21-D-0224
June 25, 2021

JCR's Rating Review of Major Non-Life Insurance Companies

JCR has reviewed ratings for core companies, insurance holding companies, etc. of Japan's major non-life insurance groups (Tokio Marine Group, Sompo Holdings Group, and MS&AD Insurance Group). The following are the JCR's rating viewpoints for the rating review this time. Please refer to JCR's press releases 21-D-0225 to 21-D-0227 dated today for rating rational for individual companies.

Rating Viewpoints

(1) JCR reviewed ratings for major non-life insurance groups' core companies, insurance holding companies, etc. and upgraded the long-term issuer rating and ability to pay insurance claims of SAISON AUTOMOBILE AND FIRE INSURANCE COMPANY, LIMITED by 1 notch, while affirming ratings of all other companies. Rating outlook is Stable for all companies. Although the fiscal year ended March 2021 (FY2020) was the fiscal year under the COVID-19 pandemic crisis, the impact on major non-life insurance groups' profit and financial standing was limited. The impact of natural disasters in Japan was also moderate compared to FY2018 and FY2019 when the impacts were large.

(2) The direct impact of the COVID-19 pandemic was an increase in various types of insurance claims payments. Although there was an increase in payments for some products related to event cancellation (suspension of performance) and business interruption (profit compensation) overseas, this was not a significant burden. In Japan, the number of automobile accidents decreased significantly with restraint in going out, resulting in lower insurance claims payments, which had a positive effect on bottom-line profits. Indirect effects may include restrictions on sales activities, but the non-life insurance industry, which deals with short-term renewal-type products mainly through the agency channel, has not been hit as hard as the life insurance industry, where face-to-face solicitation by sales staff is the fundamental rule. From a medium- to long-term perspective, changes in consumer behavior and risk perceptions are expected to bring new insurance needs to the fore, which may provide business opportunities for non-life insurance companies.

(3) With regard to domestic natural disasters, natural disasters of a scale said to occur "once in several decades" have been occurring in a relatively short period of time, and the amount of insurance paid for windstorms and floods (not including earthquakes) was the largest ever recorded in FY2018 and the second largest in FY2019. In FY2020, the number of typhoons approached throughout the year (no typhoons landing) was small, despite the torrential rains in July 2020 that caused damage mainly in Kyushu and Typhoon No. 10 in September, resulting in a significant decrease in claims paid compared to the previous two fiscal years. Overseas, the trend of frequent natural disasters such as hurricanes and cold waves in North America remains unchanged, and premium rates are being hardened (raised). Although major non-life insurance groups have been able to stabilize their earnings in a mutually complementary manner with their diversified business portfolios both domestically and overseas, they cannot escape the impact of natural disasters in Japan, their main business base. There is no change in JCR's recognition that trends in the scale and frequency of natural disasters, including the impact of climate change, need to be carefully monitored.

(4) Net premiums written in the domestic non-life insurance business have been on an upward trend thanks to the effect of rate revisions for fire insurance and growth in new types of insurance. The combined ratio of automobile insurance, which accounts for almost half of the premiums, declined further in FY2020 thanks to a significant decrease in the number of accidents caused by voluntary restraint in going out, in addition to the continued moderate downward trend caused by the spread of ASV (Advanced Safety Vehicle). From a future perspective, the impact is expected to come from the declining birthrate and aging population, as well as the penetration of CASE (Connected, Automated, Sharing, and Electrification) and MaaS (Mobility as a Service). As the domestic automobile insurance market is solid, JCR does not expect the business environment to change drastically in a short period of time, but JCR will keep a close eye on the spread of automated vehicles and the status of environmental and legal improvements from a medium- to long-term perspective. On the other hand, for fire insurance, which is susceptible to frequent natural disasters and major accidents, there is still a large room for improvement in the earnings structure,

despite continuous premium rate increases. The impact of hardening in the reinsurance market is also expected. The key point will be whether premium rates and products will be revised appropriately, taking into account the balance of risk and return. In addition, major non-life insurance companies are taking steps to further reduce the combined ratio by improving business efficiency through the reduction and fundamental review of internal administrative work. Although the effects of these measures will not be realized for several years, they are expected to contribute to strengthening the earnings capacity of the core insurance business, and JCR will closely watch the results.

(5) Major non-life insurance groups have been building a diversified business portfolio in terms of risk type and geographical areas. As a result of the efforts, they have been curbing fluctuations in profits and ensuring a certain consolidated net income by mutually complementing businesses, for example, by covering downward pressure on domestic business with overseas business. Each group is engaged in life insurance business through subsidiaries, and is focusing on sales of relatively profitable protection insurance products through multiple channels including non-life insurance agents, financial institutions and walk-in insurance shops. While the sales environment is challenging due to the persistently low interest rate environment and the various restrictions imposed by the COVID-19 pandemic, JCR would like to pay attention to accumulation of value of new business based on economic value. In addition, each group takes proactive stance on overseas business for securing growth opportunities and risk diversification and has been accelerating overseas business development through large-scale M&A transactions and investments. Recently, there has been an increase in the number of bolt-on M&A deals that are smaller in scale and easier to envision synergies with existing businesses. Appetite for strategic investment in overseas business by major non-life insurance groups is relatively strong. While the business environment on a global scale is uncertain due to the COVID-19 pandemic impact, JCR considers that demonstration of group synergies is one of the keys in the rating and is paying attention to the achievements.

(6) JCR pays attention to business base, financial base, risk management, etc. based on characteristics of business for ratings of non-life insurance companies including major non-life insurance groups, but weight of assessment on capital adequacy is the largest from the quantitative aspect. Group creditworthiness of major non-life insurance groups is extremely high, with ratings equivalent to AAA or AA+. While each group has been steadily accumulating retained earnings, it has been reducing price fluctuation risk with respect to the cross-shareholdings, controlling interest rate risk in the life insurance business, and also managing insurance underwriting risks through utilization of reinsurance. JCR believes that their regulatory solvency margin ratio and also ESR which shows economic-value based soundness are high enough to meet their group creditworthiness.

(7) Major non-life insurance groups have established an integrated management system for earnings and capital based on concept of risk through promotion of ERM. For example, they have been linking their business plan to capital policy with the risk appetite as the starting point in their efforts to closely connect ERM to management. JCR incorporates evaluation of ERM into the rating in consideration of the quality aspect. Major non-life insurance groups take flexible and appropriate measures in the face of changing business environment, increasing the degree of maturity of ERM system. With the recent expansion of overseas business and changes in the environment, global and group-wide integrated ERM is becoming more important. In this regard, JCR appreciates the fact that each group is taking considerable care to ensure that decision-making and sharing of issues are not delayed even under the COVID-19 pandemic crisis in its cooperation with group companies including those overseas.

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<Reference>

Issuer: Tokio Marine Holdings, Inc.

Long-term Issuer Rating: AAA Outlook: Stable

Issuer: Tokio Marine & Nichido Fire Insurance Co., Ltd.

Long-term Issuer Rating: AAA Outlook: Stable

Issuer: Sompo Japan Insurance Inc.

Long-term Issuer Rating: AA+ Outlook: Stable

Issuer: SAISON AUTOMOBILE AND FIRE INSURANCE COMPANY, LIMITED

Long-term Issuer Rating: AA+ Outlook: Stable

Issuer: MS&AD Insurance Group Holdings, Inc.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Mitsui Sumitomo Insurance Company, Limited

Long-term Issuer Rating: AA+ Outlook: Stable

Issuer: Aioi Nissay Dowa Insurance Company, Limited

Long-term Issuer Rating: AA+ Outlook: Stable

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