21-D-1150
January 21, 2022

JCR's Rating Review of Major Life Insurers

Japan Credit Rating Agency, Ltd. (JCR) has reviewed ratings for major domestic life insurance groups from the following rating viewpoints. Please refer to JCR's press releases (from 21-D-1151 to 21-D-1154) for the rating rationales for the individual companies.

Rating Viewpoints

(1) JCR reviewed ratings for core companies and an insurance holding company of major life insurance groups and has affirmed the issuer ratings of Dai-ichi Life Group, Meiji Yasuda Life Group and SUMITOMO LIFE Group, whose group creditworthiness is equivalent to "AA-," and revised the rating outlook from Stable to Positive. The outlook on the Nippon Life Group, which has a high level of group creditworthiness equivalent to "AA+," remains Stable. These revisions mainly reflect JCR's current views on the interest rate risk of the companies and the impact of the COVID-19 pandemic. JCR has been incorporating interest rate risk arising from the duration gap between assets and liabilities of the life insurers as a relatively large constraining factor in its ratings. As the introduction of new economic value-based solvency regulations approaches, companies are increasingly taking ERM-conscious management into account and clearly indicating the direction of their measures to reduce and control interest rate risk. Each company has been taking measures such as lengthening asset duration and reviewing its debt structure, and the total amount of interest rate risk is believed to have steadily decreased. JCR believes that a reduction in the sensitivity of economic value-based indicators through risk reduction will positively affect the Group's creditworthiness. On the other hand, JCR had expected that the prolonged COVID-19 pandemic would have some negative impact on the life insurance industry, but the impact was generally limited in terms of restrictions on sales activities, decline in policy performance, trends in claims and benefit payments, and turbulence in financial markets. Despite the considerably stressful business environment, major life insurance groups are flexibly responding to changes in consumer needs and behavior, while demonstrating the comprehensive strengths they have developed over the years. They have also maintained their financial soundness.

(2) Although JCR said that it would carefully monitor trends in the "depth" and "length" of the impact of the COVID-19 pandemic, the impact is limited and JCR does not believe that it will be a limiting factor for the rating. Many domestic life insurers, including major life insurance groups, have been proactively increasing face-to-face opportunities with customers, based on face-to-face solicitation by sales staff. The COVID-19 pandemic forced a review of this sales style, and the companies have been promoting a new sales style that takes into account the prevention of the spread of infection by using non-contact tools such as web conferencing and video calling applications, and revising their contract and maintenance procedures. Although the policy performance of each company fell sharply in the first quarter of the fiscal year ended March 2021 (FY2020), which included the period of self-restraint in sales under the first emergency declaration, it has been gradually recovering since the second quarter and is now returning to the level before the outbreak of the COVID-19 pandemic. There is also a growing need to purchase insurance and review coverage due to changes in consumers' health consciousness. The impact of the COVID-19 pandemic on overseas operations is likely to be limited, considering its share of the group's overall earnings.

(3) In rating life insurers, JCR focuses on the business base, financial base, risk management system and other factors based on the characteristics of the business, but from a quantitative standpoint, JCR emphasizes the evaluation of capital adequacy. In assessing the capital adequacy, it is necessary to take into account not only the level of regulatory capital adequacy but also the economic value-based capital adequacy (ESR) based on the characteristics of its insurance liabilities, and the higher the rating, the more weight is given to the economic value-based assessment. JCR also confirms how management has been involved in the enhancement of capital in the course of a certain passage of time through ERM, which was established as an integrated management framework for earnings and capital based on risk management. Major life insurance groups have accumulated retained earnings, including various types of reserves, and their core capital has been on an upward trend. They also conduct economic value-based assessments through internal control, and their capital adequacy is generally at a level equivalent to the AA range. On the other hand, due to the nature of the business, it is inevitable to have a certain amount of ultra-long term insurance liabilities,

and they are exposed to interest rate risk arising from the duration gap between assets and liabilities, so the economic value-based capital fluctuates significantly as the interest rate environment and other assumptions change. Therefore, in addition to the level of ESR, it is also important for them to reduce the sensitivity through measures such as reduction of interest rate risk. Considering the balance between securing profits on an accounting basis and reducing interest rate risk on an economic value basis, JCR has considered that it would take a considerable amount of time to reduce interest rate risk. However, even excluding the impact of the change in the assumption for calculation, including the introduction of ultimate forward rate, steady progress has been made in reducing the risk amount, and JCR expects this trend to continue over the medium term.

(4) In terms of asset management, while there is a trend to lengthen duration, including investments in ultra-long term government bonds, they have secured a certain level of income by increasing the ratio of foreign currency denominated public and corporate bonds, including foreign bonds without currency hedge and alternative investments in their investment assets. However, they keep a relatively high ratio of yen-interest assets in the general account assets and there have been no significant changes to their portfolios for a short period of time.

(5) Core profit of major life insurance groups has been stable on the strength of large mortality gains. Although there were groups which saw a significant changes in the policy performance due to impact from insurance premium rate revisions, changes in the tax treatment of business insurance, COVID-19 pandemic, etc., their performances have been stable in general over the past 3 years. They are firmly establishing diversified and specialized sales channels, while having the sales representatives' channel as a core channel. Diversification of their product lineups have advanced from the perspectives of profitability and in line with consumers' needs, and their product mix of policies in force is gradually changing due to their controls of sales of savings type products and focus on third sector insurance and health promotion products. JCR sees that whether they can keep stability of earnings base, through enhancement of sales of protection type insurance products such as death, medical and nursing care insurance and more diversified investment assets, will be of importance. JCR will pay attention to whether they can ensure balance between risk and return of products to be sold through each sales channel and can stably increase embedded value (EV) through achievements of sales activities such as value of new business.

(6) Major life insurance groups have been accelerating overseas business development through acquisitions of relatively large offshore life insurers. Concerning the overseas businesses, JCR is watching achievements of group synergies, thinking such achievements as a major point. Dai-ichi Life Group ranks first in terms of contributions from the overseas business to the group consolidated profits, indicating that it has well diversified the earnings sources. On the other hand, JCR sees that there is room for expansion of contributions from overseas business for other groups and limits the incorporation of this element into their ratings to a small degree. As for the COVID-19 pandemic impact on the overseas business, JCR will continue to check the degree of impact and outlook for recovery as the situation varies by region and product portfolio.

(7) Major life insurance groups have built an integrated management system for earnings and capital based on risk management through the development of ERM. While sophistication of management has been promoted such as developments including collaboration with business plan, in which risk appetite is a starting point, and utilization of economic value-based assessment in setting earnings indicators, risk and return concept is becoming widespread. JCR incorporates ERM into their ratings in consideration of quantitative aspects. Major life insurance groups are taking flexible and appropriate steps to deal with the significantly changing business environment. Along with expansion of overseas business, global and group-wide ERM is becoming more important.

Kiichi Sugiura, Tomohiro Miyao

<Reference>

Issuer: Nippon Life Insurance Company

Long-term Issuer Rating: AA+ Outlook: Stable

Issuer: Dai-ichi Life Holdings, Inc.

Long-term Issuer Rating: A+ Outlook: Positive

Issuer: The Dai-ichi Life Insurance Company, Limited

Long-term Issuer Rating: AA- Outlook: Positive

Issuer: Meiji Yasuda Life Insurance Company

Long-term Issuer Rating: AA- Outlook: Positive

Issuer: SUMITOMO LIFE INSURANCE COMPANY

Long-term Issuer Rating: AA- Outlook: Positive

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026