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## Client Alert

### Japan to Amend the Insurance Business Act: Strengthened Oversight of Large Insurance Agents and Tighter Controls on Inducements

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#### I. Introduction<sup>1</sup>

Japan's insurance industry is one of the largest globally, with life insurance companies reporting total premium income of approximately JPY 27.7 trillion in fiscal year 2023, and non-life insurance companies reporting about JPY 9.3 trillion in the same period.<sup>2</sup> This substantial market plays a critical role in the nation's economy, providing financial security and risk management solutions to individuals and businesses alike.

In response to recent industry scandals—including fraudulent claims by Bigmotor<sup>3</sup> and premium adjustment practices among major non-life insurers—the Japanese Cabinet approved a bill in March 2025 to amend the Insurance Business Act. The proposed amendments aim to restore public trust, enhance consumer protection, and promote fair competition by strengthening governance frameworks for insurance agents and insurers, and

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<sup>1</sup> This communication is provided as a service to our clients and friends and is for informational purposes only. It is not intended to create an attorney-client relationship or constitute an advertisement, a solicitation, or professional advice as to any particular situation.

<sup>2</sup> 2024 Insurance Monitoring Report by the Financial Services Agency, p.1, available at <https://www.fsa.go.jp/news/r6/hoken/20240703/20240703.html>

<sup>3</sup> The scandal here refers to a high-profile insurance fraud case involving Bigmotor Co., Ltd., one of Japan's largest used car dealers and auto repair companies. In 2023, it was reported that Bigmotor had systematically inflated repair costs and intentionally damaged vehicles in order to claim excessive insurance payouts from multiple non-life insurers. The case exposed serious deficiencies in insurers' oversight of agents and contractors, and prompted a nationwide review of governance and compliance systems within the insurance industry. The scandal was a major catalyst for the 2025 amendments to the Insurance Business Act.

by tightening rules on inducements to policyholders.

The bill has been submitted to the 217th ordinary session of the National Diet. If enacted, the amendments will come into force on a date to be specified by Cabinet Order within one year of promulgation.

## **II. Summary of Key Amendments**

### **1. Enhanced Governance Requirements for Specified Large-Scale Multi-Tied Non-Life Insurance Agents**

Insurance agencies that distribute products from multiple non-life insurers and exceed certain size thresholds—designated as “Specified Large-Scale Multi-Tied Agents”—will be subject to enhanced governance obligations.

These agents must implement a comprehensive compliance framework, including the appointment of compliance officers at each branch and a chief compliance officer at the headquarters.<sup>4</sup> They are also required to establish mechanisms for the prompt and appropriate handling of customer complaints, as well as internal whistleblowing and audit systems, with further details to be specified by Cabinet Office Ordinance.<sup>5</sup>

In cases where an agent operates a concurrent business—such as automobile repair services—they must put in place safeguards to ensure that such operations do not exert undue influence over insurance claims processing.<sup>6</sup>

### **2. Enhanced Internal Control Requirements for Insurers**

Insurers and their group companies will be required to establish appropriate governance systems to ensure robust oversight of their distribution networks. Specifically, they must safeguard customer interests by monitoring agents who operate parallel businesses—such as auto repair services—to prevent undue influence on insurance transactions.<sup>7</sup>

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<sup>4</sup> Explanatory Material by the Financial Services Agency (March 2025), p.1, available at <https://www.fsa.go.jp/common/diet/217/index.html>

<sup>5</sup> *Id.* These obligations are expected to be extended to large-scale life insurance agents as well.

<sup>6</sup> *Id.*

<sup>7</sup> Explanatory Material by the Financial Services Agency (March 2025), p.2, available at <https://www.fsa.go.jp/common/diet/217/index.html>

In addition, insurers will need to implement clear organizational separation between claims handling and sales functions, and to strengthen claims assessment processes in cases where dual-business agents pose potential risks.<sup>8</sup>

### **3. Expansion of Prohibited Inducements to Policyholders and Related Parties**

The proposed amendment expands the scope of prohibited inducements under the Insurance Business Act.<sup>9</sup> Under the current rules, insurers and their agents are prohibited from offering premium discounts, rebates, or other special benefits to policyholders or insured persons if such benefits could unduly influence the conclusion of an insurance contract.

The amendment broadens both the scope of recipients and the nature of prohibited acts. Prohibited recipients will now include individuals and entities with close ties to the policyholder or insured—such as group companies, as further specified by Cabinet Office Ordinance.<sup>10</sup> In addition, the amended provision will prohibit the provision of goods or services that, in light of generally accepted business practices, would be deemed excessive or inappropriate.<sup>11</sup>

### **4. Reform of Insurance Broker Regulation**

In parallel with stricter compliance measures, the amendment also seeks to promote fair competition by revising certain regulatory requirements applicable to insurance brokers. Specifically, the minimum security deposit required for broker registration will be reduced by Cabinet Order, thereby lowering the entry barrier for new market participants.<sup>12</sup> At the same time, transparency will be enhanced through expanded reporting obligations: Cabinet Office Ordinances will authorize the government to require brokers to report serious incidents or misconduct, including cases involving regulatory violations.<sup>13</sup>

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<sup>8</sup> *Id.*

<sup>9</sup> See, the amended Article 300, paragraph 1, item 5

<sup>10</sup> Explanatory Material by the Financial Services Agency (March 2025), p.3, available at <https://www.fsa.go.jp/common/diet/217/index.html>

<sup>11</sup> *Id.*

<sup>12</sup> Explanatory Material by the Financial Services Agency (March 2025), p.1, available at <https://www.fsa.go.jp/common/diet/217/index.html>

<sup>13</sup> *Id.*

### **III. Conclusion—Implications for Foreign Insurance Market Participants**

The proposed amendments to the Insurance Business Act represent a significant shift in Japan's regulatory approach toward the insurance sector. By strengthening governance obligations for agents and insurers, expanding prohibitions on inappropriate inducements, and revising broker regulations, the government aims to restore market integrity and protect policyholders in a more transparent and accountable environment.

For foreign insurers, intermediaries, and other market participants operating in Japan, these changes will require a careful reassessment of compliance frameworks, distribution arrangements, and internal controls—particularly where dual-service agents or affiliated entities are involved.

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