Study on resolution mechanism of Insurance Companies in Japan

This report attempts to examine the evolution of resolution of Japanese insurance companies since 1990s, the period of which 10 companies went bankruptcy. The resolution took the form of administrative procedure in the late 1990s, while it took the form of judicial procedure through the imposition of the act on Special Treatment of Corporate Reorganization Proceedings and Other Insolvency Proceedings of Financial Institutions in 2000.

According to the main principle of resolution which aims at providing continuous protection of insurance contract while allowing for a minimum loss of the technical reserves, the resolution was made through more gradual resolution methods such as transfer of insurance contract, merger and acquisition, rehabilitation proceeding rather than those through liquidation, and bankruptcy.

Japan has established rehabilitation proceeding system consistent with that for advanced countries including the United States, despite of the fact that a chain of bankruptcies of small and medium sized insurance companies and the difficulties of raising the fundings. The rehabilitation proceeding system was contrasted with that for the banks,

Korean rehabilitation proceeding system has been established based on the 1996 version of Japanes rehabilitation proceeding system. Although Korean rehabilitation proceeding system underwent a major transformation since the 1997 IMF crisis, Japanese rehabilitation system was revised in many times in 1996 and became more transparent, making the 2000 version of the act on Special Treatment mentioned above applicable to insurance companies.

Finally, this research on the evolution of Japanese resolution mechanism will be useful for the further research on Korean Deposit Insurance in Korea.