

JCR's Rating Review of Major Life Insurance Groups

Japan Credit Rating Agency, Ltd. (JCR) has reviewed ratings of Japan's major life insurance groups' core companies and an insurance holding company from the following rating viewpoints. Please refer to JCR's press releases (from 24-D-1568 to 24-D-1571) for the rating rationales for the individual companies.

Rating Viewpoints

- (1) JCR has affirmed issuer ratings on all of the core companies and an insurance holding company of major life insurance groups with "Stable" outlook. Each group maintains strong business performance of policies and financial soundness. In anticipation of the introduction of economic value-based solvency regulations (new regulations), with ERM-oriented management becoming widespread, they have made progress in reducing market-related risks, particularly interest rate risks through reduction of duration gaps and other measures, and sensitivity of economic value-based indicators has been controlled. The stability of business performance and the results of risk reduction were as JCR had expected, and going forward, JCR will pay attention to the strengthening of governance in line with the acceleration of overseas expansion seen at present, as well as the impact of the introduction of new regulations and the status of responses to the regulations.
- (2) The rise in domestic interest rates has largely positive effects on life insurance companies. In addition to improving attractiveness of insurance products, consumers' needs for asset formation will boost business performance of policies, and this will contribute to securing new business value and expanding corporate value based on economic value. In terms of investment assets, although the valuation gains on bonds held will decrease, JCR expects an expansion of interest margins to boost earnings.
- (3) In the sales staff channel, a sales style that incorporates non-face-to-face sales into face-to-face sales has become established, leading to increased operational efficiency and productivity. Amid a difficult recruitment environment, the number of staff is being maintained through improved treatment and enhanced training systems. Diversification and specialization of sales channels in response to diversifying consumer needs have become established, and expansion of product lineups has also progressed. Against the backdrop of rising interest rates, life insurers are enhancing their savings products, and in some cases, they are raising their assumed interest rates on some products. While the sales trends of single-premium products are causing fluctuations in business performance of policies for some groups, JCR confirms medium-term trends mainly for relatively profitable protection products.
- (4) In terms of investment portfolio, they have been securing a certain level of earnings by increasing ratio of foreign currency denominated public and corporate bonds, including foreign bonds without currency hedge, and that of alternative investments, in their portfolio. There have been no major changes in the portfolio over the short term, and the proportion of yen-denominated assets remains relatively high. Although the increased interest rates have led to a decrease in valuation gains on yen-denominated bonds, a certain level of valuation gains has been secured for the overall portfolio. The downward impact on profits from the increase in hedging costs for foreign bond investments has been limited, and the interest gain is expanding due to movement to replace yen-denominated bonds with the aim of improving profitability.
- (5) There have been continued movements to strengthen overseas business, particularly in North America, through new investments in overseas life insurance companies and by increasing the share of capital invested. The Dai-ichi Life Group was an early mover in overseas expansion, and its overseas business now contributes the most to its consolidated results, with a high degree of regional diversification of its revenue sources. The Nippon Life Group is currently accelerating its overseas expansion, and the Meiji Yasuda Group and the SUMITOMO LIFE Group are also making moves to strengthen their overseas operations. Meanwhile, in Japan, there are moves to enter areas that have high affinity with the life insurance business. While JCR believes that these initiatives will contribute to diversifying business bases and revenue sources and expanding customer contact points, it will take a reasonable amount of time for them to realize group synergies. JCR will continue to monitor progress in PMI and other developments from a medium-term perspective.
- (6) Capital adequacy is at a sufficient level as a rating in AA range for all groups. Each group conducts internally managed economic value-based assessment, and although there are differences in the

level of ESR due to differences in calculation assumptions and target ranges, sensitivity to changes in interest rates and other factors has been controlled. With regard to the new regulations, JCR focuses on the facts that there will be a certain degree of uniformity in the assumptions and others and that comparability will increase. The importance of global and group-wide ERM has increased due to the acceleration of overseas expansion and the increase in the number of group companies. Each group has been continuously working to improve its ERM framework, and has closely linked ERM with management, such as formulation of business plans and asset management policies based on risk appetite and linking these plans and policies to capital policies. JCR incorporates ERM into the rating in consideration of qualitative aspect and assesses that the ERM of major life insurance groups is maturing, and believes that they are responding flexibly and appropriately.

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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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