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

JCR has reviewed the ratings of Japan's major non-life insurance groups (Tokio Marine Group, Sompo Holdings Group and MS&AD Insurance Group). Rating viewpoints in this review are as given below. Please refer to JCR's press releases (26-D-0469, 26-D-0470 and 26-D-0471) dated today for the rating rational for individual companies.

Rating Viewpoints

(1) JCR has reviewed the ratings of the insurance holding companies and core companies of major non-life insurance groups and affirmed the long-term rating with Stable outlook for all of the groups. Profit level has risen thanks to improved profitability in the domestic non-life insurance business, the robust overseas business and growth in investment income including gains on sales of strategic shareholdings, thus remaining high as in the previous fiscal year. Although the business environment continues undergoing changes, such as an increase in the severity and frequency of natural disasters and rising inflation, JCR predicts that the expansion of the earnings base through growth investments, in addition to appropriate rate settings and underwriting risk control, will drive future profit growth.

(2) All groups have an extremely solid business base in the domestic non-life insurance business. At the same time, they are actively pursuing the overseas business and business expansion into insurance-related fields with an eye to enhancing the business base, securing growth opportunities, diversifying risks and so forth. They have a generally strong appetite for strategic investments and are executing large-scale M&As and capital alliances, particularly in the North American specialty insurance market, where growth potential is significant and market size is large. While the proportion of the overseas business is rising, JCR believes that the shift toward highly profitable businesses with significant medium- to long-term growth potential, together with greater risk diversification, could contribute to enhancing the stability of creditworthiness. That said, key rating considerations include the post-acquisition integration process, the status of the development of governance and risk management frameworks and synergy creation. JCR will keep a close watch on trends in growth investments and progress in the post-investment integration process.

(3) Earnings capacity is high, by and large, for all groups. In the domestic non-life insurance business, ongoing efforts including rate revisions and the adoption of stricter underwriting standards for fire insurance have yielded positive results. Yet, given the nature of the business, the impact of natural disasters cannot be avoided, and thus maintaining financial resilience against large-scale natural disasters remains critical. In automobile insurance, factors like a rise in unit repair costs are dragging down the earnings, which however could be improved with constant rate revisions. Also, relations with insurance agents are now being revised against the backdrop of a series of improper incidents. Considering that the elimination of the dual structure and introduction of a new commission system will help rationalize agent commissions, JCR will watch whether these initiatives will lead to improving the earnings capacity even further.

(4) Capital adequacy is strong for all groups. ESR is at a level where sufficient soundness can be maintained even under certain stress conditions. Under a disciplined capital policy, the groups are striving to contain risks by taking such measures as the sale of strategic shareholdings, utilization of reinsurance and reduction of interest rate risk associated with the life insurance business. The maturity of the ERM framework is high, and management based on risk appetite is well established. As risks faced by the groups become more diverse and complex with the expansion of the overseas business and new businesses, the importance of globally integrated, group-wide ERM is increasing. JCR positively views the efforts of each group to enhance their capital management policies and risk management framework in line with changes in the business portfolio.

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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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