



Japan's Insurance Market 2023

Japan's Insurance Market 2023

Contents	Page
To Our Clients	
Masaaki Matsunaga President and Chief Executive The Toa Reinsurance Company, Limited	1
1. Typhoon Damage and Countermeasures against Storm Surge Inundation in Japan	
Daiki Sakamoto Chief Consultant, Science Solutions Division Mizuho Research & Technologies, Ltd.	2
2. Learning to Work with IFRS 17	
Johan Broek Managing Director Guy Carpenter & Company	15
3. Trends in Japan's Non-Life Insurance Industry	
Non-Life Planning Department The Toa Reinsurance Company, Limited	25
4. Trends in Japan's Life Insurance Industry	
Life Planning Department The Toa Reinsurance Company, Limited	34
Company Overview	39

To Our Clients

It gives me great pleasure to have the opportunity to welcome you to our publication, 'Japan's Insurance Market 2023.' It is encouraging to know that over the years our publications have been well received even beyond our own industry's boundaries as a source of useful, up-to-date information about Japan's insurance market, as well as contributing to a wider interest in and understanding of our domestic market.

The insurance and reinsurance industries have been encountering a substantially changing business environment. The risks that confront society are evolving at an unprecedented pace. Climate change is spurring natural disasters of intensifying severity, and the spread of COVID-19 and other issues are having a major impact on people's lifestyles and the structure of industry. Moreover, transformation is also underway as digital technologies move forward at breathtaking speed and demographics change in the form of a falling birthrate and aging population.

In today's era of "VUCA" (volatility, uncertainty, complexity and ambiguity), where conventional wisdom fails to predict events that occur one after another, the Toa Re Group aims to achieve sustainable growth in step with clients by providing them with optimal solutions and services based on a high level of expertise and strict risk control, and underpinned by TEAM TOA 2023, our medium-term management plan.

Utilizing the full force of the Group, we are pushing forward on an array of initiatives to find solutions to societal issues through our business activities. In pursuit of the Sustainable Development Goals (SDGs), we have formulated our Sustainability Vision, and have positioned as key issues, the promotion of climate change countermeasures, respect for human rights, promotion of D&I, and strengthening of internal control.

Everyone at the Toa Re Group will do their utmost to ensure that the Group consistently fulfills its mission as a reinsurance company "Providing Peace of Mind," as articulated in the Toa Re Mission Statement. We look forward to your ongoing support going forward.

We decided to issue this year's publication exclusively in electronic form, in recognition of the role that we all have in considering the environment and sustainability. I hope that our publication continues to provide a greater insight into the Japanese insurance market, and I would like to express my gratitude to all who kindly contributed so much time and effort towards its making.



Masaaki Matsunaga

President and Chief Executive
The Toa Reinsurance Company, Limited



Typhoon Damage and Countermeasures against Storm Surge Inundation in Japan

1

Daiki Sakamoto

Chief Consultant, Science Solutions Division
Mizuho Research & Technologies, Ltd.

1. Introduction

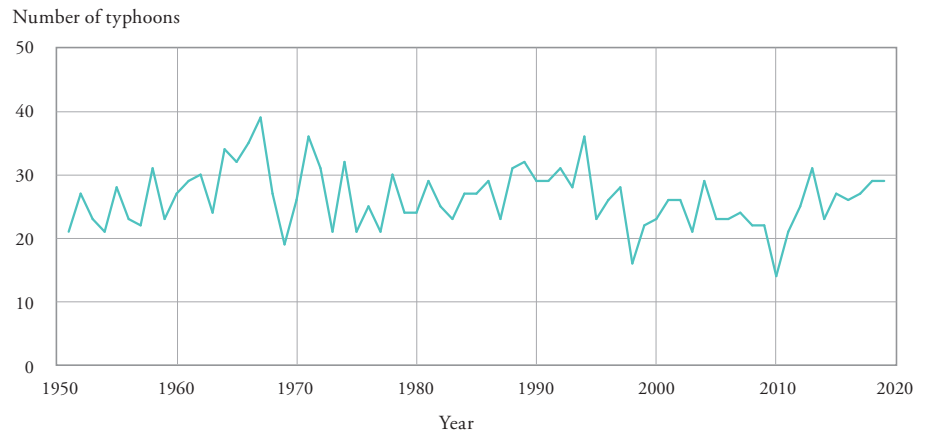
Japan must deal with many natural disasters, including earthquakes and tsunamis. Among those disasters, typhoons cause damage in the form of housing and facility destruction due to their strong winds, and river flooding and landslides due to the heavy rain that accompanies them. Typhoons also cause damage through massive storm surge inundation. To identify areas at risk of flooding, Mizuho Research & Technologies, Ltd. (MHRT) supports storm surge inundation modeling by quantitatively analyzing the effects of the storm surge and wave movement that occur when large typhoons strike. This paper summarizes historical typhoon damage in Japan and the current status of prediction systems with the aim of determining areas subject to storm surge, and describes relevant MHRT initiatives.

2. Damage Caused by Large Typhoons

2.1 Changes in the Number of Typhoons

Figure 1 charts the number of typhoons that have occurred annually since 1951, when the Japan Meteorological Agency (JMA) began recording typhoon observations. Figure 1 indicates that 20 to 30 typhoons occur annually, with some year-to-year variance. Moreover, the figure shows that the trend has remained basically the same in recent years.

Figure 1: Number of Typhoons by Year



Source: Created by Mizuho Research & Technologies, Ltd. based on Digital Typhoon¹

2.2 Japan's Largest Typhoons

Figure 2 summarizes the scale and damage of four particular typhoons that caused significant damage in the past. The Muroto Typhoon, Typhoon Ida (the Makurazaki Typhoon), and Typhoon Vera (the Isewan Typhoon) are considered to be the three largest typhoons to hit mainland Japan during the Showa Era, from 1926 through 1989.



Figure 2: Overview of the Largest Typhoons

Name	Date	Minimum barometric pressure (hPa)	Maximum wind speed (m/s)	Human casualties (People)	Property damage (Buildings)
Muroto Typhoon	Sep. 1934	911.6 (Landfall)	Over 60	18,030	493,897
Typhoon Ida (Makurazaki Typhoon)	Sep. 1945	865	51.3	6,208	363,727
Typhoon Vera (Isewan Typhoon)	Sep. 1959	895	84.9	44,019	1,197,576
Typhoon Nancy (Second Muroto Typhoon)	Sep. 1961	890	95.2	5,174	883,564

Source: Created by Mizuho Research & Technologies, Ltd. based on Digital Typhoon

The Muroto Typhoon struck Japan in September 1934, causing extensive damage primarily in the Keihanshin region that encompasses Osaka, Kyoto and Kobe. Data on the radius and speed of this typhoon are not available because it occurred before JMA began collecting typhoon statistics in 1951. However, it is believed to be one of the largest typhoons to have struck Japan, so for the purpose of making a map, the national government's "Modeling Guidance for Preparing Storm Surge Inundation Maps"² assigns the estimated central atmospheric pressure of the Muroto Typhoon as the central atmospheric pressure for the assumed largest typhoon. A description of the "Modeling Guidance for Preparing Storm Surge Inundation Maps" follows in Section 3.2 below.

Typhoon Ida struck Japan in September 1945, causing extensive damage primarily in the Kyushu, Chugoku, and Shikoku regions in western Japan. A lack of weather information and Japan's inadequate disaster prevention system immediately after the end of World War II exacerbated Typhoon Ida's extensive damage. As with the Muroto Typhoon, detailed data is not available for Typhoon Ida because it struck before JMA began collecting typhoon statistics.

Typhoon Vera struck in September 1959, causing damage primarily in the Kii Peninsula and Tokai regions in central Japan. This typhoon is known in Japanese as the Isewan Typhoon. Its central atmospheric pressure at the time of landfall was 929hPa, the second lowest (after the 925hPa of Typhoon Nancy, described later) since JMA began collecting typhoon statistics. Typhoon Vera's storm radius and speed were greater than those of Typhoon Nancy, so when preparing a map, the "Modeling Guidance for Preparing Storm Surge Inundation Maps" suggests using the storm radius and speed data of Typhoon Vera for the assumed largest typhoon.

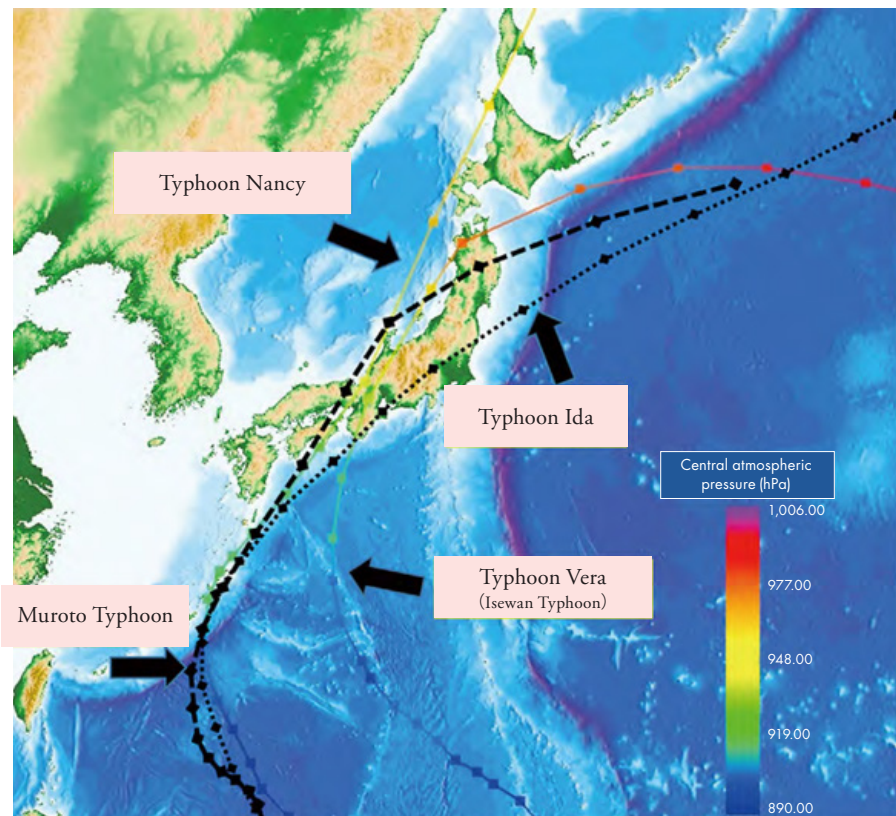
Typhoon Nancy struck in September 1961. Its name in Japanese is the Second Muroto Typhoon because it resembled (the first) Muroto Typhoon in scale and trajectory. As mentioned above, the central atmospheric pressure of 925hPa at the time of landfall was the lowest since JMA began collecting statistics, and the

1. Typhoon Damage and Countermeasures against Storm Surge Inundation in Japan

typhoon primarily caused damage in the Osaka Bay area. Although similar in scale to Typhoon Vera, the country had learned from the experience of Typhoon Vera and all areas of Japan had implemented disaster countermeasures. Damage from Typhoon Nancy was therefore significantly less than from Typhoon Vera, which confirmed the effectiveness of the countermeasures to natural disasters.

Figure 3 shows each typhoon's track and central atmospheric pressure. As mentioned above, no data is available for the Muroto Typhoon and Typhoon Ida, so the figure only presents track data for those typhoons.

Figure 3: Storm Tracks of Japan's Largest Typhoons



Source: Created by Mizuho Research & Technologies, Ltd.

2.3 Typhoon Damage in Recent Years

Figure 4 summarizes the typhoons that have caused significant damage since 2000. Figure 5 shows the track of each typhoon.

In 2004, Typhoon No. 16 (Chaba) and Typhoon No. 18 (Songda) both made landfall in the Kyushu and Chugoku regions, causing great damage. Hiroshima Prefecture suffered damage from both typhoons, and as a result the prefectural government created and released the Storm Surge Inundation Map described later.



Typhoon No. 7 (Prapiroon) in 2018 brought record rainfall over a wide area of western Japan, exacerbated by a seasonal rain front. The heavy rain caused more than 200 deaths, prompting JMA to dub this event “The Torrential Rains of July 2018.”

Typhoon No. 21 (Jebi) in 2018 traversed the Kinki region while maintaining its strength, causing great damage to the region. At Kansai International Airport, a tanker drifting due to strong winds collided with a connecting bridge, completely closing and isolating the airport. Commercial facilities on man-made islands such as Rokko Island and Port Island also suffered extensive storm surge inundation.

Moreover, in 2019 Typhoon No. 15 (Faxai) and Typhoon No. 19 (Hagibis) both struck the Kanto region. Typhoon Faxai caused large-scale power outages and damage to houses, primarily in Chiba Prefecture, and Typhoon Hagibis caused enormous widespread damage, including the destruction of 10 Hokuriku Shinkansen train carriages due to flooding on the Chikuma River. The memory of this damage remains fresh.

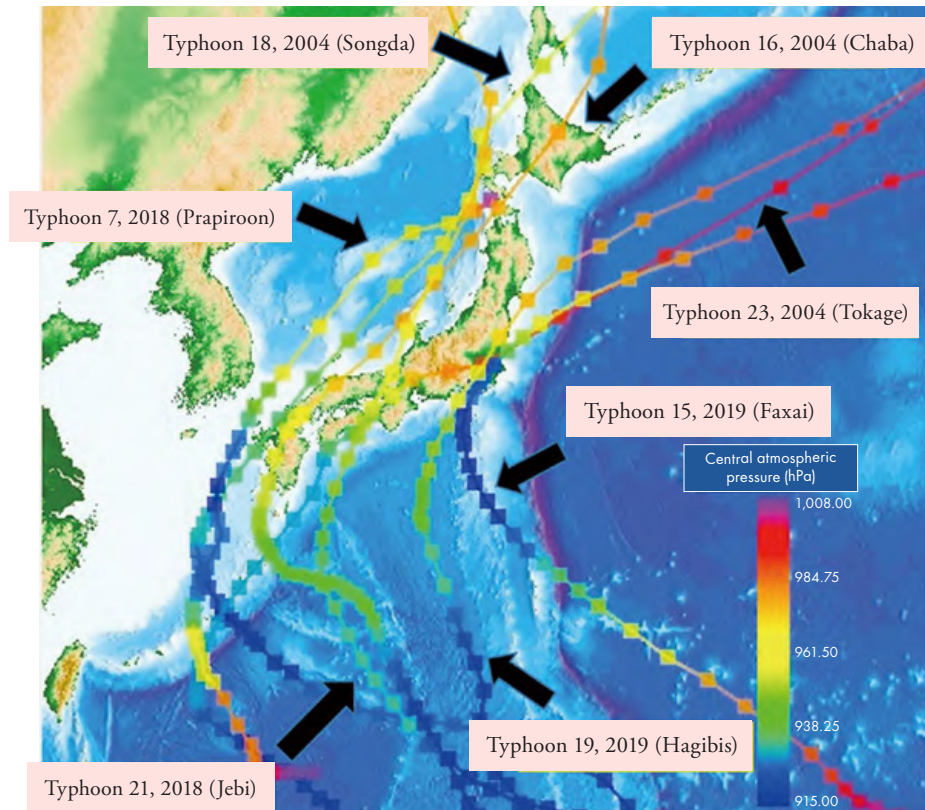
These typhoons caused significantly fewer human casualties and less property damage than the typhoons mentioned in Section 2.2 above, which indicates that disaster prevention measures have made good progress in various parts of Japan. In 2018 and 2019, however, the media widely covered major damage that occurred in urban areas, and people are increasingly concerned that typhoons will become larger due to rising sea temperatures brought on by global warming in recent years. Once again, the focus of attention is on disaster countermeasures for typhoons.

Figure 4: Overview of Large Typhoons since 2000

Name	Date	Minimum barometric pressure (hPa)	Maximum wind speed (m/s)	Human casualties (People)	Property damage (Buildings)
Typhoon 16, 2004 (Chaba)	Aug. 2004	910	56.6	303	55,208
Typhoon 18, 2004 (Songda)	Sep. 2004	925	48.9	1,411	67,492
Typhoon 23, 2004 (Tokage)	Oct. 2004	940	43.7	803	74,085
Typhoon 7, 2018 (Prapiroon)	Jul. 2018	960	33.4	755	51,110
Typhoon 21, 2018 (Jebi)	Sep. 2018	915	54.0	994	98,617
Typhoon 15, 2019 (Faxai)	Sep. 2019	955	43.7	153	77,104
Typhoon 19, 2019 (Hagibis)	Oct. 2019	915	54.0	596	91,652

Source: Created by Mizuho Research & Technologies, Ltd. based on Digital Typhoon

Figure 5: Storm Tracks of Recent Large Typhoons



Source: Created by Mizuho Research & Technologies, Ltd.

3. Storm Surge Damage and Damage Assumptions

3.1 Storm Surge Damage

Typhoons, with their strong winds, cause damage such as the destruction of buildings (with concomitant human casualties), and landslides (with concomitant property damage) caused by river flooding due to heavy rain. They also cause storm surge damage. In general, a typhoon has a suction effect as it moves toward land because its low pressure lifts the sea level. Moreover, a typhoon also has a blowing effect because the strong wind accompanying the typhoon blows from offshore to onshore, moving seawater toward coastal areas. These effects raise tide levels in the phenomenon known as storm surge. In addition, a typhoon raises the tide level the most when it moves through an area at high tide, increasing the likelihood of damage. Waves generated by strong winds can intensify the resulting storm surge, enabling it to overtop coastal embankment installations and cause flood damage over a wide area.



3.2 Local Government Initiatives to Update Hypothetical Storm Surge Inundation Maps

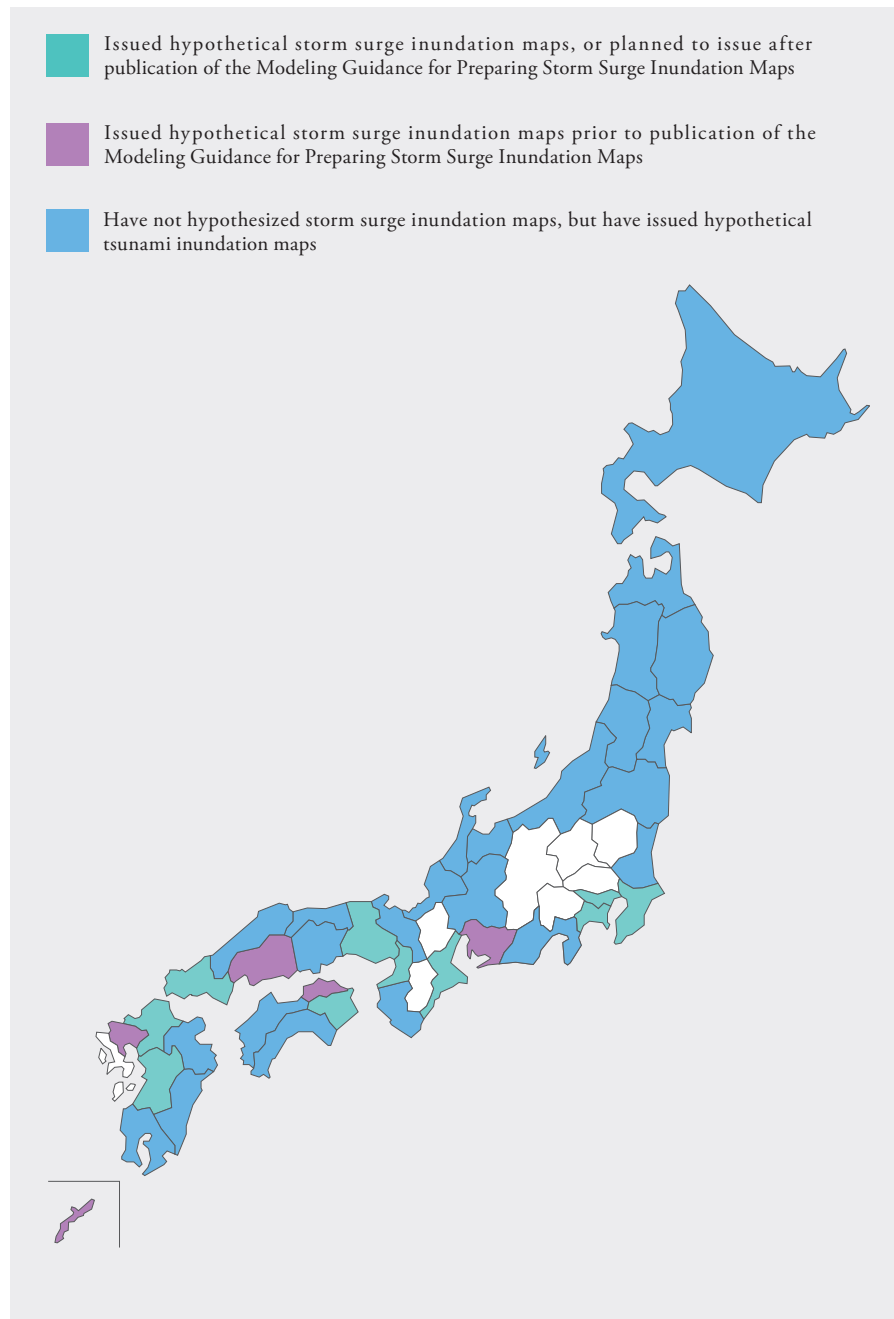
With the aim of enhancing evacuation systems and reducing damage in the event of storm surge, the May 2015 revision of the Flood Prevention Act established a new system to publicize expected flood zones in the event of the largest possible storm surge. Pursuant to this revision, in July 2015 the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Land, Infrastructure, Transport and Tourism released the “Modeling Guidance for Preparing Storm Surge Inundation Maps ver. 1.00.”² This guidance outlines the process for creating hypothetical storm surge inundation maps to promote storm surge countermeasures by local governments. In addition, the “Modeling Guidance for Preparing Storm Surge Inundation Maps ver. 2.00”³ was published in June 2020. It incorporated knowledge and learning from each prefecture since the release of version 1.00. Local governments draw on this guidance to prepare hypothetical storm surge inundation maps, with an emphasis on large cities. Figures 6 and 7 summarize related prefectural initiatives. In western areas of Japan, more proactive initiatives are being undertaken on an ongoing basis, reflecting the tendency for typhoon damage to be greater in western Japan than in eastern Japan. In addition to storm surge, disasters related to coasts and rivers include tsunamis and river flooding. Each prefecture along the coast is proceeding with tsunami-related measures, while all prefectures throughout the country have modeled hypothetical inundation maps regarding possible inundation from flooding near rivers and other water-related districts.

Figure 6: Prefectures with Hypothetical Storm Surge Inundation Maps (As of June 2020)

Overview	Prefecture (Year the map was issued)
Issued hypothetical storm surge inundation maps, or planned to issue after publication of the Modeling Guidance for Preparing Storm Surge Inundation Maps	Kumamoto (2017), Fukuoka (2019), Tokushima (2020), Yamaguchi (2020), Hyogo (2019), Osaka (2020), Mie (planned for 2020), Tokyo (2018), Kanagawa (2019), Chiba (2018)
Issued hypothetical storm surge inundation maps prior to publication of the Modeling Guidance for Preparing Storm Surge Inundation Maps	Okinawa (2006), Saga (2014), Kagawa (2004), Hiroshima (2004), Aichi (2014)

Source: Created by Mizuho Research & Technologies, Ltd.

Figure 7: Prefectural Hypothetical Storm Surge Inundation Initiatives
(As of June 2020)



Source: Created by Mizuho Research & Technologies, Ltd.



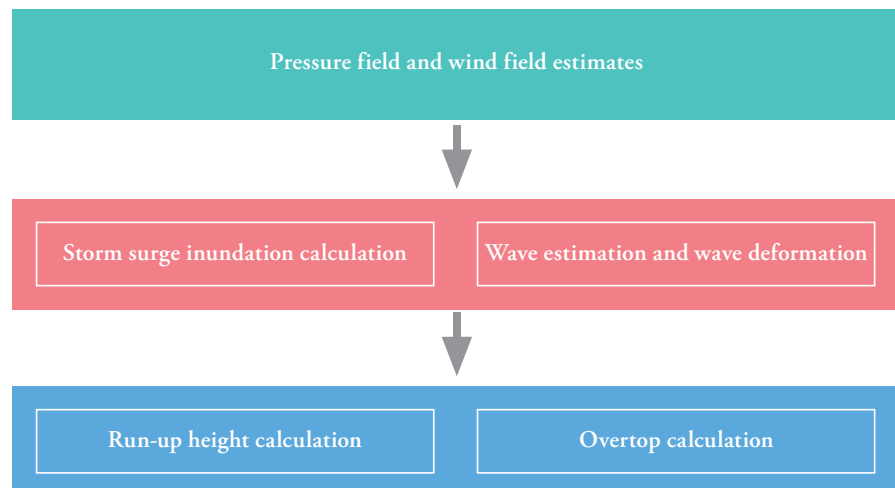
4. Simulation Technology for Modeling Storm Surge Damage and MHRT Initiatives

Storm surge damage models use simulation technology because they require predictions of the size of waves that would impact coastal facilities in the path of a typhoon on the scale of the largest in history. Simulation parameters for such a typhoon include the effect of waves generated by the wind and the increase in tide level due to the passage of a typhoon as discussed in Section 3. Results are combined to create a hypothetical storm surge inundation map.

Figure 8 summarizes the steps and flow of the mainstream simulation technique used to create the storm surge damage model. Estimates of storm surge damage begin with estimates of the atmospheric pressure and wind speed when a typhoon passes, and take into consideration the topographical characteristics of each particular region. This provides the pressure field and wind field needed to estimate factors including the typhoon’s wind-driven wave height and direction, along with the increase in tide level and the associated inundation in an array of locations. The former is called wave estimation and wave deformation, and the latter is called storm surge inundation calculation. The subsequent results make it possible to estimate the elevation of the sea level produced by waves at the shoreline when they strike a structure such as an embankment (run-up height calculation), and the degree to which the wave will overtop the embankment and surge inland (overtop calculation). Among these, storm surge inundation calculations, wave estimation and wave deformation are particularly important in modeling storm surge damage.

MHRT has technology for simulating tsunamis, storm surge, and other phenomena relevant to the field of coastal engineering. We are addressing the growing need to develop storm surge damage models in response to the large-scale damage caused by the large typhoons of recent years, as outlined in Section 2 above. This section provides a summary example of wave estimation and storm surge inundation calculation for a storm surge damage model.

Figure 8: Mainstream Simulation Technique Used for Storm Surge Damage Models



Source: Created by Mizuho Research & Technologies, Ltd.

4.1 Wave Estimation

This part of the example employs Simulating WAVes Nearshore (SWAN), a third-generation wave estimation model, to analyze Typhoon No. 19 (Hagibis), which struck in 2019, and compare it with the observed values of the Nationwide Ocean Wave information network for Ports and HARbourS (NOWPHAS). Figure 9 presents comparisons with observed values at the three locations of Omaezaki, Shimizu, and Shimoda. Figure 10 shows the wave heights at each location, confirming that wave estimation calculation results were able to basically recreate the tendency for observed values for wind to intensify and wave height to increase as a typhoon approaches. Moreover, Figure 11 shows the distribution of significant wave height and mean wave period for Omaezaki at 17:00 on October 12, 2019 when the significant wave height reached its maximum according to the calculation results.

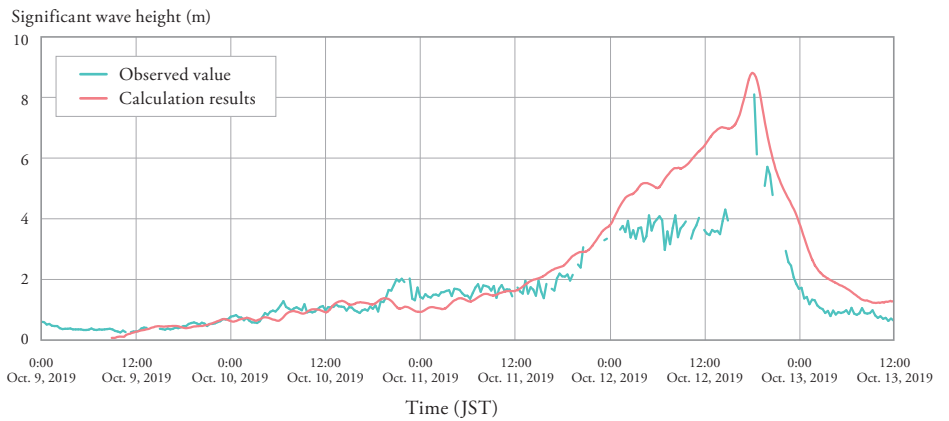
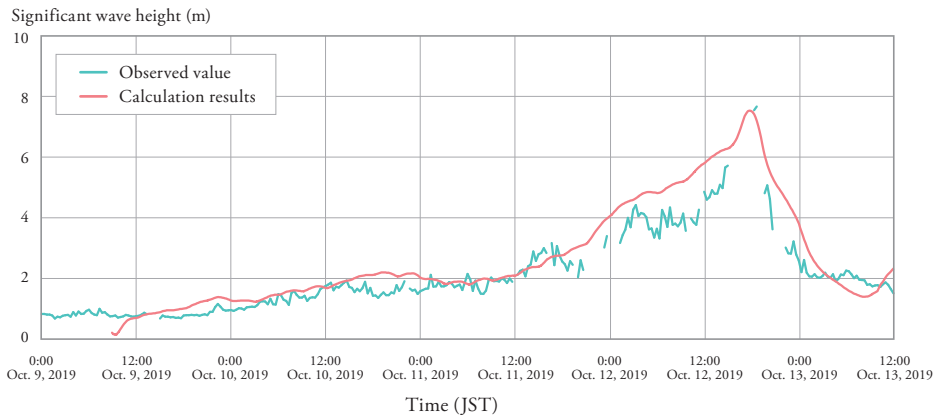
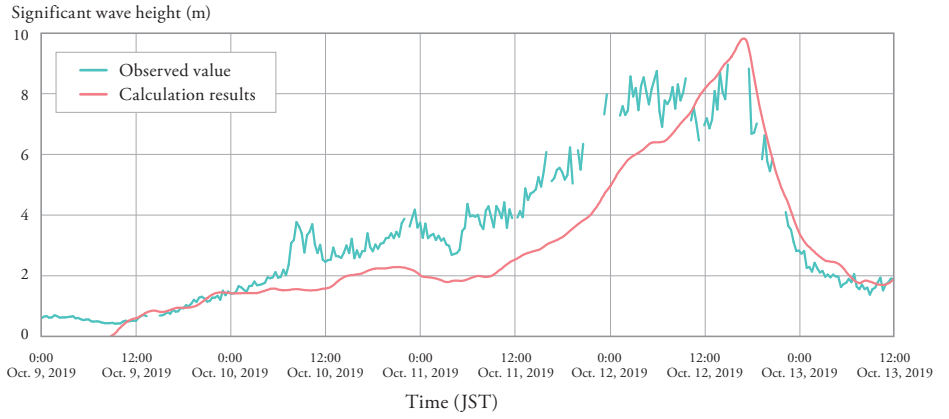
Figure 9: NOWPHAS Observation Points



Source: Created by Mizuho Research & Technologies, Ltd.

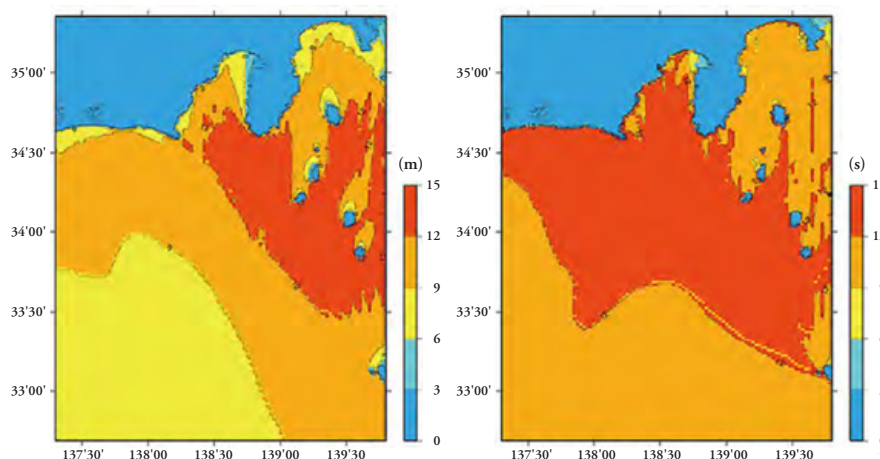


Figure 10: Comparison of Observed Values and Calculation Results
(Top: Omaezaki; Middle: Shimoda; Bottom: Shimizu)



Source: Created by Mizuho Research & Technologies, Ltd.

Figure 11: Calculation Results at 17:00 on October 12, 2019
(Left: Significant wave height; Right: Mean wave period)



Source: Created by Mizuho Research & Technologies, Ltd.

Figure 12: Japan Meteorological Agency Observation Points



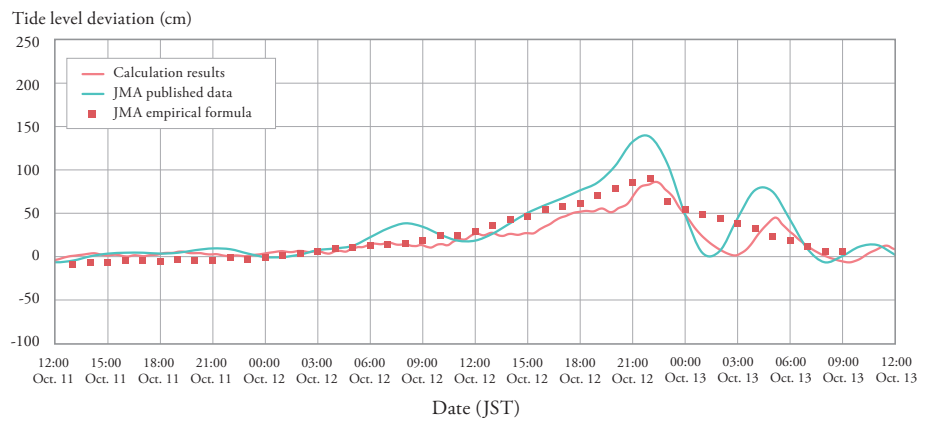
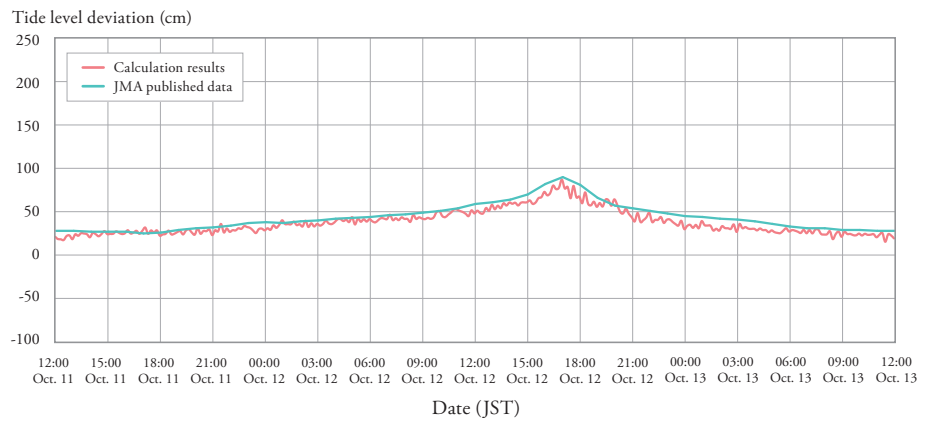
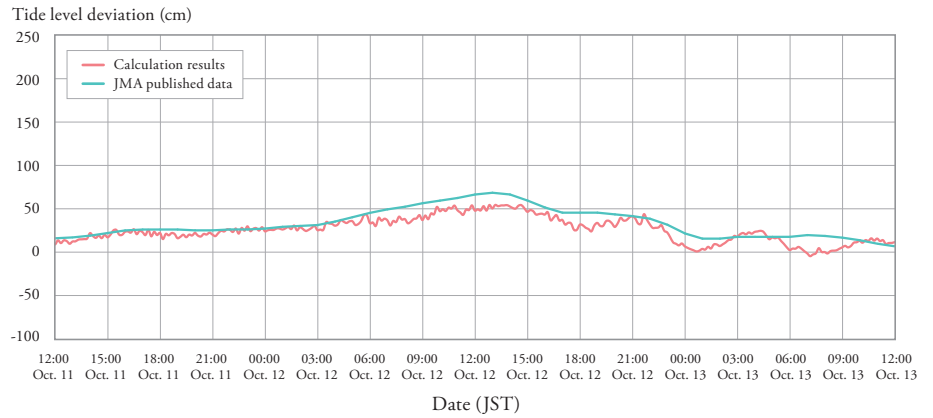
Source: Created by Mizuho Research & Technologies, Ltd.

4.2 Storm Surge Inundation Calculation

This part of the example employs MHRT's proprietary tsunami storm surge simulator Q-Wave[®] to analyze Typhoon No. 19 (Hagibis) in 2019 and compare the resulting data for change in tide level due to a typhoon (hereinafter, "tide level deviation") with published data derived from JMA observations. Figure 12 shows the three locations of Toba, Omaezaki and Tokyo to compare Q-Wave data and data published by JMA. Figure 13 shows tide level deviation at each location, confirming that storm surge inundation calculation results were able to basically recreate the tendency for tide levels to rise when wind intensifies as a typhoon approaches and atmospheric pressure drops. Figure 14 presents a tide level deviation distribution map.

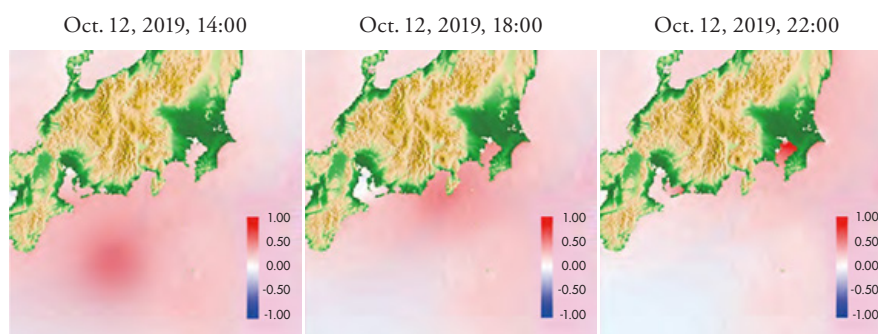


Figure 13: Comparison of Calculation Results and Observed Values
(Top: Toba; Middle: Omaezaki; Bottom: Tokyo)



Source: Created by Mizuho Research & Technologies, Ltd.

Figure 14: Tide Level Deviation Distribution Map



Source: Created by Mizuho Research & Technologies, Ltd.

5. Conclusion

This paper summarized the damage caused by major typhoons of the past, collated the initiatives of local governments to deal with storm surge, and presented examples of MHRT simulations related to storm surge. Many local governments are drawing on “Modeling Guidance for Preparing Storm Surge Inundation Maps” published by the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Land, Infrastructure, Transport and Tourism to model storm surge inundation maps, but governments in some areas have not kept up. MHRT is committed to contributing to progress by deploying its technology to help model storm surge inundation maps for local governments and reduce storm surge damage.

References

1. Digital Typhoon Homepage, <http://agora.ex.nii.ac.jp/digital-typhoon/>
2. Ministry of Agriculture, Forestry and Fisheries, Ministry of Land, Infrastructure, Transport and Tourism, “Modeling Guidance for Storm Surge Inundation Maps ver. 1.00” (2015)
3. Ministry of Agriculture, Forestry and Fisheries, Ministry of Land, Infrastructure, Transport and Tourism, “Modeling Guidance for Storm Surge Inundation Maps ver. 2.00” (2020)
4. Daiki Sakamoto, Hideto Yoshimura, Kazuhiro Araki, Takashi Manabe, “Wave Prediction and Analysis of Typhoon 19 in 2019 by Using SWAN,” Technical Report of Mizuho Research & Technologies, Ltd. Vol.1, No.1, (published September 2021)
5. Hideto Yoshimura, Daiki Sakamoto, Kazuhiro Araki, Takashi Manabe, “Numerical Simulation of the Storm Surge Induced by Typhoon 1919 by Using Tsunami and Storm Surge Simulator Q-Wave®,” Technical Report of Mizuho Research & Technologies, Ltd., Vol.1, No.1 (published in September 2021)

Note: Q-Wave® is a registered trademark of Mizuho Research & Technologies, Ltd.



2. Learning to Work with IFRS 17

Johan Broek
Managing Director, Guy Carpenter & Company

1. Executive Summary

The new rules are likely to impact the entire value chain of (re)insurers and put additional pressures on capital, dividends, liquidity and operational costs that are already under stress from the COVID-19 pandemic. All key business functions will need to develop sound understanding of key International Financial Reporting Standards (“IFRS 17”) concepts in order to support informed policy choices and operational decisions.

IFRS 17 was issued by the International Accounting Standards Board in May 2017 and has an effective date of January 1, 2023. Most insurers in Asia-Pacific are adopting IFRS 17 in 2023 or in the years that follow. However, Japanese insurers are not required to adopt IFRS 17.

IFRS 17 is a comprehensive, truly international IFRS Standard. It allows comparability with global peers. Japanese insurers are becoming global players and key stakeholders will need to be able to compare the financial results of Japanese insurers against their international counterparts.

Companies whom choose for adopt IFRS 17 will see fundamental change to their existing insurance accounting practices. They will need to approach the transition to the new requirements standards from many different perspectives and the transition will take time and efforts.

2. Macroeconomic Environment

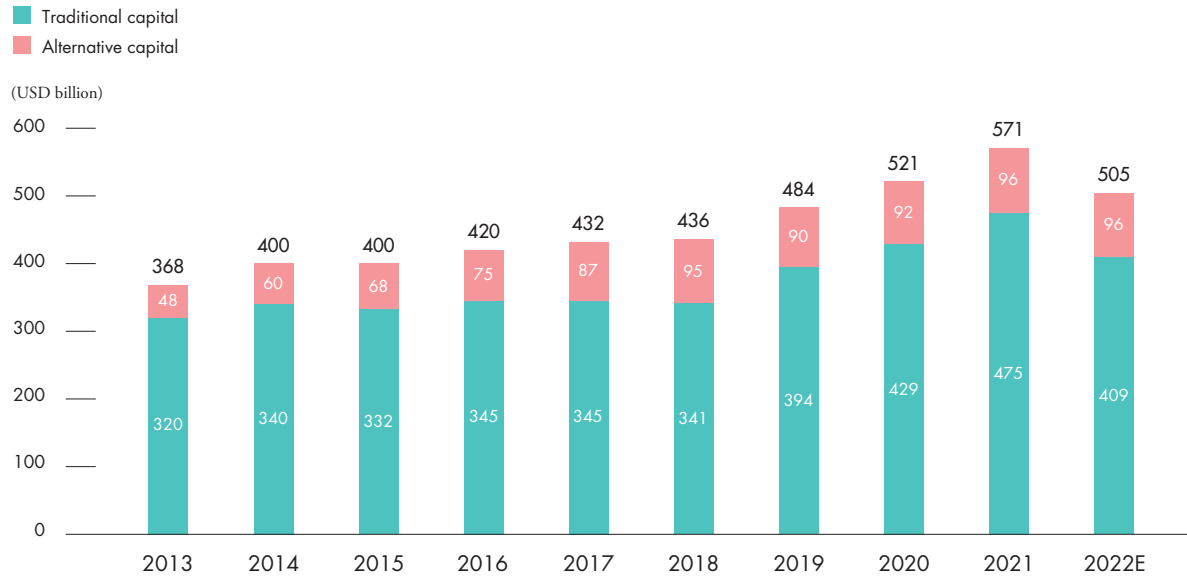
High inflation in many countries, driven by both supply-side and demand-side factors, has compelled central banks to raise interest rates in response. Interest rate hikes then flow directly into asset valuations. Additionally, recessionary expectations, the banking crisis, and geopolitical issues are currently creating havoc in asset markets.

These issues largely impact insurers and reinsurers through increasing costs (both direct operating and claim costs, some through imported inflation) and declining asset prices on investment holdings. This impact has resulted in an increase in earnings volatility and reduction in capital (Figure 1).

The failures of Silicon Valley Bank (SVB), Signature Bank, and First Republic Bank may represent a weakness in the US banking industry and have led to the heavily discounted rescue of Credit Suisse by UBS. Such shocks may further reduce available capital in the market, impacting the balance sheets of insurers that hold investments issued by banks and reducing the ability to raise new funds.

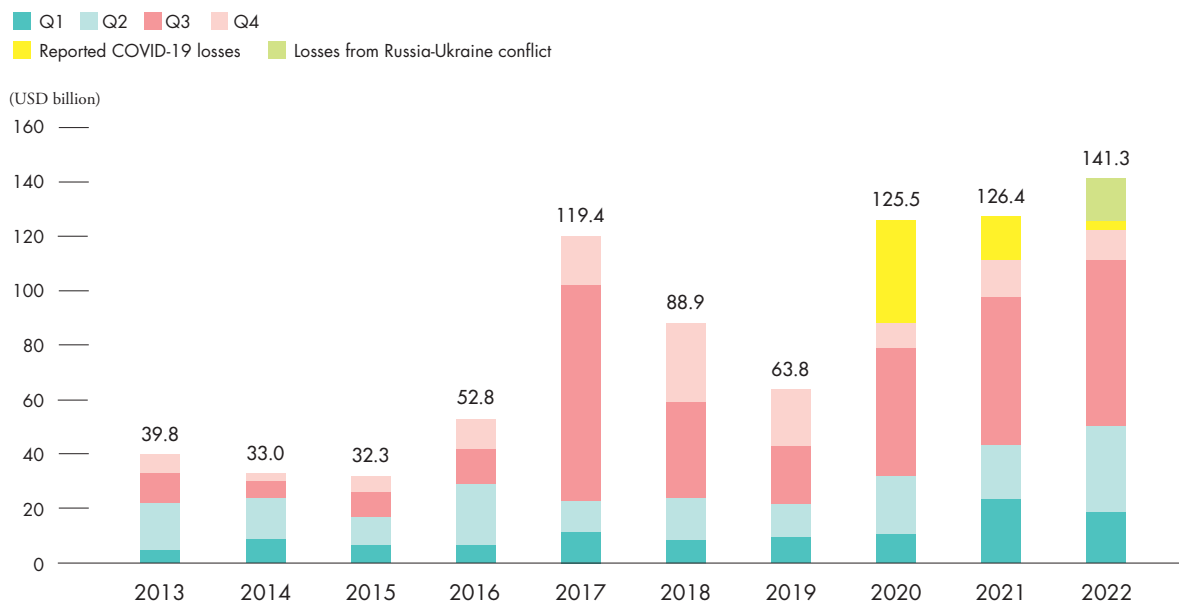
Additionally, growing catastrophe losses (Figure 2) and lower investment returns have led to reductions in capital, resulting in a hardening market and pricing concerns. As a result, most insurers have increased retentions, which will ultimately lead to greater retained earnings volatility.

Figure 1: Estimated Total Dedicated Reinsurance Capital



Source: Guy Carpenter, AM Best

Figure 2: Global Significant Insured Losses (2013 to 2022)



Significant Insured Losses (Est. losses > USD100 million);
 Source: Guy Carpenter, PCS, PERILS, Verisk, ICA;
 Losses from Russia and Ukraine conflict are estimated by S&P Global



Given the macroeconomic environment, the successful transition to IFRS 17 has become ever more important.

The new financial reporting standard for insurance contracts, IFRS 17, became effective for most reporting jurisdictions on January 1, 2023. The change is a major overhaul of existing practices and aims for higher transparency and comparability between insurers. In late 2022, European-headquartered insurance groups held investor education events to explain the expected impact of IFRS 17 transition on their future results and financial position.

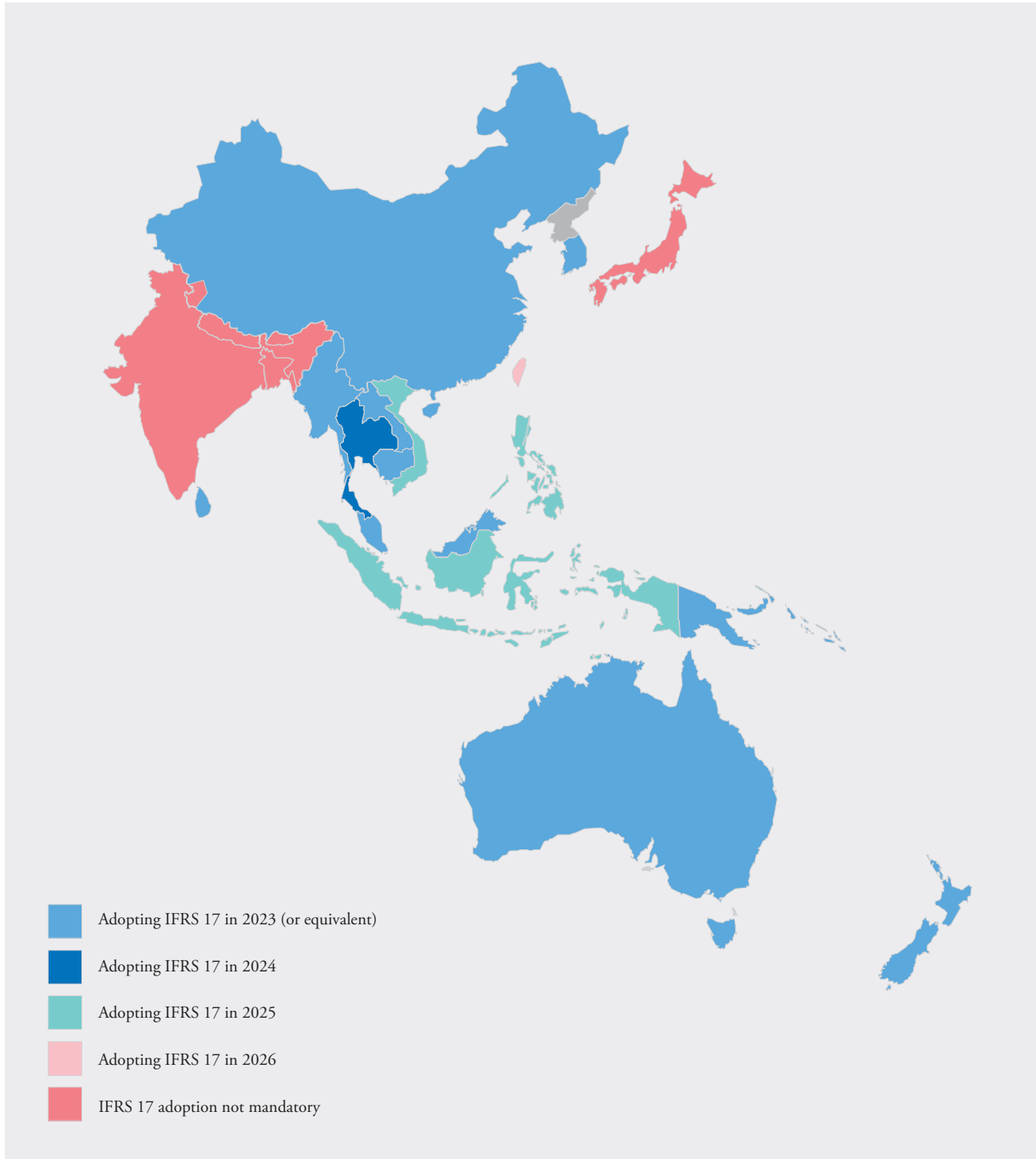
Insurers reaffirmed their previously disclosed strategic direction and targets, but indicated some rebasing of key performance measures. Risk appetite and capital management (including solvency ratios) are not affected, but changes are expected in return on equity, leverage, and combined ratios. The range of the expected change in key ratios is relatively wide and depends on each insurer's business mix and the degree of alignment between accounting policy choices and approaches to asset-liability management ("ALM").

IFRS 17 represents an evolution in financial reporting, but also has greater knock-on impacts, such as day-1 transition implications on available capital for risk-based capital (dependent on changes in regulatory reporting) and dividend issuance potential. Further, requirements for poorly performing businesses may result in greater earnings and capital volatility—insurers will have to recognise losses up-front for loss-making contract groupings.

IFRS 17 will be adopted in many jurisdictions in Asia-Pacific beginning in 2023, with others following from 2024 to 2026. Regulators in the region are also assessing the impacts of IFRS 17 to their risk-based capital standards, with some, such as Malaysia, already appearing to integrate IFRS 17 into future versions. In other major jurisdictions such as the EU, UK, and Canada, IFRS 17 is to be adopted in 2023.

The Accounting Standards Board of Japan (ASBJ) has not adopted IFRS and is not intending to adopt IFRS 17. Japanese companies who report using JGAAP are not required to adopt IFRS 17, however several insurers are strongly considering the adoption of IFRS, with the Sony Financial Group adopting IFRS 17 in FY2023.

IFRS 17 Adoption (Asia Pacific Map)





There are a number of significant challenges if IFRS 17 is to be implemented in Japan, namely:

- Catastrophe reserves will no longer be permitted under IFRS 17.
- If most of the premium has been recognised as income on long-term/life business under JGAAP, then it will need to be taken out of Shareholders' Equity upon transition and made a liability. It would improve ROE, but worsen Leverage ratios (i.e., giving the appearance of increased financial indebtedness), and potentially dividend payout ability. For the long-term fire business, which is considered unprofitable, the one-time impact on Shareholders' Equity is not recoverable.
- “Onerous business” can heighten income volatility through the change in the timing of loss recognition.
- Opening Shareholders' Equity will be impacted by the adoption of IFRS, with IFRS 17 being a significant impactor.
- Key performance indicators (“KPI’s”) commonly used to measure business performance will change significantly, leading to an incongruence of financial measures and difficulties in fully understanding financial performance in the short-run.

3. Loss of Catastrophe Reserves

Under IFRS 17, Catastrophe reserves previously used to smooth losses arising from catastrophic events will no longer be permitted for use for financial reporting.

Upon adoption to IFRS 17, catastrophe (and other contingent underwriting) reserves will have the following impact: Net Assets will be increased by the funds within these underwriting reserves as these reserves are reduced to nil on the opening Balance Sheet. Underwriting performance will become more volatile as the “smoothing effect” of these catastrophe and contingent results is removed.

Reinsurance can assist in the reduction of volatility due to the elimination of catastrophe reserves:

- Cat covers with higher coverage and/or lower attachment points
- Aggregate XOL programmes to counteract the impacts of accumulated cat losses
- Parametric coverage which activates recovery based upon reaching certain milestones

These covers will need to take into consideration the cost of reinsurance versus the additional protection afforded from an economical point of view.

4. Onerous Contracts

IFRS 17 defines an onerous contract as: “An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow.” – IFRS 17.47.

Under IFRS 17, the loss component on onerous (loss making) contracts must be recognised as a loss upon inception. As a simple example a policy with 100 dollar premiums, 20 dollar commissions, and 90 dollar expected losses, an insurer must recognise the loss of 10 dollars as soon as the policy is incepted (or on the policy purchase date if inception is subsequent).

The economics of the contract does not change, however the timing of the losses changes. Rather than the loss being incurred over time and smoothed against other profitable insurance contracts, IFRS 17’s requirement for recognising immediate losses on an onerous contract will increase income volatility. Increased volatility may result in knock-on effects to shareholder value such as reduced Price to Book ratios and the ability to meet consistent dividend payout ratios to shareholders.

The recognition of onerous business upon transition to IFRS 17 (i.e., impact on retained earnings) will reduce shareholders’ equity and result in a short-term impact on dividend payout ratios.

Increased reinsurance recovery on day 1 losses can be achieved by altering reinsurance structures to reduce impact of loss making business. Proportional reinsurance will cover onerous business on a proportional basis. Non-proportional reinsurance may be more targeted in reducing the impact of onerous business. However, doing so may increase reinsurance costs or ceding more business that is profitable (although the effects are not immediate). Internally, insurers can help reduce the risk of onerous business through: Enhanced data collection and analysis; Improvement of underwriting policies in terms of pricing and risk acceptance; Better allocation of overhead costs.



5. Shareholders' Equity Impact – Day 1 Transition to IFRS

In transitioning to IFRS, IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors requires that a company adjust its Opening Balance Sheet as if IFRS was always used. Items that will impact Opening Retained Earnings:

Item	Impact on R/E
Catastrophe and contingency reserves no longer permitted	↑
Active onerous contracts upon adoption in 2023	↓
Reinsurance in-force at 2023	?
Goodwill amortisation reversal; impairment losses	↑
Increase in Insurance Liabilities	↓
Recognition of credit risk	↓

The Impact of the transition to IFRS will mean that Shareholders' Equity (Net Assets) needs to be restated which may have the following impacts:

- Altered return on equity ratios, greater metric volatility
- Potentially impacts on Capital strength and efficiency
- Inability to pay the same or increase dividend payout ratios
- Uncertainty over financial performance and balance sheet composition

Reinsurance will be limited in its approach to soften the impact of non-IFRS 17 changes, however it can be utilised for other impacts because of adopting IFRS:

- Aggregate XOL, Excess of Loss, and additional Cat XOL to mimic catastrophe and contingency reserves
- Retroactive cover to reduce the impact of onerous contracts (or the risk of them becoming onerous)
- Restructured reinsurance to assist in optimising risk adjustment transfer
- Use of highly rated reinsurance panels to minimise credit risk

6. Changing Key Performance Indicators

IFRS 17 moves from assessing insurance on a purely accounting year basis, to measuring contracts more from an underwriting year basis. Significant change in how the key performance indicators (“KPI’s”) will be measured. Some affected KPIs are: Loss Ratio; Combined Ratio; Return on Equity, & Return on Assets.

The majority of the insurers will have improved ROE under IFRS 17 (with revised targets at low- to mid-double-digit ratios). IFRS 17 does not change ultimate profit but specifies new rules on the timing of profit recognition in the accounts (for selected Life products, profit could be recognised earlier than currently under JGAAP). Most non-life insurers have not disclosed the direction or size of ROE expected change but anticipate the share of underwriting income in total P&L to increase and the share of insurance finance income to decrease (as discount unwind on reserves offsets return on investment assets).

IFRS 17 requires insurers to discount liabilities at the current interest rates. As a result for non-life companies, market volatility from fluctuating asset values is more mitigated. In Japan under ALM it will become more crucial where many of their liabilities overseas will be subject to a higher interest rates than what they can earn at home.

Many insurers have indicated the plan to disclose “adjusted ROE” alongside the “standard” ratio (derived from the reported financial accounts) by eliminating the impact of net unrealized gains or losses from investment assets and liabilities, hedging instruments and FX translation. To illustrate, Figure 3 shows how differently insurers are measuring combined ratios:

Figure 3: Combined Ratio Measurement Options from IFRS 17 Reporting

Net / Gross CoR	Net / Net CoR
[Insurance claims gross + insurance expenses + net reinsurance result #]	[Insurance claims gross - (reinsurance recoveries + ceding commissions contingent on claims) + insurance expenses]
<hr/> Insurance revenue gross # net reinsurance result = ceded premium - (all ceding commissions + claims recoveries)	<hr/> [Insurance revenue gross - (ceded reinsurance premiums - ceding commissions not contingent on claims)]



The resulting impact may alter Analysts' view of the financial results of the company as well as the resulting share valuation:

- Altered Return on Equity balances, thereby shifting the expectation of their returns
- Inability to pay the same or increase dividend payout ratios as previous

Further, given the significant changes in key performance indicators, the following internal issues may arise:

- Difficulty in the Board of Directors understanding financial results, and making key decisions as a result
- Changes in how the performance in management is assessed
- Given that the KPI's will change upon transition, there will be little in previous benchmarking to assist management and Boards to make key decisions

Currently the management of new KPI's is unclear given the significant changes presenting themselves, however the following actions can assist in beginning to address the changing KPI's:

- Review and address key terms and clauses that may heighten uncertainty for KPI measurement such as profit commission and loss corridors
- IFRS 17 will draw more attention to current underwriting decisions. More stringent underwriting criteria may be required to safeguard results
- Greater data granularity will improve pricing and as a result improve profitability

In summary, the following messages from IFRS studies are common for all insurers:

- Business strategy is not affected. No major change expected in underwriting & investment risk appetite.
- Better alignment with risk-based capital regimes and no notable impact on solvency ratios.
- No change to cash generation/remittances, or share buy-backs (where previously announced).
- Key financial targets reaffirmed. Traditional P&C KPI's remain in use but are calculated on an IFRS 17 basis. New adjustments (varying practices) for ROE and Leverage calculations.
- Minimal equity effect on transition. Equity: more stable (less sensitive to interest rate changes). P&L: changed mix of underwriting and finance results; more P&C volatility (depending on accounting choices), greater transparency over asset-liability management (including non-life)

7. Why Should Japanese Insurers Adopt IFRS 17?

While the adoption of IFRS, and by extension, IFRS 17 has its challenges as raised above, there are many advantages of implementing these standards:

- Comparability with global peers: Japanese insurers are becoming global players and key stakeholders will need to be able to compare the financial results of Japanese insurers against their international counterparts
- Increased transparency: IFRS adoption requires a significant increase in the disclosure of financial information. While adding to the running costs of financial reporting, it provides investors and regulators alike richer key information from which to make decisions
- Increased access to capital, financial, and reinsurance markets: Increased financial transparency and comparability will help Japanese insurers continue to have first class access to financial markets for additional fundraising and to reinsurance markets for capacity and volatility protection
- Greater consistency with local statutory reporting overseas and group reporting: Many Japanese insurers have subsidiaries abroad who on a local basis will need to report using IFRS, and therefore, IFRS 17. Adopting IFRS on a group basis will eliminate the gaps and dual reporting that many of these entities are challenged with
- Stronger enterprise value: While not a given, increased comparability, transparency, access to capital, and lower costs from reporting synergies should assist in the strengthening of enterprise value of Japanese insurers upon adoption of IFRS

Guy Carpenter employs a range of IFRS experts and is willing to assist clients in successfully navigating the road ahead.



Trends in Japan's Non-Life Insurance Industry

3

Non-Life Planning Department

The Toa Reinsurance Company, Limited

1. Overview of the Non-Life Insurance Industry

(1) Status of Non-Life Insurance Companies, Cooperatives and SASTI

As of November 1, 2022, a total of 55 general insurance companies were operating in Japan. A total of 33 companies were licensed as domestic insurers, including foreign capital domestic insurers, while 22 companies were licensed as foreign insurers.¹

Japan began liberalizing its insurance industry with the financial big bang in 1996. Its non-life insurance companies have increased operating efficiency since then while conducting mergers and business integrations in stages. As a result, the non-life insurance market has become an oligopoly comprising the three largest non-life insurance groups (in alphabetical order; MS&AD Insurance Group Holdings, Inc., Sampo Holdings, Inc. and Tokio Marine Holdings, Inc.). Based on statistics released by the General Insurance Association of Japan (GIAJ) and the fiscal 2022 financial results disclosed by these groups, we calculate that these three group companies account for more than 86% of net premium income written by the 29 GIAJ members, totaling 9,119 billion yen.^{2,3,4,5}

The market also includes cooperative and mutual insurance companies (referred to as “Kyosai Organizations”), who offer fire, life, personal accident, automobile and annuity products. The kyosai is a mutual aid system where the members share their premium to establish mutual assets, and the funds are paid out at times of unexpected contingencies to compensate for the financial deficit and stabilize the lives of the members and their families. The main Kyosai Organizations that make up the Japan Cooperative Insurance Association Incorporated had premium income of about 2.4 trillion yen in fiscal 2021 in total of fire, personal accident and automobile kyosai products (excluding life and annuity kyosai products) according to our calculation.⁶

In another development, the Small Amount and Short Term Insurance (“SASTI”) business was introduced in Japan following an amendment to the Insurance Business Act in April 2006. SASTI companies, who are limited to selling insurance products in small amounts with limited terms, provide non-life and/or life insurance products. In fact, regulations make it much easier for SASTI companies to enter the insurance business than is the case of establishing a new insurance company. For example, SASTI companies need only to register and need not be licensed by the Financial Services Agency to operate. The minimum capital required is 10 million yen, compared to 1 billion yen for an insurance company, and they may sell both life and non-life insurance products. The number of member companies of The Small Amount and Short Term Insurance Association of Japan continues to grow and the scale of the market continues to expand. Non-life insurance products sold in this market are mainly renters insurance, including fire insurance for the home contents of renters and rental housing liability insurance sold through the real estate agent channel, recent strong-seller pet insurance, and pecuniary insurance. Some SASTI companies have grown to the extent that they may choose to get a license to operate as an insurance company, while some existing non-life insurance companies have newly established SASTI companies.

The Small Amount and Short Term Insurance Market Data

Figure 1: Member Companies

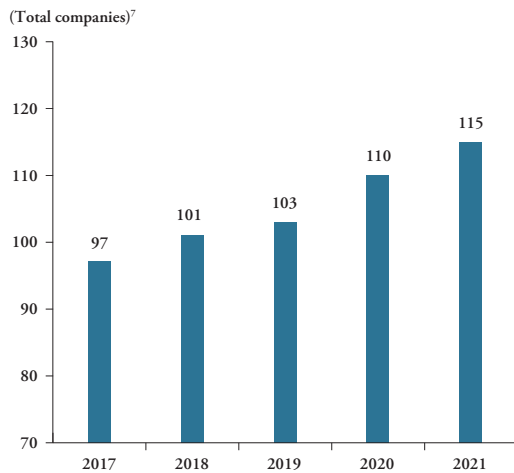
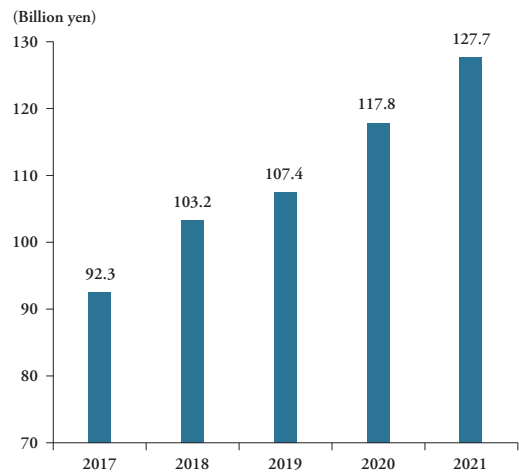


Figure 2: Premium Income



Source: The Small Amount & Short Term Insurance Association of Japan⁷

(2) Trends in Business Results of Non-Life Insurance Companies for Fiscal 2022²

The following is a summary of the main financial results (total) of the 29 GIAJ members in fiscal 2022.

Net premium income in all lines of business increased by 313 billion yen from the previous fiscal year to 9,119 billion yen, mainly due to fire class with revisions of insurance products in October 2022.

Net claims paid increased by 672 billion yen to 5,383 billion yen because of increases in fire claims for natural disasters and in automobile claims as road traffic recovered. As a result, the loss ratio increased by 5.6 percentage points to 64.9%.

Expenses increased by 81 billion yen to 2,975 billion yen, while the net expense ratio decreased by 0.3 percentage points to 32.6% owing to the increase in net premium income.

Underwriting profit decreased by 196 billion yen to 114 billion yen.

Ordinary profit, calculated as the sum of underwriting profit and investment profit, decreased by 125 billion yen to 767 billion yen. After deducting tax expense, net income also decreased, by 169 billion yen to 502 billion yen.



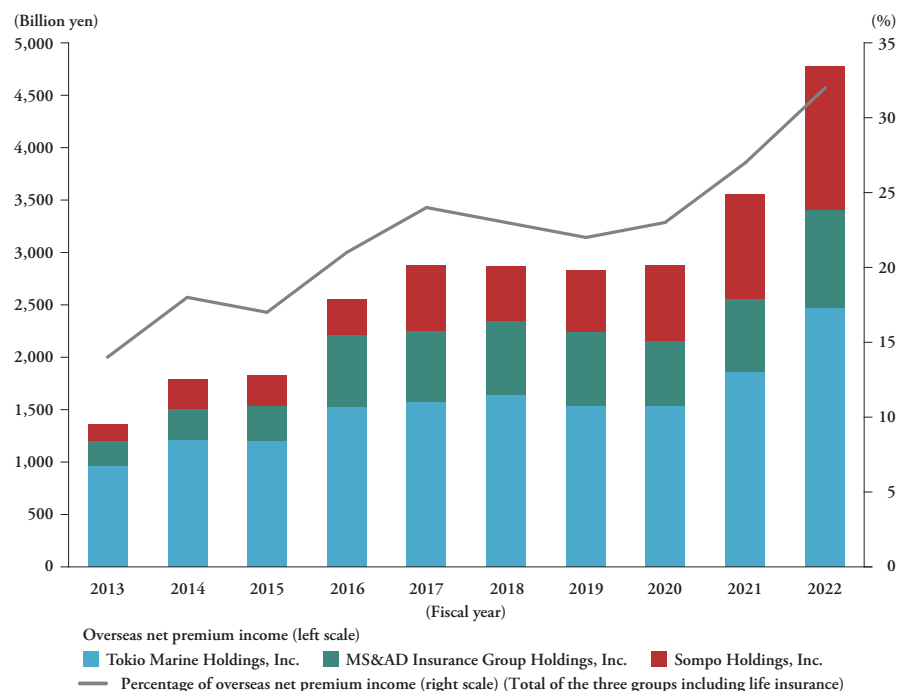
(3) Overseas Business Developments of the Three Largest Non-Life Insurance Groups

The three largest non-life insurance groups have all positioned overseas business as a growth driver, and have aggressively implemented initiatives such as forming business alliances with foreign insurance companies and engaging in M&A.

Figure 3 shows overseas net premium income* for the three largest non-life insurance groups which we calculate based on their released information. Their net premium income from overseas business in fiscal 2022* was about 4 times that of fiscal 2013, and overseas business accounted for approximately 32% of their net premium income.

* In this section, “overseas net premium income” includes both non-life and life insurance premiums.

Figure 3: Trends in Overseas Net Premium Income for the Three Largest Non-Life Insurance Groups^{3,4,5}



The three groups' business developments in the non-life insurance segment are as follows:

Mitsui Sumitomo Insurance Co, Ltd. acquired the general insurance operations of U.K. company Aviva plc in 2004, and made Aviva its base for advancing into the ASEAN region. In 2015, another MS&AD group company, Aioi Nissay Dowa Insurance Co., Ltd., acquired Box Innovation Group, a major U.K. telematics automobile insurer. Furthermore, MS&AD Insurance Group Holdings, Inc. strengthened its reinsurance business and specialty lines by completing the acquisition of Amlin plc of the U.K. in 2016. It also acquired Singapore insurer, First Capital Insurance Limited in 2017, U.S. managing general agent, International Transportation and Marine Office, LLC in 2021 and U.S. insurer, Transverse Insurance Group, LLC in 2022.⁸

Since 2014, Sompo Holdings, Inc. has made significant progress in its overseas business by acquiring leading U.K. specialty (re)insurer, Canopus Group Limited (later sold in 2017) and U.S. insurer and reinsurer, Endurance Specialty Holdings Ltd. (now called Sompo International Holdings Ltd). Sompo International has been their core company for doing overseas business. It acquired U.S. agriculture insurance provider, Diversified Crop Insurance Services in 2020, and announced the acquisition of Italian agriculture insurer, ARA 1857 S.p.A. in 2021, promoting its strategy of expanding agriculture insurance business. Sompo Holdings, Inc. has announced that it will spin off and sell the consumer insurance business of Sompo Seguros S.A. in Brazil in 2023.⁹

Tokio Marine Holdings, Inc. has pursued growth opportunities in its overseas business by acquiring businesses in emerging countries, as well as insurance companies with strong specialty lines in developed countries. Since 2008, it has completed the acquisition of Kiln Ltd. of Lloyd's in the U.K., Philadelphia Consolidated Holding Corp. of the U.S., Delphi Financial Group, Inc. of the U.S., specialty insurance group, HCC Insurance Holdings, Inc. of the U.S., and Privilege Underwriters, Inc. of the U.S. At the same time, Tokio Marine Holdings reviewed its business portfolio and sold reinsurance subsidiary Tokio Millennium Re AG in 2018. In 2020, it announced its goal of establishing a new non-life insurance subsidiary in Canada, and in 2021, its group companies, Tokio Marine Seguradora S.A. and Caixa Seguridade in Brazil established a joint venture to underwrite mortgage and homeowners insurance.¹⁰

With a focus on life and non-life insurance, on the other hand, the three groups are expanding and strengthening an array of various areas based on synergies with insurance products and promotion of insurtech, including financial services, risk solutions and services, nursing and senior care, healthcare, and digital. They are enhancing alliances and investments in a variety of overseas companies including artificial intelligence startups and insurtech companies.



2. Topics of the Non-Life Insurance Market

(1) Trends in the Fire Insurance Market

Due to the fact that fire insurance business results in Japan have deteriorated due to major natural disasters and so on, the reference loss cost rate (advisory pure premium rates) for fire insurance, as calculated by the General Insurance Rating Organization of Japan (GIROJ), has been raised four times since 2018. Non-life primary insurance companies have revised their premium rates in response to the reference loss cost rate revisions, and have also consistently phased in tighter terms and conditions (besides those related to premium rates) such as shortening the maximum policy period for fire insurance to five years from ten years, increasing deductibles, and setting limits of liability, in order to improve fire insurance results.

Outline of Announcements by GIROJ	
July 2018 ¹¹	Reference Loss Cost Rates for Homeowners' Comprehensive Insurance increase by 5.5% on average Background of revision: Increase in claims related to natural disasters and water damage from plumbing
December 2019 ¹²	Reference Loss Cost Rates of Homeowners' Comprehensive Insurance increase by an average of 4.9% with discounts for relatively new dwellings Background of revision: Increase in claims related to natural disasters and reflection of risk differentials by building age
July 2021 ¹³	Reference Loss Cost Rates of Homeowners' Comprehensive Insurance increase by a national average of 10.9 % Key background factors for revision: Increase in natural hazard risk and reflection of risk trend
June 2023 ¹⁴	Reference Loss Cost Rates of Homeowners' Comprehensive Insurance increase by a national average of 13.0% with subdivision of flood rate Key background factors for revision: Increase in natural hazard risk and reflection of risk trend

(2) Reinsurance Renewals in 2023

Most reinsurance contracts of domestic non-life insurance companies, including cooperatives and SASTI companies, are renewed at the start of their fiscal year, generally April 1.

Despite increasing demand for reinsurance capacity due to the impact of overseas cat losses and of global inflation, new capital supply into the market was scarce, affected by rising interest rates. In the course of January renewals, substantial increases in reinsurance rates and tightening of terms and conditions proceeded, regardless of the respective treaty's performance.

In the April renewals in Japan, cedants generally secured the reinsurance capacity they required, since the lower inflation rate compared to other countries as well as continuous improvements in terms under the primary insurance business over several years, including original rate increases, were taken into account by the reinsurers.

Regarding Property treaties, in view of unfavorable performance in recent years, some reinsurers reduced their capacity, and pro-rata treaty terms were further tightened with increased introduction of reverse franchise and so on.

In Personal Accident business, affected by the spread of Covid-19 infection, many reinsurers requested full exclusion of infectious diseases. Some cedants accepted the full exclusion, while others sought to secure infectious disease capacity by considerably limiting the scope of coverage.

(3) Acceleration of Digital Transformation

Major insurers and others have rapidly accelerated digital transformation using various digital technologies premised on 'zero contact.' The following are examples:

- The introduction of various mechanisms and tools that enable remote and paperless customer interactions including insurance consultations, contract application and loss reporting, along with insurance premium and claims settlement.
- The application of AI techniques for customer communications, risk assessment, claim surveying, disaster prediction and mitigation, as well as for various new products and services.

(4) Trends in Regulation by Regulatory Agencies

Given substantial changes in the domestic and overseas environment, over the past several years the Japanese Financial Services Agency (JFSA) has been developing its dialogue with financial institutions to enhance their business infrastructure, secure their financial soundness and encourage them to build sustainable business models based on their customers' perspectives to achieve the goals of financial administration.



Under these circumstances, the JFSA has stated that insurance companies are required to conduct efficient business operations utilizing digitalization, build sustainable business models and develop products meeting changes in customer needs in consideration of medium to long-term business environment changes, including falling birthrates, aging population, more severe natural disasters and the shrinking auto insurance market. The JFSA has also said that as insurance companies are expanding their overseas operations, they must clarify strategies in order to benefit from overseas economic growth and strengthen their governance on a global basis. The JFSA encourages insurance companies through dialogue to make steady progress in relevant efforts.¹⁵

The JFSA has been conducting studies to introduce the new economic value-based solvency regulation in FY2025, in parallel with the introduction of the Insurance Capital Standard (ICS) by the International Association of Insurance Supervisors (IAIS). The JFSA published a report titled “Tentative decisions on the fundamental elements of the economic value-based solvency regulation” in June 2022, which shows the tentative decisions and basic directions with regard to fundamental elements of the new regulation.¹⁶

The JFSA has noted that introducing the economic value-based solvency ratio into the regulatory regime may bring unexpected consequences, such as excessively risk-averse behavior among insurance companies. Therefore, it is investigating unintended consequences and international trends while continuing its examination with emphasis on dialogue with relevant parties for a smooth transition to the new regime.

(5) ESG and SDGs Initiatives

Japan is among the countries promoting ESG and SDGs. Led by major insurers, various companies are proceeding with implementation of a broad array of studies and initiatives in areas including asset management, personnel systems, corporate governance, compliance and social contribution, in addition to improving insurance products and services.

The three largest non-life insurance groups have clearly defined their purpose and established sustainability committees, and have officially incorporated the ESG framework into the decision-making process for insurance operations and investment. They regularly publish sustainability reports. In addition, they are addressing the greater frequency and intensity of natural disasters as a result of climate change by cooperating more closely with other industries, local governments and other organizations in disaster mitigation initiatives ranging from disaster prevention to repair cost reduction. The three groups are also enhancing insurance products that facilitate renewable energy development.

References

1. General Insurance Association of Japan, “Fact Book 2021-2022 General Insurance in Japan”
<https://www.sonpo.or.jp/en/publication/ue089i00000000sa-att/fb2022e.pdf>
2. General Insurance Association of Japan website, “Overview of Fiscal 2022 Financial Results for the Member Companies” (Japanese)
<https://www.sonpo.or.jp/member/gaikyou/kessan/2022.html>
3. Tokio Marine Holdings, Inc., “Information of major subsidiaries' business results for the fiscal year ended March 31, 2023”
https://www.tokiomarinehd.com/en/ir/event/presentation/2022/k82ffv000000fsse-att/4Q_FY2022_Information_about_major_subsidaries_business_results_e.pdf
4. MS&AD Insurance Group Holdings, Inc., “Explanatory Material for Business Results for the Year Ended March 31, 2023”
https://www.ms-ad-hd.com/en/news/irnews/auto_20230519576909/pdfFile.pdf
5. Sompo Holdings, Inc., “Summary of Consolidated Financial Results for the fiscal year ended March 31, 2023 Supplementary Information”
https://www.sompo-hd.com/-/media/hd/en/files/doc/pdf/e_news2023/e_20230519_2.pdf?la=en
6. Japan Cooperative Insurance Association Incorporated, “Kyosai in Japan – Fact Book 2022”
<https://www.jcia.or.jp/english/publication/index.html>
7. The Small Amount & Short Term Insurance Association of Japan, “Overview of Fiscal 2021 Financial Results for the Small Amount and Short Term Insurance Industry” (Japanese)
<https://www.shougakutanki.jp/general/info/2022/news20220707.pdf>
8. MS&AD Insurance Group Holdings, Inc., “Notice Regarding Completion of Transverse Insurance Group Acquisition” and other news
<https://www.ms-ad-hd.com/en/news.html>
9. Sompo Holdings, Inc., “Establishment of a New Subsidiary, a Corporate Split between it and Another Subsidiary and Divestment from the New Subsidiary thereafter” and other news
<https://www.sompo-hd.com/en/news/topics/2022/>
10. Tokio Marine Holdings, Inc., “Progress Regarding Establishment of Insurance Joint Venture in Brazil” and other news
https://www.tokiomarinehd.com/en/release_topics/release/



11. The General Insurance Rating Organization of Japan, “Announcement on Revision of Reference Loss Cost Rates for Fire Insurance”
https://www.giroj.or.jp/english/press_2018/20180718f.pdf
12. The General Insurance Rating Organization of Japan, “Announcement on Revision of Reference Loss Cost Rates for Fire Insurance”
https://www.giroj.or.jp/english/press_2019/20191203.pdf
13. The General Insurance Rating Organization of Japan, “Announcement on Revision of Reference Loss Cost Rates of Fire Insurance”
https://www.giroj.or.jp/english/press_2021/20210730.pdf
14. The General Insurance Rating Organization of Japan, “Announcement on Revision of Reference Loss Cost Rates for Fire Insurance” (Japanese)
https://www.giroj.or.jp/news/2023/20230628_1.html
15. The Financial Services Agency, “The JFSA Strategic Priorities July 2022 - June 2023”
https://www.fsa.go.jp/en/news/2022/20220926/the_jfsa_strategic_priorities_july2022-june2023.pdf
16. The Financial Services Agency, “Tentative decisions on the fundamental elements of the economic value-based solvency regulation June 30, 2022”
https://www.fsa.go.jp/en/laws_regulations/20220630_solvency.pdf



Trends in Japan's Life Insurance Industry

4

Life Planning Department

The Toa Reinsurance Company, Limited

1. Overview of Business Results for Fiscal 2022

During the fiscal year ended March 31, 2023 (fiscal 2022), premium income and other revenues of Japan's 42 life insurance companies increased by 18.8% year on year to 38.0 trillion yen, as a result of factors including an increase in sales of single-premium insurance policies denominated in foreign currencies due to rising interest rates in the United States and other countries (not including Japan), in addition to the positive rebound from the negative impact of self-restraint among sales personnel to prevent the spread of COVID-19 in the previous year.

Despite the increase in revenues, benefits paid increased by 26.6% year on year to 39.8 trillion yen because of a surge in hospitalization benefit payments due to the spread of COVID-19. As a result, ordinary profits decreased by a significant 20.9% from the previous fiscal year to 2.5 trillion yen.

Claims paid related to COVID-19 during fiscal 2022 had a major impact on the results of Japan's life insurance companies. For many life insurers, basic profits,* a measure that indicates profits from insurance underwriting as life insurers' core businesses, decreased by more than 10% compared to the previous fiscal year, and basic profits across the whole industry decreased by around 30%.

* Basic profits are calculated by deducting capital gain/loss and extraordinary gain/loss from ordinary profits.

2. Impact of COVID-19 on Life Insurance Companies

COVID-19 has had a major impact on various spheres, including economic and social activities. It has also had a major impact on the life insurance industry, especially after the outbreak of the Omicron strain.

The Japanese government categorized COVID-19 under the new influenza and other diseases category, which is equivalent to Category 2 under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases, and implemented measures such as restrictions that include hospitalization and isolation for infected people and those who have had close contact with them, along with requests to refrain from going out.

The life insurance industry addressed COVID-19 by taking administrative measures and social needs into consideration in expanding the scope of benefit payments. This has included the payment of hospitalization benefits for "deemed hospitalization," which is defined as hospitalization when there is a shortage of hospital beds due to an increase in the number of people infected with COVID-19, and a doctor decides these patients should recuperate at home or in a hotel instead of a hospital. Benefits are paid for this special measure that is deemed to be hospitalization covered by an insurance policy.



In Japan, both the number of people who contracted or died from COVID-19 remained low until 2021, so the impact of COVID-19 on the business performance of life insurance companies was anticipated to be limited. However, the emergence of the more contagious Omicron strain in 2022 led to an increase in the number of infected people along with a dramatic increase in benefit payments for deemed hospitalization, which changed the situation significantly. Although the Omicron strain is highly contagious, it has a low risk of resulting in severe illness. Measures implemented from September 26, 2022 reduced the scope of benefits for deemed hospitalization to those with a high risk of severe illness, such as people aged 65 and older. Hospitalization benefit payments subsequently decreased as a result of this scope reduction. Cumulative hospitalization benefits paid in connection with COVID-19 as of the end of fiscal 2021 totaled approximately 114.6 billion yen, of which approximately 84% were benefits paid for deemed hospitalization. However, the cumulative total increased to about 974.3 billion yen as of February 28, 2023, of which approximately 95% were benefits paid for deemed hospitalization. This 860 billion yen increase in benefit payments in a single year had a negative impact on the performance of life insurance companies.

In fiscal 2023, progress in vaccination rates and the reduced risk of serious illness informed the Japanese government's decision to reclassify COVID-19 as a Category 5 infectious disease, the same category as seasonal influenza. Various restrictions such as stay-home for infected patients were lifted on May 8, 2023. Given these changes, life insurance companies decided to terminate special measures to address COVID-19, including benefit payments for deemed hospitalization, so fiscal 2023 earnings are likely to improve.

Despite the significant negative impact on business performance, life insurance companies fulfilled their responsibility to support social stability with their prompt and flexible response to COVID-19, which included benefit payments for deemed hospitalization. At the same time, the pandemic did involve some confusing developments. For example, some insurance companies began selling insurance products targeting COVID-19 as the pandemic began, but quickly terminated sales of those products because they were unexpectedly unprofitable. Insurance companies need to identify and analyze their experiences of COVID-19 and the challenges brought on by COVID-19, and should be more prepared to prevent confusion in the event of an unforeseen situation like COVID-19.

3. Growth and Challenges in the Small Amount and Short Term Insurance Market

The small amount and short term insurance market has continued to grow since its establishment in 2006. In recent years, life insurance companies have also established such subsidiaries to enter this market. Although this market is expected to continue growing, issues have emerged and supervisory authorities have imposed administrative sanctions on some small amount and short term insurance companies.

The small amount and short term insurance market was created through a 2006 amendment to the Insurance Business Act. Small amount and short term insurance companies have to limit themselves to selling insurance in the form of protection cover (only) for small amounts and a limited term of one year, or two years at the maximum in the case of non-life insurance. On the other hand, small amount and short term insurance companies can receive business approval based on a registration system, which differs from the licensing system for insurance companies. In addition, the capital required to establish a small amount and short term insurance company is much less than that required for an insurance company.

Prior to the establishment of this new business field, it was pointed out that cooperatives with no legal basis were operating without providing sufficient information disclosure or with insufficient explanation at the time of contract. The original aim of this new insurance field was to transform these cooperatives into small amount and short term insurance companies under the Insurance Business Act from the perspective of increasing policyholder protection. However, as hurdles to entry are relatively low, companies from a range of industries have entered this market since its creation in 2006.

Moreover, while insurance companies are subject to a licensing system for sales of their new products, small amount and short term insurance companies are subject only to a registration system (that requires only a screening process), which enables flexibility in developing products. These characteristics have led life insurance companies, which have conventionally focused on long-term policies, to begin entering the small amount and short term insurance market. In 2019, Sumitomo Life made Aiaru Syougakutankihoken Corporation a subsidiary, and in 2021 Dai-ichi Life established Dai-ichi Smart Small-amount and Short-term Insurance Company, Limited. More recently, in 2022 Nippon Life launched Nissay Plus SSI Company Inc. as a subsidiary and began developing and offering products. Aiaru Syougakutankihoken offers insurance for women undergoing fertility treatment, along with products available regardless of the number of weeks pregnant. Dai-ichi Smart Small-amount and Short-term Insurance has launched a product brand in which all procedures are completed digitally, mainly targeting young people. Nissay Plus SSI sells products for pregnant women with low premiums by specializing in protection for the need for abortion, the need for premature delivery, mastitis, and hospitalization of newborn children. These products are developed based on the characteristics of small amount and short term insurance. It was difficult to quickly develop and sell such products within the conventional framework of an insurance company.



Various companies, including life insurers, have entered the small amount and short term insurance market, so this market is expected to continue to grow. At the same time, however, issues have begun to emerge, including the imposition of administrative sanctions by supervisory authorities on a series of small amount and short term insurance companies that cause business instability. The Financial Services Agency (FSA) has taken this situation seriously and announced a revised draft of guidelines for supervising small amount and short term insurance, along with policies for enhanced monitoring in this insurance market.

Continued imposition of administrative sanctions on small amount and short term insurance companies may raise questions about policyholder protection, which was the original objective in establishing the current small amount and short term insurance market. The challenge is ensuring soundness while maintaining the characteristics of small amount and short term insurance.

4. New System for Evaluating the Quality of Life Insurance Agency Operations

The Life Insurance Association of Japan (LIAJ) led the launch of a new system for certifying agencies with outstanding operations quality, the Agency Operations Quality Review. Implemented for the first time in February 2023, 42 agencies from all over Japan were recognized under the Certified Agency rating. The background to the introduction of this new system is the increase in sales of life insurance products via the agency sales channel.

Traditionally, the primary sales channel for Japan's life insurance companies was typically their internal sales representatives, accounting for over 85% of sales in all channels until 1997. However, insurance companies have been diversifying sales channels in light of the greater variety of insurance products and changes in consumer needs. This diversification has resulted in share gains during the past several years for agencies that handle the products of multiple life insurance companies. In a 1997 survey, the agency sales channel accounted for 4.0% of total sales, but this share had increased to 15.3% in a 2021 survey. Given this situation, life insurance companies needed to strengthen their agency sales channel even if traditionally they have relied on internal sales representatives. Life insurers therefore launched group companies that focus on products for sale through agencies. In 2009, Sumitomo Life established subsidiary Medicare Life, then Dai-ichi Life established subsidiary Neo First Life in 2015, Nippon Life established subsidiary Hanasaku Life in 2019, and Asahi Life established subsidiary Nanairo Life in 2021. These life insurance companies originally emphasized sales by internal sales representatives, but they are now increasing sales in the agency channel where demand is growing. They do so by creating subsidiaries that offer products for sale through agencies and by segmenting their customer base.

With sales volume increasing in the agency channel, ensuring the operations quality of the agencies to which companies outsource sales administration has become an issue for the life insurance industry, which handles a large amount of personal information. To address this issue, in June 2020 the LIAJ led the establishment of an initiative whereby agencies, agency industry associations, life insurance companies, and the FSA collaborated in studying a system to evaluate the operations quality of agencies. The system was officially introduced in fiscal 2022.

The system specifies 200 standards in the four areas of customer service, after-sales service, personal information protection, and governance. Of these, 150 standards are specified as fundamental standards, while the remaining 50 are specified as advanced standards. To receive the Certified Agency rating, agencies must at least meet the 150 fundamental standards. The results of reviews are publicly available to consumers and are shared with life insurance companies. While the FSA is calling for additional initiatives related to quality review of agency operations, the merits of this system include empowering life insurance companies to improve the validity and consistency of operations through quality reviews of agencies to which they outsource sales administrations. The system also has advantages for agencies. An initiative being studied would employ the results of the review system as an alternative to the self-assessment of operations that agencies regularly submit to the life insurance companies that outsource to them, which would likely reduce workload for agencies. In addition, some life insurance companies are considering higher sales commissions for agencies with reviews that qualify them for the Certified Agency rating.

Only 54 agencies applied for certification reviews in fiscal 2022, the first year of the system. However, the LIAJ plans to review more than 60 new agencies in the second year of the system. The LIAJ will continue to improve the system and implement initiatives to raise awareness of the need to improve the quality of agency operations, thus enhancing agency service quality and increasing the transparency and fairness of insurance product sales throughout the industry. Ultimately, it is expected that these measures will contribute to the mitigation of risk and to industry standards.



Company Overview

Profile

The Toa Reinsurance Company, Limited (Toa Re), was established in 1940. With the reinsurance market evolving and clients' needs expanding, we have recognized the importance of being able to provide a diverse line of life and non-life reinsurance products to lead the market as Japan's primary professional reinsurer. Toa Re is based in Tokyo with subsidiaries in New Jersey (U.S.A.) and Zürich (Switzerland). Increasing demand for reinsurance products in Asian countries prompted us to expand our operations in those regions and establish branch offices in Singapore, Kuala Lumpur and Hong Kong.

In acknowledgment of Toa Re's outstanding financial profile, credit rating agencies, Standard & Poor's Financial Services LLC, A.M. Best Company, Inc. and Japan Credit Rating Agency, Ltd., have assigned Toa Re ratings of A, A and AA+, respectively. As of March 31, 2023, the Toa Re Group boasted total assets of 905.7 billion yen. Net premiums written during the fiscal year ended March 31, 2023, totaled 320.8 billion yen.

Mission Statement



ToaRe Mission Statement

Providing Peace of Mind

Toa Re aims to realize its mission by

working with society and applying the principles of fairness and integrity to all aspects of our business

offering long-term, solid support to our clients by supplying reinsurance products and services that enable them to maintain stable operations

striving to enhance our corporate value for the interests of our shareholders through open and transparent corporate management

respecting the creativity of our group employees and valuing their contributions

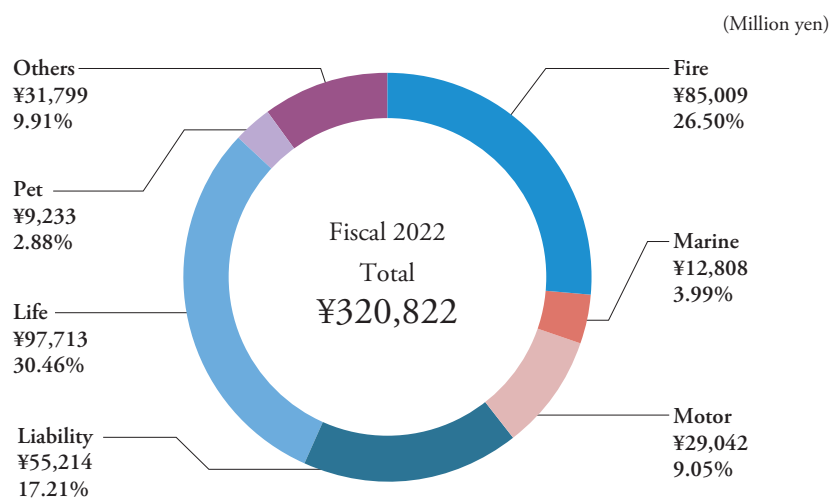
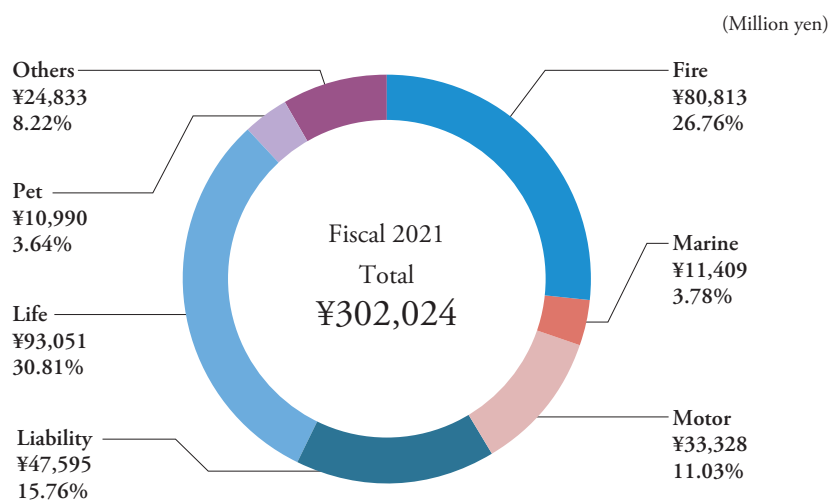
conserving the environment and contributing to a sustainable society

Consolidated Financial Highlights

	Million yen					Thousand U.S. dollars
	2023	2022	2021	2020	2019	2023
For the year ended March 31						
Ordinary income	¥349,337	¥329,804	¥312,101	¥297,757	¥266,625	\$2,616,168
Net premiums written	320,822	302,024	287,547	270,252	248,288	2,402,621
Ordinary profit (loss)	3,238	827	2,164	88	(7,390)	24,249
Net income (loss) attributable to owners of the parent	2,450	(1,248)	2,745	(2,141)	(7,150)	18,347
As of March 31						
Total net assets	196,303	201,307	182,257	167,141	179,944	1,470,104
Total assets	905,749	860,421	772,108	711,690	694,088	6,783,112

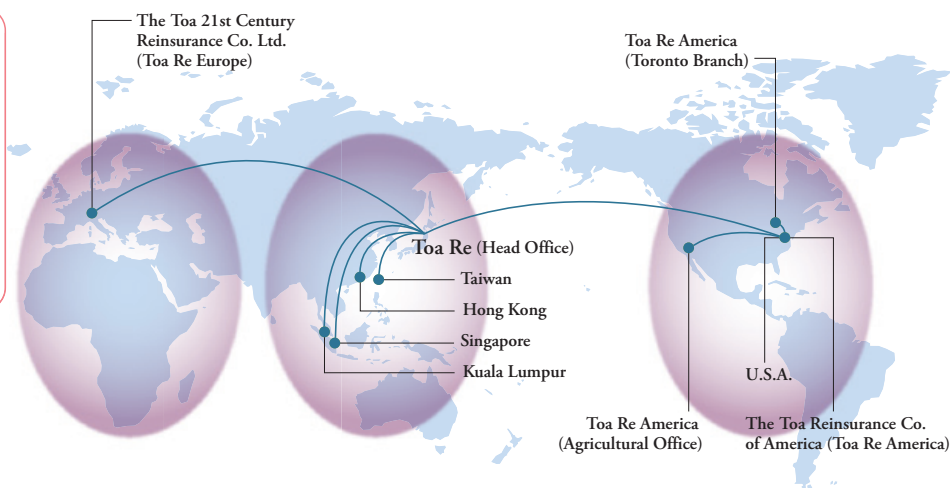
(Rate: ¥133.53 = US\$1)

Net Premiums Written by Class (Consolidated Basis)





Overseas Network



Locations

Branches

Singapore	50 Raffles Place #26-01, Singapore Land Tower, Singapore 048623 Telephone: +65-6220-0123
Kuala Lumpur	28th Floor, UBN Tower, 10 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia Telephone: +60-3-2732-5911
Hong Kong	Room 801, 8th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong Telephone: +852-2865-7581

Subsidiaries

U.S.A.	The Toa Reinsurance Co. of America 177 Madison Avenue, P.O. Box 1930, Morristown, NJ 07962-1930, U.S.A. Telephone: +1-973-898-9480
	The Toa Reinsurance Co. of America (Agricultural Office) 18301 Von Karman Avenue, Suite 400, Irvine, CA 92612, U.S.A. Telephone: +1-949-474-1420
Canada	The Toa Reinsurance Co. of America (Toronto branch) 55 University Avenue, P.O. Box 53, Suite 1700, Toronto, Ontario, M5J 2H7, Canada Telephone: +1-416-366-5888
Switzerland	The Toa 21st Century Reinsurance Co. Ltd. (Toa Re Europe) Kreuzplatz 16, 8008 Zürich, Zürich, Schweiz

Representative Offices

U.S.A.	177 Madison Avenue, P.O. Box 1930, Morristown, NJ 07962-1930, U.S.A. Telephone: +1-973-898-9816
Taiwan	4F-2, No. 128, Section 3, Min Sheng East Road, Taipei 10596, Taiwan, R.O.C. Telephone: +886-2-2715-1015

The Toa Reinsurance Company, Limited

6, Kanda-Surugadai 3-chome, Chiyoda-ku, Tokyo 101-8703, Japan

<https://www.toare.co.jp/english/>

Providing Peace of Mind

The Toa Re Group is a global composite reinsurer that provides peace of mind to its clients by protecting them from a broad range of perils such as catastrophic earthquakes and typhoons, casualty events, crop damage, mortality and health care.

We at The Toa Re Group aim to be chosen by clients from across the world because of our ability to offer a secure long-term partnership of optimal solutions and strong financial security.

