

Japan Ship Owners' Mutual Protection & Indemnity Assn. (The)

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Anchor	bbb	+	Modifiers	0	=	SACP	bbb	
	▲			▲		+		
Business Risk	Satisfactory					Support	0	BBB/Positive/-- Financial strength rating
Competitive position	Satisfactory		Governance	Neutral				
IICRA	Intermediate					Group support	0	
Financial Risk	Satisfactory		Liquidity	Exceptional				
Capital and earnings	Strong					Government support	0	
Risk exposure	Moderately high		Comparable ratings analysis	0				
Funding structure	Neutral							

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	Key risks
Solid market position supported by strong relationships with Japan-related shipowners.	Low diversification of its business because it specializes in marine P&I and concentrates on Japan-related shipowners.
Generally higher profitability than the average of the 12 international protection and indemnity (P&I) clubs.	Continued fierce competition in the P&I insurance market, making substantial expansion of its business unlikely.
	Significant fluctuations in capital and profitability associated with the occurrence of large claims.

We expect Japan P&I to maintain its competitive position, supported by its strong domestic customer base. The Japan Ship Owners' Mutual Protection & Indemnity Association (Japan P&I) has a solid position in the P&I insurance market, in S&P Global Ratings' view. It is Japan's only shipowners' mutual P&I association and a member of the international P&I group. In addition, strong and long-standing relationships with Japan-related shipowners support its position. On the other hand, its business is not particularly diversified, and its customer base is geographically concentrated in Japan. Its market share is declining. Also, the association's concentration on P&I activity makes its earnings susceptible to large insurance claims. Given past deteriorations in profitability, the association has taken measures to improve profitability, including premium rate increases and selective underwriting, which are making progress. In our view, its profitability has remained generally higher than the industry average despite a brief decline.

Japan P&I is likely to strengthen its capital adequacy further. Japan P&I's combined ratio (the total of its net loss ratio and net expense ratio) exceeded 100% from fiscal 2019 (ended March 31, 2020) to fiscal 2021, due to large insurance claims and the COVID-19 pandemic. Especially in fiscal 2021 (ended March 31, 2022), the association had to draw down significant free reserves (total of net assets and catastrophe loss reserves), mainly because of the biggest ever claim on a coastal ship. In response, the association has taken measures to improve profitability. As a result, its capital position is improving. We expect Japan P&I to continue to gradually accumulate free reserves.

Japan P&I is likely to maintain conservative asset management and risk management. To shore up investment profits, Japan P&I increased its investment in foreign equity funds. Nevertheless, we believe it will maintain a conservative investment approach and will not significantly increase risky assets. Also, the association has made a continuous effort to improve its enterprise risk management. In particular, it has enhanced risk management in its insurance underwriting business, responding to deterioration in its combined ratio in recent years.

Outlook: Positive

The positive outlook reflects our view that Japan P&I will likely strengthen its capital adequacy further within next two years while maintaining a robust operating performance.

Upside scenario

We may upgrade Japan P&I if;

- The insurer improves and stabilizes capital above the 99.99% confidence level; or
- It maintains a strong capital buffer at the 99.95% confidence level and solid and stable profitability underpinned by a high-quality customer base.

Downside scenario

We may revise the outlook on Japan P&I back to stable if its capital level significantly deteriorates. This could result from unexpectedly large claims.

Key Assumptions

- Japan's real GDP will hover around 0.7%-1.1% from 2024 to 2026.
- The frequency of claims against Japan P&I will remain normal. The loss ratio will remain favorable thanks to the effects of premium rate hikes and selective contract conclusions.
- The association will not take excessive asset investment risk. It will not increase risk assets significantly.
- The level of capital will improve through accumulation of free reserves. Japan P&I will not implement nonrecurring capital enhancement measures, such as unbudgeted supplementary calls and subordinated debt financing.

The Japan Ship Owners' Mutual Protection & Indemnity Association--Key metrics (nonconsolidated)

(Bil. ¥)	--Fiscal year*--				
	2026f	2025f	2024f	2023a	2022a
Gross premiums written	30-33	30-33	30-33	33	38
EBITDA adjusted§	1-2	1-2	1-2	6	3
Net income	0-1	0-1	0-1	7	5
S&P Global Ratings' capital adequacy	99.95%	99.95%	99.95%	99.95%	99.80%
Return on equity (adjusted) (%)§	1-3	1-3	1-3	26.2	24.3
Financial leverage (adjusted) (%)§	<40	<40	<40	0.3	0.6
Net combined ratio (%)	99-100	99-100	99-100	91.2	96.6
Net loss ratio (%)	79-81	79-81	79-81	75.1	79.4
Net expense ratio (%)	19-20	19-20	19-20	16.1	17.2
Return on revenue (%)§	6-10	6-10	6-10	21.0	12.3

*Fiscal years end March 31 of the following year. a--Actual. f--Forecast (S&P Global Ratings' base-case assumptions). §Adjusted with S&P Global Ratings' views as equity-like reserves.

Business Risk Profile: Satisfactory

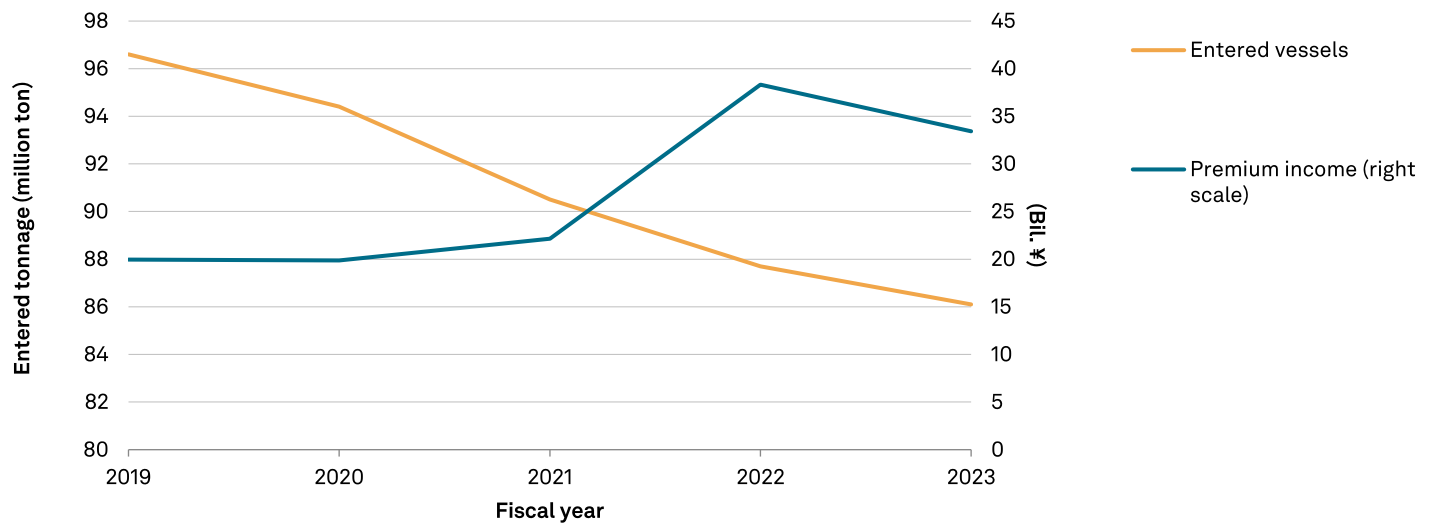
Japan P&I will likely maintain its global business base through its membership in an international P&I group. It began operations in 1950 as a mutual insurance association. It engages in non-life insurance business under a system of mutual insurance to cover expenses and liabilities incidental to the operations of ships. In 1976, it became a member of the International Group 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. Most of its business is concentrated on global marine P&I, but it also engages in the domestic marine P&I business. Japan P&I's premium income will likely remain below the average for the 12 international P&I clubs.

We believe Japan P&I maintains a niche position in the global marine P&I market and a stable business base for domestic shipowners, supported by strong, long-standing relationships with its members in Japan. They are mostly direct business contacts without brokers. The association has low business diversification because it focuses on marine P&I insurance and concentrates on its Japanese members. In addition, competition from overseas clubs and stricter insurance underwriting for profitability have eroded its market share. These factors lead us to deem Japan P&I to have an average competitive position in the global P&I market.

Rate revisions will likely support Japan P&I's premium income. The association's contract volume (entered tonnage) is declining. However, its premium income started to increase in fiscal 2021 thanks to the effects of a general increase in premiums applied to renewals in the last five years. In fiscal 2022, an unbudgeted supplementary call on its members temporarily increased the association's premium income. In addition, changes in the system to levy insurance premiums to a mutual premium system temporarily elevated premium income in fiscal 2023. Even excluding these one-off factors, we believe Japan P&I's premium income will continue to grow moderately through rate increases.

Chart 1

Premium income is increasing; tonnage of entered vessels is declining



Fiscal years end March 31 of the following year. Source: S&P Global Ratings, based on publicly disclosed financial materials.

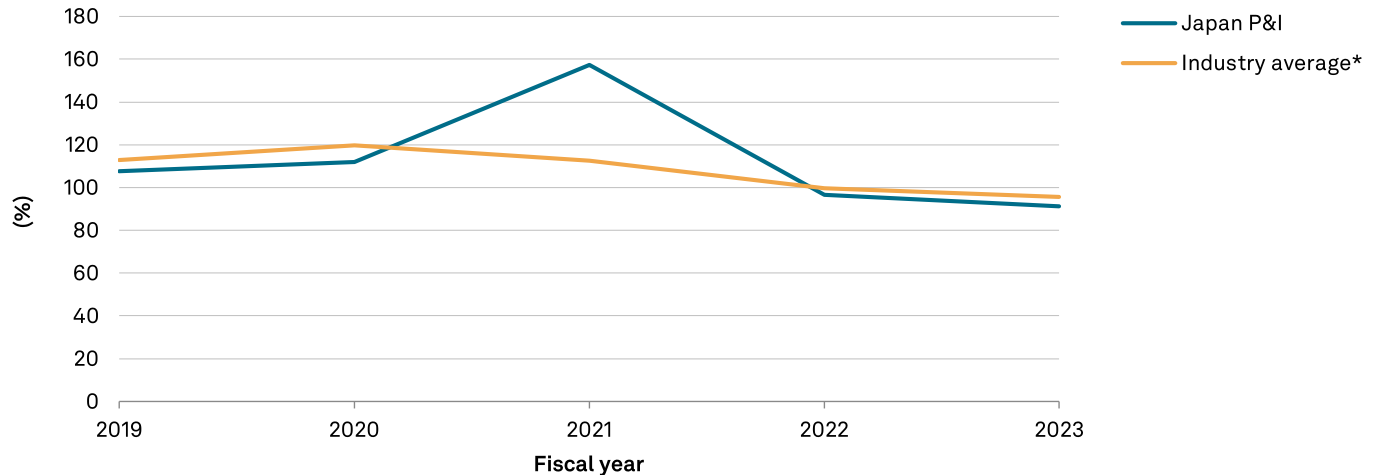
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Japan P&I's profitability in terms of its combined ratio is likely to remain generally higher than the average for the 12 international P&I clubs, in our view. Its combined ratio exceeded 100% from fiscal 2019 to fiscal 2021. In particular, the ratio deteriorated substantially to 157.3% in fiscal 2021, mainly because Japan P&I received its biggest ever claim on a coastal ship. To address this, the association has taken measures such as a premium rate hike and selective contract conclusions. As a result, the association's profitability is gradually improving. We note that the combined ratio in fiscal 2022 and fiscal 2023 includes temporary benefits from the aforementioned increase in premium income.

Chart 2

Generally higher profitability than the industry average despite volatility due to large claims

Combined ratios



Fiscal years end March 31 of the following year for Japan P&I, and Feb. 28 or Dec. 31 for other clubs. *Industry average combined ratio is a simple average of rated 12 clubs, which includes our estimates. Source: S&P Global Ratings, based on publicly disclosed financial materials of each club.

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Japan P&I will likely maintain an approach that maximizes risk-adjusted returns commensurate with its business scale, in our view. It says it will focus on Japan-related business, a niche area in the global market, because it is an area of strength for the insurer. Accordingly, Japan P&I's assessment of risk and return and prioritization are relatively simple.

Financial Risk Profile: Satisfactory

We expect Japan P&I's adjusted capital to remain above the required capital commensurate with 99.95% confidence level in the next two years or so. Its capital declined substantially in fiscal 2021 because of a large claim. However, it has improved through an unbudgeted supplementary call in February 2023 and thanks to favorable operating performance in fiscal 2023. We believe its capital will continue to recover moderately as measures taken to improve profitability take effect.

We expect Japan P&I to remain susceptible to large claims. Concentration of its business on P&I insurance with a high frequency of mid-to-large claims and its low absolute capital have increased volatility of profitability and capital. Potential volatility of profitability is likely to remain high, although we expect profitability to improve.

We do not expect any significant changes in Japan P&I's conservative approach to investment. It is working to enhance asset management and internal risk management to ramp up investment returns and is raising its investment allocation to fixed-income and equity investment trusts. Nevertheless, we do not expect substantial growth of these investments. In addition, its investment portfolio continues to be made up of mostly fixed-income instruments, such as

U.S. Treasury bonds and Japanese and foreign public and corporate bonds that are generally rated 'A' or higher.

We believe Japan P&I is likely to continue to take adequate measures to control risks, such as premium rate hikes and selective contract conclusions. Another supporting factor is that it is a member of the Pooling Agreement of the International Group of P&I Clubs, which gives it access to the group's reinsurance program. Also, it can collect more additional premiums than scheduled by making supplementary calls from members. As part of its effort to enhance risk management, the association has considered starting to monitor its overall risks on an economic value basis and prepare an own risk and solvency assessment (ORSA) report, in consideration of changing regulations in Japan and elsewhere.

We assess Japan P&I's funding structure as neutral. It does not have any debt on its books, and under our base case scenario, we assume it will continue to refrain from issuing any debt.

Other Key Credit Considerations

Governance

We see no shortcomings in Japan P&I's management and governance. Its management team has a well-established, favorable relationships with members and expertise and experience in the P&I market. The management team clearly defines its management strategy and financial management policy, which are consistent with its scale and capabilities, in our view. We believe the association has been conducting generally conservative risk management across the organization. Its continued effort to strengthen capital and enhance internal risk management verifies this view.

Liquidity

We regard Japan P&I's liquidity as exceptional because of the strength of its available liquidity sources, which are mainly premium income, and an asset portfolio with ample liquid assets. We think Japan P&I is well-positioned to meet its liquidity needs even if major adverse claims occur.

Environmental, social, and governance

Environmental, social and governance (ESG) factors are a neutral consideration in our credit rating analysis of Japan P&I. We believe that Japan P&I's ESG factors are comparable to other P&I clubs'. The association takes the form of mutual association and is a non-profit organization for policyholders. It plays a social role by supporting global shipping through the provision of insurance. The association also offers protection through insurance to companies making efforts to reduce or eliminate carbon emissions in the shipping industry.

Related Criteria

- Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Insurers Rating Methodology, July 1, 2019
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Japan P&I Outlook Revised To Positive On Stronger Capital Position; 'BBB' Ratings Affirmed, July 31, 2024
- Japan P&I 'BBB' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable, Jan. 16, 2024

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of September 26, 2024)*

Operating Company Covered By This Report

Japan Ship Owners' Mutual Protection & Indemnity Assn. (The)

Financial Strength Rating

Local Currency

BBB/Positive/--

Issuer Credit Rating

Local Currency

BBB/Positive/--

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.

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