



Prudential

Reorganization procedure and issues on failed life insurance companies in Japan

April 18, 2016

The Prudential Gibraltar Financial Life Insurance Co., Ltd.

Tatsuro Nedachi, Director and Executive Officer

PGF生命

ブルデンシャル ジブラルタ ファイナンシャル生命

Prudential Financial Inc.

Foundation: October 13, 1875

Head office: Newark, New Jersey, US

Chairman and Chief Executive Officer: John R. Strangfeld

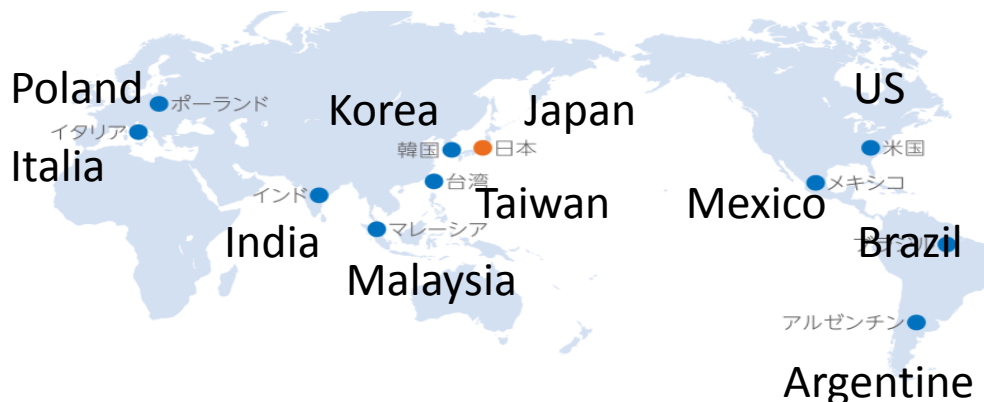
Business description: Life insurance, Annuity, Retirement-related business, Investment trust, Asset management and etc.

Total assets under management: 1,184 billion dollars (as of December 31, 2015)

In-force life insurance business: Approx. 3,500 billion dollars (as of December 31, 2015)

Total number of employees: 49,384 (as of December 31, 2015)

Countries and regions where Prudential has life insurance operations



Prudential Life Insurance (Founded in October 1987)

Agents (Life Planners) offer custom-made life insurance with consulting sales.

- Total assets 3,943.4 billion yen
- Annual premium and other income 738 billion yen

Gibraltar Life Insurance (Started operation upon completion of reorganization procedures in April 2001)

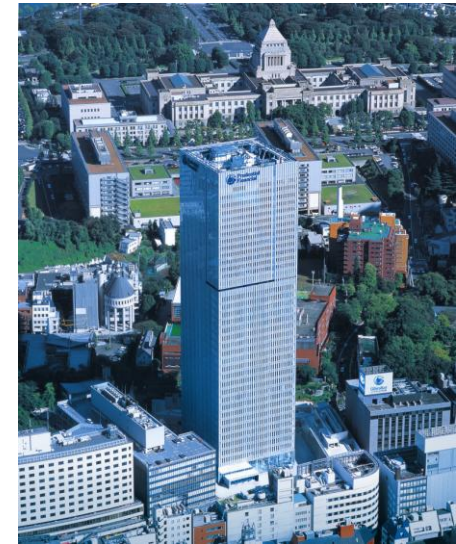
The company offers life insurance based on partnerships with associations all over Japan through agents' (Life Consultants') consulting sales and via independent agencies (excluding banks).

- Total assets 11,080.9 billion yen
- Annual premium and other income 1,366.6 billion yen

Prudential Gibraltar Financial Life Insurance (PGF Life; Started operation upon completion of reorganization procedures in June 2009)

The company offers life insurance mainly through bank distributors.

- Total assets 242.8 billion yen
- Annual premium and other income 525.7 billion yen
(Ceded policy reserve 2,045.4 billion yen)



* Fiscal year ended March 31, 2015

Tatsuro Nedachi Director and Executive Officer of PGF Life

- 1980 Joined Kyoei Life Insurance (Current Gibraltar Life)
- 2000 Engaged in lending/recovery business for individuals and corporations until the company's bankruptcy in October
- 2000 Assistant General Manager of Trustee Office following Kyoei Life's filing of a bankruptcy-reorganization plan
Engaged in reorganization procedures as an employee of the company under reorganization procedures (bankrupt company)
- 2001 General Manager of Affiliated Business Department of Gibraltar Life Insurance
Engaged in business restructuring, sale and liquidation of former Kyoei Life group companies
- 2006 Vice President in charge of Corporate Planning Team/Affiliate Business Support Team
- 2009 Deputy Trustee of a reorganization company, Yamato Life Insurance
Following the appointment of Gibraltar Life as a sponsor company, engaged in reorganization procedures as deputy trustee of the sponsor company
- 2009 Yamato Life Insurance joined the Prudential Group upon completion of the reorganization procedures; Assumed the present post

Administrative procedures based on the Insurance Business Law

- General accounts receivable cannot be reduced.
- Changes to policy provisions are limited to the time when business is suspended or the whole existing insurance contracts are transferred upon the merger

Procedures in accordance with the Act on Special Treatment of Corporate Reorganization

- General accounts receivable can be reduced.
- Policyholders' right can be reduced by reorganization procedures

Major contents

- Extinguishment of issued shares with no consideration and injection of new capital (excluding mutual company)
- Partial exemption of preferred reorganization claims such as workers receivables and total exemption of general reorganization claims and subordinated reorganization claims
- Changes to policyholders' right
 - ① Reduction of policy reserves
 - ② Change of guaranteed rate of return
 - ③ Application of early cancellation deduction

- Financial support to a failed insurance company or for portfolio transfer etc.
- With this, 90% of policy reserves for policyholders will be indemnified in principle.
- Financial support for payment of claims for insurance benefits subject to indemnification.
- Preparation and submission of a policyholder list that is substitute for filing of claims and exercise of voting rights in an assembly, etc. of relevant parties as a procedural representative of policyholders
- Acting as a substitute for a sponsor company if it doesn't come up and receive insurance policies in portfolio transfer

Summary of failure resolution (Procedures under Insurance Business Law)



ブルデンシャル ジブラルタ ファイナンシャル生命

	Nissan (Mutual Co.)	Toho (Mutual Co.)	Daiyaku (Mutual Co.)	Taisho (Mutual Co.)
Date procedures started	April 25, 1997	June 4, 1999	May 31, 2000	August 28, 2000
Total assets	1,822.7 bill. yen	2,190.0 bill. yen	1,300.0 bill. yen	154.5 bill. yen
Capital deficit	302.9 bill. yen	650.0 bill. yen	317.7 bill. yen	36.5 bill. yen
Changes to policy provisions				
Reduction in policy reserves	0%	10%	10%	10%
Change of guaranteed rate of return	2.75%	1.5%	1.0%	1.0%
Early cancellation deduction (# of years, %)	6.5 years Depression from 15%	8 years Depression from 15%	10 years Depression from 20%	9 years Depression from 15%
Modification (General Claims)	Non discharged	Non discharged	Non discharged	Non discharged
PPC financial support	200 bill. yen	366.3 bill. yen	145 bill. yen	26.7 bill. yen
Date operation resumed	October 1, 1997 Policy transfer	March 1, 2000 Policy transfer	April 2, 2001 Policy transfer	March 31, 2001 Policy transfer
Sponsor	LIAJ	GE Capital	Manulife	Yamato Life
Assuming company/New company	Aoba Life	GE Edison	Manulife Life	Azami Life
Subsequent restructuring, etc.	Artemis (France) → Prudential Life 【Prudential Group】	Taken over by AIG → Gibraltar Life 【Prudential Group】	—	Merged with Yamato Life → PGF Life 【Prudential Group】

Source: Developed by PGF Life by reference to "Yamato Life's bankruptcy" Financial Services Agency
The Prudential Gibraltar Financial Life Insurance Co., Ltd/

Note: LIAL: Life Insurance Association of Japan

Summary of failure resolution

(Procedures under Act on Special Treatment for Corporate Reorganization)



	Chiyoda (Mutual Co.)	Kyoei (Stock Co.)	Tokyo (Mutual Co.)	Yamato (Stock Co.)
Date proceeding filed	October 9, 2000	October 20, 2000	March 23, 2001	October 10, 2008
Total assets	2,233.0 bill. Yen	3,725.0 bill. yen	690.0 bill. yen	194.9 bill. yen
Capital deficit	595.0 bill. Yen	689.5 bill. yen	73.1 bill. yen	64.3 bill. yen
Changes to policy provisions				
Reduction in policy reserve	10%	8%	0%	10%
Change of guaranteed rate of return	1.5%	1.75%	2.6%	1.0%
Early cancellation deduction (# of years, %)	10 years Degression from 20%	8 years Degression from 15%	10.5 years Degression from 20%	10 years Degression from 20%
Modification (General Claims)	Full discharged	Full discharged	Full discharged	Full discharged
PPC financial support	0 yen	0 yen	0 yen	27.7 bill. yen
Date operation resumed	April 20, 2001 Demutualized/ Resumed operation	April 3, 2001 Resumed operation	October 19, 2001 Demutualized/ Resumed operation	June 1, 2001 Resumed operation
Sponsor	AIG	Prudential	T&D Group	Prudential
Assuming company/New company	AIG Star	Gibraltar Life	T&D Financial	PGF Life
Subsequent restructuring, etc.	Taken over by Gibraltar Life 【Prudential Group】	— 【Prudential Group】	—	— 【Prudential Group】

Source: Developed by PGF Life by reference to "Yamato Life's bankruptcy" Financial Services Agency

Kyoei Life Insurance (Current Gibraltar Life Insurance)

(October 2000 ~ April 2001)

October 20 Petition for Corporate Reorganization Law
 Preservation injunction by court (Suspension of insurance sale, surrender, etc.), Appointment of interim trustee

October 23 Decided to start reorganization procedures/Finalized sponsor company
 Interim trustee → Reorganization trustee (14 lawyers including deputy trustee and assistants)
 Prudential Life dispatched a business deputy trustee, CMO, CFO and several employees

- Established Interim Trustee Office (later reorganization trustee), Started handling policyholders, creditors, employees and mass media etc.
- Press conference on bankruptcy
- Employees started visiting or making a call to explain to policyholders, associations and creditors
- Trustee started investigating the company
- Started developing a draft reorganization plan
- Started reorganization procedures-related business and preparation for resuming business in headquarters divisions

- January 15 Started selling Prudential Life Insurance's product after obtaining FSA's permission to provide insurance agency service
- February 14 Submitted the draft reorganization plan to the court
- March 7 Life Insurance Policyholders Protection Corporation sent to policyholders a summary of the draft reorganization plan and a consent form on voting by proxy to policyholders (along with procedures for cases where they disagree)
- March 28 Held an assembly of relevant parties and approved the draft reorganization plan
- April 2 The court approved the reorganization plan
- April 3 Started operation (Sale of life insurance, surrender, policy service, etc.)

- Press conference on submission of the draft reorganization plan

Major aspects

- A sponsor company was decided at early stage.
- Much assets were not sold in the reorganization procedures.
(Paid special dividends to policyholders subject to the reduction in policy reserves after four and eight years later.)
- Started selling life insurance shortly after the approval on the reorganization plan

Yamato Life Insurance (Current PGF Life)

- October 10 Petition for under Corporate Reorganization Law
Preservation injunction by court (Suspension of insurance sale, surrender, etc.), Appointment of interim trustee
- October 17 Decided to start reorganization procedures
Interim trustee → Reorganization trustee (7 lawyers including deputy trustee and assistants)
- February 20 Bid for sponsorship
- March 2 Concluded a sponsorship agreement
- March 3 Gibraltar Life dispatched a business trustee and several employees

(October 2008 ~ June 2009)

- Established Interim Trustee Office (later reorganization trustee), Started handling policyholders, creditors, employees and mass media etc.
- Press conference on bankruptcy
- Employees started giving an explanation to policyholders and creditors
- Trustee started investigating the company
- Started developing a draft reorganization plan
- Started reorganization procedures-related business and preparation for resuming business in headquarters divisions

March 23 Submitted the draft reorganization plan to the court

March 11 Applied for financial support to the Life Insurance Policyholders Protection Corporation

April 6 – April 27 Written Resolution

April 10 Life Insurance Policyholders Protection Corporation sent to policyholders a summary of the draft reorganization plan and a consent form on voting by proxy to policyholders (along with procedures for cases where they disagree)

April 30 Court approved the reorganization plan

June 1 Started operation (Surrender and change of policy provisions, etc.)

2010

August 2 Started selling insurance products

- Press conference on submission of the draft reorganization plan

Major aspects

- Change of insurance sales channel (Sales mainly by sales agents → bank distributors)
- Most assets were sold in the reorganization procedures.
- It took one year and three months from approval of the reorganization plan to start of insurance sale.

Issues on reorganization procedures and measures ①

Phase	Issues	Measures
<p>At the time of filing reorganization procedures</p> <p>↓</p>	<ul style="list-style-type: none"> ◆ Resolve a confusion among employees ◆ Respond to customer complaints/inquiries 	<ul style="list-style-type: none"> ◆ Messages from trustee and sponsor and provision of information ◆ Response by enhancement of Call Center ◆ Customer visit by sales agents to give an explanation
<p>↓</p> <p>During reorganization procedures</p> <p>↓</p>	<ul style="list-style-type: none"> ◆ Prevent sales value from being destroyed ◆ Difficulties with asset valuation 	<ul style="list-style-type: none"> ◆ Regaining trust (Selection of a good sponsor) ◆ Completion of reorganization procedures at an early date and reopening the business ◆ Appropriate response to reputation risk ◆ Sale of assets (bulk sale) ◆ Payment of special dividends

Issues on reorganization procedures and measures ②

Phase	Issues	Measures
<p style="text-align: center;">↓</p> <p style="text-align: center;">During reorganization procedures</p> <p style="text-align: center;">↓</p>	<ul style="list-style-type: none"> ◆ Pursuit of responsibilities of the management 	<ul style="list-style-type: none"> ◆ Claim for damages against officers
	<ul style="list-style-type: none"> ◆ Building of a new organization 	<ul style="list-style-type: none"> ◆ Securing of necessary employees and an appropriate organizational restructuring
	<ul style="list-style-type: none"> ◆ Introduction of new products and change of compensation system 	<ul style="list-style-type: none"> ◆ Product development free from traditional ones
<p style="text-align: center;">↓</p> <p style="text-align: center;">After resuming Business</p>	<ul style="list-style-type: none"> ◆ Fusion of corporate cultures, blending of employees 	<ul style="list-style-type: none"> ◆ Education on the Prudential's culture, philosophy and behavioral guidelines
	<ul style="list-style-type: none"> ◆ Change to personnel system 	<ul style="list-style-type: none"> ◆ Full consultations with labor union
	<ul style="list-style-type: none"> ◆ System integration 	<ul style="list-style-type: none"> ◆ Situation analysis and development of a future plan