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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 22-D-0224 through 22-D-0226 dated today for rating rational for individual companies.

Rating Viewpoints

(1) Having reviewed the ratings for major non-life insurance groups' core companies and insurance holding companies, JCR affirmed the ratings on all of these companies and retained the Stable outlook. Although the fiscal year ended March 2022 (FY2021) saw not only the COVID crisis persist but also business conditions change significantly, including trends in the financial market like the heightening of geopolitical risks toward the year-end, it ended favorably, as indicated by the much higher profit level of major non-life insurance groups than before. The occurrence of natural disasters in Japan that drastically affect the earnings was at a low level for two years in a row. As regards the profitability of the fire insurance business, which has been issue to be addressed, earnings improvement measures, such as the constant revision of rates and products and the adoption of a stricter underwriting policy, are gradually yielding positive results. For the automobile insurance business, good profitability is maintained, reflecting a decrease in accidents, etc. In the overseas business, the profit level has risen thanks to the elimination of the impact of insurance claims payments in FY2020 because of the COVID crisis, as well as to other factors like the realization of rate increases on the back of the hard market.

(2) JCR assumes the impact of the Russia-Ukraine situation to be limited for now. While major non-life insurance groups who operate globally have certain levels of underwriting of property, trade credit, marine, aircraft and other insurance in the region, the size of such underwriting is small relative to the entire group portfolio. In addition, war risks are basically an immunity, and JCR views that, even for some insurance that covers such risks, risks are adequately controlled through, for instance, reinsurance schemes.

(3) For domestic natural disasters excluding earthquakes, a certain amount of insurance money was paid in FY2020 and FY2021 due to heavy rains and snows but was much below the historically high levels recorded in FY2018 and FY2019, thus remaining low for two years in a row. Overseas, on the other hand, there still is a tendency of frequent occurrence of large-scale natural disasters such as hurricanes and cold waves in North America and floods in Europe, and the hard market continues. Even though major non-life insurance groups have been able to stabilize their earnings in a mutually complementary manner with their business portfolios that are well-diversified into domestic and overseas operations, they cannot escape the impact of natural disasters in Japan, where they are mainly based. Given that natural disasters of the scale said to be "once in several decades" have been occurring in a relatively short period of time, JCR considers 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 rate revisions for fire insurance, growth in new types of insurance, etc. The combined ratio of automobile insurance, which accounts for nearly half of the premiums, stays at a favorable level as loss ratio is pushed down constantly and gradually by the spread of ASVs (advanced safety vehicles) and further by a decrease in the number of accidents over the last two years because of self-quarantine amid the COVID crisis. From a future perspective, the aging society with a declining birthrate, population decline and the penetration of CASE (connected, autonomous, shared and electric) technologies and the MaaS (Mobility as a Service) platform, along with other factors, are projected to have some impact. Given the solid domestic automobile insurance market, JCR does not expect the business environment to change drastically in a short period but will nevertheless keep a close eye on the spread of automated vehicles, the status of improvement in the business environment and legal measures taken and so forth from a medium- to long-term perspective.

(5) For the fire insurance business, which tends to be affected by natural disasters and major accidents, while it has been constantly in deficit as natural disasters have been occurring more frequently and with greater intensity than before, there are signs of steady improvement in profitability thanks to the continuous efforts to improve earnings, including a sharp raise in rates, product revisions, restrictions

on underwriting, adoption of a stricter underwriting policy and implementation of measures to prevent and reduce disasters. That said, the pace of improvement is slow because of the long compensation periods of the products, leaving room for improving the earnings structure. JCR will therefore continue closely watching the outcomes of revenue improvement measures, such as the realization of appropriate rates and product revisions in consideration of the risk-return balance.

(6) Major non-life insurance companies are striving to lower the combined ratio even further by increasing business efficiency through digital transformation, etc. It will be several years before the effectiveness of such efforts can be realized, but the earnings capacity of the core insurance business is likely to increase as a result; therefore, outcomes will be closely monitored. Moreover, packaged products targeting SMEs and new types of insurance to capture such insurance needs as healthcare, renewable energies and cyber-related are showing sharp growth for the non-life insurance groups alike. As new insurance needs have become evident with changes in consumer behavior and risk recognition amid the COVID crisis, they may provide new business opportunities for non-life insurance companies.

(7) Major non-life insurance groups have been building a diversified business portfolio in terms of risk categories and geographical areas. As a result, they have been curbing fluctuations in profits and ensuring a certain consolidated net income by mutually complementing businesses by, for instance, covering downward pressure on domestic operations with the overseas business. They all engage in the life insurance business through subsidiaries and focus on the sale of relatively profitable protection-type products through diverse channels including non-life insurance agents, financial institutions and walk-in insurance shops. Moreover, they take proactive stance in the overseas business so as to secure growth opportunities and diversify risks, and thus their appetite for strategic investment is rather strong. While momentum for large-scale M&As appears to have become somewhat smaller over the past few years because of market conditions and restrictions on valuation, JCR predicts that bolt-on M&A deals that are small in scale and easier to envision synergies with existing businesses will increase. While the business environment on a global scale is uncertain because of heightening geopolitical risks, changes in the financial market, etc., JCR considers that factors like the realization of group synergies are the keys to the rating decisions and is thus keeping an eye on actual results.

(8) JCR is looking at the business and financial bases, risk management system, etc. in light of business characteristics when rating non-life insurance companies including major non-life insurance groups but considers that the weight of assessment on capital adequacy is largest from the quantitative aspect. The creditworthiness of major non-life insurance groups is extremely high, which is equivalent to the rating of AAA or AA+. While non-life insurance groups have been steadily accumulating retained earnings, they have been proactively reducing price fluctuation risk associated with cross-shareholdings, controlling interest rate risk in the life insurance business, managing insurance underwriting risk by utilizing reinsurance and so forth. JCR believes that their ESR as an indicator of economic-value based soundness, let alone solvency margin ratio under the current regulations, is good enough to be commensurate with the group's creditworthiness.

(9) JCR finds the ERM system of major non-life insurance groups to be highly mature. Major non-life insurance groups have built an integrated management system for earnings and capital based on the concept of risks through the establishment of ERM and have been taking measures to closely connect ERM and management, including linking their business plans based on risk appetite to capital policy and the utilization of economic value-based evaluation for setting earnings indicators, etc. While incorporating ERM into the rating in consideration of the qualitative aspect, JCR positively views that major non-life insurance groups are taking agile and appropriate measures even when the business environment is changing drastically in a short period. These groups are all designated as IAIGs (internationally active insurance groups), and the significance of global and group-wide ERM is increasing because of factors like the recent expansion of the overseas business. That said, JCR has confirmed that non-life insurance groups are taking considerable care to ensure that decision-making and awareness sharing of issues are not bottlenecked even in this era of the COVID crisis when cooperating 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: 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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