

January 26, 2024

Sompo Holdings, Inc.
Sompo Japan Insurance Inc.

Overview of administrative sanctions (business improvement orders) by the Financial Services Agency and measures to prevent recurrence

On January 25, Sompo Japan Insurance Inc. (President & CEO: Giichi Shirakawa, hereinafter "Sompo Japan") received notification from the Financial Services Agency of a business improvement order it has issued under Article 132 Paragraph 1 of the Insurance Business Act. The administrative penalty was issued against Sompo Japan for its response to fraudulent automobile insurance claims by Big Motor (inclusive of Big Motor Co., Ltd., BM Holdings Co., Ltd., and BM Hanaten Co., Ltd.).

In addition, Sompo Holding, Inc. (Group CEO, Director, Chairman, and Representative Executive Officer: Kengo Sakurada, hereinafter "Sompo Holdings") was also issued a business improvement order by the Financial Services Agency in accordance with Article 271-29, Paragraph 1 of the Insurance Business Act as an administrative penalty regarding its management of Sompo Japan.

Sompo Holdings and Sompo Japan Insurance take this situation very seriously. In addition to preparing a business improvement plan to be announced once submitted to the Financial Services Agency, company-wide efforts are underway to effect improvements and prevent any recurrence, as well as to reinforce customer protections and to restore trust.

These measures are detailed in the attachment.

SOMPO deeply regrets these incidents and sincerely apologizes to our customers and other related parties for the inconvenience and concern caused.

Contents of Business Improvement Orders

Sompo Japan	<p>1. Clarify Management responsibility for the penalties</p>
	<p>2. Confirm appropriate policy claims management</p> <ul style="list-style-type: none"> • Establishment of a system to prevent fraudulent claims (including conduct of appropriate damage investigations, implementation of customer-oriented referral services for repair companies, consideration & implementation of central management of predictive information for fraudulent claims and necessary measures) • Establishment of fair and accurate examination systems and procedures (including verification of cases that may have resulted in inappropriate non-payment due to the lack of detailed investigations, and customer response based on the verification of results)
	<p>3. Establishment of effective agency management system (insurance solicitation management) (Ensure appropriate insurance solicitation according to agents' characteristics, including consideration & implementation of appropriate management of secondments)</p>
	<p>4. Establishment of a system to ensure thorough compliance and customer protection (Timely identification of suspicious information with measures to ensure appropriate reporting to management inclusive of CEO and the authorities)</p>
	<p>5. Fostering healthy organizational culture prioritizing compliance & customer protections over sales (Include corrective measures for a company culture that prioritizes the company's interests over the interests of its customers)</p>
	<p>6. Steadily implement measures 1~5 & drastically strengthen governance to ensure they are firmly established</p>
Sompo Holdings	<p>1. Clarify Management responsibility for the penalties</p>
	<p>2. Ensure sound, appropriate insurance holding company management of subsidiary operations (Including to grasp the scope and effectiveness of Sompo Japan's internal controls in a timely and appropriate manner, and conduct appropriate business management)</p>
	<p>3. Fostering healthy organizational culture prioritizing compliance & customer protections over sales at insurance subsidiaries (Include corrective measures for a company culture that prioritizes the company's interests over the interests of its customers)</p>
	<p>4. Steadily implement measures 1~3 & drastically strengthen governance to ensure they are firmly established</p>

Root causes & root cause analysis

Root causes identified by FSA inspection

Sompo Japan	Corporate culture under successive management CEOs
	Valuing company profits over customer interests
	Not challenging superiors, including CEO
	Non-timely/appropriate reporting of negative info
	Ineffective control & audit functions due to inadequate risk management
	Sales & claim service management dysfunction (1st line)
Actual disfunction of compliance (2nd line)	
Internal audit not fully functional (3rd line)	
Lack of risk awareness, incl. compliance, and measures regarding agents operating as auto repair shops	
Sompo HD	Inadequate measures to nurture healthy corporate culture
	Ineffective control & audit functions due to inadequate risk management
Monitoring and auditing of Sompo Japan ineffective	

External Investigative Committee root cause analysis

Human causes

Systemic factors

Lack of awareness of non-life insurance company social mission	Inadequacy of internal control systems, dysfunction of the compliance system
Emphasis on company priorities & agency response, and failure to focus on customer interests	DRS failure due to overemphasis on the sales department, relative weakening of maintenance department
Lack of recognition of risks and crisis response	< Background Circumstances > <ul style="list-style-type: none"> • Emphasis on top-line market share • Concurrent maintenance shop and insurance agent businesses • Distortion of productivity improvements
Significant discrepancies between executive and frontline management	
Lack of independence among executives & employees (siloed thinking, blaming others)	Obstruction of effective Group governance due to lack of appropriate reporting system with Sompo HD

Preventative Measures (underway and under consideration)

Clarify Management responsibility for the penalties

Clarification of management responsibilities related to BM and insurance premium adjustment issues, strict penalties and renewal of management structure will be implemented (2404)

Confirm appropriate policy claims management

Comprehensive review of Sompo Japan's insurance claims payment process and management system from the perspective of eliminating fraudulent claims and from the customer's perspective (currently undergoing a comprehensive review of all processes, including of external perspectives)

Establishment of effective agency management system (insurance solicitation management)

Strengthen the agency management system, such as reviewing the rules for seconding employees to agencies (2309 implemented)

Establishment of a system to ensure thorough compliance and customer protection

Establishment of Sompo Japan system to ensure compliance and customer protections, review quality standards from the customer's perspective, and establish a new committee to conduct verification from an external perspective.

Strengthening of Sompo Holdings' second and third lines, dispatch of officers to Sompo Japan Board of Directors meetings to expand communication opportunities, reform of approval & reporting rules (2404)

Fostering healthy organizational culture prioritizing compliance & customer protections over sales

Ensure independence of Sompo Japan's insurance claims division, drastically review sales department evaluation methods (review sales' overemphasis on market share, etc.)

Commitment of all management team members and employee to Sompo Group's vision and establishment of department for corporate culture reform at Sompo Japan (2404)

Drastically strengthen governance to steadily implement the above and ensure measures firmly established

Joint implementation of reforms and management of progress by strengthening the supervision of the Board of Directors, clarifying the responsibilities of officers, and appointment of officers and major division heads with concurrent responsibilities across Sompo Japan and Sompo Holdings.