

Administrative Action Taken Against Major Non-life Insurers for Premium Adjustment—No Immediate Impact on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the business improvement order issued by Financial Services Agency to major Japanese non-life insurance companies (Tokio Marine & Nichido Fire Insurance Co., Ltd., Sompo Japan Insurance Inc., Mitsui Sumitomo Insurance Company, Limited, and Aioi Nissay Dowa Insurance Company, Limited).

- (1) On December 26, 2023, four major Japanese non-life insurance companies received business improvement orders from Financial Services Agency. The main contents of the order require the companies to "examine and implement measures to improve environment for implementation of proper competition in the corporate insurance sector, including coinsurance" and "establish an appropriate sales promotion system and underwriting management system." The latest administrative action was taken in response to employees' involvement in the act of prearrangement of premiums in the renewal of coinsurance policies for corporate customers. According to the companies' reports, the total number of policyholders subject to premium adjustment activities has reached well over 500 in the past five to seven years, for which about half were motivated by the intention to maintain the leading underwriter's position and contract terms and conditions such as premium shares, while 40% (including duplications) are said to have been in response to other companies approaching them to adjust premiums, etc. This case is considered to violate the "Prohibition of unreasonable restraint of trade (Cartel)" under the Antimonopoly Act, and Fair Trade Commission has conducted on-site inspections of the companies.
- (2) In the news release dated August 9, 2023 (23-D-0528), JCR expressed the view that it is unlikely that the incident will impair their financial bases, even if premium rates and other factors are affected, given the small percentage of coinsurance policies for corporations subject to the premium arrangement act in their overall insurance underwriting portfolios. JCR believes that the facts the domestic non-life insurance market is an oligopoly of big four companies after repeated restructuring and their fire insurance's profits have been constantly in the red due to frequent natural disasters may have led to the inappropriate business conduct, while coinsurance policies for corporations are a meaningful underwriting method for both corporations and non-life insurers in terms of diversifying huge underwriting risks. FSA has requested the identification of additional cases and investigations, etc., with regard to the large number of corporations (policyholders) subject to the inappropriate conduct, and although the impact may further increase, there is no change in JCR's view that the incidents will not immediately affect their ratings.
- (3) JCR believes that the incidents indicate that there are problems in the governance systems of the companies and in the compliance awareness of their sales departments and that the deterioration of their reputations may have a certain impact on their sales and customer bases in relation to their overall business. The companies will continue their investigations, while at the same time implementing measures to prevent recurrence, with a business improvement plan in place by the end of February 2024. JCR will continue to confirm the impact on the sales and customer base of each company and follow from a medium-term perspective to see whether each can build a system to prevent similar incidents from recurring.

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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 Holdings, Inc.

Long-term Issuer Rating: AA+ Outlook: Stable

Issuer: Sompo Japan Insurance Inc.

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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