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

JCR has reviewed the ratings for the core companies and insurance holding companies of Japan’s major non-life insurance groups (Tokio Marine Group, Sompo Holdings Group and MS&AD Insurance Group) and provides its rating viewpoints below. Please refer to JCR’s press releases (23-D-0288, 23-D-0289 and 23-D-0290) dated today for rating rational for individual companies.

Rating Viewpoints

(1) JCR has reviewed the ratings of the core companies and the insurance holding companies of Japan’s major non-life insurance groups and upgraded the issuer rating of MS&AD Insurance Group Holdings, Inc. by one notch, as it is no longer necessary to reflect its structural subordination as a holding company. JCR affirmed other issuer ratings. The outlook on the rating is "Stable" for all companies. FY2022 (fiscal year ended March 2023) was a fiscal year in which many changes in the environment were factored in, such as rising geopolitical risks, rising overseas interest rates and a weakening yen, inflation in Japan and abroad, and credit concerns in the US and European banks, while the COVID-19 crisis was coming to a halt. Major non-life insurance groups saw their profit levels pushed down significantly from their initial forecasts due to high claims paid for natural disasters, COVID-19 related insurance claims and benefits, increased foreign exchange hedge costs, and impact of soaring prices. However, excluding these factors, their underlying earnings power of core insurance business remains strong.

(2) They are maintaining an upward trend for net premiums written in the domestic non-life insurance business, due to the effect of premium rate revisions for fire insurance and growth in new types of insurance. With regard to the profitability of fire insurance, which has been an issue, measures to improve profitability, such as continuous premium rate and product revisions and stricter underwriting, are steadily showing results. In the overseas business, although the impact of natural disasters and the COVID-19 pandemic caused a significant increase in claim payments, rate increases and profit improvement measures are showing results.

(3) Domestic windstorms, floods, and other disasters (excluding earthquakes) were at a moderate level compared to FY2018 and FY2019, when they were the largest in Japan’s history. However, in FY2022, companies continued to pay out large claims due to hailstorms in Kanto in June, typhoons No. 14 and No. 15 in September, and frequent heavy rain and snow disasters. Overseas, natural disasters of relatively large scale caused by "extreme weather" such as hurricanes, cold waves, and torrential rains in North America have been frequent, and coupled with rising inflation, hard market environment has continued. While major non-life insurance groups have been able to stabilize their earnings by diversifying their business portfolios domestically and internationally in a mutually complementary manner, they are not immune from the effects of natural disasters. JCR believes that the scale and frequency of natural disasters, including impact of climate change, should be closely monitored.

(4) Combined ratio for automobile insurance, which accounts for almost half of premiums written, remains at a favorable level. Although effect of increased traffic volume due to recovery of economic activity, which had been restrained by the COVID-19 pandemic, can be seen, spread of ASV (Advanced Safety Vehicle) has been a factor in the gradual lowering of the accident rate. The current sharp rise in raw material prices has led to an increase in unit repair costs, but over the medium term this should be offset by rate revisions and other measures. However, from a future perspective, declining birthrate, aging and declining population, and penetration of CASE (Connected, Autonomous, Shared and Electric) and MaaS (Mobility as a Service) are expected to have an impact. JCR does not expect the domestic automobile insurance market to change significantly in a short period of time, but will continue to monitor spread of self-driving cars, environmental improvements, and legislative measures from a medium- to long-term perspective.

(5) Fire insurance, which is susceptible to natural disasters and major accidents, has been constantly in the red due to frequent outbreaks and intensification of natural disasters. The companies have continued to implement measures to improve profit, such as a significant increase in premium rates, product revisions, restrictions and stricter underwriting, and disaster prevention and mitigation efforts, and profitability is showing a steady improvement trend. However, there is still room for improvement in profit structure. As reinsurance capacity is shrinking and reinsurance costs are increasing due to more frequent natural disasters, optimization of retentions on a group basis is being promoted. JCR

will continue to monitor the results of profit improvement measures such as appropriate premium rate and product revisions based on balance of risk and return.

(6) Major non-life insurers have increased packaged products for SMEs and new types of insurance that capture insurance needs such as healthcare, GX-related (renewable energy, etc.), and cyber-related. There is room for expansion as insurance penetration rate is still low relative to the size of these markets. New insurance needs may emerge as a result of environmental changes including the COVID-19 crisis, and this could provide business opportunities for non-life insurers.

(7) Major non-life insurers are pursuing a basic strategy to further lower their expense ratios by reducing workloads and improving business efficiency through promotion of DX, digital investments, and other measures. The specific details of the measures are wide-ranging, and it is expected to take time for the effects to be realized, but they are expected to contribute to strengthening the earnings power of core insurance business. JCR believes that the companies' recognition of the current severe business environment has led to these efforts, and will pay attention to the results, including the extent to which there is room for efficiency.

(8) Major non-life insurance groups have been building a diversified business portfolio in terms of types of risks and geographic locations. As a result, non-life insurance and life insurance businesses, as well as domestic and overseas businesses, complement each other, thereby limiting fluctuations in profit and ensuring stable consolidated net income for the group. The life insurance business is handled by group companies of each group and they focus on sales of relatively profitable protection products through a variety of sales channels, including non-life insurance agents, financial institutions, and independent insurance agents. Although COVID-19 related claims and benefits payments surged in FY2022, the special treatment for "deemed hospitalization," which accounts for the bulk of these payments, has already been revised, and the downward pressure on profit is expected to be only temporary. In addition, major non-life insurance groups are taking an aggressive stance on overseas business in order to secure growth opportunities and diversify risks, and there is a strong appetite for strategic investments. While the momentum for large-scale M&A has somewhat receded over the past few years due to high valuations, there has been an increase in bolt-on acquisitions, which are smaller in scale and have easy to envision synergies with existing businesses. The business environment on a global scale is uncertain due to changes in financial markets, rising inflation, and concerns about recession. The key point for the rating is realization of synergies among group companies, and JCR is focusing on the results including the asset management aspect.

(9) ESR of major non-life insurance groups is at a level that allows them to maintain soundness even under considerable stress. In analysis of non-life insurers, JCR considers that capital adequacy has the largest weight in the quantitative aspect, focusing on business foundation, financial foundation, and risk management systems based on characteristics of their businesses. The group creditworthiness of major non-life insurance groups is extremely high, equivalent to "AAA" and "AA+." JCR believes that each group has set a target range for ESR, which indicates soundness based on economic value, and is implementing a disciplined capital policy. They are actively working to manage underwriting risk by selling strategically held stocks, controlling interest rate risk in the life insurance business, and utilizing reinsurance, and they ensure sufficient ESR that matches the group creditworthiness, needless to say, sufficient solvency margin ratio under current regulations.

(10) Maturity of ERM system of major non-life insurance groups is high, and JCR appreciates the fact that the groups are flexible and take appropriate actions even when the business environment changes drastically in a short period of time. They have established an integrated earnings and capital management system based on the concept of risk, and ERM and management are closely linked, for example, by linking business plans and capital policies based on risk appetite, using economic value-based assessments in setting earnings indicators. All major non-life insurance groups are designated as IAIGs (Internationally Active Insurance Groups), and the importance of global and group-wide ERM is increasing due to the recent expansion of overseas business. JCR believes that each group is operating with considerable care in cooperation with its group companies, including those overseas, and that management decision-making and awareness of issues are appropriately shared.

(11) In June 2023, major non-life insurance companies announced that they had received report request orders from the Financial Services Agency for the fact that their sales representatives had been involved in premium adjustment in advance in the renewal of a joint fire insurance policy for a specific customer. Each company has established an investigation committee consisting of outside attorneys and others to confirm the facts and to investigate whether or not there are similar cases. JCR will continue to monitor the progress of the investigation and will closely monitor the impact on the sales and customer bases of each company.

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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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