Chapter III

Trade and Investment Insurance System of Japan

International Trade and Investment Insurance System of JAPAN

A TABLE OF CONTENTS

1. **INTRODUCTION (Outline of Trade and Investment Insurance System)**

(1) Brief History of EID/MITI's Insurance System

1950 Establishment of *General Export Insurance System* to cover the losses by exporters due principally to preshipment risks
The Export Credit Insurance Law and the Export Credit Insurance Special Account Law were enacted.

1951 Establishment of *Export Proceeds Insurance System* to cover the losses suffered by exporters due to inability to reclaim export payment.

1953 Establishment of *Export Bill Insurance System* for losses in case where the cargo exchange bills can not be paid along with bill maturity.
The Export Credit Insurance Law was renamed as the Export Insurance Law.

1956 Establishment of *Overseas Investment Principal Insurance System* for risks along with acquisition of stock or other shares overseas.

1957 Establishment of *Overseas Investment profit Insurance System* for risks along with remittance to Japan of fruits of overseas Investment.

1970 Combining Overseas Investment Principal Insurance and Overseas Investment profit Insurance to *Overseas Investment Insurance and* expanding coverage to wider range of Investment such as long term loans and property rights.

1974 Establishment of *Exchange risk Insurance System* for exchange risks such as long term deferred export proceeds.

1977 Establishment of *Export Bond Insurance System* for losses incurred due to demand from overseas orderer for unfair calling of bonds.

1981 Expansion of General Export Insurance, Technical and Other services and Supply Contract Insurance were introduced.

1987 Establishment of *Prepayment Import Insurance System* for losses related to the prepaid amount of imports and also expansion of Export Proceeds Insurance, Intermediary Trade Insurance System were introduced. The Export Insurance Law was renamed as *the Trade and Investment Insurance Law.*

1991 Establishment of *Short-term Comprehensive Insurance* for losses covering risks-both inability to export and collect of the export proceeds for individual exporters who made supplementary agreement with EID/MITI.

1993 Combining General Export Insurance, Export Proceeds Insurance and Intermediary Trade Insurance and integrating into a single insurance policy as a General Trade Insurance

1993 Establishment of *Overseas Untied Loan Insurance System* for losses due to the uncollectible long-term loans.

(2) Institutional Framework and organization Set Up

(1) Law Scheme of EID/MITI's insurance System

The International Trade and Investment Insurance system is operated by following statutes with the Trade and Investment Insurance Law as its organic act.

(a) Trade and Investment Insurance Law (Law No. 67 for 1950)

This Law is a fundamental part for the trade insurance system and stipulates the purpose, definition, the type of trade and investment insurance, the premium rate and contract limitation.

(b) Trade and Investment Insurance Law Enforcement Ordinance

(Cabinet Ordinance No. 141 for July 1953)

This ordinance prescribes the type of cargo, the basic premium rate, and the percentage of indemnity.

(c) Insurance Policy Clause

This policy Clause describes the terms and condition of contract such as the scope of indemnity and amount of loss etc. in each type of insurance.

(d) Supplementary Agreement

Under the comprehensive Insurance scheme, EID/MITI made special agreement with export association on behalf of individual exporters. This agreement describes the details of Insurance contract.

(e) Rules for Underwriting

This rules are very important as it prescribes our cover policy for each country in detail such as Total Commitments Limit, Insured Percentage, Usance Period (of payment), and Requiring ILC(irrevocable letter of credit)

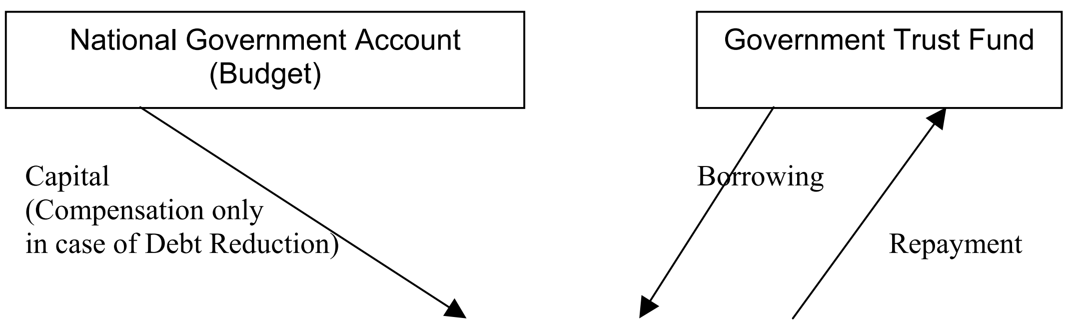
(f) The Trade and Investment Insurance Special Account Law (Law No.68 for 1950)

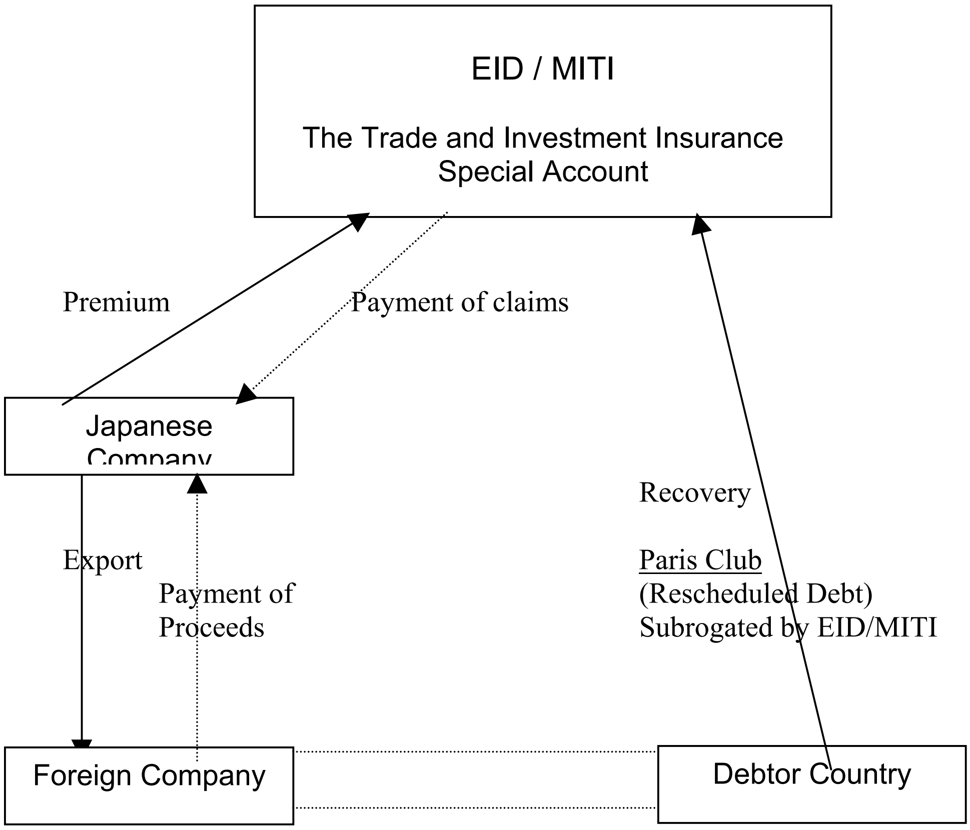
The International Trade Insurance system is operated by a special account premised on self-paying basis (principal of balancing income and expenditure) and this law stipulates the accounting procedures.

(g)The Trade and Investment Insurance Special Account Law Enforcement Ordinance (Cabinet Ordinance No. 205 for June 1950)

The Ordinance prescribes the method of profit and loss account in the special account and the like.

(2) Structure of The International Trade and Investment Insurance Special Account





(3) Organizations

The Export, Import and Investment Insurance Department of Ministry of International Trade and Industry (EID/MITI) is a authority which carries out establishing and amending the insurance system, making decisions on policies concerning the operation of insurance and underwriting policies for individual countries, and conducting negotiations on rescheduling. And simultaneously, EID/MITI is the underwriting organization in Japan actually engaged in insuring export credit and outward investment and in underwriting political risks in a significant way in such transactions. EID/MM is a real underwriter, which is issuing policies, collecting premium, giving limits and paying claims.
Japan Trade and Investment Insurance Organization (JTIO) is entrusted a part of work which relates to EID/MITI's insurance business activities.

Export, Import and Investment Insurance Department

Ministry of International Trade and Industry

Ministry of International Trade and Industry

International Trade Administration Bureau

Trade Insurance Division	Overall coordination of each division of trade and investment insurance Accounting for a trade and investment insurance special account
Executive Director of Debt Relations and Underwriting Policy	Coordination of debt relations with foreign countries and other related activities
International Affairs and Country Policy Office	Analysis of country risk Collecting and exchanging information with overseas institutions
Policy Planning Office	Planning of various measures for trade and investment insurance
Short Term Insurance Office	Evaluation and underwriting of short-term insurance, credit supervision, appraisals and recoveries relating to commercial risk
Claims and Recoveries Office	Credit control, appraisals and recoveries relating to political risk
Information Systems Office	Use and development of computer system
Long Term Investment Insurance Division	Evaluation and underwriting of long-term insurance with a policy period of two years or more
Overseas Investment Insurance Office	Evaluation and underwriting of Overseas investment insurance and Overseas Untied Loan Insurance
Project Finance Office	Evaluation and underwriting of transactions relating to project financing
Paris Office	
New York Office	

2. Types, Features of EID/MITI's Insurance System

(1) The insurance system is generally operated based on seven types of insurance policies

1. **General Trade Insurance**

   Combination of General Export Insurance, Export Proceeds Insurance and Intermediary Trade Insurance - initiated in 1992

   [General Trade Insurance System]

   General Trade Insurance
   - Specific (Individual) Insurance
   - Comprehensive Insurance (Blanket coverage)
     - ♦ For individual commodities and associations:
       - Facilities and Equipment
         - (Machinery, Electric cable, Automobile, Rolling stock, Ships)
       - Consumable goods
         - (Steel, Chemicals, Textile)
     - ♦ For individual firms:
       - General short-term insurance
       - Technical cooperation
       - Loan contracts

2. **Exchange Risk Insurance**

3. **Export Bill Insurance**

4. **Export Bond Insurance**

5. **Prepayment Import Insurance**

6. **Overseas Investment Insurance**

7. Overseas United Loan Insurance

(2) Reason for Indemnity Under General Trade insurance

Politica1 Risk

(a) Imposition of restrictions or prohibition of foreign exchange transaction in a foreign country.

(b) Imposition of restriction or prohibition of imports by the country of destination

(c) Interruption of foreign exchange transactions due to war, revolution, or civil unrest in a foreign country.

(d) Inability to export goods to the country of destination due to war, revolution or civil unrest in that country.

(e) Interruption of transportation to the country of destination due to occurrences arising outside of Japan.

(f) Debt rescheduling agreement between the governments concerned or delay of foreign currency remittance which is imputed to the paying country.

(g) Any other occurrences arising outside of Japan which cannot be imputed to the relevant party to the export contract etc..

(h) Imposition of export restrictions or prohibition based on the Foreign Exchange and External Trade Control Law. (only Pre-shipment risk)

Commercial Risk

(i) In cases where the other party to the export contract, etc. a foreign government, foreign local government entity or similar body, the unilateral cancellation of the relevant export contract, etc. by the relevant other party or the cancellation of the relevant export contract, etc. by the insured due to the excessive requests from the other party. (only pre-shipment risk)

(j) Bankruptcy of the other party to the export contract, etc. or loan contract, etc.

(k) Any reason similar to the bankruptcy of the other party to the export contract, etc. (only pre-shipment risk)

(l) Delay of six (6) months or more in the performance of obligations by the other party to the export contract, etc. or loan contract Only post-shipment)

EID/MITI treat cases that fall in compensation conditions of (a) to (h) of the policy as **Political Risks**, Which cannot be imputed to the relevant party to the export contract etc., or loan contract- while cases that fall in compensation conditions of (i) to (l) are treated as **Commercial Risks**, treated as risks whose cause the party to the export contract etc., shall be held accountable for.

The relationship of the risks to be indemnified and reason for indemnity is as follows;

- Inability to export (pre-shipment)

  Condition (a) to (h) [Political Risks]

  Condition (i) to (1) [Commercial Risks]

- Inability to Collect (post-shipment)

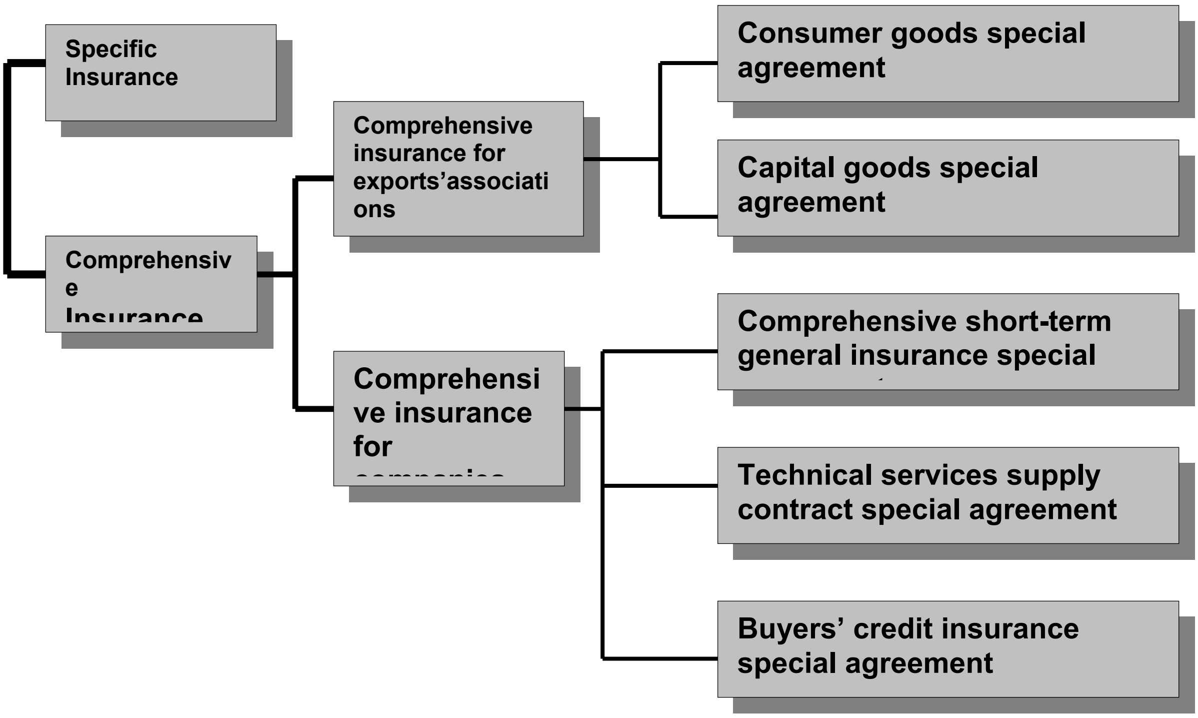
  Condition (a) to (g) [Political Risks]

  Condition (j) to (l) [Commercial Risks]

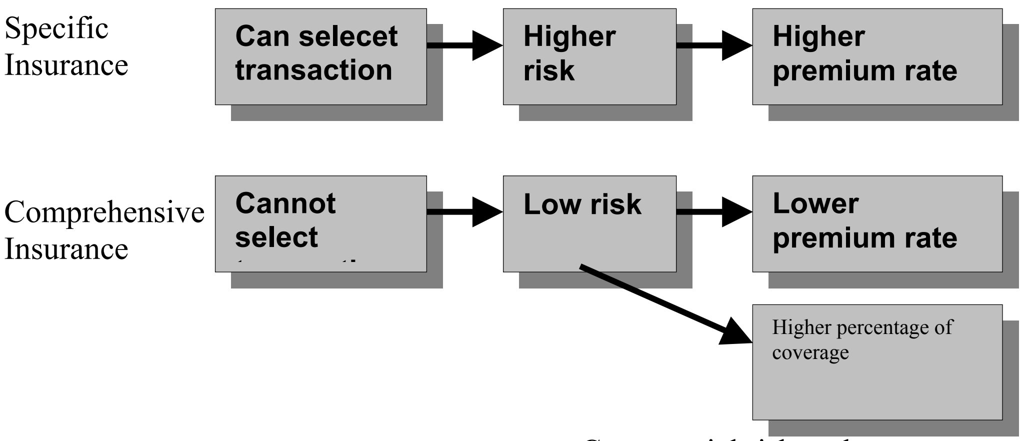
Specific Insurance and Comprehensive Insurance

Specific Insurance---Persons who intend to apply for insurance coverage select transaction for insurance and apply.

Comprehensive Insurance---Persons who intend to apply for insurance coverage apply in respect to all export contracts to be signed within a certain period of time



Advantage of Comprehensive Insurance



Commercial risk under General Trade Insurance (Pre-shipment), Export Bond Insurance ---% higher

Exporters' Associations and Goods Covered

by Comprehensive Insurance for Capital Goods

Name of Association	Special agreement goods	Lower limit of export contract value
Japan Machinery Export's Association	Plant machinery, electric machinery	¥25 million or more
Japan Rolling Stock Exporter's Association	Rolling stock	¥10 million or more
Japan Ship Exporter's Association	New or remodeled ships	¥50 million or more
Japan Electric Wire and Cable Exporter's Association	Electric wire and Cable	¥10 million or more
Japan Automobile Manufactures Association, Inc	Automobiles	

Insured Amount of Comprehensive Insurance for Capital Goods

Classification	**Pre-shipment**	**Post-shipment**
Political risk	80% of export proceeds (FOB)	97.5% of export proceeds (90 %) for intermediary trade)
Commercial risk	80% of export proceeds (FOB)	90% of export proceeds (80% for intermediary trades)

Exporter' Association and Goods Covered

by Comprehensive Insurance for Consumer Goods

Name	Special agreement goods	Lower limit of export contract value
Japan Cotton Textile Exporter's Association	Cotton yarn and fabrics	¥150,000 or more
Japan Silk and Synthetic Textile Exporter's Association	Silk fabrics, synthetic cloth	¥150,000 or more
Japan Woolen and Linen Textiles Exporter's Association	Wool and hemp products	¥150,000 or more
Japan Textile Products Exporter's Association	Textile produces	¥150,000 or more
Japan Iron and Steel Exporter's Association	Iron and steel	------
Japan Galvanized Iron Sheet Exporter's Association	Galvanized iron and steel sheet	------
Japan Wire Products Exporter's	Steel wire products	------

Association		
Japan Chemical Exporter's Association	Chemical Products	US$ 10,000 or more

Insured Amount of Comprehensive Insurance for Consumer Goods

Name of Association	Pre-shipment	Post-shipment
	Political risk Commercial	Political risk
Japan Cotton Textile Exporters Association	30% of export prceeds	30% of export proceeds
Japan Silk and Synthetic Textile Exporter's		
Japan woolen and Linen Textiles Exporter's Association		
Japan Textile Produce Exporter's Association	30%, 40% or 60% of export proceeds	30%, 40% or 60% of export proceeds
Japan Iron and Steel Exporter's Association	30% of export proceeds	30% of exports proceeds
Japan Galvanized Iron Sheet Exporter's Association		
Japan Wire Products Exporter's Association		
Japan Special Steel Exporter's Association	40% of exports proceeds	40% of export proceeds
Japan Chemical Exporter's Association	30% of exports proceeds	30% of exports proceeds

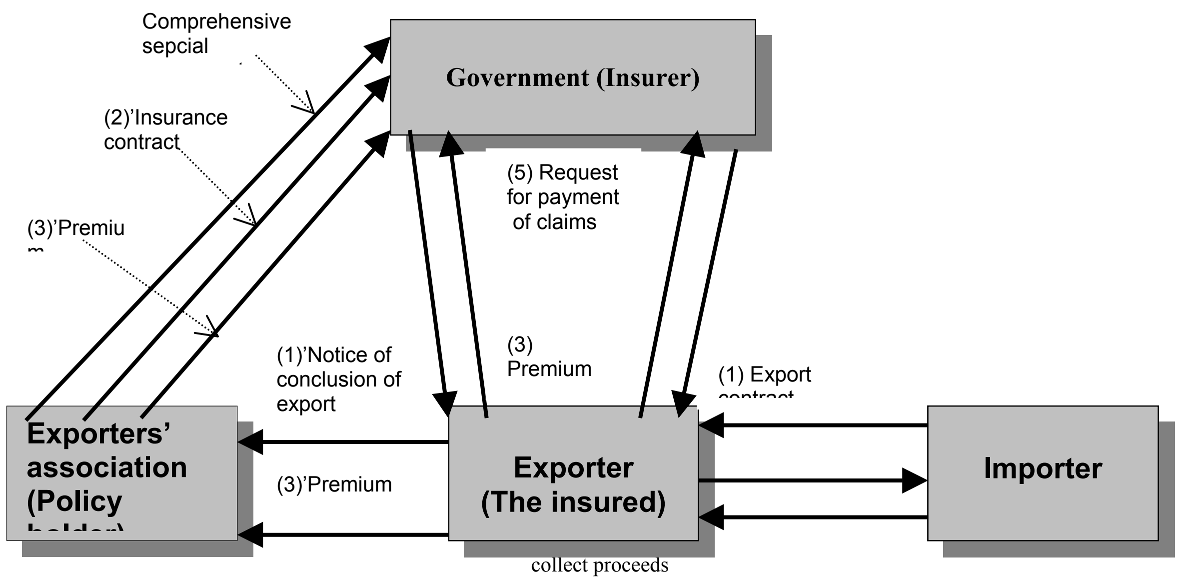
Parties Concerned with Insurance Contract

Insurer--------Parties who assume obligations to pay insurance claims when an insured occurs. For Trade Insurance, the insurer is the government.

The insured ----Parties who incur losses and hold insurable benefits when an insured risk occurs. For Trade Insurance, the insured is an exporter

Policy holder---Parties who sign an insurance contract and assume to pay premiums

For Comprehensive Insurance for an exporters' association, the policy holder is not the insured but an exporters' association and the insured is an exporter.


Comprehensive
sepcial
Government (Insurer)
(2)'Insurance
contract
(5) Request
for payment
of claims
(3)'Premiu
(1)'Notice of
conclusion of
export
(3)
Premium
(1) Export
Exporters'
association
(Policy
Exporter
(The insured)
Importer
(3)'Premium
collect proceeds

Premium Rates for general Trade Insurance

1.Basic Premium Rates (Unite %)

Classification	Transactions covered	Pre-shipment		Post-shipment	
		Political risk	Commercial risk	Political risk	Commercia l risk
Special Insurance	Export contract	0.208	0.043	0.253	0.033
	Technical service supply or loan contract	------	-----		
	Intermediary trade contract	------	------	0.316	0.033
Comprehensive Insurance	Comprehensive insurance for consumer goods	0.029	0.010	0.042	
	Comprehensive insurance for consumer goods	0.059	0.021	0.038	0.008
	Short-term general insurance				
	Technical service supply contract	------	------		
	Buyers' credit insurance				
	Intermediary trade contract	------	------	0.048	0.008

2. Calculation Method for Premiums

Premiums = Insured amount for political risk x Premium Grade of political risk x Premium grade by country + Insured amount commercial risk x Premium Rate for commercial risk.

Premium Rate by Country

Discount or extra premium rates are applied according to the degree of risk.

Rate classification and rate applied for each country.

(1) Specific General Trade Insurance (political risk)--- 8 grade from 0.5 to 5.0

(2) Comprehensive General Trade Insurance (political risk) --- 8 grades from 0.5 to 0.8

(3) Export bill insurance---9 grades from 1.0---3.0

(4) Prepayment Import Insurance---5 grades from 0.8 to 2.0

Grade \ Type of Insurance		Specific General Trade Insurance	Comprehensive General trade Insurance	Export bill Insurance	Prepayment import Insurance
Lower risk	A	0.5	0.5	1.0	0.8
	B	1.0	1.0	1.2	1.0
	C	1.5	2.0	1.4	1.3
	D	2.0	3.0	1.6	1.6
	E	2.5	3.8	1.8	2.0
	F	3.0	4.5	2.0	
	G	4.0	6.0	2.2	
	H	5.0	8.0	2.5	
Higher risk	I			3.0	

Example of Premium Calculation

Date of export contract: December 5, 1996 (TTB¥11.65/US$)

Export contract amount: CIF US $ 1,500,000.00 (FOB US $ 1,495,000.00)

Payment term s: DP$% days after BL date

Date of Shipment: March 15, 1997

Rating of buyer: Grade EA

Importing country/paying country: Grade D

- General trade insurance (Specific)

	Insured Value	Insured Percentage	Premium Rate	Multiplication Ration by Country	Premium Amount
Pre Shipment-Country Risk	¥166,916,750	95.0%	0.208%	2.0	¥ 659,654
Commercial Risk	¥166,916,750	60.0%	0.043%	1.0	¥ 43,064
Post Shipment-Political Risk	¥167,475,000	97.5%	0.253%	2.0	¥ 826,237
Commercial Risk	¥167,475,000	90.0	0.033	1.0	¥ 49,740
Total					¥ 1,578,695

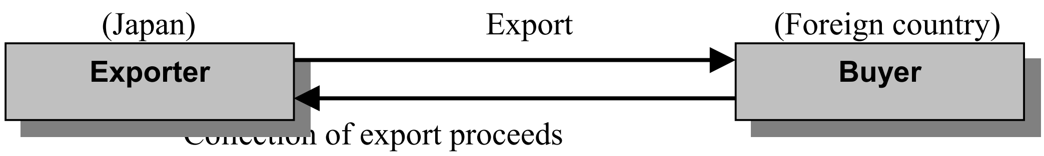
♦ Short-term Comprehensive Insurance

Comprehensive Insurance for capital goods

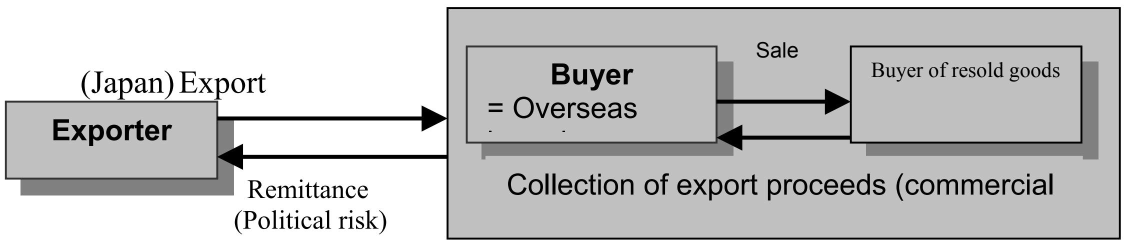
	Insured Value	Insured Percentage	Premium Rate	Multiplication Ratio by country	Premium Amount
Pre shipment-Country Risk	¥166,916,750	80.0%	0.059%	3.0%	¥ 236,354
Commercial risk	¥166,916,750	80.0%	0.021%	1.0%	¥ 28,042
Post Shipment-Political Risk	¥167,475,000	97.5%	0.071%	3.0%	¥ 347,803
Commercial Risk	¥167,475,000	90.0%	0.015%	1.0%	¥ 22,609
Total					¥ 634,808

Transactions Covered by Short-term General Insurance

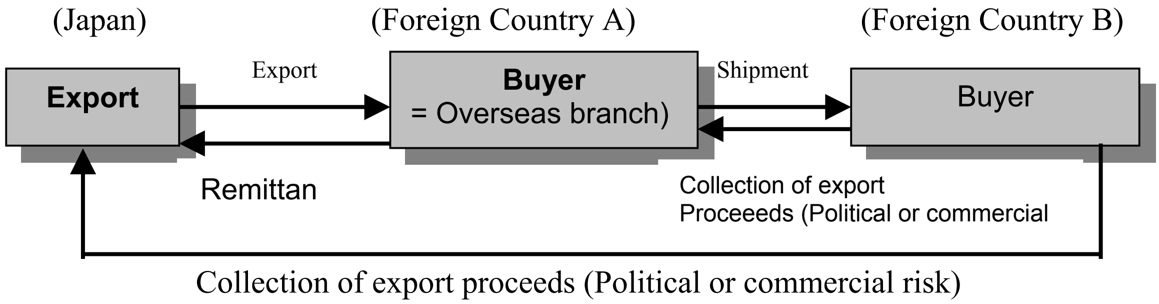
(1) Export contract



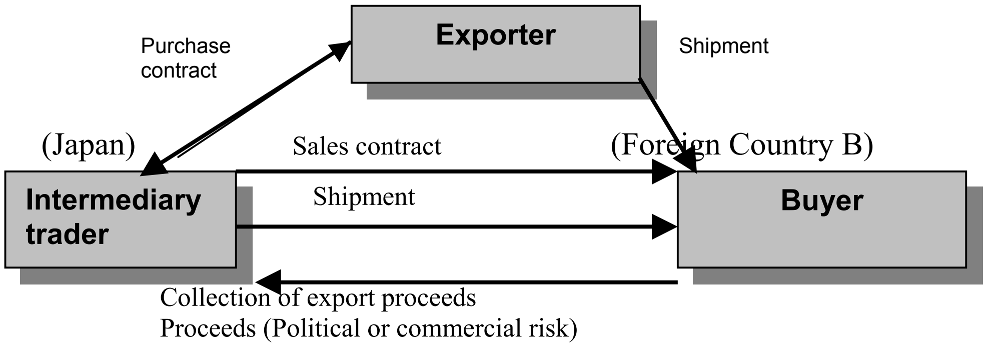
(2) Resale contract



(3) Entrepot (Transit) trade contract



(4) Intermediary trade contract

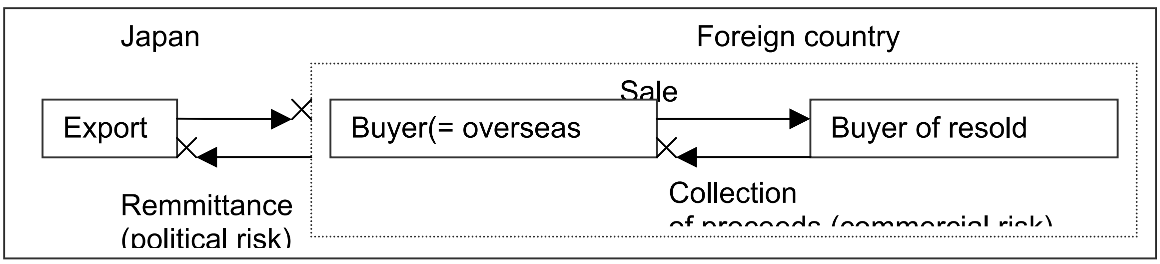


Options of Short-term Comprehensive Insurance

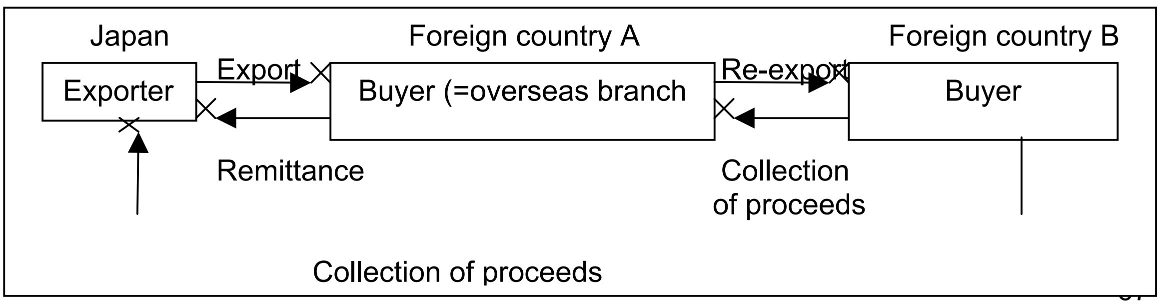
I. Contracts subject of insurance

1. 100% intermediary trade contract (without Japanese goods)
2. Resale contract and re-export contract

Resale contract



Re-export contract



II. EM/EF rating buyer's commercial risk after shipment

(Insurable usance) Six months or one year

III. Result rating

1. Discount of premium by insurance records: Discount of comprehensive rate or insured amount

2.Discount/surcharge by loss rate: Holder of a special agreement or divisions of holder

IV. Special agreement--------------One special agreement for all the export contracts

-----Independent Division

-----Specific merchandise

Premium Rates for Short-term General Insurance

1 Basic Premium Rates

Type of contract	Type of risk	Pre-shipment	Post-shipment
Export	Political	0.059%	0.038%
	Commercial	0.021%	0.008%

2.Calculation Method for Premium

Premium to be paid = Insured amount for political risk × Premium rate × Premium grade by Country
(Political)
Pre-shipment

+ Insured amount for commercial risk × Premium rate × Premium grade by country
Post-shipment (Commercial risk)

+ Insured amount for political risk × Premium rate × Premium grade by country
Pre-shipment (Political risk)

+Insured amount for commercial risk × Premium rate × Premium grade by country
Post-shipment (Commercial risk)

+ Discount or extra premium rate

Example for Calculating Premiums of Short-term General Insurance ---(I)

1. Precondition

(1) Export contract

Importing country	Date of contract	Scheduled date of shipment	Contract amount	Payment method
Political risk Premium grade By country ---0.5	January 10, 1994	March 1,1994	US$5000,000	D/A 90 days after B/L

(2) Date of insurance contract: January 11, 1994

(3) Insurance Period : 50 days form the date of the insurance contract to the scheduled date of shipment and 90 days from the scheduled date of shipment to the Payment date for export proceeds

(4) Buyer's Rating: EA rating in the foreign buyers list, Premium grade by country

: for commercial risk Pre-shipment --- 1.0 (in all cases)

Post –shipment --- 1.0

(5) Exchange rate: TTB opening price on the date of the export contract ---¥ 111.45/US$

Example for Calculating Premiums of Short-term General Insurance ---(II)

2. Calculation of Premiums

(Contract Amount) (Exchange rate) (Insurable value)

US$500,000 X ¥111.45/US$ = ¥55,725,000

Preshipment

(Insured percentage) (Insured amount) (Premium rate) (Premium grade by country for political risk)

¥ 55,725,000 X 80% = ¥ 44,580,000 X 0.059% X 0.5 = ¥ 13,151 1

(Premium grade by country for commercial risk)

¥ 55,725,000 X 80% = ¥ 44,580,000 X 0.021% X 1.0 = ¥ 9,361 2

Postshipment

(Premium grade by country for political risk)

¥ 55,725,000 X 95% = ¥ 52,938,750 X 0.071% X 0.5 = ¥ 18,793 3

(Premium rate for commercial risk A) (Premium grade by country) for commercial risk)

¥55,725,000 X 90% = ¥ 50,152,500 X 0.015 X 1.0 = ¥ 7,523 4

Premium to be paid (1+2+3+4) = <u>¥ 48,828</u>

Rate Review of Short-term General Insurance

-Application of discount or extra premium rates is based on the results of the past three years (calculated using the moving average method).

-In principle, the rating moves up or down one rank every year.

However, when the rating moves up or down four ranks or more,

the rating should only be moved two ranks.

-This procedure is applied from the fourth fiscal year after the special agreement has been concluded.

Loss rate	Adjustment percentage of insurance results
0 ~ 19	-50%
20~ 39	-40%
40 ~ 59	-30%
60 ~ 79	-20%
80 ~ 97	-10%
98 ~ 102	-0%
103 ~ 110	+10%
111 ~ 120	+20%
121 ~ 140	+40%
141 ~ 160	+60%
161 ~ 180	+80%
181 ~200	+100%
201 or more	+100% or more

Short-term Transaction and Medium and Long-term Transaction

Short-term transaction--- Transaction in which the proceeds of an export contract are paid within two years after shipment

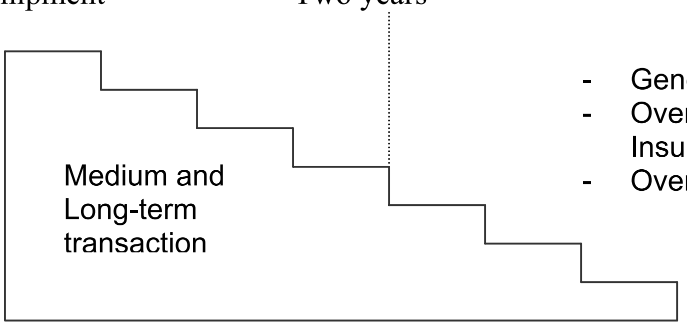
Shipment Within two years

Short-term transaction

-Specific insurance for General Trade Insurance
-Comprehensive insurance for an exports' association for General Trade Insurance
-Short-term Comprehensive insurance
-Export Bill Insurance

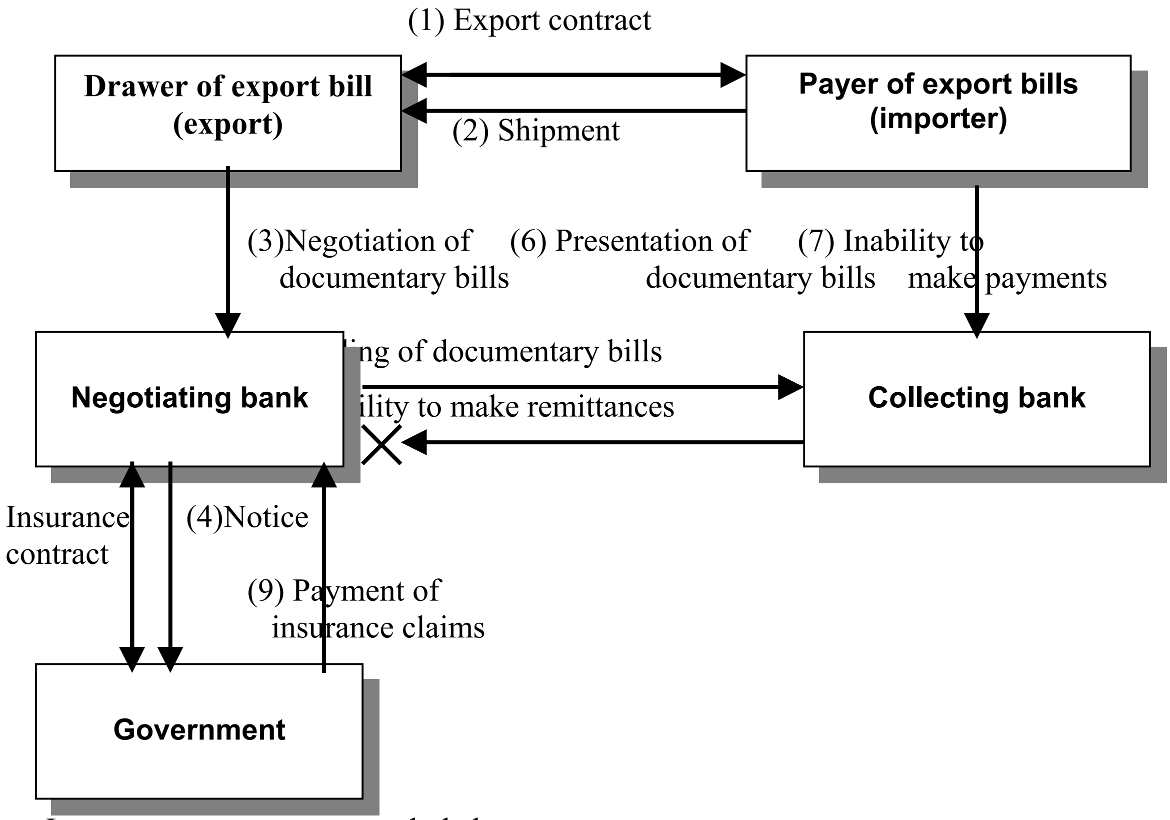
Medium and Long-term Transaction --- Transaction in which the proceeds of an export contract are paid two years or more after shipment. Such transitions should comply with the OECD guideline. Furthermore, the case below is classified as follows: when 20% or less of the proceeds is paid separately at a later date as a retention, this portion is classified as a transaction whose payment is made two years or more after shipment and the portion which is paid within two years from the first day for calculating the number of days is classified as a short-term transaction.

Shipment Two years



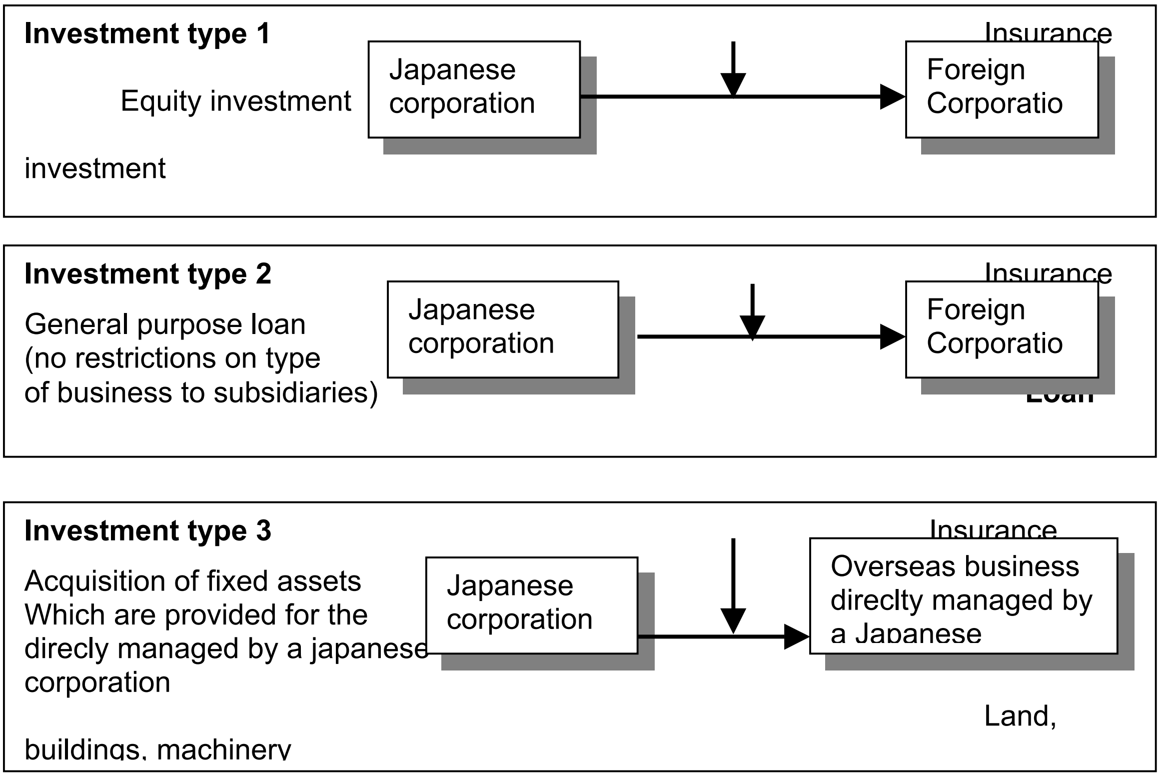
- General Trade Insurance
- Overseas Investment Insurance
- Overseas Loans Insurance

Outline of Export Bill Insurance



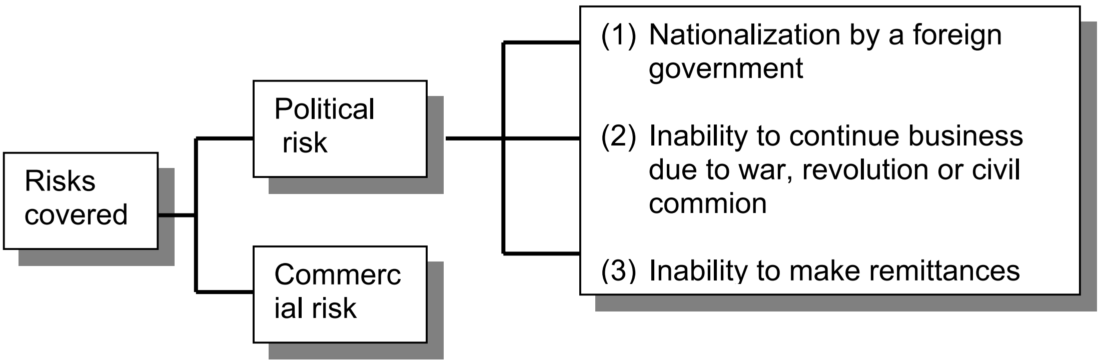
Insurance contracts are concluded at
The beginning to each fiscal year.

Overseas Investment Insurance Investments Covered

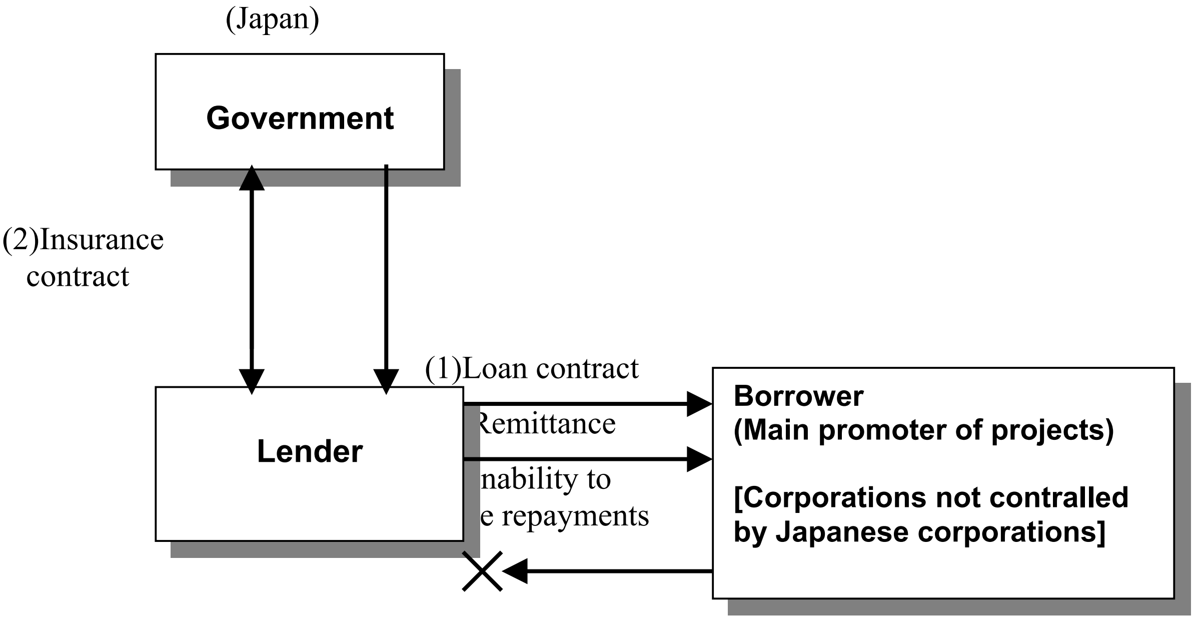


Investment type 4 Surety obligations of the investment type2.

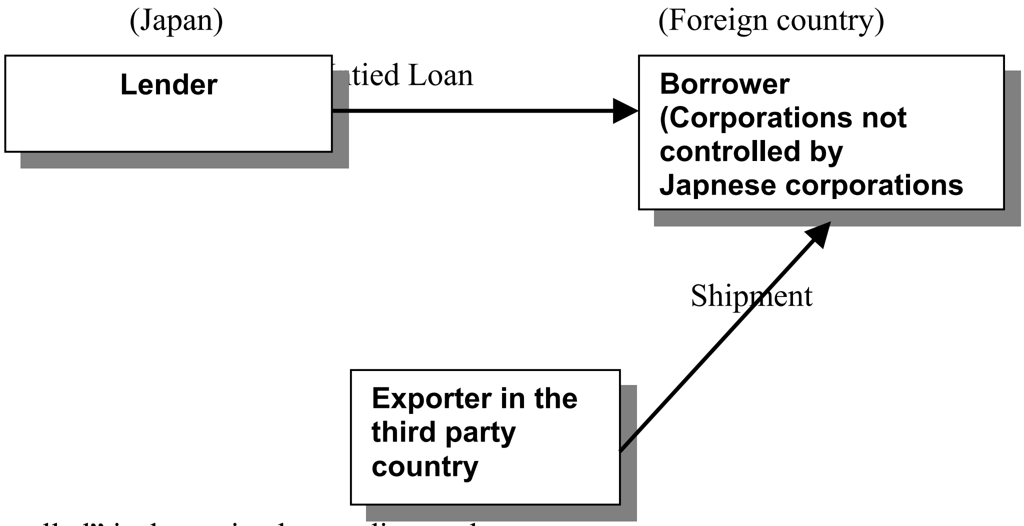
Risks Covered by Overseas Investment Insurance



Outline of Overseas Loans Insurance

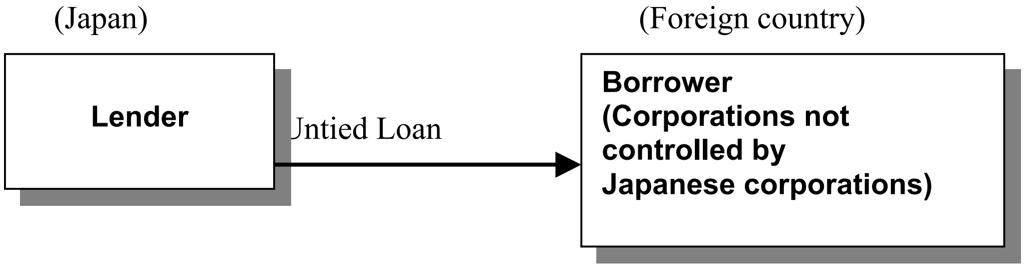


Loans Covered by Overseas Loan Insurance (1)



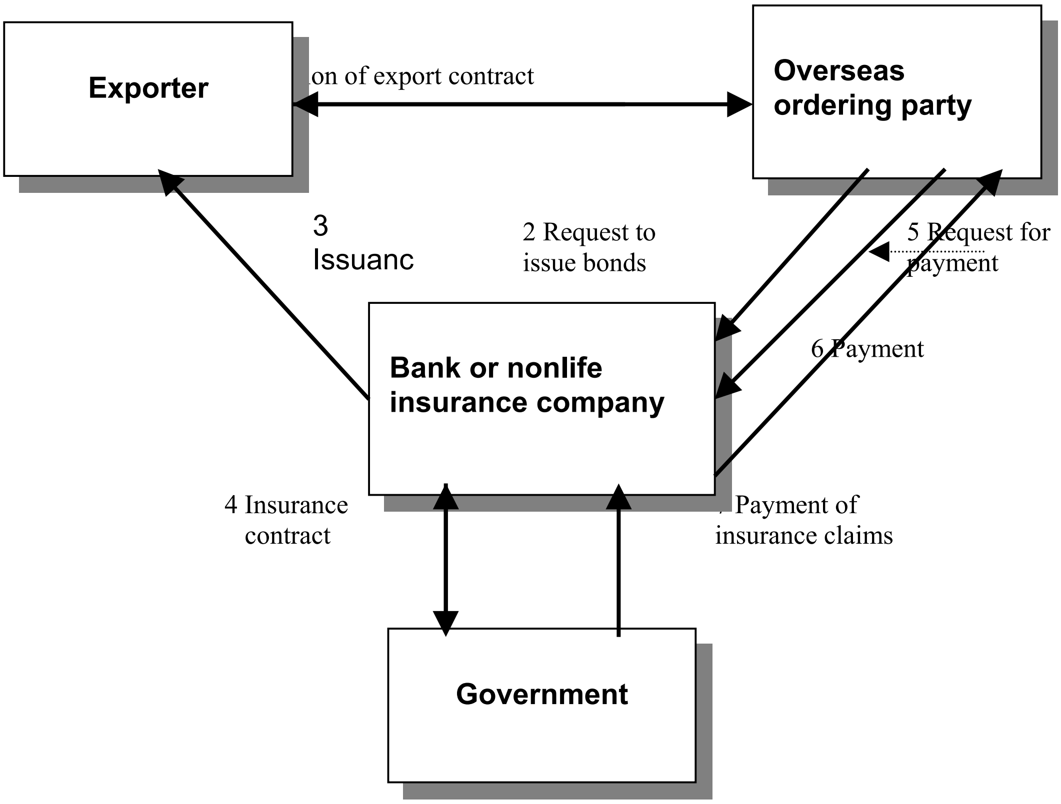
"Not controlled" is determined according to the percentage of shares held (50% or less) or the percentage of executive officers (50% or less)

Loans Covered by Overseas Loan Insurance (2)

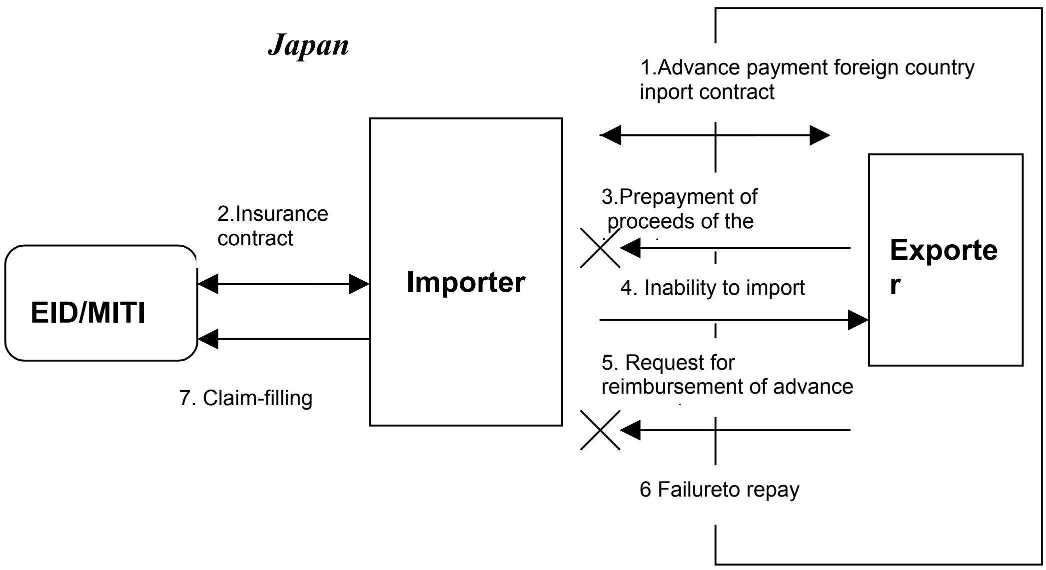


- Exports form 3rd countries
- Goods to replace imports
- Construction of infrastructure
- Refinancing

Outline of Export Bond Insurance



Outline of Prepayment Import Insurance

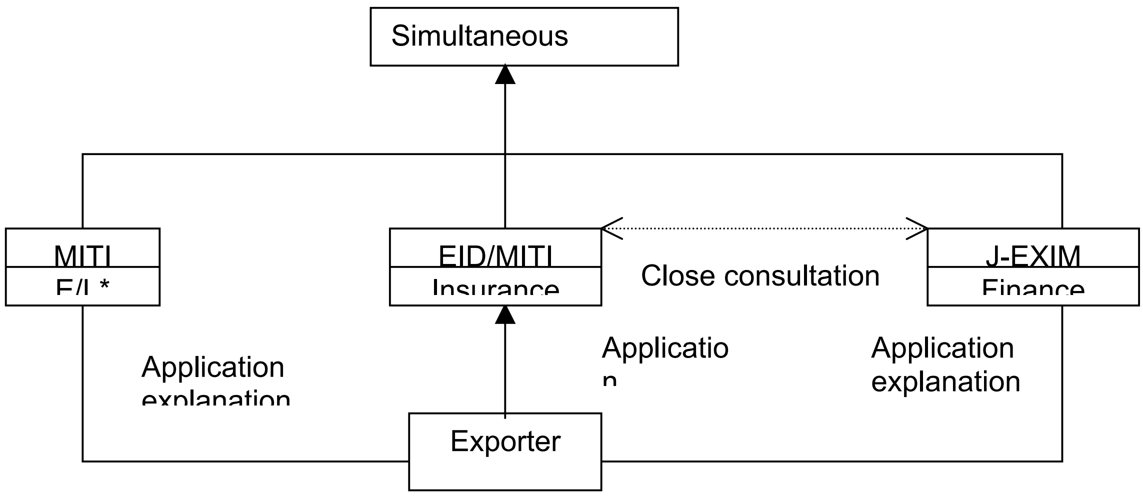

Japan
1.Advance payment foreign country inport contract
2.Insurance contract
EID/MITI
Importer
3.Prepayment of proceeds of the
Exporte r
4. Inability to import
5. Request for reimbursement of advance
7. Claim-filling
6 Failureto repay

[APPENDIX-I]

Relationship between
The Export, Import and Investment Insurance Dept.
Ministry of International Trade and Industry (EID/MITI)
And
The Export-Import Bank of Japan (J-EXIM)

1. The Export Credit Agencies (ECA) in JAPEN and Their Functions
    1) EID/MITI: export insurance and export credit policy
    2) J-EXIM : finance

2. Cooperation between the EID/MITI and the J-EXIM

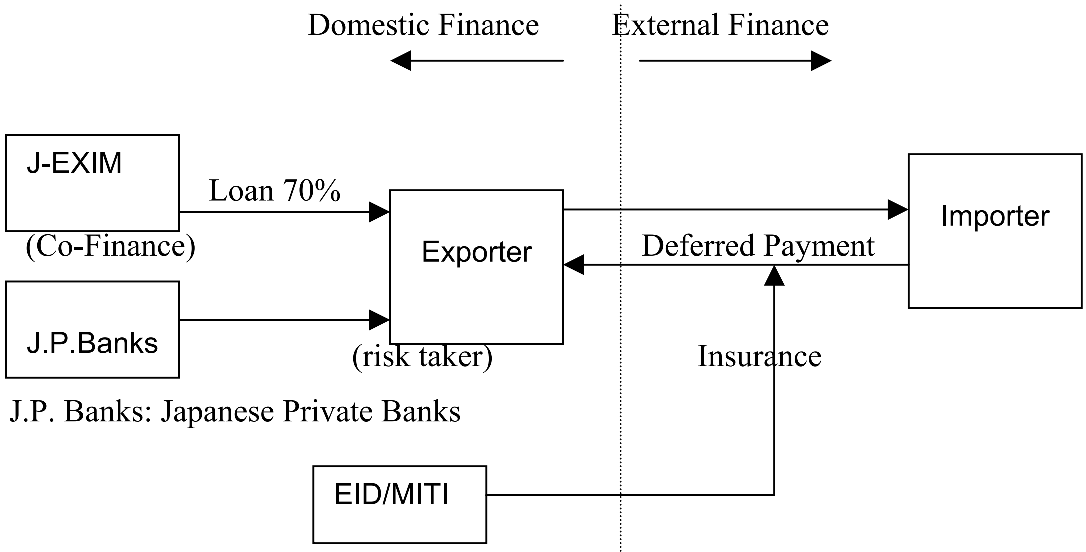


Three main policies are as follows:

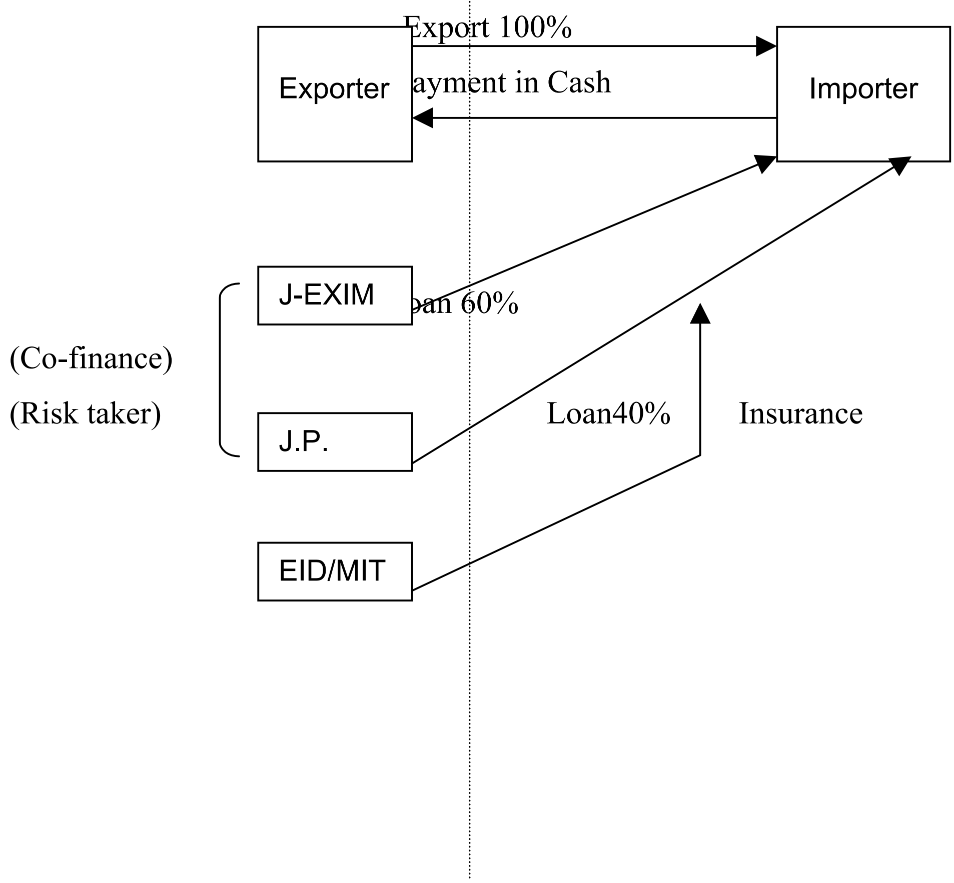
1) to provide insurance covering medium/long (more than two-year) term trade contracts.
2) to apply arrangement on guidelines for officially supported export credits of OECD
3) to provide insurance in cooperation with J-EXIM (on pure finance, no pure cover).

*E/L : Export License approved by Export Division of MITI

3. Basic Pattern of Supplier's Credit



4. Basic Pattern of Buyer's Credit



3. Development, Promotion and Marketing of Products

(1) Development of New Products

<u>1) Short -Term comprehensive Insurance</u>

This type of insurance , which provides comprehensive insurance for cooperation, was established in July 1991. This insurance covers trade contracts in which the settlement period for proceeds is less than two years and comprehensively covers political risks involving the inability to export and collect proceeds, as well as other wide-ranging commercial risks. In addition, it covers risks contingent on an intermediary Contract, Resale Contract (in the same country) and Resale Contract (Transit Trade).

<u>2) Overseas United Loan Insurance</u>

This insurance covers losses incurred by Japanese financial institutions, Trading companies or other entities through their inability to collect on loans, etc., or through their performance of surety obligations or their inability to collect amount to be acquired by exercising the right of indemnity due to political risks (inability to remit funds due to war, civil war, restrictions or prohibition of foreign exchange transactions in a country in which such loans have been extended) or commercial risks (for example, the bankruptcy of a party to whom such loans have been extended or a delay of six months or more in the performance of obligations by such party), when such financial institutions, trading companies or other entities have extended long-term loans (those which do not contribute to an increase in exports from Japan and are extended to foreign cooperation not controlled by a Japanese cooperation, foreign government of foreign nationals) for projects to benefit economic development in developing countries.

(2) Introduction of New Underwriting Scheme for Market Promotion

1) Covering for Medium an Long – Term commercial Risk without Letter
of Guarantee (NO-L/G)

In principle, EID/MITI requires the applicants for medium-and long-term commercial and political risk insurance to have a L/G issued by the government or a First-class bank.

This principle is based on a concept that L/G secures both commercial risk an political risk.
Reason for securing political risks

- Government-guaranteed Medium and Long-term transaction would be recognized without any trouble even if it is debt goes to rescheduling.
- Also, in case if war or revolution etc. in host country, we are expecting the debt to be treated by new government favorably as an official debt.

However, as developing countries undergo privatization, it becomes very difficult to obtain a government L/G. For this reason it is time for EID/MITI to consider the possibility of covering political risks as well as commercial risks without government L/G. Then we have to prepare several basic components inside EID/MITI for covering commercial risks, as a checking body, for risk assessment of each buyer in detail, and rating system for commercial risk accordingly with the credit worthiness of buyer.

Therefore, we can not cover commercial risks without L/G instantly under the present circumstances.

We intend to make an effort to accumulate our experience and know how concerning commercial risk. So we are going to cover only reliable cases. We have started to cover with this system since last year.

2) Exchange Rate Compensation System

EID/MITI introduced new compensation system for the Exchange Risk in the Export Proceeds Insurance.

For the Export Proceeds Insurance, which covers the risk of uncollectable export proceeds, EID/MITI has been using yen exchange rate based at the time of the contract.

However, in developing countries, due to their rapid growing economies, the lack of proper infrastructures are a serious concern for the further development in these countries. Under such circumstances, the exporter or contractor used to keep their books in dollar terms, but if yen were further depreciated against US dollar from the contract time, the exporters will not be able to recover the risk in dollar terms.

To reply to this request, EID/MITI has introduced New Exchange Rate Compensation System. For the time being, we are applying this system for the medium and long term businesses mainly for the project finance case. We now can cover the fluctuation of yen up to twice the amount of the insured value at the time of the contract.

Moreover, together with the above system, we also introduced a comprehension system to cover the loses for the fluctuation of interest within some range. Now the interest portion of insurable value can be changed up to 20% of the application rate in response to the fluctuation of the market rate.

The Interrelation between Exchange Fluctuation and Trade Insurance (Insured Value = $ 100 million)

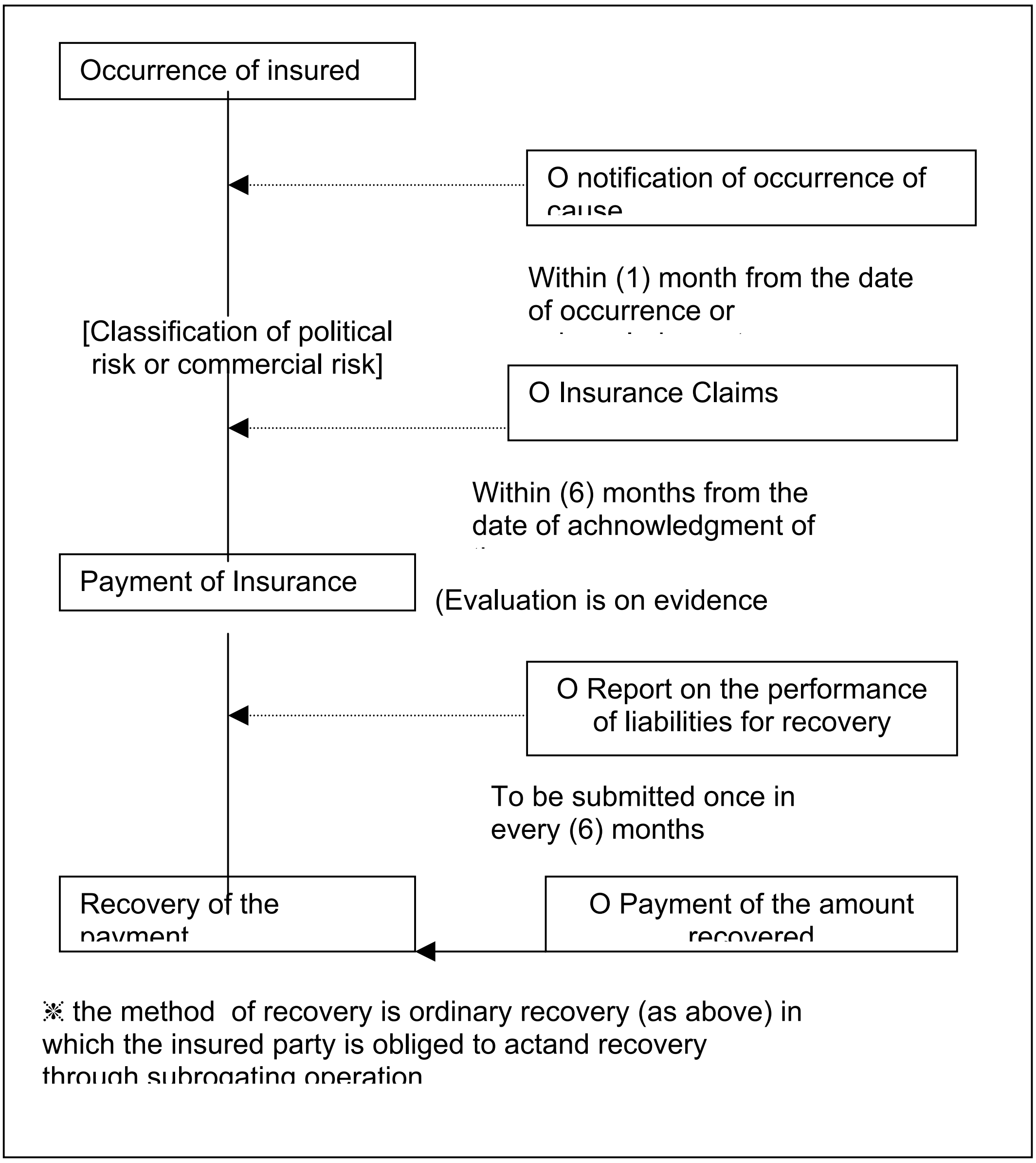
Time of the contract (1 $=¥ 100)		Occurrence time of Insured Risk / Depreciation (1 $=¥ 120)		Occurrence time of Insured Risk / Appreciation (1 $=¥ 80)	
Loss Amount		¥ 12.000 million ($ 100m)		¥ 8,000 million ($ 80)	
Claims Amount		Applied rate	Claims	Applied Rate	Claims
	Former System	1 $ = ¥ 100	$ 1 m - ¥ 100 m	1 $ = ¥ 80	$ 1 m - ¥ 80 m
	New Exchange Rate compensation System	1 $ = ¥ 120	$ 1.2 m - ¥120	1 $ = ¥ 80	$1 m - ¥ 80 m
Ratio of Coverage ※					
	Former System	83 %		100 %	
	New Exchange Rate Compensation System	100 %		100 %	

※ Ratio of Coverage = Insurance Amount / Loss Amount

4 Claim and Recovery

(1) Insurance Claim and Recovery (with Focus on Political Risks)

1) Procedures for Insurance Claim and Recovery
(an example of General Trade Insurance)



2) Obligation for Claim and Recovery

O After submission by the insured of the notification, EID/MITI will determine whether the cause of damage is due to political risk or commercial risk. In principle, such determination will be made on the basis of such occurrence of insured cause being attributable to the responsibility of the party or parties to the export contract.

In principle, the insured is to request insurance claim payment within six (6) months after the occurrence of insured cause.

The insured will be obliged to recover the loss after the insurance claim payment, keeping EID/MITI informed of the performance of his obligation, and making efforts in exercising the right of damage compensation demand.

As a consequence of such efforts, the insured will be required to make payment to the national treasury of any money recovered (general scheme of recovery).

Also, in contrast to this obligation of the insured, EID/MITI is also adopting the method of acquiring the right of credit in connection with the causes arising from the Paris Club rescheduling, making such credit a portion of remittances form the debtor country (recovery through subrogating operations).

Recovery of credits through subrogating operation amounted to 60.1 billion yen, or about 61%, of the total amount of 98.3 billion yen recovered in FY1995. On the basis of the number of claims, such recoveries accounted for approximately 13,000, or 58% of the approximately total about 22,000 cases.
O The credit to be acquired by the government is in principle all credit of the Paris Club rescheduling. Until the present, the government has made such efforts with twenty-two (22) countries.

3) Recovery through Subrogating Operation
As mentioned in (2) above, in the Japanese Trade Insurance system, the insured is obligated to expedite and recover the insured commercial debt. Regarding the Paris Club rescheduling, obviously such expediting efforts are not always proving fruitful due to the policies of the debtor country which restrict foreign exchange remittances.

The government (EID/MITI) acquires the credit of the insured when insurance claim payments are made, and conducts high level negotiations with the country's government for expediting and recovery.

Upon acquisition of credit, the insured and the government are to agree to the sharing of any amount recovered at a certain ratio, thus making credit management on individual settlement basis unnecessary and simplifying payments to national treasury.

Method for Calculating Claims Payable for General Trade Insurance

I Inability to export goods

Loss = Amount which cannont _Value of disposal _ Expenses which have _ Expected profit
Amount be collected of goods not been paid

Claim payment = Loss amount X 95% ≤ Insured amount

II Inability to collect proceeds

Loss amount = Amount which cannont be collected

$$\text{Claims payable} = \text{Loss amount} \times \frac{\text{Insured amount}}{\text{Insurable value}}$$

Method for Calculating Recovery to inability to collect export proceeds

1. When recovery is made in respect to inability to collect export proceeds

$$\left(\left(\text{Amount recovered} - (A - B\right) \times \frac{\text{Amount recovered}}{\text{Loss amount}}\right) \times \frac{\text{Claims paid}}{\text{Loss amount}}$$

2. When recovery is made through the disposal of goods which cannot be exported

$$(\text{Resale amount} - \text{Appraised amount of the goods}) \times \frac{\text{Claims paid}}{\text{Loss amount}}$$

3. When recovery is made in respect to inability to export goods

$$\text{Amount collected} \times \frac{\text{Claims paid}}{\text{Loss amount}}$$

(Note)

(2) Current Status of Insurance Claims and Recovery in JAPAN

1) Occurrences of trade insurance claims

On viewing the recent occurrences of trade insurance claims in Japan in terms of causes that can

be indemnified, the majority of insurance claims on a total claim amount basis were for political

risks, accounting for about 98%, in the amount of 211.6% billion yen out of the total amount of insurance claims in FY 1995 of 215.5 billion yen, while 890 claims, approximately 75% of total claims in term of numbers of claim cases, were for political risks.

When examined in terms of insurance types, 773 claims, or about 65% of that total number of claims, were for Export Proceeds Insurance, which accounted for 82% of political risk claims themselves, in terms of claim case numbers.

On a total insurance claim amount basis, Overseas Investment Insurance, entirely comprised of political risks, accounted for 71% of the total insurance claim amount, amounting to 153.2 billion yen, or as high as 72% of the political risk claims.

[Table: Share of Political Risk of Total Occurrence of Trade Insurance Claims]

(units: hundred million yen)

		FY 1994		FY 1995		P.RISK/ TOTAL %
		TOTAL	P.RISK	TOTAL	P.RISK	
General Export Insurance	(A)	28	4	13	8	61.5
	(B)	2	2	12	12	99.4
Export Proceeds Insurance	(A)	1428	1461	773	728	94.2
	(B)	929	919	580	554	95.5
Export Bill Insurance	(A)	181	6	221	1	0.5
	(B)	6	-	9	-	0.3
Overseas Invest. Insurance	(A)	16	16	32	32	100.0
	(B)	74	74	1532	1532	100.0
Prepayment Import insurance	(A)	0	0	2	0	0
	(B)	0	0	2	0	0
Intermediary Trade Insurance	(A)	70	65	144	121	84.0
	(B)	15	15	21	19	89.3
TOTAL	(A)	1723	1507	1185	890	75.1
	(B)	1026	101	2155	2116	98.2

(A) Number of Claims, (B) Total Amount of Claims

Although there had been a considerable decrease in the number of insurance claim cases in FT1995 over the previous year, the total amount of insurance claim payment had doubled due to drastic increase in Overseas Investment Insurance.

2) Current Status of Insurance Claim Payment

Payment of insurance claims in Japan amounted to 57.1 billion yen in FY 1995, a considerable decrease of 23.5 billion yen, or about 30%, from the 80.6 billion yen total of FY 1994. Most insurance claim payments were for political risk claim, which amounted to 56.3 billion yen, or 99% of total payments in FT 1995 and 79.5 billion yen, or 99% in FY 1994.

Regarding individual types of insurance, payment of claims under Export Proceeds Insurance accounted for 88% or total payments and payment of political risk related claims accounted for 87% of total payments.

[Table: Share of Political Risk Claims of Total Payment of Insurance Claims]

(units: hundred million yen)

		FY1994		FY1995		P.RISK/ TOTAL %
		TOTAL	P.RISK	TOTAL	P.RISK	
General Export Insurance	(A)	119	100	51	39	76.5
	(B)	2	2	3	3	92.1
Export Proceeds Insurance	(A)	647	645	1006	1003	99.7
	(B)	756	752	504	499	99.1
Export Bill Insurance	(A)	185	2	61	0	0
	(B)	7	-	2	0	0
Overseas Invest. Insurance	(A)	16	16	32	32	100.0
	(B)	29	29	54	54	100.0
Prepayment Import Insurance	(A)	1	0	2	0	0
	(B)	-	0	2	0	0
Intermediary Trade Insurance	(A)	9	6	35	26	74.3
	(B)	12	12	9	7	84.0
TOTAL	(A)	977	769	1185	1100	92.8
	(B)	806	795	571	563	98.6

(A) Number of claims, (B) Total amount of claims

As mentioned above, most insurance claim payments were for political risk claims, while the majority of current payments are due to the Paris Club rescheduling. This applies to No. 6 of Reason for Indemnity of Article 3 of the General Trade Insurance Policy.

Insurance claim payments arising form rescheduling decreased to 57.3 billion yen in FY 1994 and to 35.6 billion yen in FY 1995, whereas they represented high weight ratios of 71% and 62% of total payments in FY1994 and FY 1995, respectively. In FY1991 and FY19892, Insurance claim payments for causes other than rescheduling had high weight ratios, due to the influence of the Gulf War and the collapse of the former Soviet Union.

[Table: Trade Insurance Claim Payments in the past five years]

(in hundred million yen)

	FY1991	FY1992	FY1993	FY1994	FY1995
TOTAL PAYMENT	3,419	1,482	1,280	806	571
COMMERCIAL RISK	76	16	17	11	8
POLITICAL RISK	3,343	1,466	1,263	795	563
NON-RESCHEDULIING	2,379	948	502	233	215
RESCHEDULING	1,041	534	778	573	356

3) Collection of Claimable Assets (Recovery)

Collection of claimable assets in Japan amounted to 98.3 billion yen in FT1995, a considerable increase of 13.0 billion yen form the 85.3 billion yen in FY1994. Most collections were of political risk claims, which amounted to 97.0 billion yen, or 98% of total collections in FY1995.

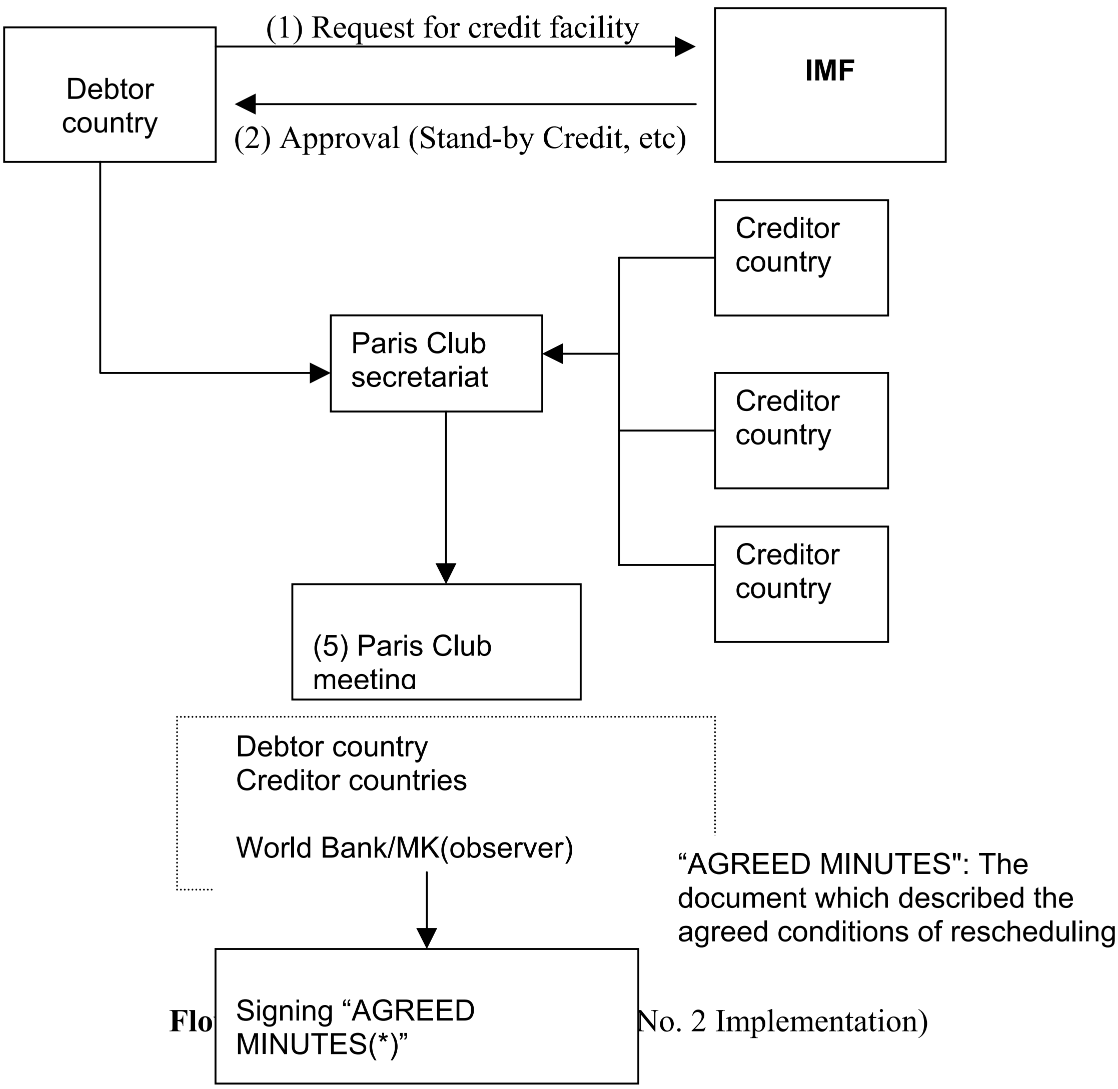
[Table: Share of Political Risk of Total Collection of Claimable Assets]

(units: hundred million yen)

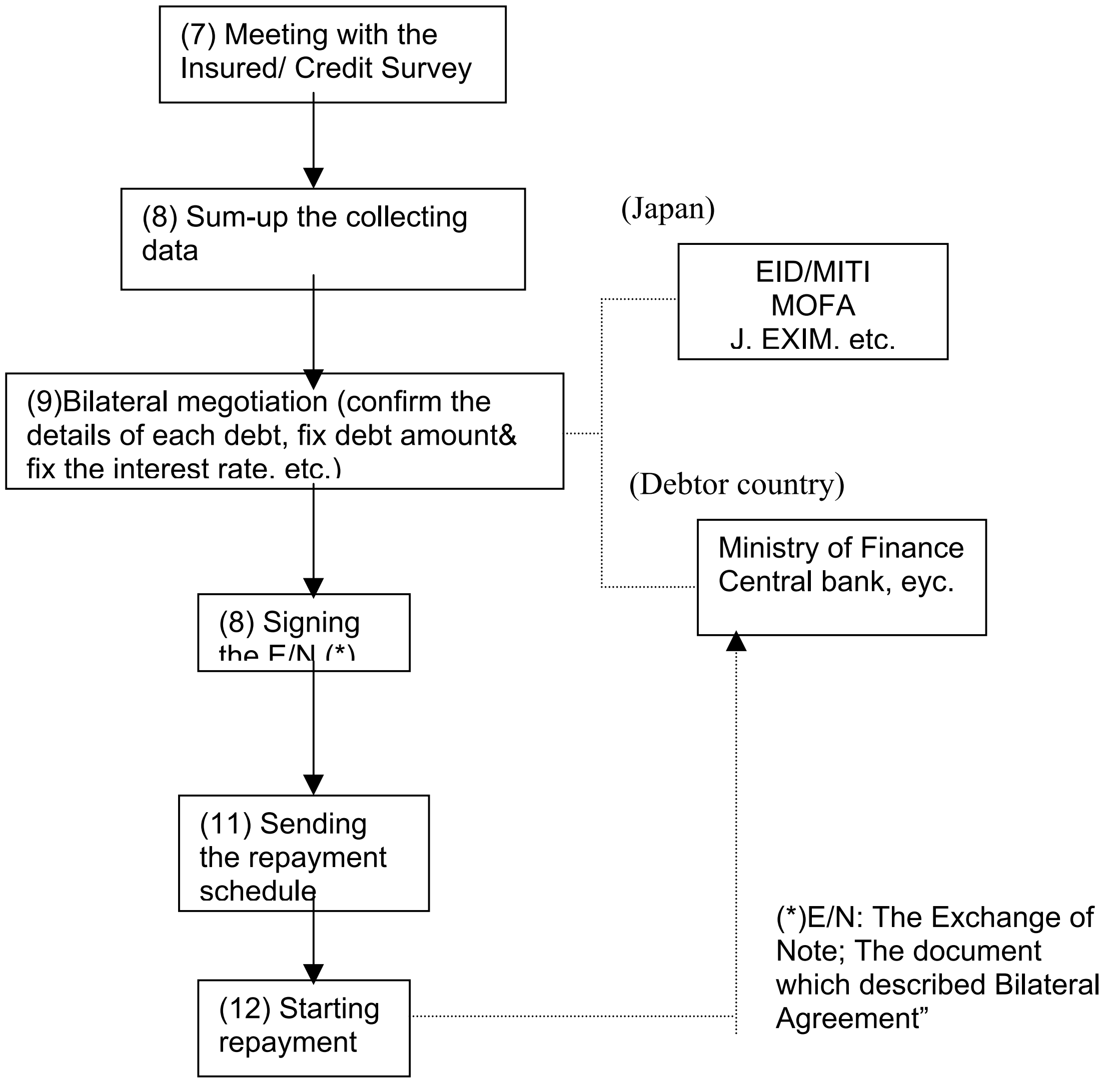
		FY1994		FT1995		P.RISK/
		TOTAL	P.RISK	TOTAL	P.RISK	TOTAL %
General Export	(A)	132	132	154	154	100.0
Insurance	(B)	2	2	-	-	100.0
Export Proceeds	(A)	13890	13872	21649	21611	99.6
Insurance	(B)	839	833	972	962	98.9
	(A)	787	416	508	176	34.6
Export Bill Insurance	(B)	12	11	7	6	75.1
Overseas Invest.	(A)	0	0	38	38	100.0
Insurance	(B)	0	0	1	1	100.0
Prepayment Import	(A)	1	0	3	0	0.0
Insurance	(B)	-	0	-	0	0.0
Intermediary Trade	(A)	4	4	34	34	100.0
Insurance	(B)	-	-	1	1	100.0
TOTAL	(A)	14616	14424	22433	22013	98.7
	(B)	853	846	983	970	98.2

(A) Number of claims (B) Total amounts of claims

Flow of Paris Club Rescheduling (No. 1 Implementation)



Flo No. 2 Implementation)


(7) Meeting with the Insured/ Credit Survey
(8) Sum-up the collecting data
(Japan)
EID/MITI
MOFA
J. EXIM. etc.
(9)Bilateral megotiation (confirm the details of each debt, fix debt amount& fix the interest rate. etc.)
(Debtor country)
Ministry of Finance
Central bank, eyc.
(8) Signing the E/N (*)
(11) Sending the repayment schedule
(12) Starting repayment
(*)E/N: The Exchange of Note; The document which described Bilateral Agreement"