

INSURANCE

Life insurance

Many lenders will not approve a mortgage unless you enroll in a group life insurance plan. The lender usually specifies the insurer, pays the premium and is named as the policy's beneficiary.

If you have had a major health problem, such as cancer or a heart attack, within the past three years, you are unlikely to qualify for life insurance. Chronic conditions such as diabetes mellitus, hypertension, cirrhosis or renal disease will also cause you to be disqualified. Shopping around is pointless because different insurers use the same terms. Your insurance coverage can be revoked if you are discovered to have omitted information on your application.

Fire insurance

Lenders require fire insurance for the duration of the mortgage.

Earthquake insurance

Despite Japan's reputation as a seismic hotspot, earthquake insurance for residential dwellings is readily available. In fiscal 2007, Japanese households had over ¥91 trillion in earthquake coverage and 44% of fire insurance policies included an earthquake rider.

Reinsurance

Under the Law Concerning Earthquake Insurance (Law No. 73, 1966), coverage is provided by non-life insurance companies, which are reinsured by the Japan Earthquake Reinsurance Company (JER). JER, in turn, has retrocession agreements, under which JER is reinsured by the non-life insurance companies and the Japanese government.

There is an aggregate liability limit of ¥5.5 trillion for any one earthquake with the contribution of JER, the non-life insurance companies and the government varying according to the amount of claims payable.¹ If total losses exceed ¥5.5 trillion, insurance companies can reduce their payouts to policy holders. To put the liability cap in perspective, claims worth ¥78.3 billion were paid after the Great Hanshin Earthquake in 1995.

Buying earthquake insurance

Earthquake insurance is sold as a rider to fire insurance policies and is not available separately. Fire insurance does not cover losses from fires caused or spread by an earthquake. You can add earthquake coverage to a valid fire insurance policy, but you may not be able to do so if an earthquake warning is in effect. Earthquake insurance is available in terms of one to five years.



Condominiums built with steel-reinforced concrete have excellent earthquake resistance.

Coverage

Earthquake insurance covers loss or damage to residential buildings and personal property through fire, destruction, burial or flooding caused directly or indirectly by an earthquake, volcanic eruption or tsunami. Loss or damage is excluded if it is caused by gross negligence, willful or illegal acts, war or insurrection, or if it occurs 10 or more days after an earthquake.

The sum insured ranges from 30% to 50% of the amount of the fire insurance policy to which the earthquake rider is attached. Coverage is limited to ¥50 million for a building and ¥10 million for personal property. Losses are categorized as total, half or partial, and the amount payable is based on the depreciated value of the insured property.

Premiums

Earthquake insurance premiums are standardized and based on the dwelling's location and whether it is constructed from wood. Wooden structures cost more to insure and Tokyo, Kanagawa and Shizuoka are the most expensive locations.

Discounts are available for long-term contracts, buildings constructed after 1981 and buildings that have been assessed as earthquake-resistant or seismically isolated. Discounts are also offered for buildings that are rated as earthquake-resistant on the Housing Quality Assurance Act's three-point scale. Earthquake insurance premiums can be deducted from income and local inhabitants taxes.

By way of illustration, ¥20 million of earthquake insurance on a wooden dwelling in Tokyo built in 2001 would cost ¥56,340 per year. Note that this amount excludes the cost of the basic fire insurance and earthquake coverage for personal property.