

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 25-D-1460 to 25-D-1463) 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. Individual groups maintain strong policy performance, thereby building up the value of new policies. Financial soundness remains high. With the introduction of economic value-based solvency regulations (new regulations) approaching, ERM-oriented management has become widespread. With a reduction in market-related risks, particularly interest rate risks, the sensitivity of economic value-based indicators is kept in check. JCR will keep an eye on responses to changes in the interest rate environment, enhancement of risk management and governance structure in line with the expansion of overseas operations, capital policy based on the application of new regulations and so forth.
- (2) As regards changes in the domestic environment, constant interest rate hikes are positively impacting policy performance. While consumers' needs for asset formation help boost policy performance, growth in the value of new policies contributes to expanding corporate value based on economic value. In terms of asset management, widening interest margins are pushing up the profit level. Even though there have been incidents of customer information leaks by employees seconded to agencies such as banks, various countermeasures have been implemented, and their effectiveness will be closely monitored. JCR assumes that the amendment of the Insurance Business Act will have only a limited impact on sales operations.
- (3) In the sales agent channel, the recruitment environment remains challenging, but the decline in the number of sales agents is trending to slow down thanks in part to the efforts to improve treatment and enhance the training system. Also, as the diversification and specialization of sales channels to meet diverse consumer needs have taken root, product lineups have expanded. While policy performance is improving with a rise in assumed interest rates on savings products, the launch of new products, etc., JCR is paying more attention to medium-term trends, mainly for relatively highly profitable protection products.
- (4) There have been no major changes in the asset management portfolio. Even though moves to allocate funds to foreign currency-denominated assets and alternative investments so as to secure earnings continue, the proportion of interest-bearing yen assets remains relatively high. Driven by dividend income from equities and other assets, on top of improved yields on yen bonds, interest gains have expanded. While valuation losses on yen bonds have grown larger due to interest rate hikes, their impact on the assessment of financial base is limited, if based on economic value, and bonds with valuation losses are also being replaced.
- (5) Moves to strengthen overseas operations, especially in North America and Asia, through new investments, capital injections, etc. in overseas life insurance companies continue. Contribution of overseas operations to consolidated performance varies by group, but its proportion is increasing gradually as earnings sources have become more geographically diverse. Domestically, there are moves to expand into adjacent areas that have high affinity with the life insurance business, form cross-industrial alliances and so forth. While JCR views that these initiatives will contribute to expanding customer touchpoints, for one thing, the diversification of earnings sources and realization of group synergies will probably take a considerable amount of time. Close attention will be paid to progress in PMIs in and outside Japan from a medium-term perspective.
- (6) Capital adequacy is at a sufficient level for the AA rating category. Each group conducts internally managed economic value-based assessment, and JCR views that the actual ESR is highly stable, albeit some cases where mass cancellation risk negatively impacts sensitivity. While the new regulations aim to standardize ESR assumptions, etc. to a certain extent, drawing attention to comparative perspectives, JCR intends to focus more on internally managed ESR in the assessment of capital adequacy. With the expansion of overseas operations, a global and group-wide ERM will probably become increasingly important. JCR views that the success or failure of profit contribution

from overseas operations hinges on the effectiveness of the governance structure and will thus monitor progress in advancing ERM.

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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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