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UNITED STATES-JAPAN BILATERAL INSURANCE AGREEMENT

The Office of the U.S. Trade Representative announced today that, under the U.S.-Japan Insurance Agreement, the United States does not support the initiation of the two-and-one-half year clock to open the third sector of Japan's insurance market. Under the bilateral Insurance Agreement reached in December 1996, the two governments were to determine by July 1, 1998 whether Japan has fully implemented a number of specific deregulatory measures designed to open Japan's primary insurance sectors to effective competition. Deregulation of the primary sectors, comprising 95 percent of Japan's $335 billion insurance market, is a key element of the bilateral insurance agreement and essential to increasing market access for U.S. and other foreign firms in Japan.

At issue are provisions of the 1994 and 1996 Insurance Agreements dealing with actions to be taken by Japan to deregulate the primary sectors of Japan's insurance market, as well as guarantees provided by Japan to protect the smaller third sector where non-Japanese insurance companies have been positioned to get a toe-hold in the closed Japanese market.

Japanese companies dominate Japan's insurance market, particularly in the primary sector where they control 98% of the life business and 97% of the non-life business. They also control 84% of the third sector's non-life business but only have a 32% share of third sector life underwriting, where foreign firms, led by U.S. companies AFLAC, AIG and CIGNA, have acquired a 68% market share.

Ambassador Barshefsky stated, "I am disappointed that Japan is unwilling to open its insurance market to genuine competition. Japan has not fully implemented all of the specific deregulation actions called for in our bilateral insurance agreement on the time line envisioned by both governments. The United States opposes starting the process to terminate certain measures contained in the bilateral agreement concerning the third sector until Japan fully meets its primary sector deregulation obligations."

In particular, Japan has not fully implemented its obligations regarding rating organization reform. The rating organizations act as cartels imposing uniform industry-wide insurance rates on consumers for such products as voluntary automobile insurance and fire insurance. The United States has expressed its deep concerns that the changes to the rating organizations being implemented by Japan are inconsistent with the Ministry of Finance's (MOF) stated objective of fundamental reform. Specifically, U.S. concerns include continued collection by the rating organizations of expense data from member firms, lack of transparency and foreign participation in the decisions of the rating organizations, and expansion of the rating organizations' authority to cover new product categories.

Japan also has not fully implemented its obligations regarding the processing of new product and rate applications. The United States has raised with Japan a number of specific cases where MOF unjustifiably exceeded the standard 90-day period for processing insurance applications for new products or rates. Delays in approval of new, innovative products are inconsistent with a deregulated environment and Japan's obligations under the agreement. MOF's product approval process has not functioned effectively due to, among other factors, non-transparent criteria and guidelines, arbitrary administrative decision making, and an inability to cope with an increasing influx of applications.

The United States has presented Japan with specific suggestions for addressing rating organization reform and the product approval process. The United States looks forward to working with Japan over the coming weeks to ensure that in practice the primary sector deregulation sought by both governments is fully implemented.

In addition to primary sector deregulation, the United States is extremely concerned with Japan's licensing of a cancer rider to Tokyo Anshin, the life subsidiary of a large Japanese insurance company, Tokyo Fire and Marine. Based on its design and marketing, this rider is clearly intended to circumvent the third sector provisions of the 1996 Insurance Agreement as it is essentially equivalent to cancer policies prohibited for sale by Japanese life subsidiaries. As such, the U.S. calls on MOF to remedy this issue, prevent any further marketing of this product, and disapprove similar licenses for other life subsidiaries of Japanese non-life firms.

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