24-D-0443
July 12, 2024

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

JCR has reviewed the ratings of major non-life insurance groups in Japan. The rating viewpoints in this review are as follows. Please refer to JCR's press releases (24-D-0444, 24-D-0445, and 24-D-0446) dated today for rating rational for individual companies.

Rating Viewpoints

(1) JCR has reviewed the ratings of the insurance holding companies and core companies of the major non-life insurance groups, and has affirmed all of their ratings with "Stable" outlook. Although the business environment was quite stressful, both adjusted profit and net income of each group increased significantly year-on-year in the fiscal year ended March 2024 (FY2023), reaching record highs. However, while overseas business, which performed well due to premium rate hikes and other factors, drove performance, and foreign exchange factors and gains from the sale of strategically held shares boosted profit levels, domestic non-life insurance business (excluding investment income) was flat or declined year-on-year. In addition to the high claims paid for natural disasters, which continued from the previous year, profits of automobile insurance deteriorated due to the rising unit cost of repair expenses. Although each company has been subject to administrative action for premium adjustments in the corporate insurance field, the impact on their customer base and financial base has been limited.

(2) Although the impact of natural disasters cannot be avoided due to the nature of the business, each group has been able to stabilize profit level by diversifying business portfolio both in Japan and overseas in a mutually complementary manner. In Japan, typhoons, torrential rains, hailstorm disasters, and snow disasters occur frequently, and overseas, natural disasters of relatively large scale have also occurred. JCR believes that the scale and frequency of natural disasters, including impact of climate change, should be closely monitored. Fire insurance is susceptible to the impact of natural disasters and major accidents, and has been constantly in the red. However, measures to improve profits, including premium rate hikes, product revisions, restriction on underwriting and stricter underwriting, are steadily showing results. However, there is still room for improvement in profit structure, and continuing efforts to improve profit based on the balance of risk and return will be important.

(3) Combined ratio of automobile insurance, which accounts for almost half of premiums written, has been on an upward trend. The number of accidents has increased with the recovery of traffic volume after the end of COVID-19 pandemic, and inflation has pushed up the unit cost of repair expenses, including labor costs. While JCR believes that this can be covered in the medium term through premium rate revisions and other measures, the impact of natural disasters, such as hailstorms, cannot be ignored. In the automobile insurance market, in addition to the impact of the declining birthrate and aging population, the market is expected to be affected by the progress of automated driving technology. JCR does not consider that the domestic market environment will change significantly in a short period of time, but will continue to monitor the spread of self-driving cars, environmental improvements, and legislative measures from a medium- to long-term perspective, based on the movement of approval of "Level 4" self-driving cars.

(4) The major non-life insurers are increasing new types of insurance that capture insurance needs such as packaged products for SMEs, healthcare, renewable energy, and other GX-related and cyber risks, and JCR believes there is room for continued expansion, given the insurance penetration rate relative to the market size. In addition, companies are working to further lower their expense ratios by reducing workloads and improving business efficiency through the promotion of DX, digital investments, and use of AI. The specific details of these measures are diverse, and it is expected to take time for the effects to emerge, but JCR will keep a close eye on the results, such as reductions in workloads.

(5) 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, which distribute their products through a variety of sales channels, including non-life insurance agents, financial institutions, and independent insurance agents. The

domestic interest rate environment has reached a turning point, and an increase in flexibility in product design can be expected in the future. 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. In recent years, while they have been cautious about large-scale M&A due to high valuations, there has been an increase in bolt-on acquisitions that are smaller in scale and can easily be expected to generate synergies with existing businesses.

(6) ESR of major non-life insurance groups is at a level that allows them to maintain soundness even under considerable stress. Each group has set a target range and is implementing a disciplined capital policy, while reducing price volatility risk by selling strategically held shares, controlling interest rate risk in the life insurance business, and managing underwriting risk through the use of reinsurance. The maturity of ERM systems in the major non-life insurance groups is high, and ERM is closely linked to management, such as collaboration with business planning and capital policies based on risk appetite, and using economic value-based assessments in setting earnings indicators. Each group is designated as IAIGs, and the importance of global and group-wide ERM is increasing with the expansion of overseas business and other developments. JCR highly evaluates the flexible and appropriate response even in a business environment undergoing significant changes in a short period of time.

(7) In December 2023, major non-life insurance companies received a business improvement order from Financial Services Agency (FSA) for premium adjustments in the coinsurance for corporate customers. This case is considered to violate the "Prohibition of unreasonable restraint of trade (Cartel)" under the Antimonopoly Act, and Fair Trade Commission has conducted on-site inspections of the companies. This incident indicates that there were problems in the governance systems of each company and in the awareness of compliance in their sales departments, and each company has formulated a business improvement plan and is taking steps to fundamentally reform its corporate culture. Although the decline in reputation could lead to damage to the customer base, the coinsurance policies for corporations involved in this case are extremely small in terms of the overall underwriting portfolio of each company, and JCR does not believe that this case alone has any impact on the group's creditworthiness. JCR will monitor the progress and results of the various recurrence prevention measures from the perspective of whether an effective compliance system can be established to prevent similar problems from occurring.

Tomohiro Miyao, Seito Achiha

<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

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