Luxemburg	Aon	single	1993
Kawasaki Kisen Kaisha	Cygnus Ins. Co., Ltd.	shipping	Bermuda	Marsh	single	1974
Kawasaki Motor USA	Green River Insurance Co.	motor bicycle	Luxemburg	Aon	single	1987

parent company	name of captive	business	domicile	manager	class	since
Kenwood Holding	Kenwood Insurance Co.	audio/visual	Bermuda	Aon	single	1997
Kinki Nippon Tourist Co., Ltd.	Griffin Insurance. Co.,Ltd.	tourism	Bermuda	Interisk	single	1996
Kinki Nippon Tourist Co., Ltd.	H&M Insurance Hawaii Inc.	tourism	Hawaii	First Risk Mgmnt.	single	2001
Komatsu America	Komatsu America Insurance Corp.	machinery	Vermont	Marsh	pure	1999
Kubota Corporation	Kubota Insurance Corporation	machinery	Hawaii	Marsh	single	2004
Kyoya Corp (Kokusai Kogyo)	Kyoya Insurance Services Ltd.	hotels	Hawaii	Marsh	single	1994
Kyoya Corp (Kokusai Kogyo)	Marine Insurance Co.	hotels	Hawaii	Willis	single	2007
Marubeni Corporation	New Marble Insurance Co.	trading	Singapore	Aon	single	1995
Mitsubishi Corporation	Diamond Financial Solutions	general trading	Bermuda	AIG	pure	2004
Mitsubishi Corporation	New Century Ins. Co.	general trading	Bermuda	Marsh	single	1984
Mitsui & Co.	Insurance Co. of Trinet (USA)	general trading	Hawaii	Marsh	single	2003
Mitsui & Co.	Insurance Co. of Trinet Asia Pte. Ltd.	general trading	Singapore	Interisk	single	1991
Mitsui O.S.K. Lines, Ltd.	MO Re. SA	shipping	Luxemburg	Gecalux	single	1991
Mitsui O.S.K. Lines, Ltd.	Orange Assurance Ltd.	shipping	Bermuda	Marsh	single	1975
NEC Corporation	Technology Insurance Co.	electric	Bermuda	Marsh	single	1989
Nippon Oil Co., Ltd	Sun & Star Ins. Co., Ltd.	energy	Bermuda	AIG	single	1990
Nippon Travel Agency Co., Ltd.	A & M Insurance Pte. Ltd.	tourism	Singapore	Marsh	single	1994
Nippon Yusen Kaisha (NYK Line)	Compass Insurance Inc.	shipping	Isle of Man	Marsh	single	1998
Nissan Finance UK	Automotive Financial Insurance	automobile	Guernsey	Aon	pure	1988
Nissan Motor Ins. Holding Corp.	Nissan Motor Casualty Insurance	automobile	Hawaii	Beecher Carlson	single	1991
Nissan North America	Nissan Motor Insurance Corp.	automobile	Hawaii	Beecher Carlson	single	1992
Nissay Dowa Gen. Ins.	D&N Ins.(bermuda) Ltd.	insurance	Bermuda	Beecher Carlson	pcc	1993
Nisshin Fire & Marine	Nisshin Insurance Guernsey PCC	insurance	Guernsey	Willis	pcc	2000
ORIX Corporation	Cygnus Reinsurance Pte., Ltd.	finance	Singapore	Nissay Dowa	single	1983
ORIX Corporation	IAML	finance	Ireland	AIG	single	2006
Otsuka Pharmaceutical	Otsuka Global Insurance Inc.	pharmaceutical	Hawaii	Marsh	single	2004
Sanyo Electric Co., Ltd.	Sanyo Global Insurance	electric	Hawaii	Marsh	single	2004
Sojitz Corporation	Unimax Insurance Pte. Ltd.	sogo shosha	Singapore	Richard Oliver	single	1997
Sompo Japan Insurance Inc.	Ark Reinsurance Ltd.	insurance	Guernsey	Aon	pure	1998
Sony Corp.	PMG Assurance Ltd.	electric	Bermuda	Marsh	single	1975
Subaru of America Inc.	Pleiades Ins. Co., Ltd.	automobile	Bermuda	Beecher Carlson	single	1988
Sumitomo Chemical Co. Ltd.	SCC Insurance Pte. Ltd.	chemical	Singapore	Interisk	single	1997
Sumitomo Corporation	Bluewell Insurance (Spr.) Pte. Ltd.	insurance	Singapore	Interisk	single	1991
Takefuji Corporation	TSR Co.	finance	Ireland	Aon	single	1998
The Taisei Reinsurance Co., Ltd.	Taisei Reinsurance Bermuda Ltd.	insurance	Bermuda	Aon	single	2002
Toa Reinsurance Co., Ltd.	Toa 21st Century	insurance	Switzerland	Aon	group	2002
Tokio Marine Nichido Fire Insurance Co., Ltd.	Parametric Reinsurance Co.	insurance	Cayman	HSBC	afv	1997
Tokio Marine Nichido Fire Insurance Co., Ltd.	Tokio Financial Assurance	insurance	Bermuda	Aon	single	2002
Tokio Marine Nichido Fire Insurance Co., Ltd.	Tokio Marine Global Re	insurance	Ireland	Aon	single	2003
Tokio Marine Nichido Fire Insurance Co., Ltd.	Tokio Milenium Reinsurance Ltd.	insurance	Bermuda	Aon	single	2000
Tokio Marine Nichido Fire Insurance Co., Ltd.	Tokio Milenium SAC	insurance	Bermuda	Aon	sac	2005
Tokyo Electric Power Company	Tepco Reinsurance Co. PCC Ltd.	energy	Guernsey	AIG	pcc	2002
Toyota Motor Corporation	Toyota Motor Insurance Corp.VT	automobile	Vermont	Marsh	pure	1985
Toyota Tsusho Corporation	Toyota Tsusho Re. Spor. Pte. Ltd.	general trading	Singapore	Aon	single	2004
Yamagata Enterprise	Mt. Horizon Insurance Co., Inc.	others	Hawaii	Marsh	single	2000
Yamaha Motor Co., Ltd.	INNO Reinsurance Pte. Ltd.	motor bicycle	Singapore	Interisk	single	1999
Yazaki International Corporation	Yazaki Ins. Co., Inc.	auto parts	Hawaii	Marsh	single	2000
YKK Corporation of America	YKK Insurance Corp. of America	zipper mfg.	Vermont	Marsh	pure	2002
Yokogawa Electric Corporation	Yokogawa Reinsurance Ltd.	precision	Ireland	Marsh	pure	1998

source: Captive Review Annual Domicile Directory (CRADD) 2008 published by Pageant Media, London England.
note: pcc=protected cell captive, afv=alternative financing vehicle, sac=segregated accounts company



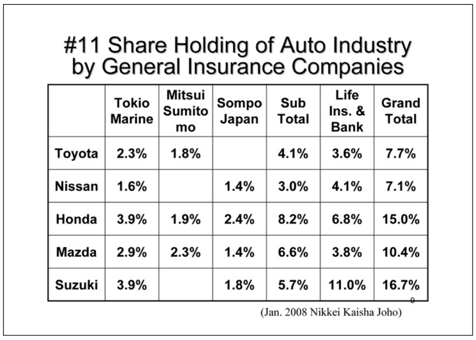




#10 SUMMARY OF RISK INFORMATION DISCLOSURE ANALYSIS (INTERRISK SOKEN JUNE,2007)

risk category / industry	legal risk	fluctuations of business, currency exchange rates and interests	price fluctuations of raw materials and finished goods	business strategy risk	risks related to IT & intellectual property	risks of R & D and technical innovation	defective products, PL & recall risks	riot, civil commotion, terrorism & war	earthquake & tsunami	fire & transportation risk
food processing	2	3	1		6		4	7	5	
textile, pulp & paper		1	2			7	4	3	5	6
chemicals & pharmaceuticals	1	2	5	7	6	4	3			
petoleum, ceramics, steel & non-ferrous metals	2	1	3	5					4	6
machinery & electrics	3	1	2	6	7			5	4	
shipbuilding, automobiles, transport machines & precision machines	2	1	4	5				3	6	
fishery, mining & construction	3	3	2					4		
trading & retail	2	1	6	3				4	5	6
financial industry & real estate	1	2		3	4					
transportation, warehousing, communication, electricity & gas	1	4	2	5	3				6	7
servicing industry	2	4	1	3		5			6	
MEDIAN	2	2	2	5	6	5	4	4	5	6
HIGHEST FREQUENCY	2	1	2	5	6		4	3	5	6

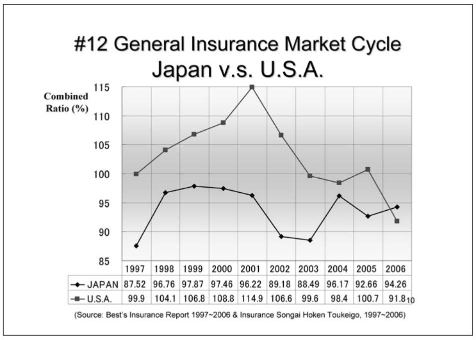
n.b. #1: Based on the Securities Report. Figures show the order of priority.
n.b. #2 Blank columns of each item mean that there is no pertinent data or are included in other categories.



#11 Share Holding of Auto Industry by General Insurance Companies

	Tokio Marine	Mitsui Sumito mo	Sompo Japan	Sub Total	Life Ins. & Bank	Grand Total
Toyota	2.3%	1.8%		4.1%	3.6%	7.7%
Nissan	1.6%		1.4%	3.0%	4.1%	7.1%
Honda	3.9%	1.9%	2.4%	8.2%	6.8%	15.0%
Mazda	2.9%	2.3%	1.4%	6.6%	3.8%	10.4%
Suzuki	3.9%		1.8%	5.7%	11.0%	16.7%

(Jan. 2008 Nikkei Kaisha Joho)



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