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Ratings

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

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

Anchor	bbb	+	Modifiers	0	=	SACP	bbb

Business Risk	**Satisfactory**
Competitive position	Satisfactory
IICRA	Intermediate
Financial Risk	**Satisfactory**
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

+

Support	**0**
Group support	0
Government support	0

=

BBB/Stable/--

Financial strength rating

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, supporting its position is strong and long-standing relationships with Japan-related shipowners. On the other hand, its business is not particularly diversified, and its customer base is geographically concentrated in Japan. The association's concentration on P&I activity makes its earnings susceptible to large insurance claims. It has taken measures to address deteriorating profitability in recent years. In our view, its profitability has remained generally higher than the industry average despite a brief decline.

Japan P&I will likely restore its capital level gradually. 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. The association has taken measures to improve profitability. It also made an about ¥6.9 billion unbudgeted supplementary call on its members in February 2023. 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: Stable

The stable outlook reflects our view that Japan P&I's capital adequacy will remain above the 'AA' confidence level over the next two years with improving operating performance.

Downside scenario

We may downgrade our ratings on Japan P&I if its capital level deteriorates significantly within the next two years. This could result from unexpectedly large claims.

Upside scenario

We may upgrade Japan P&I within the next two years if its capital adequacy further improves to close to the 'AAA' confidence level. This could occur through accumulation of free reserves while profitability remains at least in line with the industry average.

Key Assumptions

- Japan's real GDP will hover around 1.0%-1.8% from 2023 to 2025.
- The frequency of claims against Japan P&I will remain at normal. The loss ratio will improve gradually 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)

	--Fiscal year*--				
(Bil. ¥)	**2025f**	**2024f**	**2023f**	**2022a**	**2021a**
Gross premiums written	25-30	25-30	30-35	38	22

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

	--Fiscal year*--				
(Bil. ¥)	**2025f**	**2024f**	**2023f**	**2022a**	**2021a**
EBITDA adjusted§	0-1	0-1	0-2	3	-6
Net income	0-1	0-1	0-2	5	0
S&P Global Ratings' capital adequacy	Very strong	Very strong	Very strong	Very strong	Strong
Return on equity (adjusted) (%)§	0-2	0-2	4-7	24.3	-16.1
Financial leverage (adjusted) (%)§	<40	<40	<40	0.6	0.7
Net combined ratio (%)	95-105	95-105	90-95	96.6	157.3
Net loss ratio (%)	75-85	75-85	70-75	79.4	132.3
Net expense ratio (%)	20-25	20-25	20-25	17.2	25.0
Return on revenue (%)§	0-5	0-5	5-10	12.3	-37.8

*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 equitylike 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.

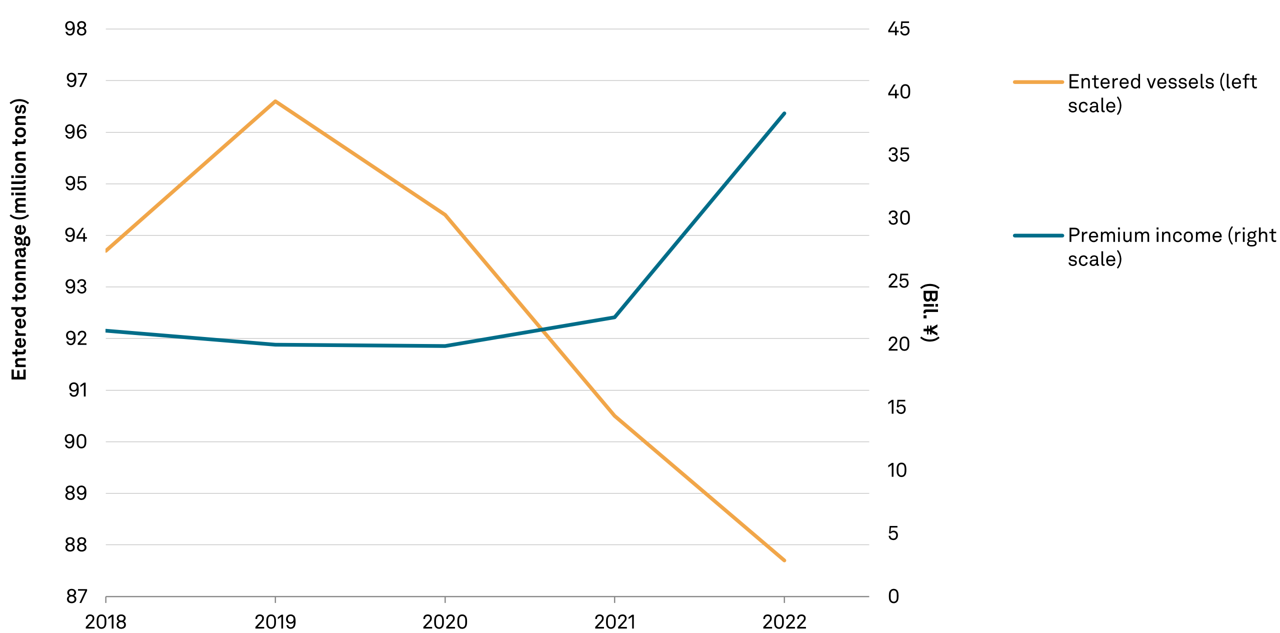
We believe Japan P&I maintains a good niche position in the global marine P&I market and a stable business base for domestic shipowners, supported by strong long-standing relationships with its members in Japan. They are mostly direct business contacts without brokers. The association has low business diversification because it focuses on marine P&I insurance and concentrates on its Japanese members. 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 four years. In fiscal 2022, an unbudgeted supplementary call on its members temporarily increased the association's premium income. In addition, change in the system to levy insurance premiums to the mutual premium system is likely to temporarily elevate 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 due to higher premiums; entered vessels are declining thanks to stricter contract selection

Movements of premium income and entered vessels



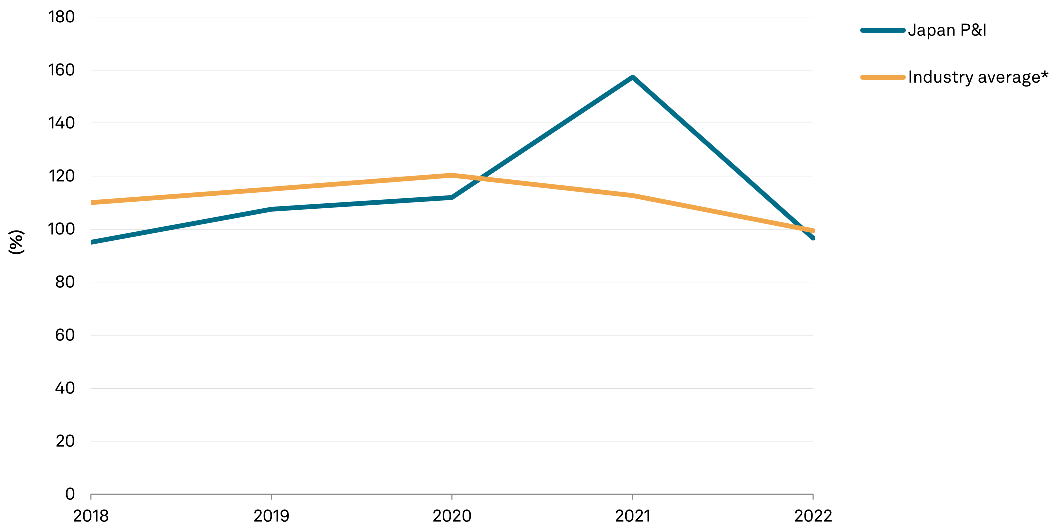
Fiscal years end March 31 of the following year. Source: S&P Global Ratings, based on publicly disclosed financial materials.

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 the biggest ever claim on a coastal ship occurred. To address this, the association has taken measures such as a premium rate hike and selective contract conclusions. Accordingly, we expect Japan P&I's profitability to improve gradually. We analyze that its combined ratio benefited from the above-mentioned one-off factors that inflated the earnings in fiscal 2022, which will likely continue in fiscal 2023. In fact, the ratio fell below 100% to 96.6% in fiscal 2022 for the first time in four years.

Chart 2

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

Movements of combined ratio



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 estimations. Source: S&P Global Ratings, based on publicly disclosed financial materials of each club.

Japan P&I will likely maintain an approach to maximize 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 level required under our 'AA' category in the next two years or so. Its capital declined substantially in fiscal 2021 due to the occurrence of a large claim. But it improved in fiscal 2022 thanks to an unbudgeted supplementary call in February 2023. We believe its capital will continue to recover gradually 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 mostly 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, taking into account changing regulations in Japan and overseas.

We assess Japan P&I's funding structure as neutral. It does not own debt. In our base case scenario, we assume Japan P&I will refrain from financing any new 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 relationship with members and good 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

ESG factors have no material influence on our credit rating analysis of Japan P&I.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Insurers Rating Methodology, July 1, 2019
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Japan P&I 'BBB' Ratings Affirmed On Stronger Capital; Outlook Stable, July 28, 2023
- Ratings on Japan P&I Downgraded To 'BBB' As Major Claims Weaken Capital Adequacy; Outlook Stable, July 27, 2022

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 25, 2023)*

Operating Company Covered By This Report	
Japan Ship Owners' Mutual Protection & Indemnity Assn. (The)	
Financial Strength Rating	
Local Currency	BBB/Stable/--
Issuer 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.