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Feature Articles

This month's focus: The Impact of the Introduction of the Economic Value-Based Solvency framework

Economic Value-Based Solvency Regulations: Overview and Challenges

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The Financial Services Agency (FSA) of Japan introduced the so-called "economic value-based solvency regulations" at the end of March 2026. The new regulations involved a fundamental review of the quantitative standards and adopted a "three-pillar" framework.
This paper outlines the new regime and highlights key points for a proper understanding of it. Furthermore, it examines the alignment between the new regulations and the management practices of major life insurance companies in recent years.

Sophistication of ERM Utilizing Economic Value-Based Metrics

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The introduction of Japan's economic value-based solvency regulations at the end of fiscal year 2025 marks a major turning point, with one of its key objectives being the advancement of Enterprise Risk Management (ERM) for insurance companies. However, how exactly does managing on an economic value basis enhance ERM and, by extension, corporate strategy?
This paper explores the significance of economic value-based management, clarifying how management metrics should be interpreted and applied in practice compared with conventional approaches. Furthermore, it analyzes how this strategic advancement influences corporate value from a shareholder perspective.
By linking regulatory compliance with strategic decision-making, this study offers practical insights into how insurers can leverage economic value-based ERM to drive sustainable enterprise value.

ERM Management under New Solvency Regulations Focusing on Investment Risk-taking and Its Management

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The economic value-based solvency regulations, known as the "new regulations," have been in effect since the end of March 2026. Enterprise Risk Management (ERM) promotes economic value-based decision-making and embodies Drucker's management philosophy. Under this approach, insurers must secure sufficient profit to cover risks; accordingly, this is an absolute prerequisite. Investment strategy therefore aims to optimize risk-return efficiency while managing liquidity risk through self-discipline. However, without a sound corporate culture, self-discipline becomes merely nominal and can, in the worst case, lead to an insurer's failure.

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An Empirical Analysis of the Impact of IAIG Regulations on Life Insurance Companies in Japan

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In response to the global financial crisis triggered by the collapse of Lehman Brothers in September 2008, the International Association of Insurance Supervisors (IAIS) developed the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which was adopted in 2019.ComFrame serves to develop methods for conducting group-wide supervision of Internationally Active Insurance Groups (IAIGs) in order to establish a comprehensive framework for supervisors to address group-wide activities and risks and foster global convergence of regulatory and supervisory measures and approaches.
IAIGs are subject to enhanced qualitative governance requirements and a quantitative capital standard, the Insurance Capital Standard (ICS).
This paper examines whether differences have emerged between Japanese IAIGs and non-IAIGs from an expense perspective as a preliminary impact of ICS implementation.
Empirical results suggest that Japanese life insurers within IAIGs have been improving expense efficiency in anticipation of future regulatory requirements.
The paper also examines differences in the supervisory frameworks for banks and insurance companies with respect to internationally active financial groups.

Articles

Rebalancing Costs of Market-Capitalization-Weighted Index Funds

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This paper measures the rebalancing costs attributable to anticipatory trading between the announcement date and the implementation date of periodic reconstitutions of Morgan Stanley Capital International (MSCI) market-capitalization-weighted indices.
The analysis covers constituent additions and deletions, as well as increases and decreases in constituent weights, across global markets.
Statistically significant transaction costs are observed for all types of rebalancing in the U.S., developed, and emerging markets.
Furthermore, when index managers adopt strategies that advance or delay rebalancing relative to the implementation date, expected returns are significantly positive in each market and sufficiently large to offset a portion of management fees.
These findings suggest that such rebalancing strategies provide index managers with a practical means of reducing rebalancing costs while limiting tracking error.

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Articles

Governance of Off-Balance-Sheet Intangible Assets and Corporate Value: Evidence Incorporating Firm-Level Heterogeneity

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This study examines how two major off-balance-sheet intangible assets, patent portfolios and CSR-related assets, affect firm value, measured by Tobin's q, ROIC, and WACC. It also analyzes whether corporate social responsibility (CSR) activities moderate the impact of patent portfolios on firm value.

Using a portfolio-based approach and panel regression analysis, the results show that simple linear models do not adequately capture the relationship between patent portfolios and value-relevant financial attributes.

The findings highlight the need to account for firm-level heterogeneity, including differences in Tobin's q levels and sector characteristics, when evaluating the contribution of intangible assets to firm value.