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Trends in Economic Value-Based Solvency Regulations and Others

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the progress toward the introduction of new regulations for financial health on insurance companies in Japan.

(1) With the introduction of new economic value-based solvency regulations (new regulations) for domestic insurance companies just around the corner, life insurers are increasingly disclosing their economic solvency ratios (ESRs). The ESRs of the four major life insurance groups are now available for the fiscal year ended March 31, 2023. In assessing the creditworthiness of life insurers, JCR focuses on capital adequacy in quantitative terms. The higher the rating range, the higher the weighting of the assessment on the sufficiency of capital, taking into consideration the sufficiency not only under the current regulations but also the sufficiency on an economic value basis.

(2) The new regulations, which will focus on the calculation of ESR, are expected to be finalized in the spring of 2024, following discussions at an expert panel and analysis of the results of ongoing domestic field tests, and to go into effect in 2025, with the calculation of regulatory capital based on the new standards assumed to begin at the end of March 2026. Currently, the ESRs disclosed by individual companies are figures based on internal control-based risk management. Since these ESR figures reflect their risk characteristics, and the assumptions used are different among them, it is not appropriate to simply compare them, and JCR does not see the high and low figures as a straightforward indication of differences in capital adequacy. However, a certain degree of uniformity in assumptions and other factors will be achieved after the introduction of the new regulations, which should increase the comparability of ESRs based on regulatory compliance in terms of capital adequacy.

(3) In reviewing the ratings of life insurers over the past two years or so, JCR has in a phased manner incorporated into its ratings a reduction in the total amount of interest rate risk through efforts such as lengthening asset durations and reviewing liability structures, and a progress in reduction in the sensitivities of economic value-based indicators including ESR through a reduction in the risk amount. The current ESRs disclosed by individual companies are generally consistent with the assumptions used in the assessment of capital adequacy that JCR has incorporated into its ratings so far. In addition, although the new regulations are expected to be more complex than the current regulations and to impose considerably heavier administrative burdens, JCR believes that each company is fully capable of responding to these challenges and will be able to make a smooth transition to the new regulations.

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