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Proposed Amendments to Reinsurance Supervisory Guidelines:

A Focus on Asset-Intensive Reinsurance

Authors: Yutaro Takahashi / Kohei Matsushita / Ryu Sato

Contributing Author: Keigo Murai

Supervisors: Tomoki Debari / Tatsuhiko Makino / Huan Lee Tan (Henry)

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On April 8, 2026, the Japan Financial Services Agency (the “**JFSA**”)¹ published proposed amendments to the “*Comprehensive Guidelines for Supervision of Insurance Companies*” (the “**Proposed Amendments**”) and has invited solicited public comments, with the consultation period running until May 11, 2026. The Proposed Amendments are of particular relevance to

¹ <https://www.fsa.go.jp/news/r7/hoken/20260408/shinkyu.pdf.pdf>

overseas reinsurers seeking to develop or expand reinsurance relationships with Japanese life insurance companies, as they set out the regulatory expectations against which Japanese cedents will evaluate prospective reinsurance partners and structure their cession programs. In substance, the Proposed Amendments are designed to promote enhanced risk management at insurance companies in response to the growing use of reinsurance by Japanese life insurers - both as a means of risk transfer and to leverage reinsurers' asset management capabilities - and to clarify the JFSA's supervisory stance as embedded in existing guidelines. For overseas reinsurers, an understanding of these regulatory requirements is essential in order to anticipate the due diligence, governance, and contractual standards that Japanese cedents will be expected to apply, and to position their offerings accordingly. The effective date of the Proposed Amendments is expected to be determined following the close of the public consultation period and completion of the requisite procedural steps.

The Proposed Amendments revisit supervisory focus areas concerning reinsurance and, particularly with asset-intensive reinsurance (“AIR”) in view, introduce more specific requirements regarding assessment of ceding counterparties' financial soundness, collateral management, recapture preparedness, and governance. This newsletter examines the background to the Proposed Amendments and provides a concise overview of the key points and their practical implications.

1. Background

In the “2025 Insurance Monitoring Report” published on July 4, 2025 (the “**Insurance Monitoring Report**”)², the JFSA expressly noted that expectations regarding risk management of reinsurance transactions by life insurance companies have heightened in light of the growing volume of life reinsurance activity³. During fiscal year 2024, the JFSA conducted a survey of all life insurance companies regarding their use of reinsurance. The results of the survey confirmed that AIR is utilized to a meaningful extent in Japan, and that measured by accumulative volume, intra-group transactions account for over 70% and extra-group transactions for approximately 30% of AIR.

The Insurance Monitoring Report set forth expectations for further progress in a number of areas, including strengthening the involvement of second and third lines of defense in reinsurance transactions, collating necessary information and making informed decisions when selecting reinsurers, refining contractual terms to reflect the purpose and risks of reinsurance, strengthening periodic monitoring of reinsurers' financial soundness and liquidity risks, and establishing response frameworks for credit deterioration scenarios. The Proposed Amendments can be understood as formalizing these supervisory concerns into explicit supervisory focus areas.

It is also noteworthy that supervisory authorities have been deepening cross-border cooperation, reflecting the fact that life reinsurance transactions frequently span jurisdictional boundaries. The

² <https://www.fsa.go.jp/news/r7/hoken/20250704/02.pdf>

³ See the Insurance Monitoring Report, p. 3

JFSA held meetings with the Bermuda Monetary Authority in March 2025⁴ and February 2026⁵, exchanging views on regulatory developments and recent insurance regulatory and supervisory matters. The Insurance Monitoring Report further noted the need for enhanced cooperation with supervisory authorities in other jurisdictions, given the concentration of life reinsurance transactions with reinsurers domiciled in particular jurisdictions⁶.

2. Overview of the Amendments

The Proposed Amendments make clear that, with respect to reinsurance risk management, insurance companies must assess the risk/return profile of reinsurance in accordance with their own risk appetite, evaluate the results through control functions (i.e., functions that monitor business divisions from the perspectives of risk management, actuarial science, and compliance, together with internal audit functions) commensurate with the degree of significance [of the risk/return profile of a given reinsurance transaction, and ultimately ensure that rationality is appropriately determined through formal decision-making processes. The Proposed Amendments also require insurance companies to establish more robust governance frameworks going forward, given that reinsurance transactions often span multiple jurisdictions, contractual relationships tend to be complex, and there is a risk of excessive concentration in particular jurisdictions or reinsurers.

Regarding financial soundness, Section II-2-1-4 “Accounting Treatment” (10) provides that the permissibility of not reserving policy reserves for ceded portions should be determined comprehensively on the basis of contractual structure, economic substance, and the locus of risk transferred under the reinsurance contract rather than solely on the formal presence or absence of specific provisions. In particular, subsection (10)(i)(c) identifies as a review item whether the contract is structured such that termination or recapture of the reinsurance contract (in whole or in part) may occur at a specified time or upon a specified event at the discretion of the reinsurer. Subsection (10)(i)(d) addresses whether, for contracts such as AIR where transfer of investment risk is material, collateralization or trust-based segregation of corresponding assets is effective, including assessment of residual risk and mitigation measures where collateral falls short of policy reserves. The clear implication is that mere formal transfer of risk is insufficient; instead, substantive asset protection measures are required as a precondition for permitting non-reservation of policy reserves.

Section II-3-10-1 “Risk Management of Retention and Cession” (2) requires confirmation that the retention/cession policy includes the following elements, as appropriate to the nature of the reinsurance contract: (i) standards for the financial soundness of ceding counterparties, (ii) standards for concentration of exposures, (iii) a collateral policy, and (iv) a recapture policy.

By way of example, regarding (ii) standards for concentration of exposures, where exposures are

⁴ <https://www.fsa.go.jp/inter/etc/20250317/20250317.html>

⁵ <https://www.fsa.go.jp/inter/etc/20260225/20260225.html>

⁶ See the Insurance Monitoring Report, p. 13

concentrated in reinsurers primarily engaged in AIR, insurers should understand the reinsurer's investment approach, liquidity profile, and group characteristics, and should manage risks with due regard to potential risk amplification from increased correlations during market disruptions. For collateralized AIR, exposure calculations should take into account not only the quality and level of collateral but also the potential for deterioration in collateral value in times of market stress.

Regarding (iii) collateral policy, the Proposed Amendments require insurance companies to establish protocols for prompt implementation of response measures—such as haircut revisions and additional collateral calls—in accordance with contractual procedures when pre-defined triggers are met in the event of rapid asset price movements. For AIR in particular, insurers should evaluate liquidity and resilience to market fluctuations given that collateral assets may be long-term and illiquid, and should verify replenishment capacity and assess recoverability in crisis scenarios, noting that replenishment capacity may depend on the reinsurer's overall financial condition. Additionally, with regard to conditions for collateral withdrawal upon recapture or other contractually specified events that do not require the reinsurer's consent, insurers should establish clear notification procedures, execution processes, and timelines for collateral recovery upon trigger events. Insurers should also pay attention to the legal effectiveness of priority rights in collateral arrangements, governing law/dispute resolution clauses, and cross-border enforceability of contracts, obtaining expert opinions where necessary. Periodic monitoring of the reinsurer's liquidity indicators, funding capacity, and asset-liability structure is likewise expected.

Regarding (iv) recapture policy, particularly in the context of AIR, the Proposed Amendments require examination of whether the cedent has the right to recapture early when the reinsurer's financial condition deteriorates, and whether the cedent maintains a framework for deciding on execution based on pre-defined triggers and procedures. They also address whether measures are in place to ensure asset recovery even in the event of the reinsurer's insolvency—including bankruptcy remoteness through trust accounts or other mechanisms, and the option of modified coinsurance arrangements where appropriate—and whether restrictions on the credit quality, liquidity, and types of assets to be returned upon recapture are being considered, taking into account post-recapture management and rebalancing needs.

Section II-3-10-1(3) also expressly references conflicts of interest management in relation to AIR. Specifically, it requires that retention/cession policies include standards for managing situations in which the interests of the reinsurer or its affiliates may take precedence over policyholders' interests or financial soundness (conflicts of interest)—arising from intra-group transactions, fee structures, asset management, or other factors—including in the context of reinsurance transactions involving investment funds or other third parties (such as reinsurers with affiliated asset management companies).

The Proposed Amendments are notable for treating reinsurance transactions not merely from a credit risk or concentration risk perspective, but also from a conflicts of interest perspective arising through transaction relationships and fee structures. They are also distinctive in requiring examination not only of cession policies and reinsurer selection in the abstract, but also of the

concrete dimensions in situations of recapture—including the exercisability of recapture rights and the recoverability of collateral upon recapture. For large-scale, long-duration AIR in particular, the Proposed Amendments make clear that governance frameworks commensurate with risks are essential from the perspective of policyholder protection, including thorough analysis of the reinsurer’s soundness, asset management, and risk management, as well as impact analysis and contingency planning for recapture scenarios under financial market stress.

3. Practical Considerations

3.1. Scope and Impact

The Proposed Amendments apply formally regardless of whether the cedent is a life or non-life insurer, and regardless of the type of reinsurance involved. As the Proposed Amendments contain multiple references to AIR conducted by life insurance companies, however, they are expected to have the most significant impact on life insurers utilizing AIR.

3.2. Collateral Assets

In AIR—particularly where new business is the subject of cession—illiquid assets are frequently used as collateral. Where such assets serve as collateral, it is important to specify appropriate terms in the reinsurance treaty and (where collateral is established through a trust) the trust agreement to reflect the characteristics of those assets.

In this regard, frequently encountered practical issues include: (i) where loans are used as collateral assets, whether debtor or other third-party consent is required for their transfer, and whether the transferee is subject to financial regulatory requirements in the country or state where the loan was originated; (ii) where equity interests are used as collateral, the regulatory restrictions under the Insurance Business Act of Japan that may apply to the acquisition of such equity interests; (iii) where repack assets are used as collateral, the eligibility criteria for such assets; and (iv) where derivatives are used as collateral, the treatment of margin or collateral posted in connection with the derivative transactions themselves. In addition, although letters of credit are not a typical illiquid asset, their use as collateral necessitates agreement on appropriate special provisions to address their fixed expiration dates.

Consideration should also be given to whether UCC filings and analogous perfection procedures are required in the jurisdiction of the reinsurer’s incorporation as well as the jurisdiction in which the collateral assets are located. Given that collateral arrangements in life reinsurance typically involve multiple jurisdictions, coordination with local counsel in each relevant jurisdiction is also important.

3.3. Recapture Policy

The Proposed Amendments reference the cedent’s right to recapture early when the reinsurer’s

financial condition deteriorates. In practice, however, the mere inclusion of a recapture right in the reinsurance treaty is insufficient. To avoid disputes in the exercise of recapture rights, the reinsurance treaty and collateral-related contracts (such as trust agreements) must include specific procedures for recapture and the methodology for determining recapture amounts. Recapture rights require multi-layered considerations and careful negotiations with the reinsurer.

3.4. Internal Procedures

The Proposed Amendments contemplate the establishment of systems and procedures to implement prescribed response measures without delay when recapture triggers are met. In practice, because recapture requirements and procedures typically span multiple provisions across the reinsurance treaty and collateral agreements and tend to be complex, it is advisable to prepare detailed procedural manuals as separate internal policies—particularly with staff turnover in mind.

3.5. Governing Law

Reinsurance transactions typically involve multiple contracts, and the choice of governing law for each is a point of negotiation from the outset. In practice, it is common for the reinsurance treaty and collateral agreements (such as trust agreements) to be governed by different laws. Moreover, when considering scenarios involving the reinsurer's insolvency, attention must be paid not only to the governing law of the reinsurance treaty and collateral agreements, but also to the legal framework of the reinsurer's jurisdiction of incorporation and the location of the collateral assets. Accordingly, the provisions of the various contracts, including dispute resolution clauses, must be appropriately drafted with an understanding of the interplay among governing laws and their implications.

3.6. Related Legislation

Reinsurance transactions require sharing information about ceded policies with the reinsurer, making it essential to consider the application of Japan's Act on the Protection of Personal Information. In practice, the appropriate response is typically determined by reference to factors such as whether the cession relates to new business (flow reinsurance) or existing business (block reinsurance) and the characteristics of the ceded policies.

4. Closing Remarks

The Proposed Amendments have been published against the backdrop of expanding life reinsurance activity, issues identified through insurance monitoring, and progress in international supervisory cooperation. Through the Proposed Amendments, the JFSA is signaling more clearly than before its supervisory posture, emphasizing substantive governance encompassing the soundness of ceding counterparties, contract structure, concentration risk, and recoverability

upon recapture.

Additionally, on April 17, 2026, the JFSA has published the report of the *“Study Group on Enhancement of Corporate Risk Management,”*⁷ which notes increasing constraints in procuring non-life reinsurance and indicates that policy deliberations are underway regarding the utilization of captive insurance

⁷ <https://www.fsa.go.jp/singi/riskmanagement/houkokusyo.pdf>

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- This newsletter is published as a general service to clients and friends and does not constitute legal advice. Should you wish to receive further information or advice, please contact the author[s] as follows:

- Authors:

Yutaro Takahashi (yutaro.takahashi@amt-law.com)

Kohei Matsushita (kohei.matsushita@amt-law.com)

Ryu Sato (ryu.sato@amt-law.com)

Contributing Author: Keigo Murai (keigo.murai@amt-law.com)

Supervisors: Tomoki Debari (tomoki.debari@amt-law.com)

Tatsuhiko Makino (tatsuhiko.makino@amt-law.com)

Huan Lee Tan (Henry) (huanlee.tan@amt-law.com)

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