

# Risk Management

Amid ever-changing market conditions, characterized by ongoing advances in the IT sector and rapidly progressing deregulation and liberalization, the needs of customers are becoming increasingly diversified and sophisticated. Accordingly, the risks affecting insurance companies have become more and more complex.

In this business environment, the Company has positioned risk management as an important corporate priority from the perspective of properly fulfilling its responsibilities to customers and securing and maintaining sound operations. The Board of Directors formulated its Business Risk Management Policy, with the aim of accurately grasping and controlling the various risks that could have a major impact on the Company's operations, in order to ensure sound and appropriate business activities. Based on this policy, we have sought to build and reinforce a rigorous risk management system, headed by the Board of Directors.

We have established two committees under the jurisdiction of the Board of Directors to handle specific types of risk: the Core Risk Management Committee, which focuses on risk from the perspective of financial soundness, and the Compliance and Business Risk Management Committee, which controls risk from the perspective of appropriate business practices. Under the two committees, we have set up four sub-committees to rigorously assess and audit various risks and thus enhance overall risk management effectiveness. The Board of Directors determines management policies and processes for each risk category following discussions with the Core Risk Management Committee and the Compliance and Business Risk Management Committee.

The Core Risk Management Committee manages "comprehensive risk" (a combination of risks, including underwriting risk and asset management risk) in cooperation with the relevant sub-committees. That committee also works to strengthen and improve risk management by establishing and raising the standards of economic value assessments and asset liability management systems.

## Risk Factors

### (1) Insurance Underwriting Risk

Insurance underwriting risk refers to the risk of sustaining losses due to unexpected changes in economic conditions, the frequency of insured events and other factors. Major risks in this category include general insurance risk, natural disaster risk, massive risk, reinsurance risk and interest rate prediction risk.

#### *General Insurance Risk*

The non-life insurance business entails exposure to uncertainties for paying claims given that the business is about covering losses from unexpected events. The Company regularly assesses loss ratios on each of its products and analyzes rates that exceed assumed value. Where necessary, the Company revises or discontinues products and takes steps to alter its underwriting standards and sales policies.

#### *Natural Disaster Risk*

Japan is highly vulnerable to natural disasters, particularly earthquakes and typhoons. Such disasters can damage broad areas of Japan, triggering massive losses from simultaneous claims payments on many policies. The Company takes various measures to lessen the impact of natural disasters on its business. These include maintaining an extraordinary underwriting reserve and utilizing appropriate reinsurance.

#### *Massive Risk*

For policies with large potential payouts, the Company keeps claims loss exposure per event below a certain level by arranging the proper reinsurance where necessary.

#### *Reinsurance Risk*

Although the Company uses reinsurance to spread its insurance liabilities, it may not always be able to obtain the payout it anticipates as the result of a reinsurance company becoming bankrupt or suffering other troubles. The Company carefully selects each reinsurance company based on credit ratings from global rating agencies and other factors.

#### *Interest Rate Prediction Risk*

The Company discounts anticipated asset gains on some of the products it sells. It may be impossible to achieve the required asset gains if actual interest rates are less than anticipated or if economic conditions deteriorate.

The Company proactively reviews policies for selling savings-type insurance and predicts interest rates in line with such factors as performance and market trends. ALM is used to minimize mismatches between assets and liabilities. This entails predicting cash flows from assets and liabilities and maintaining appropriate controls of risks and gains to achieve required returns.

### (2) Asset Management Risk

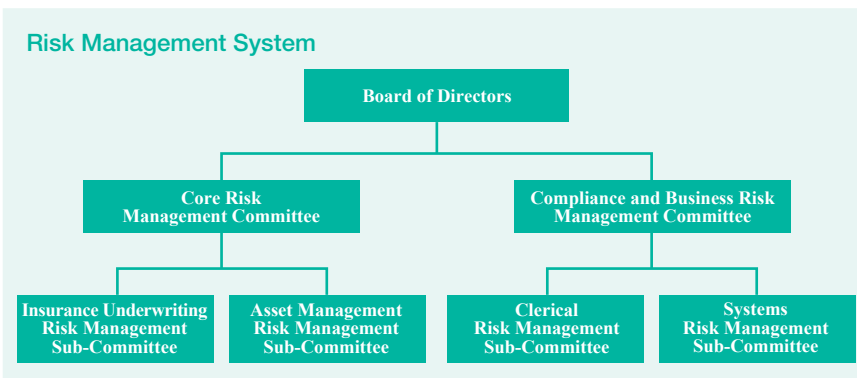
The Company classifies asset management risk into three categories: market risk, credit risk and real estate investment risk. Control of each risk is conducted in a unified manner, based on a system in which the risk management departments keep close watch on the activities of departments performing transactions.

#### *Market Risk*

Market risk refers to losses that could result from declines in asset values due to fluctuations in interest rates, marketable securities prices or exchange rates.

The Company uses the Value-at-Risk (VaR)\* method to quantify and manage portfolio risks and prevent excessive risk exposure.

\*VaR: Method of measuring the maximum possible loss of an investment portfolio over a certain time period, based on certain assumptions.



ISO/IEC 27001 certification

### ***Credit Risk***

Credit risk is the risk of losses resulting from declines in asset values due to deterioration in the financial positions of parties to which the Company provides credit.

Nissay Dowa maintains a companywide, integrated credit risk management structure in which it measures credit VaR and determines credit limits based on the credit ratings of each party to which it furnishes credit. The Company rigorously monitors credit for each transaction and conducts strict self-assessments to maintain asset health.

### ***Real Estate Investment Risk***

This is the risk of losses stemming from fluctuations in rents or declines in return from property, due to the demand and supply of tenants, or market changes that would reduce real estate values.

The Company regularly checks its real estate investments by using “alarm points” for property values and by setting minimum returns on investment.

### **(3) Liquidity Risk**

The Company may have to pay substantial claims following a massive disaster or be forced to sell assets at significantly less than normal market prices due to market turmoil or other factors.

The Company strives to ensure ample liquidity so it can pay insurance claims for earthquakes, typhoons and other major disasters.

### **(4) Clerical Risk**

Any neglect of clerical duties, mishaps or fraud involving executives, employees or solicitors could cause trouble for customers and impact the Company’s business performance.

The Company has formulated a Clerical Risk Management Policy aimed at accurately identifying and controlling clerical risk. It has allocated responsibility for each type of clerical risk, including risk associated with processing insurance agreements, to different departments and is taking steps to minimize such risks. The Clerical Risk Management Sub-Committee is in charge of managing overall clerical risk.

### **(5) Systems Risk**

Reporting directly to the Compliance and Business Risk Management Committee is the Systems Risk Management Sub-Committee, which comprehensively manages risks associated with the Company’s business systems. To address risk related to improper operation of computers, the Company has established internal rules and minimizes fraudulent use through various measures, including access right restrictions. To address risk of system failure due to earthquakes or other major natural disasters, the Company maintains a backup center and has created a structure to ensure recovery of systems following such disasters.

The Company has obtained ISO/IEC 27001:2005\* accreditation for part of the services of its main center, in an effort to maintain and improve information security.

\*ISO/IEC 27001:2005 is an information security management system (ISMS) standard recognized by the International Organization for Standardization. Its domestic version is JISQ 27001:2006.

\*An ISMS is a management system based on an organized approach to establishing, implementing, operating, monitoring, reviewing, maintaining and improving information security (ensuring the confidentiality, integrity and availability of information and information systems).