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

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	bbb+

+

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

=

Financial strength rating
BBB+/Positive/--

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

Credit Highlights

Overview

Strengths	Risks
Solid market position supported by strong relationships with Japan-related shipowners	Low diversification of its business because it specializes in marine protection and indemnity (P&I) and concentrates on Japan-related shipowners
Capital at the 'AAA' level and likely to increase further through accumulation of free reserves	Fierce competition in the P&I insurance market, making substantial expansion of its business unlikely

Japan P&I's credit quality is likely to improve moderately through enhanced capitalization. In S&P Global Ratings' view, The Japan Ship Owners' Mutual Protection & Indemnity Association's credit quality will likely improve to near the average for the global P&I sector from now on. It currently ranks at the lower end of the average for the sector. Japan P&I is Japan's only shipowners' mutual P&I association and is a member of the international P&I group. It specializes in marine P&I and has a solid market position, supported by 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.

Japan P&I's capital, which remains in excess of the level required under our 'AAA' category, is likely to strengthen further. Japan P&I has had to pay out many large insurance claims and suffered amid the COVID-19 pandemic in the past two years. However, as of March 31, 2021, its capital remained in excess of the 'AAA' level under our model, as it did in the previous year. Its capital is likely to continue to improve to a level consistently in excess of the 'AAA' category threshold over our two-year rating horizon, in our view.

Japan P&I is likely to maintain conservative asset management and risk management. To shore up investment profits, Japan P&I is slightly increasing its investment in foreign equity funds. Nevertheless, we do not expect any significant changes in its conservative approach to investment. Also, the association has made a continuous effort to improve its enterprise risk management. In particular, it plans to enhance the strategic use of enterprise risk management in its insurance underwriting business, responding to a deterioration of its combined ratio (the total of its net loss ratio and net expense ratio) in recent years.

Outlook: Positive

The positive outlook reflects our view of an at least a one-in-three chance that Japan P&I will continue to strengthen its capital through accumulation of free reserves, triggering an upgrade within the next two years. On the other hand, we expect Japan P&I to maintain its current business model, supported by the Japan-related shipping companies that constitute the majority of its membership.

Upside scenario

We may raise the ratings on Japan P&I within the next two years if:

- It stably strengthens its capital through accumulation of free reserves to a level, which is commensurate with higher ratings in a sustainable manner, and
- The association maintains its competitive position.

Downside scenario

We may revise downward the outlook on Japan P&I to stable within the next two years under either of the following scenarios.

- Its prospective capital adequacy deteriorates significantly. This could result from an unexpectedly high frequency of claims or a significant increase in risk exposure.
- A significant decline in premiums weakens its competitive position, and its operating performance consistently and materially falls short of its competitors'.

Key Assumptions

Macroeconomic assumptions

- Japan's real GDP will grow from 2021 and thereafter as it recovers from the COVID-19 pandemic.

The Pandemic

- Insurance payouts related to the pandemic will decrease as its impact tapers off.

Loss Ratio

- The frequency of claims will remain at the normal level. The loss ratio will gradually improve thanks to the effects of a premium rate hike and selective contract conclusions

Financial market conditions

- Stock prices, exchange rates, and interest rates in domestic and overseas financial markets will not fluctuate considerably, but the potential for volatility will remain high.

The Japan Ship Owners' Mutual Protection & Indemnity Association--Key Metrics (Nonconsolidated)

	--Fiscal year*--							
(Bil. ¥)	**2023f**	**2022f**	**2021f**	**2020a**	**2019a**	**2018a**	**2017a**	**2016a**
S&P Global Ratings' capital adequacy§	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Very strong	Very strong
Gross premiums written	20-21	20-21	20-21	20	20	21	21	23
Net income	0-1	0-1	0-1	3	(1)	2	1	2
Return on equity (%)	3-6	3-6	3-6	24.1	(12.1)	18.1	14.1	27.6
Return on equity (adjusted) (%)†	1-3	1-3	1-3	6.3	(4.2)	10.2	4.8	13.0
Net combined ratio (%)	100-105	100-105	100-105	111.9	107.5	95.0	89.8	83.7
Net investment yield (%)	2.0	2.0	0.8	4.1	0.2	1.2	2.3	1.8
Financial leverage (adjusted) (%)†	<1	<1	<1	0.6	0.5	0.6	0.4	0.5

*Fiscal years end March 31 of the following year. a--Actual. f--Forecast (S&P Global Ratings' base-case assumptions) §Assessment for 2018 onward reflects an update to our framework; those from earlier were derived using our previous criteria. †Adjusted with what S&P Global Ratings' views as equitylike reserves.

Business Risk Profile: Satisfactory

We expect Japan P&I to remain at the lower end of the average for the 13 international P&I clubs in terms of premiums and free reserves. It began operations 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.

We believe Japan P&I has 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.

A decrease in premium income at Japan P&I in recent years is bottoming out, in our view. We hold this view because the association applied a general increase on premiums in the last two years in line with the trend of the global P&I market. While the impact of the sale and scrapping of aging ships with relatively high insurance premiums continues, the effects of higher premiums and an increase in shipbuilding are likely to support the association's premium income, in our view.

When we compare Japan P&I's combined ratio with those of its rated P&I club peers, we expect it to maintain better operating performance on a several-year average basis. In the most recent two years, Japan P&I's combined ratio deteriorated mainly due to higher numbers of large claims, standing at 107.5% in fiscal 2019 (ended March 31, 2020) and 111.9% in fiscal 2020, including the impact of exchange rates, respectively. We expect its earnings to improve in fiscal 2021 and onward following the premium rate hike and selective contract conclusions.

Also, we do not expect the pandemic to hurt Japan P&I's insurance underwriting profit substantially. Although Japan P&I paid a certain amount of pandemic-related insurance claims in fiscal 2020, increased vaccination rates and the resumption of economic activities will likely underpin the association's operations. Reflecting a relatively favorable combined ratio, Japan P&I's return on equity (ROE) seems a lot higher than its peers', but after adjusting for Japan's special accounting of catastrophe reserves and its high volatility, the ratio declines to closer to those of global peers, in our view.

Japan P&I will likely maintain 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: Strong

We expect Japan P&I's capital, which is extremely high, to improve further through accumulation of free reserves. The association's free reserves declined in the last two years mainly due to the occurrence of large claim payments. However, we recognize that, under on our capital model, the association maintained its capital at a level well into the 'AAA' category at the end of fiscal 2020, as it did at the end of the previous year. Under our base-case scenario, we expect its prospective capital adequacy to continue to improve to a level consistently in excess of the 'AAA' category threshold over the next two years.

However, we lowered our assessment of its capital and earnings one notch to very strong, the second-highest of eight possible categories. This is based on our view that, considering its earnings volatility, its capital is not currently strong enough to exceed the 'AAA' level in a stable manner. In addition, Japan P&I's low absolute capital constrains our view of its capital and earnings, because we believe this makes it vulnerable to more frequent large losses.

In our view, Japan P&I has moderately high risk exposure, driven by potentially high volatility in its capital and earnings. We base our view mainly on the concentration of its business on P&I insurance with high frequency of midsize-to-large claims relative to its capital.

Japan P&I has been enhancing asset management and internal risk management to ramp up investment profits. However, we do not expect any significant changes in its conservative approach to investment. In accordance with its plan to increase allocation for fixed-income and equity investments, the association has raised these investments slightly. Also, their limits have been raised only at a moderate pace based on those initially set. 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.

In addition, Japan P&I has taken adequate measures to control risk. For instance, 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 and implementing a general increase. 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. Furthermore, responding to the deterioration in its combined ratio, it has bolstered the use of enterprise risk management in its insurance underwriting business.

We assess Japan P&I's funding structure as neutral. It does not own debt and has no plan for debt financing, in our view.

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 as an entire 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.

Related Criteria

- 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

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 October 27, 2021)*

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.