

# Nonlife insurers

## Corporate social responsibility (CSR) in the nonlife insurance sector

- Japanese nonlife insurers started taking measures to address environmental issues from relatively early on, becoming in November 1996 the first non-manufacturing industry to map out an environmental protection plan. The General Insurance Association of Japan has moreover formed a special committee to discuss environmental issues in a bid to strengthen industry efforts in this area.

- These trends have influenced Japanese nonlife insurers to the extent that six of them have now become signatories to the Insurance Industry Initiative (III), which is a statement of environmental commitment by the insurance industry drawn up jointly by industry and the United Nations Environment Programme (UNEP). This makes nonlife insurers the most proactive among Japan's financial institutions in terms of promoting sound environmental practices.

- In this report, we assume that the end objective of corporate social responsibility (CSR) is to ensure a company's survival and earnings sustainability over the medium to long term. In order to pursue and achieve that objective, we argue that a company needs to draw up a series of strategies that increase the effectiveness of socially responsible activities for its stakeholders (shareholders, consumers, and employees).

- On this assumption, in this report we take a look at nonlife insurers' efforts to strengthen CSR as seen from the various perspectives of shareholders, consumers (sales agents, policyholders), and employees.

- Because these efforts in the CSR sphere are unique to each insurer, we believe it is extremely difficult to ascertain whether one insurer is more socially responsible than another based on details of such activities alone. Nevertheless, we think the most important point is the attitude of these companies toward CSR, and whether such activities are being carried out with stakeholders' interests in mind.

- On this front, we are most impressed by Sompo Japan Insurance because it seems to be ahead of rival nonlife insurers in terms of its CSR activities. Admittedly CSR activities have only just gotten on track, so we do not think a final verdict can be made at this juncture. But in Japan's financial sector, we believe nonlife insurers are at the forefront of the spread of the CSR movement, and are implementing related measures aimed at ensuring a company's survival and earnings sustainability over the medium to long term.

---

Date

**15 December 2003**

---

**The nonlife insurance industry embraced CSR early on**

---

**The aim of CSR is to ensure a company's survival and earnings sustainability over the medium to long term**

---

**In our view, Sompo Japan Insurance is the furthest along the CSR path among the nonlife insurers**

---

Analyst

**M. Okamoto**

+81-3-5255-1738

Financial Research Center

Nomura Securities, Tokyo

m-okamoto@frc.nomura.co.jp

**[www.nomura.com/research](http://www.nomura.com/research)**

Bloomberg: NMR

**Contents**

<b>Introduction</b> .....	<b>3</b>
Nonlife insurers' efforts to address environmental issues .....	3
Environmental measures taken by nonlife insurers .....	5
<b>Discussion outline—toward CSR management</b> .....	<b>6</b>
<b>Compliance first</b> .....	<b>8</b>
Tokio Marine and Fire Insurance .....	8
Mitsui Sumitomo Insurance.....	10
Sompo Japan Insurance .....	11
Compliance training for agents .....	13
<b>The stakeholder perspective</b> .....	<b>14</b>
The shareholders' perspective .....	14
The consumers' perspective .....	20
The employees' perspective .....	28
<b>Conclusion</b> .....	<b>31</b>

## ■ Introduction

### Nonlife insurers' efforts to address environmental issues

*Nonlife insurers launched an action plan in November 1996*

Japanese nonlife insurers started taking measures to address environmental issues from relatively early on. The companies mapped out the Nonlife Insurance Industry Action Plan for the Preservation of the Environment in November 1996, becoming the first of Japan's non-manufacturers to respond to the Japan Federation of Economic Organizations' (Keidanren; \* see note at foot of page) Global Environmental Charter established in April 1991 and the Keidanren Appeal on the Environment (call for industries' voluntary action plans) announced in July 1996.

*Areas covered by plan expanded in October 1998*

Under the action plan, nonlife insurers have promoted polices to prevent global warming, build a recycling-oriented economic society, establish a system for environmental inspection and management, and enhance environmental awareness both within their companies and in society. In October 1998, the nonlife insurance sector expanded the scope of its environmental action plan to include two additional concepts — "green purchasing" (buying environmentally friendly goods and services) and "environmentally friendly product development and distribution."

*Action plan amended in December 2000*

Nonlife insurers amended the action plan in December 2002 after determining the need to reinforce environmental preservation measures in light of progress achieved so far and the growing importance of environmental protection. The main changes included: (1) nonlife insurers using their products to raise public awareness and disseminate related information, in order to accelerate effective activities; and (2) strengthening in-house environmental training and awareness as a distinct, separate task, in order to support overall efforts, and taking specific steps to that end.

*Industry body also formed environment committee*

Paralleling these moves in the industry, the General Insurance Association of Japan formed a special committee to address environmental issues. With the committee at its core, the association is trying to provide impetus to nonlife insurers' environmental protection-related efforts by monitoring activities at each company, including the progress of measures, related announcements, and whether they are working to heighten awareness by holding study sessions and lectures.

*Environment-related questionnaire survey started in 1995*

Moreover, since 1995, the General Insurance Association of Japan has been conducting an annual survey of its members regarding environmental issues (Exhibit 1). The questionnaire is carried out as a follow up to the nonlife insurance sector's aforementioned action plan, so the survey addresses the same issues as the plan.

*Industry body obtains ISO 14001 certification in September 2001*

In April 2001, the General Insurance Association of Japan announced that it had compiled a basic policy for environmental measures (partly revised in July 2001), and at the same time, adopted an environmental management system. Then on 21 September, 2001, the association's headquarters and Tokyo office obtained ISO 14001 certification for environmental management. Few Japanese industry organizations have obtained ISO 14001 certification, and the association became the first to do so in the financial industry.

---

Note: The Japan Federation of Economic Organizations (Keidanren) was integrated with the Japan Federation of Employers' Associations (Nikkeiren) in May 2002 to form the Japan Business Federation (Nippon Keidanren).



## Environmental measures taken by nonlife insurers

*Sompo Japan establishes global environment department in 1992*

As we mentioned earlier, the General Insurance Association of Japan, in its capacity as the industry body for the nonlife insurers, began responding to environmental issues at a relatively early date. For this reason, nonlife insurers themselves were also quick to begin incorporating such steps, as industry majors started to create the necessary organizations. In 1992, Sompo Japan Insurance (then Yasuda Fire & Marine Insurance) became the first financial institution to set up an in-house working group to discuss global environmental issues.

*Six Japanese nonlife insurers sign UNEP insurance industry initiative*

As another means of addressing environmental concerns, nonlife insurers are also actively taking measures outside their own corporate walls, for example by signing up to the United Nations Environment Programme's (UNEP) Insurance Industry Initiative. As of November 2003, the initiative had been signed by six Japanese nonlife insurers—Tokio Marine and Fire Insurance, Mitsui Sumitomo Insurance, Nipponkoa Insurance, Sompo Japan Insurance, Ace Insurance, and JI Accident & Fire Insurance. Given that Japanese signatories to the UNEP Financial Institutions Initiative for the banking sector number only three—the Development Bank of Japan, Shiga Bank, and Sumitomo Mitsubishi Banking Corp.—we think that nonlife insurers appear to be leading Japanese financial institutions when it comes to responding to environmental issues.

*Nonlife insurance sector possesses key strengths for managing environmental issues*

We believe the nonlife insurers' early response to environmental issues, compared with other financial institutions, can be explained by one of the general principles stipulated in the UNEP's Insurance Industry Initiative; the principle states that the existing skill and techniques of the sector in understanding uncertainty, identifying and quantifying risk, and responding to risk, represent the core strengths in managing environmental issues.

*Business itself requires environmental awareness*

In other words, the nonlife insurance business is all about dealing with risks, such as those associated with climate change, product safety, and disasters or accidents that disrupt business activities and people's daily lives. This means that effective risk management has been and continues to be an absolute necessity when pursuing the nonlife insurance business.

*Environmental activities span a wide range of areas*

However, in addressing environmental issues, nonlife insurers are not only focusing their energies on this sort of risk management but are evidently also striving to heighten environmental education and awareness, promote energy-saving policies, improve social welfare and human rights conditions, and contribute in other areas.

*Three sector majors seen as frontrunners in disseminating detailed information*

In this report, we give an overview of environmental issues facing nonlife insurers. We also assess both their measures to address these issues, as well as their actual achievements from several angles. However, as shown in Exhibit 1, only a few companies have developed environmental organizational structures, and not many have taken steps to boost environmental awareness and issue environmental reports. In fact, among listed nonlife insurers, just three companies have drawn up specific plans and disclosed the details of their activities in this area—Tokio Marine and Fire Insurance, Mitsui Sumitomo Insurance, and Sompo Japan Insurance. For this reason, our conclusion in this report will be based on an analysis of just these three companies. Incidentally, Tokio Marine and Fire Insurance comes under the umbrella of stock holding company Millea Holdings, so for some quantitative measures, we will base our calculations on a sum of factors for Tokyo Marine and Nichido Fire and Marine Insurance, which is the other core unit belonging under the holding company.

## ■ Discussion outline—toward CSR management

*Focus shifting from environmental issues to wider CSR concept*

In chapter one, we described the General Insurance Association of Japan's success in obtaining ISO 14001 certification and nonlife insurers' efforts to promote energy-saving policies and signing of the UNEP's Insurance Industry Initiative as measures aimed at responding to environmental issues. The General Insurance Association of Japan as well as Nippon Keidanren and other industry organizations have been using the term "environment" as a buzzword and liberally incorporating it into their respective action plans. However recently we have started to see frequent references to the concept of corporate social responsibility (CSR), with some companies starting to set up special committees and working groups under that moniker.

*Difficult to define CSR*

An exact definition of CSR is said to be complicated as the concept covers a wide spectrum of issues. The specifics of CSR are determined according to the society or market in question. In other words, CSR refers to a company deciding what course of action (socially responsible practices) to take, based on conversations and interactions with individuals in a said market or region, or in order to bring about mutually complementary benefits.

*Definition of CSR could change over time*

In addition, even if a company decides to follow certain socially responsible practices, because those activities cover a broad spectrum, we think that changes brought about by the passage of time could spark a transformation of those practices. However, it seems that increasingly complicated CSR-related activities are beginning to bear fruit as management teams take pains to clearly define the fundamental framework, vision, and process, which we think should enable companies to devise a way of strategically leveraging their CSR activities.

*End objective of CSR is to ensure a company's survival and achieve medium-to-long-term earnings sustainability*

We assume that the end objective of CSR is to ensure a company's survival and earnings sustainability over the medium to long term, and thus think that the CSR activity of each company should be strategically developed on the premise of that objective. If we were to illustrate the general concept for developing such a strategy, we think it would appear as shown in Exhibit 2.

*Actions must also effectively appeal to stakeholders*

As shown in Exhibit 2, assuming the ultimate objective of CSR is to ensure a company's survival and earnings sustainability over the medium to long term, management must also consider what sort of approaches will work best with its stakeholders. Although stakeholder interests and concerns differ according to whether they are shareholders, consumers, or employees, if management can clearly outline a vision for CSR, then we think it should be able to carry out effective CSR-related activities vis-à-vis its various stakeholders and later realize the fruits of those efforts.

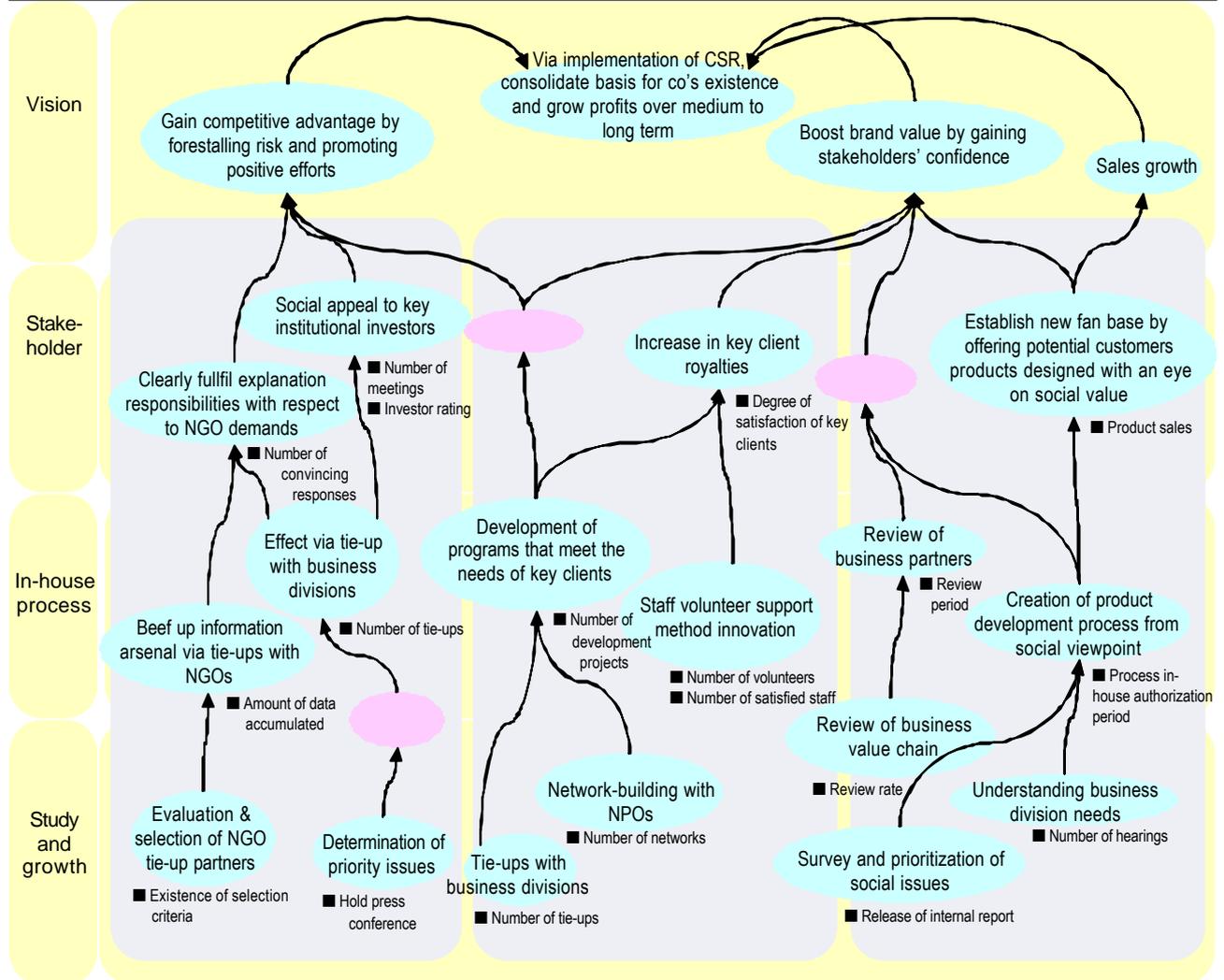
*Need to draw up a series of strategies for each type of stakeholder*

In order to achieve the end objective of CSR, we think a company should first establish target levels of satisfaction that it hopes to achieve for its various stakeholders (shareholders, consumers, and employees), then draft a series of strategies based on those targets.

*Analyzed from the viewpoint of stakeholders*

In this report, we evaluate nonlife insurers by taking the perspective of stakeholders—shareholders, consumers, and employees—in order to analyze the strategies that the companies are applying for each type of stakeholder. However, as we said earlier, because the only listed nonlife insurers carrying out detailed CSR-oriented activities are Tokio Marine and Fire Insurance (Millea Holdings), Mitsui Sumitomo Insurance, and Sampo Japan Insurance, our conclusion will be based on just these three companies.

2. Example of construction of a CSR strategy using balance score cards



Source: Nomura

## ■ Compliance first

*Compliance is the minimum requirement for the upholding of corporate social relationships*

Before analyzing the series of strategies for each type of stakeholder, we think it is necessary to verify compliance systems, which we regard as the absolute bedrock of a company's existence. Compliance is the minimum requirement for the upholding of corporate social relationships, since without such a system the *raison d'être* of the company is negated, in our opinion.

*Compliance systems are more or less uniform across the nonlife industry*

This chapter deals mainly with the big three nonlife insurers. The big three are not alone in having systems aimed at achieving thorough compliance, since the mid-ranking nonlife insurers exhibit similar systems. In general terms, all these nonlife insurers have set up a compliance committee answering to the board of directors, and instructing a compliance department. The compliance department is responsible for keeping all parts of the company well versed on compliance requirements.

*Measures employed, on the other hand, vary*

In organizational terms, compliance systems are thus more or less uniform throughout the nonlife insurance industry. On the other hand, different methods are employed to ensure that individual employees are thoroughly conversant with compliance issues. In this chapter we examine the detailed operation of compliance systems at the big three nonlife insurers, which disclose such information in their "environmental reports" (the nonlife insurers actually use different names for these reports).

### Tokio Marine and Fire Insurance

#### Compliance promotion system

*Compliance committee set up in July 1997*

Exhibit 3 shows Tokio Marine and Fire Insurance's compliance promotion system. The company first set up its compliance committee in July 1997, as one of its management council committees. This committee has drawn up and implemented various measures, in accordance with the company's basic principles of compliance promotion. The head of the committee is selected by the board of directors from within its members. The committee is made up of the chiefs of all the concerned departments, while corporate auditors also attend the committee in an advisory capacity, as do representatives from the internal auditing department of Millea Holdings (Tokio Marine and Fire Insurance's holding company) as observers. Moreover, important compliance issues are the subject of discussions and resolutions by the management council and the board of directors.

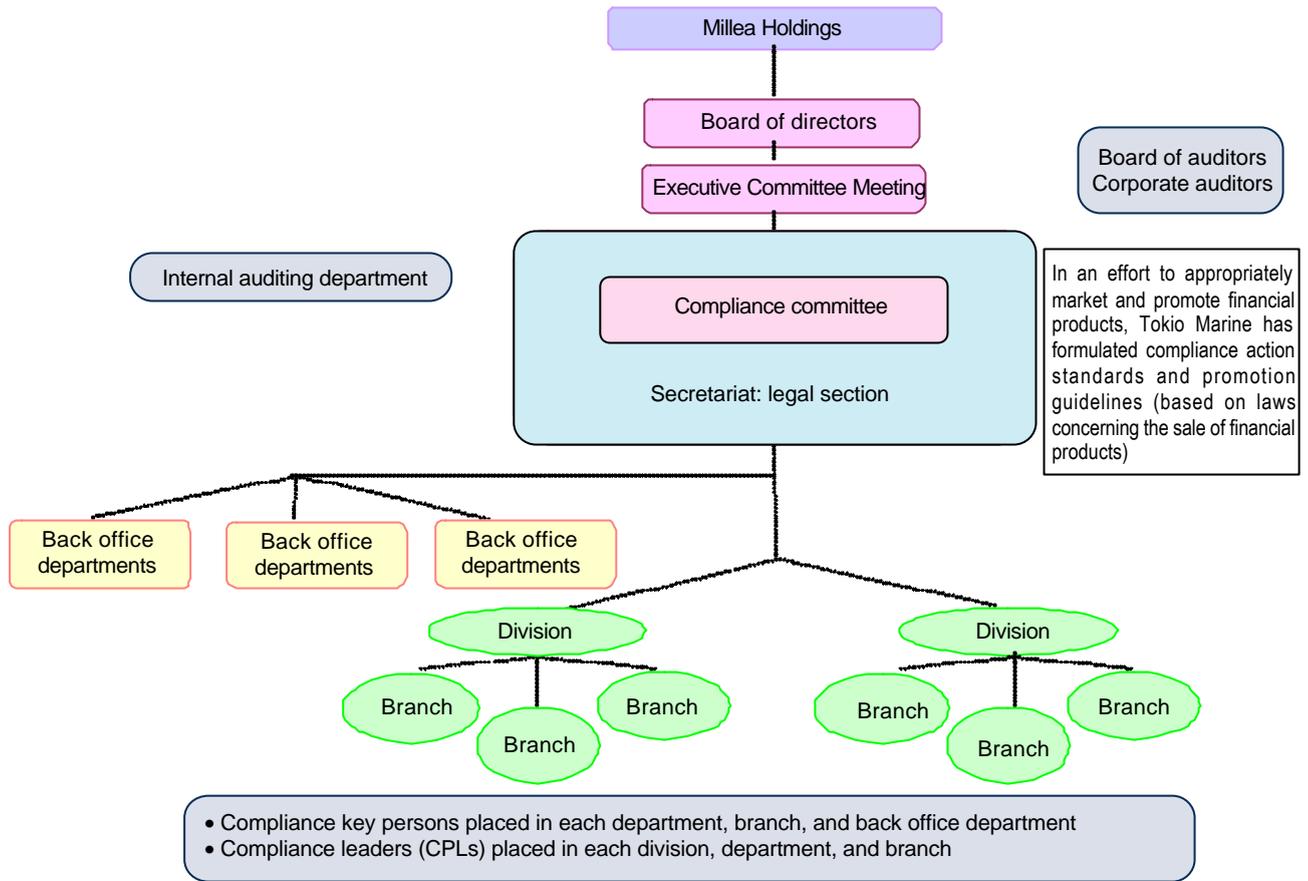
*Compliance operations department actually carries out training and other activities*

Situated within the compliance committee's office, the compliance operations department is in charge of actually promoting compliance, through training, support and improvement activities.

*Compliance coordinator installed in every branch*

Furthermore, a compliance coordinator is installed in every branch of the company, in order to promote compliance within their particular branch. There is also a compliance leader for the domestic sales divisions and branches, who takes responsibility for the customers' insurance policies. The compliance leader is in charge of implementing the committee's compliance decisions applying to all branches, or applying to the divisions alone or individual branches. The above-mentioned compliance department and compliance leader systems were set up in July 2002.

3. Tokio Marine's compliance promotion system



Source: Tokio Marine & Fire Insurance

**Detailed activities**

*Production of compliance manuals*

The company produces compliance manuals, which are carried by all officers and employees. Moreover, each fiscal year the board of directors decides on a compliance promotion plan for the company as a whole. Promotion plans are then prepared from this for each division and branch.

*Training at each workplace, according to employee rank*

The company carries out training at each workplace, according to employee rank, to ensure that employees are well versed in compliance requirements. It also produces various kinds of training tool to raise the effectiveness of training, and the likes of handbooks containing relevant legal requirements. Furthermore, all employees receive pocket-sized aide-mémoire cards, which list the main points of compliance training, to help them improve their knowledge of compliance requirements. In December 2002 the company also set up a special "hotline" channel for communication on compliance issues with Millea Holdings and an external law firm.

*Delayed improvement of the compliance system*

Tokio Marine and Fire Insurance started building up a compliance promotion system in 1997, but this system did not really cover all bases until FY02 (the fiscal year ending March 2003). We thus think that the company took rather too long to complete the setting up of its compliance promotion system. The company's management organization changed substantially accompanying its business integration with Nichido Fire and Marine Insurance (ie, the establishment of the holding company, Millea Holdings), and this may have held back progress. We intend to monitor the success of the various systems introduced in FY02, to see if they improve actual compliance practices.

**Mitsui Sumitomo Insurance**

**Compliance promotion system**

*Compliance committee also established*

Exhibit 4 shows Mitsui Sumitomo Insurance's compliance promotion system. The company has set up a compliance committee to promote compliance across all the activities of the Mitsui Sumitomo Insurance group. It aims to ensure the thorough observance of legal imperatives and other regulations, via measures including the planning of compliance programs.

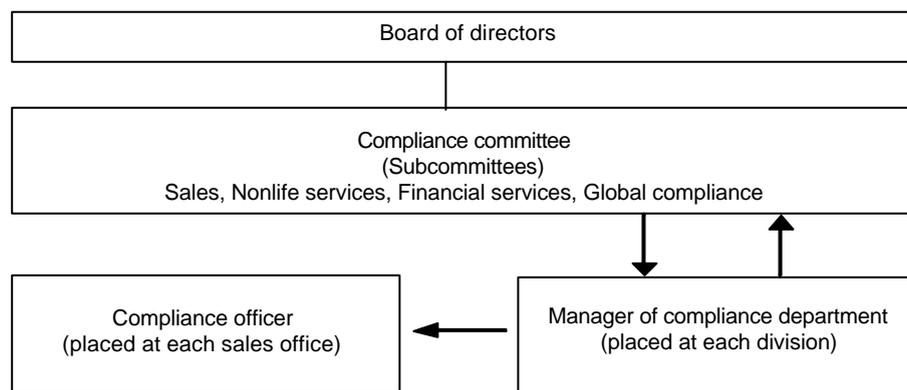
*Installation of a department chief in charge of compliance promotion at division level*

Line managers at all departments of the head office are responsible for promoting compliance pertaining to their duties and their staff. Furthermore, the company has installed a department chief in charge of compliance implementation at the headquarters of division, in order to foster a sense of responsibility for compliance within each division.

*Someone in charge of compliance in every part of the company*

Regarding the promotion of compliance related to sales activities, the company has made the chief of each division take overall responsibility for compliance. The chief of each division then oversees the branch heads, to ensure diligent compliance procedures. In this way every part of the company has someone in charge of compliance, including those engaged entirely in compliance duties, to facilitate the promotion of compliance company-wide.

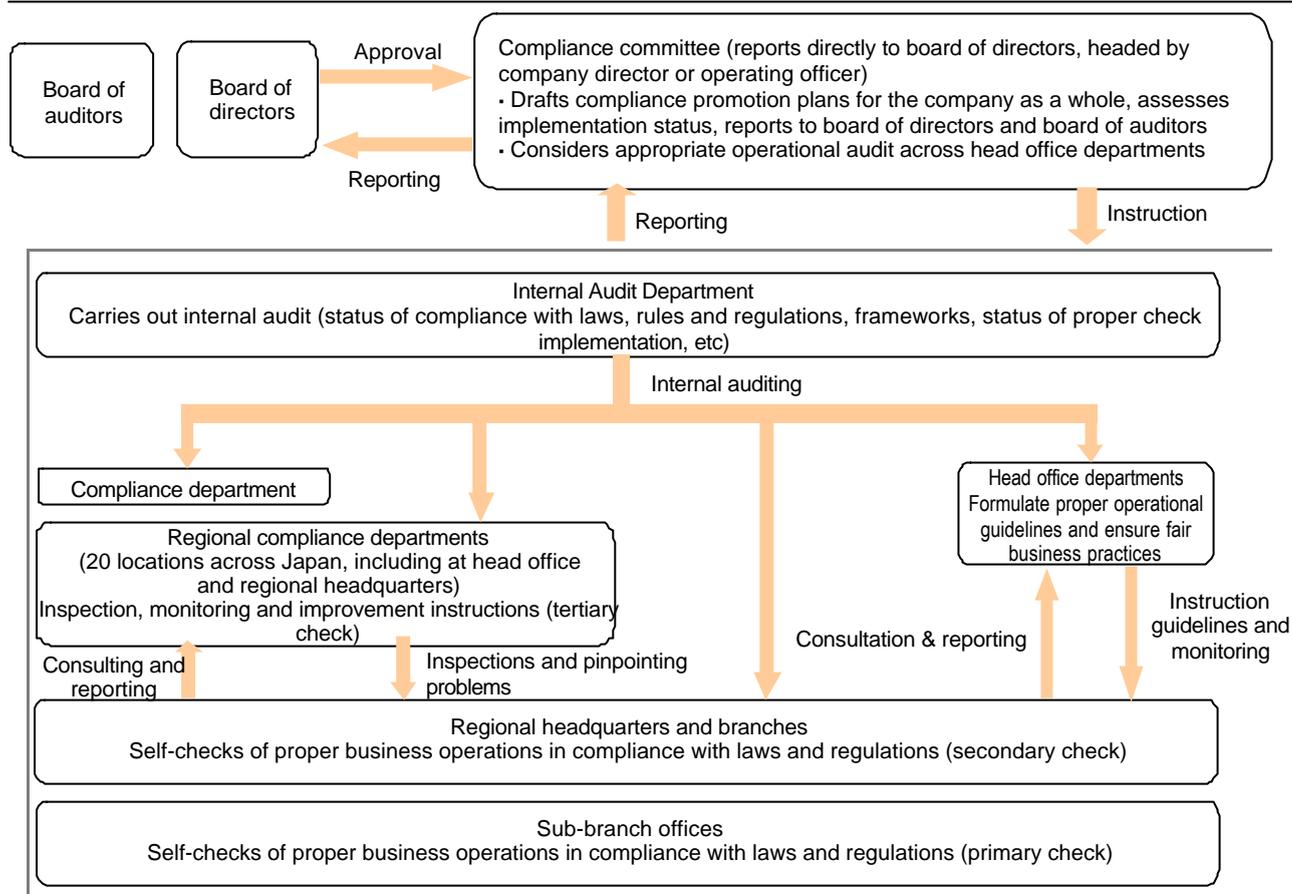
**4. Mitsui Sumitomo Insurance's compliance promotion system**



Source: Mitsui Sumitomo Insurance

<i>Provision of compliance training</i>	<p><b>Detailed activities</b></p> <p>In October 2001 the company drew up a code of conduct to lay down the ground rules of compliance, and a compliance manual, which are both applicable to all employees from directors downward. The directors have repeatedly made public declarations of the emphasis they are placing on compliance. Furthermore, the company carries out education and training in many shapes and forms, such as courses for particular age groups, and courses held for divisions or individual branches.</p>
<i>But no disclosure of the frequency of training courses</i>	<p>Mitsui Sumitomo Insurance thus uses a similar system to Tokio Marine and Fire Insurance in having someone responsible for compliance at each sales branch. Nevertheless, it is impossible to judge the thoroughness of Mitsui Sumitomo Insurance's initiatives, since it does not disclose details like the frequency of compliance committee meetings, or the frequency of employee training courses.</p>
<i>Insufficient data to pass judgment</i>	<p>The company has set up an auditing system making use of an auditing officer and a business auditing department, but the really important point is how well versed the rank-and-file employees are in compliance requirements. The lack of data on this subject prevents us from passing any kind of judgment at present.</p>
<p><b>Sompo Japan Insurance</b></p>	
<i>Compliance committee set up in June 1999</i>	<p><b>Compliance promotion system</b></p> <p>Exhibit 5 shows Sompo Japan Insurance's compliance promotion system. The company first set up its compliance committee answering directly to the board of directors in June 1999, in pursuit of the diligent observance of legal imperatives and other regulations. The compliance committee met seven times in FY02, and is composed of directors, several department chiefs from the head office, and external members.</p>
<i>Beefing up of the monitoring system</i>	<p>Furthermore, Sompo Japan Insurance is seeking to improve its system for the managing and monitoring of all kinds of risk. To this end, it has set up a business auditing department, a compliance department, and a risk management department. In order to raise its business transparency further, the company also established a personnel committee (including two external members) in June 2003. The scheduled duties of the personnel committee include the selection of suitable candidates to serve as officers.</p>
<i>Introduction of daily monitoring activities</i>	<p>The company is also setting up a system for the identification and the correction of compliance inadequacies in all departments of the head office, and front-line sales and claim administration departments. Specifically, there are to be internal audits by the business auditing department, and branch inspections and daily monitoring by regional compliance departments. When inadequacies are turned up by these activities, an improvement schedule with time limits will be drawn up, and a report must be made on the results.</p>
<i>Promoting improvement when internal rules create problems</i>	<p>If activities like audits and inspections turn up problems with internal rules and systems themselves, the rule formulation section is to make improvements. Every department is, naturally, in our view, also to strive to self-regulate its activities on a daily basis, and hold its own study groups.</p>

5. Sampo Japan Insurance’s compliance promotion system



Source: Sampo Insurance Japan

**Detailed activities**

*Establishment of a compliance hotline*

Sampo Japan Insurance has set up a special “hotline” channel for direct communication on compliance issues with the compliance department. When having problems with compliance, employees can turn to this channel by means of e-mail, telephone, or written message. The compliance department will apparently be open to such communications at all times and endeavor to resolve the problems in question.

*Introduction of compliance tests*

In FY02 the company introduced compliance tests for all employees, conducted via the internal data network. Furthermore, employees stationed overseas can take the tests by means of e-mail and correspondence. By the end of FY02, all of Sampo Japan Insurance’s employees (around 15,000 people) had passed their compliance tests. Since July 2002, the company has used its internal satellite broadcasting system to transmit a series of monthly programs tackling compliance related issues. Two programs a month were transmitted in the rest of FY02, making a total of 16 broadcasts. The programs were video taped at sales branches around Japan, and are also employed in employee training.

*Employees must submit a statement of receipt and commitment to comply*

Sompo Japan Insurance distributes a handbook-sized compliance vade-mecum for employees of all ranks both in Japan and overseas. This contains the company's compliance rules, the Insurance Business Law's prohibitions, and a summary of relevant legal imperatives and other regulations. When employees receive this they are required to return a statement of receipt and commitment to comply with company rules.

*More thorough compliance efforts than rivals*

We think that the compliance promotion systems and methods are more thoroughgoing at Sompo Japan Insurance than at its rival nonlife insurers. In particular, it is distinguished by its compliance tests for all employees, and its broadcasting of compliance information programs.

*The most complete compliance system among leading nonlife insurers*

We think that the company's multi-layered compliance system is also characteristic, including as it does double and triple checking. The company set up its compliance committee around two years later than Tokio Marine and Fire Insurance, but it has subsequently been very thorough in constructing a system to promote compliance. Consequently, we think that Sompo Japan Insurance's compliance system is the most complete of all the leading nonlife insurers.

### **Compliance training for agents**

*Agents must also comply strictly with legal imperatives*

Agents play an important role in the sale of insurance products, to the extent that they are arguably indispensable to the business of a nonlife insurer. When people take out insurance policies, it is the agent that they come into contact with. Accordingly, agents must also comply strictly with legal imperatives.

*More progress apparently needed in thorough promotion of compliance at agents*

The nonlife insurers do in fact provide some compliance training to their agents, but they still fundamentally rely on the agents making their own arrangements. The nonlife insurers moreover tend to place more emphasis on sales training for agents. We thus think that nonlife insurers are lagging behind in the promotion of thorough compliance in their supply chains, and that there is work still to be done.

## ■ The stakeholder perspective

*Impossible to satisfy all stakeholders 100%*

As we mentioned earlier, in order to raise the effectiveness of CSR activities, we think it is necessary to improve the level of satisfaction for each group of stakeholders, namely, shareholders, consumers and employees. However, the interests of each stakeholder group often conflict with each other, making it impossible to satisfy all interested parties 100%. The best policy, therefore, is probably to aim for the beneficial effects with the highest number of common denominators. In this report we look at the CSR activities of the various companies from the perspective of each stakeholder category and then examine to what extent the companies are maximizing the effectiveness for each group.

### The shareholders' perspective

#### Shareholders' equity level

*Benefits for shareholders boil down to the company achieving sustained profit growth*

If we view CSR from the perspective of the shareholders, we think that the optimum scenario is for the company to achieve sustained profit growth and to return that profit to shareholders over the long term. However, given the specific nature of the nonlife insurance business, the first point that needs to be considered is whether there is sufficient capital in the event of a natural disaster or other covered risk.

*Covering risks such as natural disasters is the business of nonlife insurers*

Indeed, natural and man-made disasters fall very much within the sphere of activity of nonlife insurers, and so controlling in an optimum manner the risk that might be expected as a result of climate change or business activities can help nonlife insurance operations to secure a stable level of profits.

*Since the latter half of the 1980s, the number of natural and man-made disasters has increased*

Since the latter half of the 1980s, the number of natural and man-made disasters has increased, with man-made disasters showing a particularly pronounced level of growth. This is probably because growth in the global economy has resulted in increased volume of vehicular traffic, not to mention increased corporate activity (Exhibit 6).

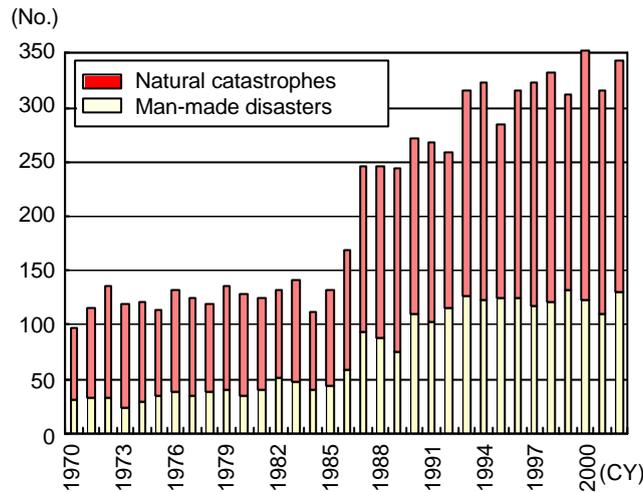
*Since the 1990s claims paid for natural disasters have been on the increase*

However, if we look at the amount of insured losses, we see that since the 1990s the amount of claims paid for natural disasters has been rising, with the terrorist attacks of 11 September 2001 representing an exception within this overall trend (Exhibit 7). While we cannot say for sure that global warming is the only factor behind the increase in natural disasters, we can say with some certainty that there has been an increase in both the frequency of natural disasters and the amount of insured losses. From this perspective too, we think that nonlife insurance companies are under pressure to beef up their risk management capabilities.

*It is almost impossible to predict future disasters*

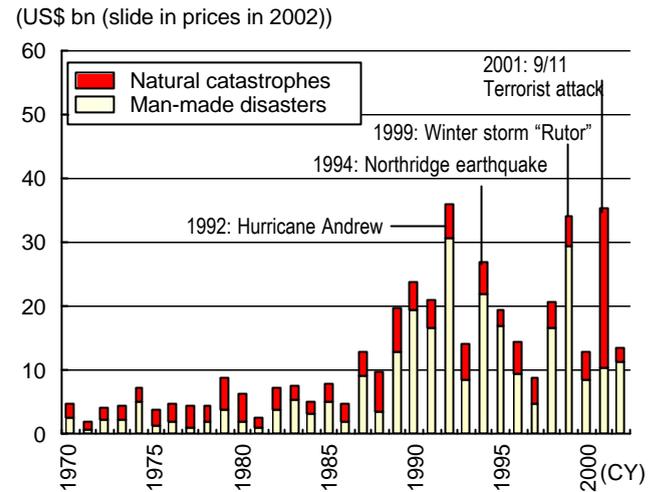
By their very nature it is almost impossible to predict future disasters, which means that profit levels can fall substantially when disasters actually strike. Risk management is in fact a difficult business, as was illustrated in the case of Hurricane Andrew, which hit the US in 1992, resulting in bankruptcies for some US insurance companies.

**6. Number of disasters 1970 and 2002**



Source: Swiss RE Sigma 2003-2

**7. Insured losses 1970-2002 (property, profit insurance)**



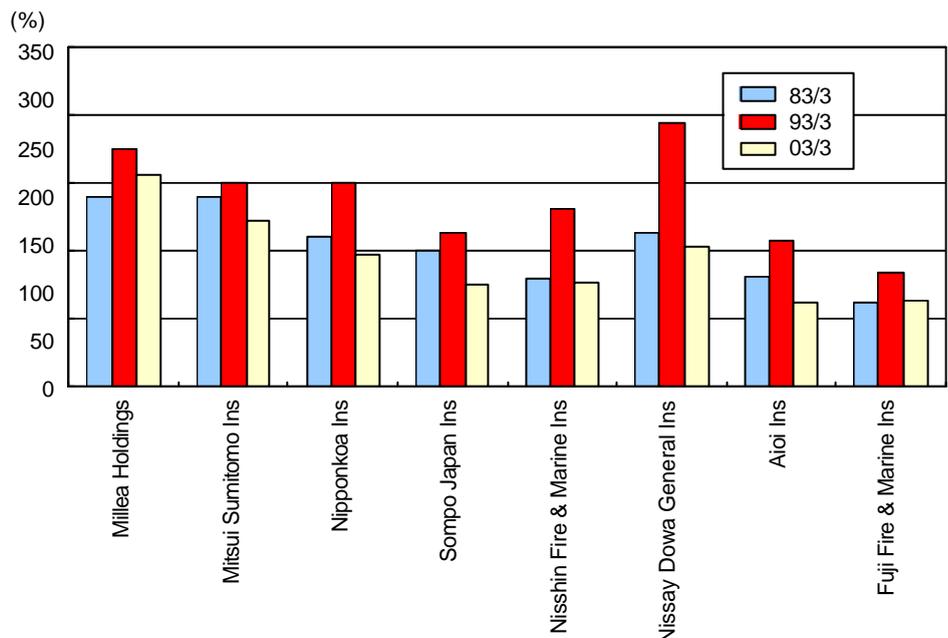
*Is the value at risk method realistic?*

In view of this situation, we think the most realistic method is to calculate the maximum loss likely based on past experience, and then secure the right level of capital accordingly (value at risk method). Indeed, most nonlife insurance companies calculate how much capital they need based on this method, and in fact use it as a management indicator.

*A considerable difference between the shareholders' equity level of the various nonlife insurance companies*

Nevertheless, there are considerable differences between the levels of capital at the various nonlife insurance companies. Exhibit 8 shows the amount of shareholders' equity (including catastrophe reserves) at the nonlife insurers as a percentage of net premium income (which corresponds to sales). From this we can see that there is a gap of 150% between the lowest and the highest.

**8. Listed nonlife insurers: shareholders' equity as a percentage of net premium income**



Note: Shareholders' equity includes unrealized (after-tax) gains on marketable securities and catastrophe reserves.

Source: Nomura, from company materials

*It is hard to imagine why substantial differences should exist between the levels of necessary capital*

We recognize that it might be logical for necessary capital levels to vary, because of differences between the insurers' business portfolios and asset allocations. However, in the case of Japanese nonlife insurances there are no major variations in business portfolios (with, auto insurance, for example, generating around 50% of net premium income at all the companies), and so we find it difficult to imagine why substantial differences should exist between the levels of necessary capital.

*Major nonlife insurance companies have capital surpluses of several 100 billion yen*

Perhaps one might infer from this that some companies have excess capital while others have inadequate capital, and indeed we think that this is where the answer lies. Millea Holdings and Mitsui Sumitomo Insurance, for which shareholders' equity represents a high proportion of net premium income, have estimated capital surpluses of up to several 100 billion yen, based on the value at risk method, which we would describe as excessive capital.

*Meanwhile Aioi Insurance and Fuji Fire and Marine have inadequate capital in our view*

Meanwhile, we think that Aioi Insurance and Fuji Fire and Marine Insurance have inadequate capital. This is because, if we subtract the combined capital surplus of Millea Holdings and Mitsui Sumitomo Insurance from FY02 shareholders' capital, then the remaining figure works out at around 80% of net premium, and so we think that nonlife insurance companies regard this level as the minimum level of capital needed.

*The gap with major nonlife insurers has been present since around the mid-1990s*

However, Aioi Insurance and Fuji Fire and Marine Insurance are around 20% below this level, which is why we think that they have inadequate capital. Incidentally, this gap in capital levels between major nonlife insurers and middle-ranking nonlife insurers has been present since the mid-1990s. We think that the gulf appeared as some middle-ranking nonlife insurance companies descended into losses, owing to a series of natural disasters, which dented profits at their core insurance operations, and the weak stock market which caused the companies to incur impairment losses (among them Aioi Insurance incurred substantial red ink after taking a huge loss on overseas reinsurance transactions in FY01).

*Meanwhile the majors managed to avert losses*

Meanwhile the major nonlife insurers were apparently able to stave off losses, thanks to their abundant unrealized gains on marketable securities, which allowed them to book the proceeds of their sales of securities rather than incur impairment losses. This difference in corporate behavior thus appears to have shown up further down the line as differences in capital levels.

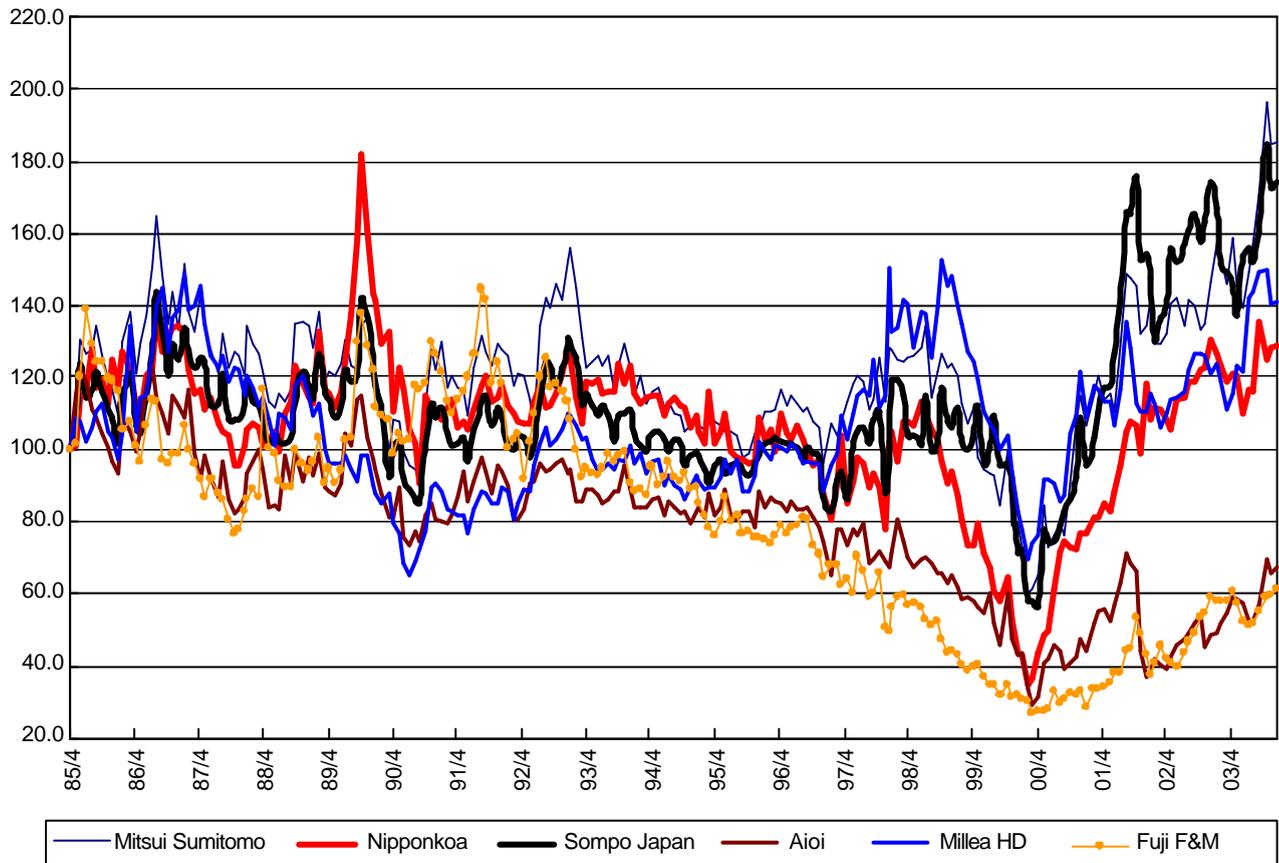
*A major gap moreover emerging between stock price levels*

This gap between the levels of capital at major and middle-ranking nonlife insurers has moreover emerged as a gap between their respective stock price levels. In particular, the stock price performances of Aioi Insurance and Fuji Fire and Marine Insurance have been inferior to those other major insurers since mid-1990, with no sign of any narrowing in the gap (Exhibit 9). We think this situation came about as the market realized that their capital levels were insufficient for the inevitable risk they need to cover, given that they are engaged in nonlife insurance operations. We believe that this trend will continue while their capital remains at the current level.

*The majors also need to make efficient use of their capital though*

By the same token, it almost goes without saying, in our view, that the majors with capital surpluses are under pressure to utilize them efficiently. Some companies have recently engaged in capital policy, for example by carrying out stock buybacks. However, in order to maintain stable stock price performances in the future, we think that they will need to make more effective use of capital over the medium to long term.

9. Major nonlife insurers' stock price performance relative to TOPIX



Source: Nomura

*Major nonlife insurers adopt executive officer system*

**Corporate governance**

Japanese nonlife insurance companies are also adopting the “executive officer system” adopted by many other non-financial companies. However, there are also differences to be found in their management stance and so below we look at the corporate governance of each company.

*Tokio Marine and Fire has opted to deploy external directors*

Tokio Marine and Fire Insurance (and holding company Millea Holdings) has opted to deploy external directors, in a bid to achieve flexibility of management. However, neither Mitsui Sumitomo Insurance nor Sampo Japan Insurance have external directors, which sets them clearly apart from the management stance of Tokio Marine and Fire Insurance. On the other hand, all three companies have appointed external auditors, which indicates to us a commitment to amplifying supervisory functions.

*No US-style committee system*

However, as far as the committee function of the board is concerned, Mitsui Sumitomo has both a “nomination committee” and a “compensation committee”, but Sampo Japan just has a “nomination committee”, and Tokio Marine and Fire has no committees at all. As none of these companies are run by a committee system in the same way as their US counterparts, we have some doubts over the effectiveness of the committees that do exist, but from the perspective of ensuring fair and impartial decision-making processes, we think that Mitsui Sumitomo is ahead of its competitors. Incidentally none of the companies disclose total figures for the remuneration of their directors.

*Difficult to rank the corporate governance of major nonlife insurers*

As we saw above, despite some differences in their corporate governance, all three majors have in common the fact that they employ “executive officer systems”, making it difficult to rank them against each other. However, we think that the committee system is an issue the companies should consider and will therefore be looking to see future developments.

#### 10. Corporate governance at the three major nonlife insurers

	Millea Holdings		Mitsui Sumitomo	Sompo Japan
	Not adopted	Tokio Marine & Fire Adopted		
Executive officer system			Adopted	Adopted
Directors	11	12	14	9
of which, representative	4	6	4	3
of which, external	3	1	0	0
Executive officers	-	31	38	37
Auditors	4	5	6	5
Of which, internal	2	3	4	3
Of which, external	2	1	2	2
Nomination committee	None	None	Established	Established
Compensation committee	None	None	Established	Established
Directors' remuneration	Undisclosed	Undisclosed	Undisclosed	Undisclosed

Source: Company materials, interviews with management

#### Investor relations

*IR activity designed to promote communications between companies and shareholders*

Investor relations refer to activity designed to promote communications between a company and its shareholders. Through such activity, the company comes to understand the shareholders' wishes, dislikes, and expectations, and sometimes these are reflected to a significant extent in management. Furthermore, comprehensive IR activity is also to be hoped for in order to keep shareholders up to date with rapidly changing corporate activities. If IR activity is inadequate, then shareholders cease to be able to find out in good time about revisions to corporate earnings forecasts, revelations of scandals, and changes in management strategy, or indeed the likely impact to medium- to long-term profit growth.

*Nonlife insurers tend to have a high proportion of foreign shareholders*

In Exhibit 11 we give an overview of IR activity at the three major nonlife insurance companies. The first specific point to make is that, at around 25%, all three have relatively high proportions of foreign shareholders. We think this is because viewed alongside other Japanese financial institutions, the nonlife insurers look relatively undervalued based on their P/B ratios—adjusted for financial stability and catastrophe reserves—which tends to be an incentive for foreign investors.

*We think all the companies have some work to do in terms of expanding their English-language IR materials*

For this very reason, we therefore think that IR activity needs to take account of overseas investors, including aggressive attempts to beef up output of English language materials. However, we think that all the companies have work to do in this regard. Indeed, when it comes to materials such as preliminary results flashes to let shareholders know about corporate results, Millea Holdings has nothing in English on its website, while the other two companies have releases in English but somewhat later than the Japanese announcement (Exhibit 11).

*We think that Mitsui Sumitomo is making greater inroads with its IR activity than its rivals*

Furthermore, the companies' webcasts featuring "live comments" by key management figures (scheduled twice a year at all three companies) are available in Japanese, but only Mitsui Sumitomo offers English webcasts, an example we think the other two companies would do well to follow by introducing the necessary infrastructure. While all three companies are pursuing overseas IR activities aggressively, it is difficult to tell whether many overseas shareholders are satisfied. We therefore think that Mitsui Sumitomo is making greater inroads with its IR activity than its rivals.

#### 11. Investor relations activities at the three major nonlife insurers

	<b>Millea Holdings</b>	<b>Mitsui Sumitomo</b>	<b>Sompo Japan</b>
IR office (department)	Within planning division	Within planning division	Within planning division
Shareholder composition (%)			
Individuals, others	16.12	15.20	15.00
Foreign companies	<b>26.17</b>	<b>28.41</b>	<b>25.12</b>
Other companies	10.63	17.40	12.40
Securities companies	0.32	1.00	1.31
Financial institutions	46.76	37.99	46.16
Shareholder information			
Japanese	Available	Available	Available
English	Available	Available	Available
Disclosure on website			
Japanese	Available	Available	Available
English	Available	Available	Available
Securities reports on website			
Japanese	Available	Not available	Available
English	Available	Not available	Not available
Results flashes on website			
Japanese	Available	Available	Available
English	Not available	Available	Available
Analyst briefings per year	Two regular briefings	Two regular briefings	Two regular briefings
Briefing materials on website			
Japanese	Available	Available	Available
English	Available	Available	Available
Webcasts of company briefings			
Japanese	Available	Available	Available
English	Not available	Available	Not available
Overseas IR visits	Around twice a year	Around twice a year	Around twice a year

Note: As of end-Mar 2003

Source: Company websites, interviews with management

### The consumers' perspective

For nonlife insurers, "consumers" include policyholders and sales agencies

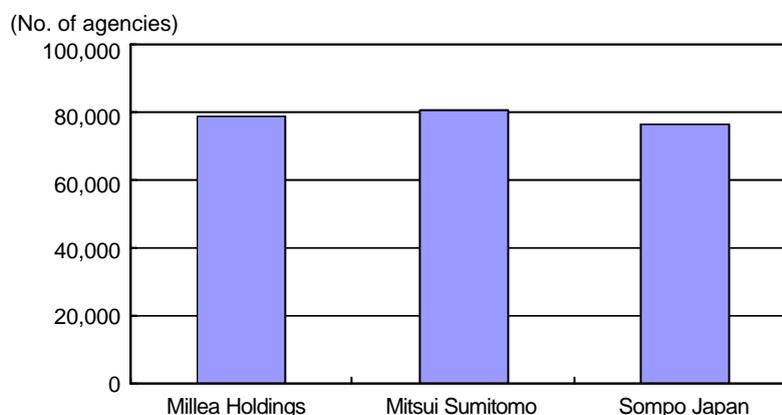
From a nonlife insurer's standpoint, "consumers" are holders of its insurance policies. However, since the nonlife insurer's sales agencies are the principal originators of these policies, any effort to make more effective use of consumers must focus on the agencies, which are single-handedly responsible for marketing insurance products. In this section, we consider two distinct types of "stakeholders:" sales agencies and policyholders. We consider CSR from the perspective of both these parties.

### The sales agencies' perspective

Major nonlife insurers have roughly 80,000 sales agencies

Sales agencies are responsible for marketing the insurance products of nonlife insurers. The top nonlife insurers generally employ around 80,000 of these agencies (see exhibit 12). In addition, close to 100% of the insurer's net premiums written are generated by the sales agencies.

12. Number of registered agencies



Note: Millea Holdings figures are the total for Tokio Marine & Fire Insurance and Nichido Fire & Marine Insurance.  
Source: Company materials

Agency training is highly important

Since sales agencies are the closest line to the policyholder, an important role of nonlife insurers is to train the agencies as marketing professionals of insurance products. This section includes a look at agency education and training at the top three nonlife insurers.

#### 1. Tokio Marine & Fire Insurance

Tokio Marine has a proprietary training program for training its sales agencies

To nurture the talents of its sales agencies so that they can provide highly detailed service and top-quality information to policyholders, Tokio Marine provides the "Tokio Marine Agency Support Program" (known by its Japanese acronym, TDSP). The program focuses aggressively on a wide-range of training areas, including knowledge related to the insurance business, such as product expertise, sales techniques, casualty services, and administration, and peripheral areas like tax and legal issues. Training corresponds to the goals and training level of the agency, and can include nationwide group training, study at divisional or branch locations, and training using satellite broadcasting.

*Agencies with advanced expertise also receive training*

Tokio Marine also has the “Insurance Planner” system. This system aims to develop exclusive insurance professionals able to provide a range of insurance services customized to meet the needs of a variety of policyholders. Insurance Planners acquire specialized knowledge of insurance products and study sales methods for a period of three years and two months. During the study period, they also work at acquiring new policyholders through training at branch offices and OJT.

*Mitsui Sumitomo Insurance also has a proprietary system for agency training*

### *2. Mitsui Sumitomo Insurance*

Mitsui Sumitomo Insurance has created the “Carrier Up Program (CUP)” for training sales agencies. CUP provides agencies with a diverse menu of training options, including agency certification programs, as well as knowledge of compliance and products, and skills in sales. Training takes the form of group classes at the company’s head office, divisional, and branch offices, as well as text and video learning, and e-learning. The focus is on total agency training, linking this kind of training with individual sessions led by related personnel and study groups at district sales locations.

*Full-time agency training staff are charged with a variety of training functions*

In addition, full-time agency training staff from affiliated company Mitsui Sumitomo Insurance Agency Service are stationed in locations nationwide, working as lecturers at group seminars for agency certification and other types of training, and carrying out high-level training for Mitsui Sumitomo Insurance’s sales agencies. The company promotes a system of “insurance consultants (ic)” to nurture agencies as professionals with specialized knowledge and skills in execution and strategic planning in comprehensive insurance operations, both nonlife and life. The ic system had 585 members as of 31 March 2003. After a fixed period (maximum 36 months) of intensive practical training, the members are sent out to locations around Japan as examples of top-tier agencies capable of winning the confidence of policyholders.

*Like the other two top nonlife insurers, Sompo Japan also has a proprietary program for agency training*

### *3. Sompo Japan Insurance*

Agency training and training at Sompo Japan takes several forms, including group training (on a nationwide level) held at the company’s head office and other locations around Japan; training at branch offices and sales offices nationwide; and individual-led study at sales offices. Amid progress in deregulation and market liberalization, Sompo Japan has created the “J-Business School” for training at its head office. The aim is to foster development of sales agencies and are equipped with high-level business expertise. The curriculum is geared toward business in the era of industry deregulation, with programs to boost agencies’ ability to act as consultants to policyholders and improve overall business management.

*Sompo Japan also boasts 7,500 full-time specialist agencies*

Sompo Japan has also created the “Total Life Counselor (TC)” system to raise a network of full-time specialist agencies able to respond accurately to the increasingly diverse needs of Japanese society. Under this system, highly talented employees are hired as trainees for a maximum period of around 36 months. In addition to gaining high-level business expertise from group training and other sessions, trainees acquire on-the-job training at their respective sales offices, then are set up independently as full-time specialist agencies. Specialist agencies established through this system now number around 7,500.

Not very many differences exist between the top nonlife insurers' agency training programs

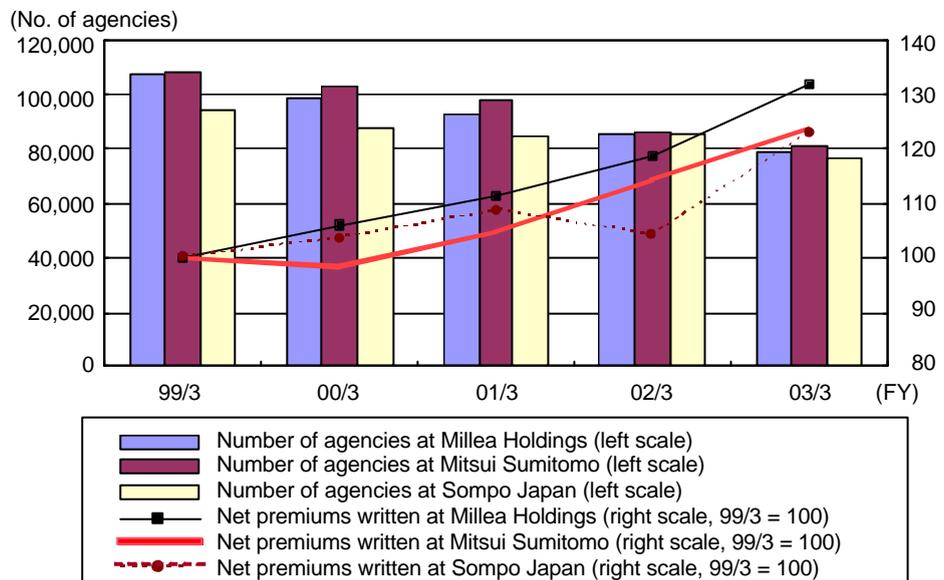
Looking at the problem from another angle, however, some differences start to emerge

4. Sampo Japan is improving results in key areas

Each of the three top nonlife insurers maintains a proprietary program for agency training, and not too many differences exist in their efforts to nurture and strengthen full-time agency specialists. As a result, we find it difficult to comment on how well each company makes use of its agency stakeholders relative to competitors.

That said, after looking at the track record of these training programs from a different angle, some differences between the three companies begin to emerge. Exhibit 13 tracks the number of agencies at each of the big three nonlife insurers over the last five years, as well as productivity per sales agency (indexed, with March 1999 = 100). Each of the big three nonlife insurers has consolidated and merged its agency network since the environment became more competitive following the regulatory reforms of July 1998. Millea Holdings has managed to reduce its sales agency network by close to 30% over the five-year period (combined networks of Tokio Marine & Fire and Nichido Fire & Marine).

13. No. of agencies and agency productivity indicators at the top three nonlife insurers



Note: For companies that have undergone mergers, past data has been restated. Millea Holdings data is simple combination of Tokio Marine & Fire and Nichido Fire & Marine.  
Source: Nomura, from company materials

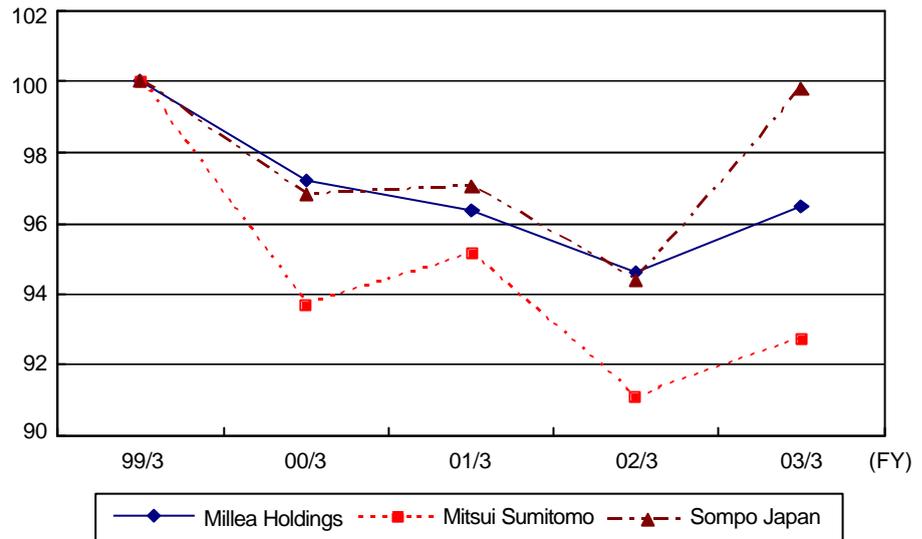
Millea Holdings has had the most success in boosting efficiency, but...

Productivity per agency at Millea Holdings far exceeds per-agency productivity at the other two nonlife insurers. From the standpoint of boosting efficiency, we have to give them credit here. However, trends in the company's direct net premiums written (including savings-type premiums written) tell a different story: direct net premiums written at Millea Holdings have been on a declining trend for the past five years, and the company has been unable to return to levels recorded in FY98. Similarly, direct net premiums written at Mitsui Sumitomo Insurance have also been falling over the last five years. It looks to us like promoting efficiency has put a drag on their efforts to expand the contents of their businesses (exhibit 14).

*Sompo Japan looks like the winner when we consider efficiency improvements and business expansion together*

In contrast, Sompo Japan has managed to get its direct net premiums written income back up to FY98 levels. From the standpoint of expanding its business, Sompo Japan looks to be outperforming its two rivals. The company has only shed 20% of its agency network over the five-year period, so it lags the other two in the efficiency category. On the other hand, reductions in their agency networks could be one of the factors behind declining premiums income at Millea Holdings and Mitsui Sumitomo. Looking at both areas—boosting efficiency and expanding business—we believe Sompo Japan has managed to show some nice improvements.

**14. Direct net premiums written at top three nonlife insurers (March 1999 = 100)**



Note: For companies that have undergone mergers, past data has been restated. Millea Holdings data is simple combination of Tokio Marine & Fire and Nichido Fire & Marine.  
Source: Nomura, from company materials

*Contact with policyholders maintained via customer centers*

**The policyholders' perspective**

As we stated earlier, most policyholders conclude their insurance contracts with sales agencies, so they rarely have the opportunity to come in direct contact with nonlife insurance companies when purchasing insurance products. However, the insurers do offer consultation services (via their customer service centers) regarding illness, injury, accidents, and other mishaps, and also pay compensation to policyholders directly.

*Nonlife insurers interact with the public via activities that benefit society*

As such, when a policyholder does have the opportunity to come in direct contact with a nonlife insurer due to an accident or other unforeseen occurrence, it is important that the company handle the matter promptly and professionally, so it seems that nonlife insurers are beefing up their infrastructures to this end. Moreover, while this next factor does not have a direct connection with insurance contracts, the nonlife insurers are apparently deepening their ties with the general public by interacting with regional societies and via volunteer work, among other means.

*Contributions to society should help attract a new group of supporters*

In this chapter, we outline insurers' services for dealing with accidents and the like as seen from the perspective of policyholders. We also touch on the companies' ongoing activities aimed at contributing to the environment and society. Even though such activities are not directly related to insurance contracts, it is through these activities that the companies can strengthen the profile of the company and possibly attract a new group of supporters, whom they might be able to win over as policyholders in the future.

*1. Services for policyholders*

*Insurance consultations provided at customer service centers*

Exhibit 15 outlines some of the services offered to policyholders by leading nonlife insurance companies. The nonlife insurers provide insurance-related consultations through their respective customer service centers. Services on Saturdays, Sundays, and national holidays are offered by both Mitsui Sumitomo Insurance and Sompo Japan Insurance, but not by Tokio Marine and Fire Insurance at this time. Otherwise, all three companies accept online requests for consultations via their respective websites, and it seems to us that there are no major differences in infrastructure among the insurers.

*Tokio Marine stands out in terms of consultation volume*

As for the number of consultations, Tokio Marine and Fire appears to handle an overwhelmingly large volume. This is apparently because the company's customer service center deals with a wide range of queries and consultations, and also accepts inquiries from non-policyholders. We also think the strength of the Tokio Marine brand name explains the large volume of consultations, leading us to believe the familiarity of its name among general consumers overshadows that of rivals.

*Damage-related services seen as most crucial*

We feel the services that nonlife insurers should especially work to enhance are those related to damages. As it is impossible to foretell when or where an accident might occur or an individual might fall ill, we believe an immediate response to deal with such misfortunes when they do transpire represents the most important service required by policyholders and victims.

*No notable differences among nonlife insurers' damage-related services*

Exhibit 15 shows that all three majors offer 24-hour service, 365 days a year. It also shows that each of the nonlife insurers have developed solid service structures that enable them to respond to customer needs at over 200 locations nationwide. Moreover, we cannot identify any big differences among the companies' accident-related support systems, so we think it is difficult to say which insurer is stronger or weaker than the other on the basis of this factor as well.

*Tokio Marine appears to dominate, but ...*

Considering these circumstances, we surmise that Tokio Marine, which handles the highest volume of consultations, dominates in attracting new policyholders owing to the apparent familiarity of its name among a broad consumer population. However, because sales agents act as the primary entities for concluding insurance contracts with policyholders, we think Tokio Marine's brand strength could diminish if it is unable to continue to train and strengthen the capabilities of its sales agents. As we mentioned earlier in this report, the company is aggressively scaling back the number of sales agents. If the move results in weakening motivation for sales agents over the medium term, we think that could also cause the company's dominance in drawing policyholders to wane as well.

**15. Services offered by three major nonlife insurers**

	<b>Tokio Marine &amp; Fire</b>	<b>Mitsui Sumitomo</b>	<b>Sompo Japan</b>
Insurance consultation counter service	Customer center	Customer center	Customer center
Counter service opening hours	Weekdays: 9:00–18:00 Closed Sat., Sun., nat. holidays	Weekdays 9:15–20:00 Sat., Sun., nat. holidays: 9:15–17:00	Weekdays 9:00–20:00 Sat., Sun., nat. holidays: 9:00–17:00
Web-based consultation service	Available	Available	Available
Number of inquiries	382,119	147,698	44,663
Fire	-	18,632	7,968
Accident	-	11,474	-
Automobile, compulsory auto liability	240,167	90,921	13,382
New comprehensive	-	5,438	13,375
Savings type	-	9,019	4,872
Other	141,952	12,214	5,066
Accident response service			
Counter service opening hours	24 hours/day, 365 days/year	24 hours/day, 365 days/year	24 hours/day, 365 days/year
Accident service centers	218 locations	265 locations	264 locations

Note: Tokio Marine and Fire Insurance's non-automobile related consultations are included in others. Sompo Japan Insurance's injury-related consultations are included in others

Source: Company materials, some interviews with management

<i>Nonlife insurers began society-oriented activities relatively early</i>	<p><b>2. Nonlife insurers' activities aimed at achieving social responsibility</b></p> <p>Exhibit 16 provides a summary of the three major nonlife insurers' activities aimed at achieving social responsibility. As we mentioned in the introductory chapter, we think the companies are currently carrying out various activities designed to benefit the public probably because the nonlife insurance sector as a whole was relatively quick to begin introducing CSR-related measures.</p>
<i>We cannot differentiate nonlife insurers on basis of activities</i>	<p>As the three majors' activities aimed at achieving social responsibility incorporate features unique to each company, we believe we cannot differentiate among them purely on the basis of those activities. So instead, we aim to determine the weaker names by looking at management's attitudes with respect to those measures.</p>
<i>When did the insurer take steps at the organizational level?</i>	<p>First, we think it important to ascertain when such activities were initiated. So we need to ask: when did the company set up an organizational system to support such activities? In other words, when did it form a working group or committee to address global environmental issues? We think the answer to this question should shed some light on management's views about the relevance of these society-oriented activities.</p>
<i>Sompo Japan became the first financial institution to set up an environment-related committee in 1992</i>	<p>Regarding the establishment of an in-house group for addressing environmental issues, Sompo Japan Insurance led the way by setting up its global environment department in 1992, earning it the distinction as the first to do so among Japanese financial institutions. It was thus one of the first to begin developing an organizational framework for CSR-related activities. Tokio Marine and Fire then followed suit by establishing a committee in 1993, and has been actively promoting socially responsible management since then. Meanwhile, Mitsui Sumitomo Insurance has yet to form an in-house body dedicated to social responsibility and the environment, but a group within the general affairs division apparently conducts some related activities.</p>
<i>Sompo Japan also earliest to issue environmental reports</i>	<p>Next, we looked at the insurers' issuance of environment-related reports. Sompo Japan Insurance issued its first report in FY98, and has published six reports in total. Tokio Marine and Fire again followed suit by releasing reports beginning in FY99, and has issued four environment-related reports. Mitsui Sumitomo Insurance has only published two reports.</p>

*Other companies' reports put too much weight on environmental factors in our view*

However, these reports tend to focus on environmental performance, environmental management, and other such factors, but tend to lack details about a broader range of CSR-related activities in our view.

*But Sompo Japan's reports suggest it gives attention to stakeholders' interests*

While Sompo Japan Insurance's reports contain a considerable amount of information, we also believe the data show that management keeps in mind the interests of its stakeholders—shareholders, consumers (sales agents and policyholders), and employees. So we think management deserves some recognition on this point. Even though reports issued by both Sompo Japan and Tokio Marine refer to “stakeholders,” the information mainly has to do with environmental issues, so we imagine that the contents may not entirely satisfy stakeholders.

*Sompo Japan deserves attention*

As discussed so far, nonlife insurers' activities aimed at achieving social responsibility are unique to each company, so we cannot make comparisons between them based on the activities themselves. However, on the issue of management's attitudes about such activities, we believe it fair to take into account the fact that Sompo Japan Insurance has led its rivals in taking action and is carrying out such activities by giving attention to its stakeholders.

*CSR-related activities could differentiate nonlife insurers over the longer term*

Of course, we cannot assume that prospects for a company's sustained growth are stronger than that for another merely because it was quick to carry out these measures. But at the same time, if steady implementation of such activities helps attract more supporters and also increases benefits for various stakeholders, even slightly, we think the company's dominance could strengthen over the medium to long term.

**16. Community and social activities of the three major nonlife insurers**

	Tokio Marine & Fire	Mitsui Sumitomo	Sompo Japan
<b>Insurance products and services</b>			
Insurance products	Soil remediation liability insurance Soil remediation cost insurance "Green" (tree-planting) insurance Eco-policy cost insurance Weather derivatives Abnormal weather insurance	Environmental pollution liability insurance Appliance recycling insurance Soil remediation cost insurance Eco-car discount (industry first) Welfare car discount Eco Fund "Sea and Sky"	Soil pollution insurance Industrial waste liability insurance Weather derivatives Eco-car discount Welfare car discount Eco Fund "Beech Forest"
Services	Environment risk study/evaluation (soil pollution checks, etc) Support for ISO 14001 approval Environmental consulting Risk assessment program	Eco car servicing/repairs Support for ASKnet Ground pollution assessment/restoration workshops ISO 14001 consulting	ISO 14001 consulting Eco parts project Driver assessment service Seminar on soil pollution measures
<b>Response to graying society</b>			
Specialist organization	None in particular	None in particular	Sompo Japan Life Support
Insurance products	Nursing care insurance	Nursing care insurance	Nursing care insurance
Services	Telephone advice service Branch office consultation Nursing care information website	Telephone advice service Internet consultation	Care management Telephone advice service (first in industry in 1987)
<b>Contributions to society/community</b>			
<b>Volunteer activities</b>			
Activity organization	Social environment office	Social environment group inside general affairs department	Sompo Japan Chukyu Club (all employees are members)
Leave system	Yes, including special leave for bone marrow donation	Yes	Yes, up to three years
Main activities	Greenifying projects Down's syndrome support Other domestic/overseas projects	Giving blood to Japan Red Cross Support to bone marrow transplant groups Various other activities	Donations to NPOs (¥70 million to 39 associations) Costs for volunteer programs (¥126,000 to 17 programs) Other staff volunteer programs
<b>Welfare</b>			
Activity organization	Tokio Marine Kagami Memorial Foundation	Mitsui Sumitomo Insurance Welfare Foundation	Sompo Japan Foundation
Grants	Offered to 1,413 Japanese students, 61 ASEAN students	1,208 grants, ¥1,675 million	¥30 million to 100 associations in FY02
Support for sports and culture	Japan Swimming Federation Tokio Marine Sports Association	Activities via the Mitsui Sumitomo Cultural Foundation	Cooperation for Ome Marathon Go
Financing activities	Negative screening introduced in August 1999 ¥500 million invested in environmental venture companies	Eco car loans	Gets info on environmental measures for new investments PFI financing in December 2001 Investment in group company Yasuda Investment in venture companies
ISO 14001 approval	Acquired for head office	Acquired for domestic bases (first in industry for all offices)	Acquired for head office building and computer centers
Environmental management system	Set up social contribution office in 1993 (changed name to social environment office in 1997) Set up green committee	Managed by social environment group inside general affairs dept.	Set up dep't of global environment in 1992 (changed name to social environment office, corporate communications dept. in 2003) Set up ECO (environment) committee

Source: Nomura, from company materials and interviews

## The employees' perspective

*In Japan, most relevant is whether the employer provides a comfortable work environment*

The last group of stakeholders we take up is employees. The contribution of employees to corporate activities also does much to determine the sustainable growth potential of a corporation. Conventionally cited as a means to heighten employee effectiveness is job security — basically, the assurance that comes from knowing one will still be gainfully employed tomorrow. Yet, at a Japanese company, it is rare for a person to lose his or her job at the convenience of the employer. Thus, for employee stakeholders in Japan, the more relevant question is whether the employer provides a comfortable work environment.

*Sompo Japan seems to be aware of the stakeholder status of its employees*

Exhibit 17 tabulates the approach of the three leading nonlife insurers in four areas of concern — employment, respect for individual rights and dignity, skill development, and health and welfare. Sompo Japan stands out for its numerous disclosures of specific items within those categories. This suggests that relative to the other two nonlife majors, Sompo Japan has greater awareness of the role of its employees as stakeholders.

*The important thing is its attitude*

All major nonlife insurers in Japan have prepared extensive skill development and health and welfare programs for their employees, so it is hard to discern much difference between them there. What is important, though, in our view, is management's attitude to such disclosure. By revealing its activities in considerable detail for the review and occasional criticism of outside parties, a management team provides itself with both the mechanism and impetus to do better, thus leading to a further medium-to long-term improvement in the effectiveness of employees.

*Mitsui Sumitomo does not seem to fully recognize its employees as stakeholders*

With that in mind, it would seem that Sompo Japan conducts its affairs with a full recognition of the stakeholder status of its employees. As for the other two nonlife insurers, though, problems remain. Mitsui Sumitomo's *Environmental Report* tellingly, in our view, contains no mention whatsoever of employment or employee health and welfare, which must, we think, be very unsatisfactory from the point of view of its employees.

*Millea Holdings comes out ahead in terms of productivity per employee*

Exhibit 18 presents the progression in number of employees and in net direct premiums (including the savings portion of maturity-refund type insurance premiums) per employee over the past five terms for each of the three majors. In terms of productivity per employee, Millea Holdings (Tokio Marine & Fire Insurance and Nichido Fire & Marine Insurance) shows the most improvement.

*Yet, Millea Holdings lags when it comes to business expansion*

Although it thereby gets a relatively high mark for efficiency, Millea Holdings, as discussed back in the section on the agencies' perspective, lags behind the others in terms of business expansion. Thus, when we include sustainable growth in our considerations, Millea's superiority is no longer so apparent. Indeed, while cutting back on its agencies on the one hand, it has been cutting back on employees on the other — its workforce is down by 14% over the past five terms, considerably more than at the other two nonlife majors. We would have plenty of good things to say if Millea had improved its efficiency while expanding its business, but that has not been the case — direct net premiums, for instance, have slipped. Thus, at the situation stands now, our praise is necessarily limited.

## 17. Features of employment environment at Japan's three major nonlife insurers

	Tokio Marine & Fire	Mitsui Sumitomo	Sompo Japan
<b>Employment</b>			
No. of employees	11,761	14,042	15,815
Average age	39.9	37.9	39.4
Average service years	11.0	11.4	11.4
Average annual salary (¥)	9,144,981	7,848,034	7,553,181
Number of hires	Career 107, clerical 232	Career 102, clerical 338	Career 110, clerical 455
Number of staff belonging to labor union	about 9,800	12,765	11,883
Labor-management relations	Nothing worthy of special mention	Nothing worthy of special mention	Nothing worthy of special mention
Number of differently abled employees*	2.10	-	1.42% (181)
<b>Human rights</b>			
Organizational mechanisms	Personnel department has human rights section	-	Human rights headquarters (set up in December 2002)
Details of activities	Human rights training Human rights weeks Health management section Health improvement months	-	Human rights training Health management Working hours Promotion of women's activities All-staff training at least twice/year
<b>Support for development of abilities</b>			
	By-level training Selective training Promotes attainment of external qualifications, etc	(1) By-level training Career, area career Marketing (2) Selective training By-division training Open training (3) Other Management training Specialist training External on-line courses Support for obtaining qualifications etc	(1) By-level (menu of items) New recruit general training New recruit clerical training New leader training New branch manager training (2) Designated & selective menu Management training Management school Sales area Accident response Human rights Compliance, etc (3) Open, tutor, on-line menu 5,929 staff have taken courses
<b>Health management/welfare</b>			
% of staff attending regular health checks	100.0	-	98.8
Cases of medical advice/counselling	-	-	76
No. of staff who took nursing leave	-	-	5
No. of staff who took childcare leave	-	-	22
Rest homes	-	-	about 1,500
Other	Congratulation, condolence, etc, payment system Savings scheme Mortgage system Pension fund Staff shareholder club, etc	Congratulation, condolence, etc, payment system Savings scheme Long-serving staff leave system Staff mutual aid system Mortgage system Refreshment leave system	Ex-legal compensation system Condolence payments Mortgage system Loan scheme Housing system Savings scheme

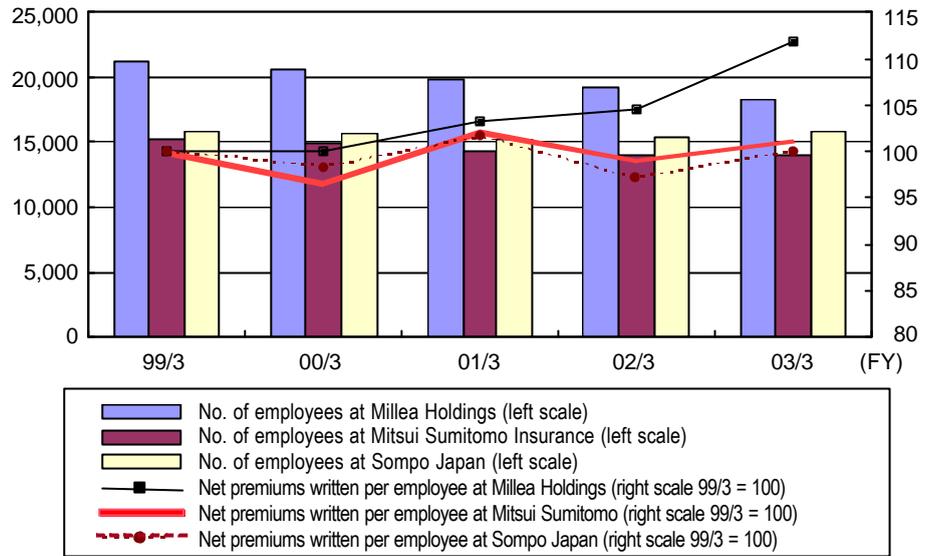
Note: Actual figures as at end-March 2003. Portions left blank are areas in which the companies concerned have not disclosed any data.

\* The law stipulates a ratio of 1.8% of staff.

Source: Company data

**18. Employees and productivity at major nonlife insurers**

(Number of employees)



Note: For companies that have undergone mergers, past data have been restated. Data for Millea Holdings are a simple combination of figures for Tokio Marine and Fire Insurance and Nichido Fire and Marine Insurance.

Source: Nomura, based on company data

## ■ Conclusion

*The starting point for the discussion: “ensuring a company’s survival and earnings sustainability over the medium to long term”*

Above, we examined CSR activities from the viewpoints of shareholders, consumers (agencies and policyholders), and employees. We based our discussion on the belief that a management team should establish a series of strategies in order to enhance the effectiveness of CSR for stakeholders, as a means of achieving the ultimate objective of CSR—ensuring a company’s survival and earnings sustainability over the medium to long term.

*The big question — does management recognize the interests of stakeholders?*

As each of the nonlife majors approaches the issues in its own characteristic way, it can be difficult to assign specific grades that fully accommodate the viewpoints of all stakeholder groups. Yet, on a highly general level, we can say that what counts is the stance of management teams, and whether they take into account their stakeholders.

*Sompo Japan comes out ahead*

On that measure, we note that Sompo Japan has a clear corporate vision that takes on board the needs of its stakeholders. Furthermore, by conveying that vision to outside parties, management provides itself with a mechanism and impetus to do even better in the future.

*CSR activities have only just begun*

Admittedly, CSR activities have only just begun, and it is still too early to deliver a final verdict. To that extent, we will be watching with great interest to see just how CSR initiatives are applied to various situations as progress is made toward the ultimate goals of establishing a basis for a company’s survival and earnings sustainability over the medium to long term.

This research was produced on the basis of an invitation from the Asset Management Working Group (AMWG) of the United Nations Environment Programme Finance Initiative (UNEP FI) to:

1. Identify the specific environmental and social issues that are likely to be material for company competitiveness and reputation in a particular industry.
2. Identify and to the extent possible quantify their potential impact on stock price.

For more information visit: [www.unepfi.net/am](http://www.unepfi.net/am)

Or contact: [jacob.malthouse@unep.ch](mailto:jacob.malthouse@unep.ch)

---

This publication contains material that has been prepared by one or more of the following Nomura entities: Nomura Securities Co., Ltd. ("NSC") and Nomura Research Institute, Ltd., Tokyo, Japan; Nomura International plc and Nomura Research Institute Europe, Limited, United Kingdom; Nomura Securities International, Inc. ("NSI") and Nomura Research Institute America, Inc., New York, NY; Nomura International (Hong Kong) Ltd., Hong Kong; Nomura Singapore Ltd., Singapore; Capital\_Nomura Securities Public Co., Ltd., Bangkok, Thailand; Nomura Australia Ltd., Australia; P.T. Nomura Indonesia, Indonesia; Nomura Advisory Services (Malaysia) Sdn. Bhd., Malaysia; Nomura Securities Co., Ltd., Taipei, Taiwan; or Nomura Securities Co., Ltd., Seoul, Korea. This material is: (i) for your private information, and we are not soliciting any action based upon it; (ii) not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal; and (iii) is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Opinions expressed are current opinions as of the date appearing on this material only and the information, including the opinions contained herein are subject to change without notice. Affiliates and/or subsidiaries of Nomura Holdings, Inc. (collectively referred to as the "Nomura Group") may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from, companies mentioned herein. The Nomura Group, its officers, directors and employees, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy or sell (or make a market in), the securities, or derivatives (including options) thereof, of companies mentioned herein, or related securities or derivatives. The Nomura Group may act as a market maker and is willing to buy and sell certain Japanese equities for its institutional clients. NSC and other non-US members of the Nomura Group, their officers, directors and employees may, to the extent it relates to non-US issuers and is permitted by applicable law, have acted upon or used this material, prior to or immediately following its publication. Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk. The securities described herein may not have been registered under the U.S. Securities Act of 1933, and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements of such Act. Unless governing law permits otherwise, you must contact a Nomura entity in your home jurisdiction if you want to use our services in effecting a transaction in the securities mentioned in this material. This publication has been approved for distribution in the United Kingdom by Nomura International plc, which is regulated by The Financial Services Authority ("FSA") and is a member of the London Stock Exchange. It is intended only for investors who are "market counterparties" or "intermediate customers" as defined by FSA, and may not, therefore, be redistributed to other classes of investors. This publication has also been approved for distribution in Hong Kong by Nomura International (Hong Kong) Ltd. NSI accepts responsibility for the contents of this material when distributed in the United States. No part of this material may be (i) copied, photocopied, or duplicated in any form, by any means, or (ii) redistributed without NSI's prior written consent. Further information on any of the securities mentioned herein may be obtained upon request. If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.