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Ratings

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The Japan Ship Owners' Mutual Protection & Indemnity Association

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The Japan Ship Owners' Mutual Protection & Indemnity Association

SACP* Assessments				SACP*		Support		Ratings
Anchor	bbb+	Modifiers	0	bbb+		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	BBB+/Stable/--
Satisfactory								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Upper Adequate								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Satisfactory

- Intermediate industry and country risk, reflecting our insurance industry and country risk assessment (IICRA) score for the global protection and indemnity (P&I) sector
- Solid market position in Japan supported by strong relationships with domestic shipowners
- Low diversification because it specializes in marine P&I and concentrates on Japanese shipowners

Financial Risk Profile: Upper Adequate

- Moderately strong capital and earnings constrained by small absolute capital
- Conservative investment policy with low investment leverage
- No outstanding debt with none needed or contemplated

Other Factors

- Adequate enterprise risk management (ERM) and no deficiency in management and governance

Outlook: Stable

S&P Global Ratings' stable outlook on The Japan Ship Owners' Mutual Protection & Indemnity Association (Japan P&I) reflects its view that Japan P&I is likely to maintain an adequate competitive position, supported by the Japan-based shipping companies that make up most of its members. In addition, we expect Japan P&I to maintain moderately strong capital and earnings.

Downside scenario

We may lower the ratings on Japan P&I within the next 24 months under either of the following scenarios.

- Its prospective capital adequacy deteriorates significantly below the 'A' confidence level in our risk-based capital model for a prolonged period. This could result from an unexpectedly high frequency of claims or a significant increase in risk exposure.
- A significant premium decline weakens its competitive position, and its operating performance consistently and materially falls short of its competitors'.

Upside scenario

We may raise the ratings on Japan P&I within the next 24 months if it:

- Grows its free reserves to a sustainable level that causes us to revise upward our score for its financial risk profile to strong; or
- Enhances its competitive position through stronger business diversification by expanding its business with non-Japanese shipowners and, at the same time, maintaining its moderately strong capital and earnings.

Base-Case Scenario

Macroeconomic Assumptions

- Interest rates in Japan will remain very low.
- Japan's real GDP will grow slightly.

Company-Specific Assumptions

- Capital adequacy will remain in the very strong range.
- It will post an annual income of ¥0.3 billion-¥0.5 billion from fiscal 2017 (ending March 31, 2018) to fiscal 2019.
- No financial debt required or contemplated.

Key Metrics

	Year ended March 31 of the next year				
(Bil. ¥)	**2018***	**2017***	**2016**	**2015**	**2014**
Net income (attributable to all shareholders)	0.3-0.5	0.3-0.5	2	0	4
Return on equity (%)	>4	>4	27.6	(2.1)	86.5
S&P Capital adequacy/redundancy	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong
Fixed-charge coverage (X)	N.M.	N.M.	N.M.	N.M.	N.M.

*Forecast data reflect S&P Global Ratings' base-case assumptions. N.M.--Not meaningful.

Company Description

Japan's only shipowners' mutual P&I and a member of the international P&I group

Japan P&I was established in 1950 as a mutual insurance association. It engages in the non-life insurance business under a system of mutual insurance to cover the expenses and liabilities incidental to the operations of ships. In 1976, it became a member of the International Group (IG) of P&I Clubs. In 1989, it became a member of the Pooling Agreement of the International Group of P&I Clubs, giving it access to the group's reinsurance program. The majority of its business is concentrated on global marine P&I, but it also engages in the domestic marine P&I business. It posted ¥17.9 billion in net premium income in fiscal 2016.

Business Risk Profile: Satisfactory

We assess Japan P&I's business risk profile as satisfactory. This incorporates our assessments of its industry and country risk as intermediate and of its competitive position as adequate.

Insurance industry and country risk: Intermediate risk based on exposure to global marine P&I

Our IICRA score for Japan P&I is intermediate, reflecting that for the global marine P&I sector. Our score for industry risk in the sector is moderate. Although we hold a negative view of profitability and product risk in the sector, it is partly offset by operational barriers to entry, which are a positive factor. Our negative view on profitability reflects the sector's non-profit-driven mutual nature as well as earnings volatility because the sector is susceptible to claims of random size and frequency. We mainly base our assessment of the operational barriers to entry on: the market dominance of the IG of P&I Clubs, of which Japan P&I is a member with access to its extensive reinsurance program; and the historically limited success of non-IG players and fixed premium providers.

Table 1

The Japan Ship Owners' Mutual Protection & Indemnity Association--Industry And Country Risk

Insurance sector	IICRA	Business mix (%)
Global P&I	Intermediate	100

Competitive position: Adequate, reflecting strong business franchise among Japanese shipowners

Japan P&I has an adequate competitive position, in our view. It has a good niche position in the global marine P&I

market and strong long-standing relationships with its members in Japan. They are mostly direct business contacts without brokers. Japan P&I has low business diversification because it focuses on marine P&I insurance and concentrates on its Japanese members.

When we compare Japan P&I's combined ratio with those of its rated P&I club peers, we consider its operating performance as better than average. The combined ratio of Japan P&I could have been affected by fluctuations of the yen against the U.S. dollar. We see an improvement in Japan P&I's combined ratio in fiscal 2016, taking into consideration the effects of the yen's slight appreciation against the U.S. dollar. Excluding the impact of the yen's appreciation, its combined ratio largely improved to 84.4% in fiscal 2016 from 99.4% in fiscal 2015. The improvement mainly reflects the lower frequency and smaller size of claims in fiscal 2016 with no pool claims. It also reflects the moderate reduction of a supplementary call from a planned 40% to 30%, compared with 20% in fiscal 2015. In our opinion, in fiscal 2016, Japan P&I moderately reduced its supplementary call to 30% for the policy year 2015 because of a relatively favorable loss track record and also to reward the shipowners.

In our opinion, Japan P&I will likely keep its adequate competitive position over the medium term, especially in Japan's shipowner market. However, we think its profitability could still fluctuate depending on the size and frequency of claims, even though Japan P&I could raise premium rates.

Table 2

The Japan Ship Owners' Mutual Protection & Indemnity Association--Competitive Position

	Fiscal year*				
(Bil. ¥)	**2016**	**2015**	**2014**	**2013**	**2012**
Gross premiums written	23	25	29	27	23
Change in gross premiums written (%)	(6.9)	(12.9)	8.6	15.8	11.2
Net premiums written	18	19	22	21	19
Change in net premiums written (%)	(3.1)	(16.9)	6.9	10.8	11.4
Reinsurance utilization - premiums written (%)	23.5	26.5	23.0	21.7	18.2

*Fiscal year ended March 31 of the following year.

Financial Risk Profile: Upper Adequate

We assess Japan P&I's financial risk profile as upper adequate. The assessment mainly reflects our view that it has moderately strong capital and earnings and a risk position of moderate risk.

Capital and earnings: Moderately strong because capital adequacy is constrained by small absolute capital

Japan P&I exhibits moderately strong capital and earnings, in our view. Capital adequacy--measured by our risk-based capital model--stood in the 'AA' category as of end-March 2017, due to higher asset risk despite an increase in accumulation of free reserves. Japan P&I's small absolute capital, however, constrains our view of its capital and earnings, because we believe it makes it more vulnerable to more frequent large losses. Under our base-case scenario, we expect Japan P&I's prospective capital adequacy to remain well above our threshold for the 'A' category through accumulation of free reserves in the medium term.

Table 3

The Japan Ship Owners' Mutual Protection & Indemnity Association--Capitalization Statistics					
	Fiscal year*				
(Bil. ¥)	**2016**	**2015**	**2014**	**2013**	**2012**
Common shareholders' equity	8	6	6	2	2
Change in common shareholders' equity (%)	28.5	(2.9)	169.2	35.1	43.6
Total reported capital	8	6	6	2	2
Change in total capital (reported) (%)	28.6	(3.0)	168.6	34.4	43.4

*Fiscal year ended March 31 of the following year.

In our base-case scenario, we assume Japan P&I's annual net income will be ¥0.3 billion-¥0.5 billion from fiscal 2017 to fiscal 2019. We assume Japan P&I's supplementary calls will be 40% and its loss ratio will stay at the average of the past five years.

Table 4

The Japan Ship Owners' Mutual Protection & Indemnity Association--Earnings Statistics					
	Fiscal year*				
(Bil. ¥)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenue	21	20	24	20	18
EBIT adjusted§	3	2	1	(1)	(2)
Net income (attributable to all shareholders)	2	0	4	1	0
Return on revenue (%)	15.8	9.7	5.4	(4.2)	(12.5)
Return on shareholders' equity (reported) (%)	27.6	(2.1)	86.5	44.4	13.9
Net expense ratio (%)	16.7	17.3	10.8	15.9	20.2
Net loss ratio (%)	67.8	70.5	85.1	91.3	97.9
Net combined ratio (%)	84.5	87.8	95.9	107.2	118.1

*Fiscal year ended March 31 of the following year. §EBIT – Net realized investment gain/(loss) reported in investment income – Net unrealized investment gain/(loss) reported in income – Net foreign exchange gain/(loss) reported in income.

Risk position: Moderate risk reflects potential capital and earnings volatility

In our view, Japan P&I's risk position reflects moderate risk, driven by potential volatility in its capital and earnings. We base our view on the club's exposure to midsize-to-large claims, relative to its capital. This assessment also reflects our positive view of its investment strategy, which we view as relatively conservative compared with those of its peers. Most of the assets in its investment portfolio are fixed-income instruments such as Japanese government bonds and corporate and foreign bonds that are mostly rated 'A' or higher. While Japan P&I has invested in equity funds, it has also set a limit for its investments. We think its investment policy is likely to remain conservative.

Table 5

The Japan Ship Owners' Mutual Protection & Indemnity Association--Risk Position					
	Fiscal year*				
(Bil. ¥)	**2016**	**2015**	**2014**	**2013**	**2012**
Total invested assets	63	60	61	53	48

Table 5

The Japan Ship Owners' Mutual Protection & Indemnity Association--Risk Position (cont.)

	Fiscal year*				
(Bil. ¥)	**2016**	**2015**	**2014**	**2013**	**2012**
Net investment income	1	1	1	1	1
Net investment yield (%)	1.8	1.3	2.2	1.8	1.8
Net investment yield including realized capital gains/(losses) (%)	0.9	(2.2)	9.1	6.2	7.6
Portfolio composition (% of total invested assets)					
Cash and short term investments (%)	25.7	34.4	29.3	30.2	21.0
Bonds (%)	29.6	24.8	21.7	24.2	27.1
Equity investments (%)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Real estate (%)	1.7	1.7	1.7	2.0	2.2
Loans (%)	0.0	0.0	0.0	0.0	0.0
Investments in affiliates (%)	0.0	0.0	0.0	0.0	0.0
Other investments (%)	43.0	39.0	47.2	43.5	49.7

*Fiscal year ended March 31 of the following year.

Financial flexibility: Adequate, reflecting the possibility of increasing premium income

Japan P&I has adequate financial flexibility, in our view, thanks to its ability to collect additional premiums by making supplementary calls from members in open policy years and imposing premium increases at renewal when needed. The association has a track record of using this facility in the past, and we believe its strong relationships with its members would enable it to do so again, if necessary. Our adequate assessment of financial flexibility is reinforced by our view that it does not need to take on financial debt and it is not the mulling possibility.

Table 6

The Japan Ship Owners' Mutual Protection & Indemnity Association--Financial Flexibility

	Fiscal year*				
	2016	**2015**	**2014**	**2013**	**2012**
EBITDA fixed-charge coverage (X)	N.M.	N.M.	N.M.	N.M.	N.M.

*Fiscal year ended March 31 of the following year. N.M.--Not meaningful.

Other Assessments

We assess Japan P&I's ERM as adequate and its management and governance as fair. We view both assessments as consistent with our ratings on Japan P&I.

Enterprise risk management: Adequate with strengthening risk management framework

We regard Japan P&I's ERM as consistent with our ratings on the entity. We see ERM as having low importance to the ratings given Japan P&I's size and virtually monoline status as a P&I insurer. It has conservative risk controls over its major risks and we believe its risk management culture is strengthening. Japan P&I aims to measure its risk, based on the solvency ratio under Solvency II, which was introduced in Europe for risk-based measurement of capital adequacy. This also supports our adequate assessment of its ERM.

Management and governance: Fair with no shortcomings and with a high level of expertise and experience in the market

We assess Japan P&I's management and governance as fair, reflecting our view that there are no shortcomings in this area. Its management team has a long history with the association, and we think they have good expertise and experience in the P&I market. We think that Japan P&I's strategic positioning and financial management are generally consistent with its capabilities. On the other hand, it somewhat lacks market leadership and effective innovation of strategy compared with other clubs.

Liquidity: Exceptional, supported by a high portion of liquid assets

We regard Japan P&I's liquidity as exceptional because of the strength of available liquidity sources, which are mainly premium income, and an asset portfolio with liquid assets exceeding ¥50 billion. We think Japan P&I is well-positioned to meet its liquidity needs if any major adverse claims should occur. This is largely due to the credit quality of its bond portfolio, which is generally very strong.

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of July 28, 2017)	
Operating Company Covered By This Report	
The Japan Ship Owners' Mutual Protection & Indemnity Association	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Counterparty Credit Rating	
Local Currency	BBB+/Stable/--
Domicile	Japan

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.