# News Release

Japan Credit Rating Agency, Ltd.

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## 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 22-D-1316 to 22-D-1319) 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 upgraded the ratings of Dai-ichi Life Group, Meiji Yasuda Life Group and SUMITOMO LIFE Group by one notch, with the group creditworthiness considered being equivalent to AA. JCR affirmed the rating on Nippon Life Group, considering the Group's creditworthiness equivalent to AA+ as before. The rating outlooks for all groups are Stable. Although the business environment is under considerable stress, including the impact of the COVID-19 pandemic, the major life insurance groups are demonstrating the comprehensive strengths they have built up over the years and securing solid policy performance. They have also maintained its financial soundness. With the introduction of economic value-based solvency regulations looming, the groups have been promoting ERM-oriented management, and their management plans clearly indicate the direction of reducing asset management risk, especially interest rate risk caused by the duration gap between assets and liabilities. The total amount of interest rate risk has been steadily decreasing through efforts such as lengthening asset durations and reviewing the liability structure, and JCR believes that this trend will continue over the medium to long term. Progress in reduction in the sensitivity of economic value-based indicators through risk amount reduction will positively affect the groups' creditworthiness. JCR had been incorporating the interest rate risk of life insurers as a relatively large constraint on the rating, but has determined now that this is no longer necessary for all major life insurer groups.

(2) In assessing the creditworthiness of life insurers, JCR focuses on their business and financial bases and risk management systems based on the characteristics of their businesses, while on the quantitative side, JCR places emphasis on their capital adequacy. In assessing capital adequacy, JCR considers not only the sufficiency of regulatory capital, but also the sufficiency of capital in terms of economic value, and the higher the rating, the higher the weighting. At the same time, JCR confirms over a certain period of time how management has been involved in capital adequacy through ERM, which was established as an integrated management framework for earnings and capital based on risk management. The major life insurance groups have been accumulating retained earnings, including various reserves, and their core capital has been on an increasing trend. In addition, each group has implemented an economic value-based assessment through internal control, and JCR believes that the capital adequacy is generally adequate as ratings in AA range.

(3) The impact of the COVID-19 pandemic is limited. At the beginning of the spread of the infection, they promoted a new sales style, including use of non-contact tools and revising procedures for contracts and protection, in response to behavioral restrictions. In some respects, these efforts have led to increased efficiency and productivity in the sales staff channel, and the policy performance of each group is returning to pre-COVID-19 pandemic level. In the sales in occupational field, where the major life insurers excel, a positive aspect is seen in the increased needs to purchase insurance and review coverage due to changes in health awareness, while a certain degree of impact remains due to continued restrictions on entry and the spread of remote work. Although the payments of claims and benefits related to COVID-19 are rapidly increasing, the special treatment for "deemed hospitalization," which accounts for the majority of such payments, has already been revised, and the downward pressure on profit is expected to be limited in the fiscal year ending March 2023 (FY2022). The diversification and specialization of sales channels in response to diversifying consumer needs has taken root, and the product lineup has expanded. The rising trend in interest rates may increase the flexibility of product design.

(4) In terms of asset management, while there is a trend to lengthen duration, including investments in ultra-long term government bonds, they have been securing a certain level of income by increasing 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. Hedging costs on hedged foreign

bonds have increased due to a rise in foreign interest rates for a short time of period. Valuation gains/losses on bonds held by life insurers are on a declining trend due to deteriorating valuation gains/losses on foreign securities and the rising trend in domestic long-term interest rates. Although some life insurers have recently experienced relatively large declines in their solvency margin ratios based on current regulations, and some life insurers have experienced large declines in their real net assets, JCR believes that their ESR based on economic value has remained generally unchanged and that their financial soundness has not changed.

(5) Major life insurance groups have been accelerating overseas business development through acquisitions of relatively large offshore life insurers. Concerning the overseas business, as group synergies are key to the business, JCR is focusing on the results of them. Dai-ichi Life Group has the largest contribution from overseas business to the Group's consolidated profit among the major life insurance groups, and the Group has diversified its 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 factoring this into their ratings to a small degree.

(6) In order to realize improvement in corporate value amidst a changing business environment, it is important to manage the risk-return balance based on an economic value-based approach. Major life insurance groups are upgrading their integrated earnings and capital management systems based on risk management through the development of ERM. They are promoting initiatives that closely link ERM and management, such as linkage with business planning with risk appetite as a starting point, and incorporating economic value-based approach into product strategies, asset management strategies, and capital policies. The importance of global and group-wide ERM is increasing with the expansion of overseas business. While JCR incorporates ERM into the rating in consideration of qualitative aspect, major life insurance groups are taking flexible and appropriate measures.

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<Reference>

Issuer: Nippon Life Insurance Company
Long-term Issuer Rating: AA+ Outlook: Stable

Issuer: Dai-ichi Life Holdings, Inc.
Long-term Issuer Rating: AA- Outlook: Stable

Issuer: The Dai-ichi Life Insurance Company, Limited
Long-term Issuer Rating: AA Outlook: Stable

Issuer: Meiji Yasuda Life Insurance Company
Long-term Issuer Rating: AA Outlook: Stable

Issuer: SUMITOMO LIFE INSURANCE COMPANY
Long-term Issuer Rating: AA Outlook: Stable

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