Tokio Marine & Nichido Fire Insurance Co., Ltd.

Full Rating Report

Rating

Insurer Financial Strength Rating	A+

Outlook

Insurer Financial Strength Rating	Stable

Financial Data

Tokio Marine & Nichido Fire Insurance Co., Ltd.

	FYE15
Net written premiums (JPYbn)	2,036.8
Total assets (JPYbn)	9,078.1
Solvency margin ratio (%)	751.7
Financial leverage (%)	6.0
Pre-tax return on assets (%)	2.8
Combined ratio (%)[a]	89.8

[a] Excludes "no loss no profit" products
Source: Company and Fitch

Related Research

Japanese Non-Life Dashboard 2015 (June 2015)

2015 Outlook: Japanese Non-Life Insurance (December 2014)

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Key Rating Drivers

Ratings Constrained by Sovereign: Tokio Marine Nichido Fire Insurance Co.'s (TMNF) Insurer Financial Strength (IFS) rating was downgraded to 'A+'/Stable from 'AA−'/Rating Watch Negative in April 2015, when Japan's sovereign rating was downgraded to 'A'. Fitch Ratings allows the company's rating to be above the sovereign's by up to one notch, due to its international diversification despite its high level of government debt. This exposure was more than 20% of invested assets at end-March 2015.

Evolution to Global Insurance Conglomerate: Tokio Marine Holdings, Inc. (TMHD) − of which TMNF is a core company − has strong franchises in the non-life insurance and life insurance sectors in Japan and abroad. About 29% of the group's total insurance premiums and 35% of its adjusted earnings came from outside Japan in the financial year ended March 2015 (FY14). Fitch expects TMHD to expand its international insurance operations in both developed and emerging markets.

Exceeds Sovereign Rating: TMNF's rating exceeds that of the Japanese sovereign (A/Stable) because Fitch believes the company has strong capital and liquidity, and sound franchises both in Japan and overseas. TMNF's IFS rating is one notch higher than Japan's, supported by TMHD's geographical diversification in countries, such as the US, which have higher credit profiles than Japan.

Risk From Equity Holdings: Fitch expects the company to gradually reduce its equity holdings, as its biggest risk is its exposure to Japanese equities. Equities represent about one-third of total invested assets despite TMNF's efforts to reduce its domestic equity holdings over the last 10 years.

Domestic Non-Life Improves: TMNF's combined ratio was 90% at the end of FY14; Fitch expects a combined ratio well below 100% for the full fiscal year in FY15. This expectation is based on stable premium rates across the industry.

Domestic Life Remains Profitable: Tokio Marine Nichido Life Insurance Co., Ltd. (TMN Life) − also a core subsidiary of TMHD − is growing steadily in the profitable domestic life insurance segments such as death protection and third (health) sectors. TMHD's domestic life business has been more profitable than its domestic non-life business.

Rating Sensitivities

Potential Constraint from Sovereign: An upgrade is unlikely in the near future, given that Japan's Long-Term Local-Currency Issuer Default Rating is 'A' with a Stable Outlook. Conversely, if the rating on Japan is lowered, the ratings on the insurer are also likely to be.

Significant Erosion of Capitalisation: Rating triggers for a downgrade include a material erosion of capitalisation caused by a major natural disaster and/or financial crisis, the group's consolidated SMR declining below 600%, deterioration in TMNF's net leverage to above 4x or an unexpected surge in the combined ratio over a sustained period.

Market Position and Size/Scale

- One of three largest non-life insurance groups in Japan
- Life insurance is of growing importance to TMHD
- TMHD is a global insurance conglomerate

TMNF is a core subsidiary of TMHD, one of the three biggest non-life insurance groups in Japan. The other two are MS&AD Insurance Group Holdings, Inc. and Sompo Japan Nipponkoa Holdings, Inc. The group's 'Large' market position supports the current rating relative to Fitch's ratings range based on market position and size/scale (Figure 2).

One of Three Largest Non-Life Insurance Groups in Japan

TMHD's market share of domestic non-life insurance based on net premiums written was 27.6% (25.8% at TMNF and 1.8% at Nisshin Insurance Co., Ltd. in the financial year ending March 2014 (FY13). The company's share of domestic life insurance, based on the value of policies in force, was modest at 2.5%.

Life Insurance is of Growing Importance to TMHD

TMHD's domestic life insurance fundamentals continue to grow strongly in the mature Japanese domestic life insurance market. TMN Life has traditionally been strong in the profitable third (health) sector; domestic life insurance represents between 30% and 40% of the group's total adjusted earnings. TMN Life's limited investment risks and, thus, limited-risk amount, has contributed to raise capital adequacy.

TMHD is a Global Insurance Conglomerate

TMHD's international insurance business represented 29% of the group's premiums and 35% of the group's adjusted earnings in FY14. TMHD has profitably increased its presence in North America. Consequently, TMHD's global business portfolio is the most diversified among Japanese insurers, the majority of which are focused mainly on Asia. TMHD is among the largest 10 to 15 reinsurers in the world.

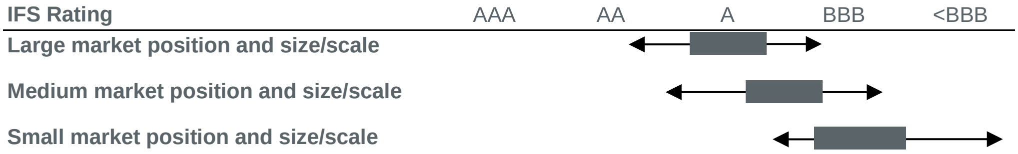
Figure 1
Tokio Marine's International Expansion – Recent Deals

	Stake (%)	Amount (JPYbn)
Mar 2008: Acquires Kiln in the UK	100	106
Dec 2008: Acquires Philadelphia in the US	100	499
Nov 2009: Joint venture life insurance with Indian company, Edelweiss Capital Limited	26	3
Jan 2010: Opens takaful (Islamic insurance) insurer in Egypt	40	0.2
Apr 2010: Joint venture insurer with Saudi company, Alinma Bank	29	1.5
May 2012: Acquires Delphi Financial Group in the US	100	200
May 2012: Acquires MUI Continental Insurance Berhad in Malaysia	100	0.5
Nov 2012: Acquires PT MAA Life Assurance in Indonesia	80	0.8
Nov 2012: Purchases PICC's stake in China	n.a.	4

Source: Fitch

Related Criteria
Insurance Rating Methodology (July 2015)

Figure 2
Ratings Range Based on Market Position and Size/Scale



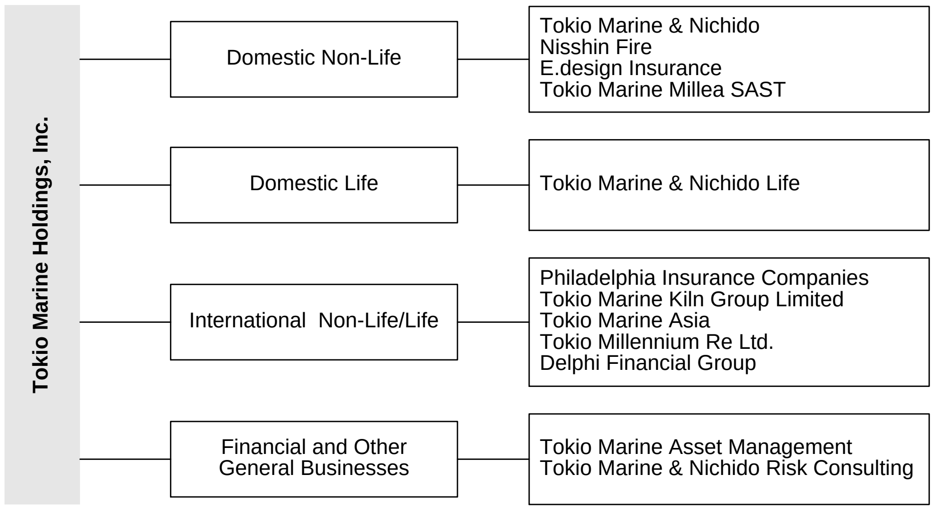
Source: Fitch

Share Ownership is Neutral for the Rating

The ownership structure is neutral for the rating.

Figure 3
Tokio Marine Organisational Structure

Major Subsidiaries and Affiliates



Source: Fitch

Corporate Governance and Management

Tokio Marine's corporate governance and management are adequate and neutral for the rating.

The 10-member board has three independent members. The company's chief executive also serves as chairman of the board. This is not considered best practice by Fitch, but it is common practice in Japan.

All board members are elected for one- year terms.

Industry Profile and Operating Environment

Japanese Non-Life Supports High Range of Ratings

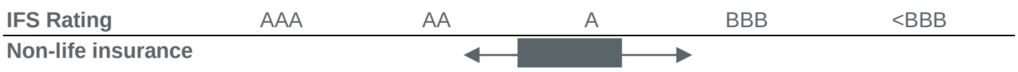
Fitch views the natural rating range for Japanese non-life insurance companies as 'AA' to 'A' for IFS ratings, based on the industry's profile. Only companies with good credit quality and sizeable international diversification would be eligible for the 'AA' category due to the constraint of Japan's sovereign rating. This market is considered mature/stable with low profitability, offset by recent consolidation in the sector and more sophisticated pricing. Major non-life groups in Japan are becoming insurance conglomerates, dealing in domestic non-life, domestic life, and international insurance markets, which is positive for healthy growth and diversification.

Japan's non-life insurance market is saturated and until recently had suffered from low profitability, mainly because of unsatisfactory loss ratios from automobile insurance. However, the profitability of domestic non-life business has bottomed out due to an improving loss ratio, driven by a recommendation from General Insurance Rating Organisation of Japan (GIROJ) to increase automobile insurance premium rates and sector consolidation.

Sovereign and Macroeconomic Risks

Fitch rates the Local-Currency sovereign obligations of Japan at 'A', with a Stable Outlook. The Country Ceiling is at 'AA'. The local-currency sovereign rating expresses the maximum limit for local-currency ratings of most, but not all, issuers in a given country. At current levels, the ratings of several Japanese insurance organisations and other corporate issuers are likely to be constrained by sovereign or macroeconomic risks. In the case of TMNF, Fitch believes its IFS rating could exceed the sovereign's local-currency IDR by up to one notch, based on its strong capital, liquidity, and franchise, which is well diversified globally.

Figure 4
Ratings Range, Based on Industry Profile/Operating Environment



Source: Fitch

Peer Analysis

TMNF Outperforms Other Japanese Peers

TMNF compares favourably to insurers rated in the ‘AA’ IFS rating category when evaluating key credit factors such as the capital adequacy and profitability of its domestic non-life business.

TMNF’s direct peers are the other major Japanese non-life insurers. These include Sompo Japan Nipponkoa Insurance Inc. (Sompo Japan, IFS A/Stable), Mitsui Sumitomo Insurance Company, Limited. (MSI, IFS A/Stable), and Aioi Nissay Dowa Insurance, Co., Ltd. (ADI). Sompo Japan Npponkoa is a core SOMPO Group company and the largest non-life insurer in Japan on a stand-alone basis, which is slightly larger than TMNF. MSI is a core MS&AD Insurance Group company, along with ADI, and the third-largest non-life insurer in Japan.

Figure 5
Peer Comparison Table

(JPYbn)	IFS	SMR (%)	Adjusted equity to total assets	NPW (JPYbn)	Net leverage (x)	Combined ratio (%)	NPW to adjusted equity (x)
TMNF	A+/Stable	751.7	35.6	2,037	1.9	89.8	0.63
MSI	A/Stable	651.5	30.3	1,444	2.4	93.3	0.70
AND	n.a.	804.9	28.3	1,161	3.4	97.6	1.18
Sompo Japan Nipponkoa	A/Stable	716.3	27.1	2,181	3.3	96.8	1.10

Exclude Compulsory Automobile Liability Insurance (CALI) and Residential Earthquake Insurance
Source: Companies and Fitch, As of end-March 2015

Figure 6

TMNF: Capitalisation and Leverage

(%)	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Fitch's expectation
Net premium written to adjusted equity (x)	0.73	0.82	0.76	0.73	0.63	Capital adequacy will remain high enough and leverage low enough to keep TMNF in the 'AA' IFS rating category. The company's SMR will continue to be above 700% and its net leverage below 2%.
Net leverage (x)	2.6	2.8	2.5	2.3	1.9	
Operating company's solvency margin ratio	603.4	629.7	665.3	685.4	751.7	
Group consolidated solvency margin ratio	n.a.	717.8	737.0	728.4	781.3	
Financial leverage	4.0	8.7	13.5	10.4	6.0	
Total financing commitment (x)	0.04	0.11	0.19	0.13	0.07	

Source: Fitch

TMNF's Capital Position is Sufficient for IFS 'AA' Category

- Solvency margin and capital adequacy justify 'AA' rating
- Net leverage is low
- Financial leverage is low
- Capital structure is clean

Solvency Margin and Capital Adequacy Justify 'AA' Rating

TMNF is strong in both absolute terms and relative to peers from a risk-adjusted perspective.

Fitch's median ratio of SMR for 'AA' rated Japanese non-life insurers is 650%. TMNF has maintained a sufficient solvency margin for an 'AA' category rating on a standalone basis. The agency's median ratio of consolidated SMR for 'AA' rated Japanese non-life groups is 700%. TMHD's capital adequacy at group level measured by consolidated SMR (781.3% at end-March 2015), having been sustained by its domestic life insurance business.

Net Leverage is Low

TMNF's capitalisation is solid as the company tends to accumulates excess capital and its insurance underwriting has been prudent in adding additional underwriting risks. TMNF's 1.9x net leverage (calculated by dividing the sum of NWP and total liabilities, less any ceded reserves, by surplus/equity) is lower than that of peers. Fitch's median ratio of net leverage for Japanese non-life insurers at IFS 'AA' category is 3.5x. The agency expects that net leverage will continue in a low and safe range.

Financial Leverage is Low

Fitch's median ratio of financial leverage for Japanese non-life insurers at IFS 'AA' category is 20%. TMNF's financial leverage is lower than that of peers and justifies its 'AA' category rating. TMNF owes senior debt temporarily for its operations, so its financial leverage was 6% at end-March 2015, which was manageable. The company has not issued any hybrid debt thanks to its strong core capital.

Capital Structure is Clean

TMNF's capital structure contains a small amount of senior debt (JPY205.7bn at end-March 2015) and no hybrids. TMNF's capitalisation consists of net assets (JPY2,574.2bn) and some reserves (JPY1,033.5bn), including the catastrophe reserve (JPY956.6bn). Of its net assets, retained earnings are JPY663.0bn, while unrealised gains are JPY1,685.7bn.

Figure 7

TMNF: Debt-Servicing Capabilities and Financial Flexibility

	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Fitch's expectation
GAAP fixed charge coverage (x)	27.6	75.8	42.2	62.4	151.3	Interest-bearing debt will continue to be negligible, meaning that debt servicing will continue to be a strength for TMNF.
Interest expense (JPYbn)	3.0	1.8	2.6	2.1	1.8	

Source: Fitch

TMNF's Ability to Service its Debt is Strong

- Fixed charge coverage remains healthy
- TMNF maintains a good relationship with Mitsubishi Group
- Sufficient cash relative to interest-bearing debt

Fixed Charge Coverage Remains Healthy

TMNF has low levels of interest-bearing debt, all of which is low-cost senior debt, so coverage levels remain robust.

TMNF Maintains Good Relationship with Mitsubishi Group

TMNF maintains a good relationship with Mitsubishi Group, which includes the Bank of Tokyo-Mitsubishi UFJ, Ltd. (A/Stable), the largest and strongest commercial bank in Japan. The informal ties between TMNF and Bank of Tokyo-Mitsubishi UFJ, Ltd. have been strong even without a formal contract because of the long history of Mitsubishi Group.

There are no concerns over TMNF's capability to use liquidity from banks; the agency does not expect any such necessity in the foreseeable future.

Sufficient Cash Relative to Interest-Bearing Debt

TMNF had cash and cash equivalents of JPY270.9bn at end-March 2015, while interest-bearing debt was JPY205.7bn.

Figure 8

TMNF: Financial Performance and Earnings

(%)	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Fitch's expectation
Return on adjusted equity	4.0	1.0	2.5	3.5	6.3	Profitability to bottom out due to premium increases and more sophisticated pricing. TMNF is targeting a combined ratio of 95%, and the agency views it is a feasible target.
Combined ratio[a]	97.2	103.3	97.4	91.2	89.8	
Operating ratio	99.6	101.7	97.7	95.1	88.6	
Net premium written growth	0.4	2.3	4.9	5.2	3.6	
Relative premium growth rate	0.4	0.2	1.3	-0.2	n.a.	

[a] Excludes Compulsory Automobile Liability Insurance (CALI) and Residential Earthquake Insurance
Source: Fitch

Profitability Consistently Solid in Domestic Life and International Insurance

- Premium increases are likely to boost profitability
- Domestic life insurance units help profitability
- Distribution synergies between domestic non-life and life
- International insurance operations sustain profitability

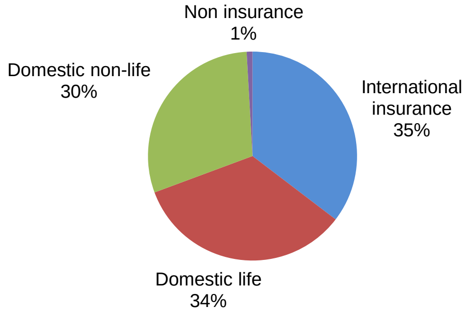
Premium Increases are Likely to Boost Profitability

Price competition was intense in motor insurance, dragging down profitability across domestic non-life. However, since FY09 the industry has increased motor premiums and introduced more sophisticated pricing. For example, insurers are scheduled to make premiums for the elderly higher than those for middle-aged policy holders due to the former's greater risk profile.

TMNF's net premium written was JPY2,037bn in FY14 from JPY1,966bn in FY13. This is likely to improve profitability across the sector when combined with sector-wide consolidation.

Figure 9

Tokio Marine Holdings' Breakdown of Adjusted Earnings
(FYE15)



Source: Tokio Marine Holdings, Inc.

Figure 10

TMNF's NPW (FY14)

Net premiums written by line (bn of yen, except for %)

	FY13 results	FY14 results	YOY Change	YOY (%)
Fire	258.4	271.1	12.6	4.9
Marine	65.1	66.1	0.9	1.5
P.A.	162.7	169.2	6.5	4.0
Auto	947.3	990.3	43.0	4.5
CALI	269.7	276.4	6.7	2.5
Other	262.8	263.3	0.4	0.2
Total	**1,966.3**	**2,036.7**	**70.4**	**3.6**
Private insurance total	**1,695.2**	**1,758.9**	**63.7**	**3.8**

Source: Tokio Marine Holdings, Inc.

Figure 11

TMNF's Loss Ratio (FYE14)

E/I loss ratio by line

	FY13 results (%)	FY14 results (%)	YoY change
Fire	67.6	48.7	-18.9
Marine	63.3	64.0	0.7
P.A.	55.7	52.9	-2.8
Auto	65.3	61.1	-4.2
Other	67.9	59.8	-8.1
Private insurance total	**65.0**	**58.5**	**-6.6**

Source: Tokio Marine Holdings, Inc.

Domestic Life Insurance Units Help Profitability

Annual premiums in-force from TMHD's domestic life insurance unit were JPY764bn in FY14 from JPY533bn in FY13. Domestic life sustains TMHD's adjusted earnings − similar to other major Japanese non-life insurance groups. Domestic life represents about 30% of the group's total adjusted earnings and is growing strongly.

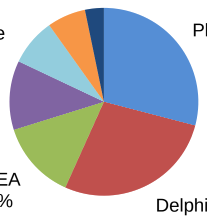
Distribution Synergies Between Domestic Non-Life and Life

TMNF has worked to make its domestic agency channel stronger and more efficient, for example, by promoting the consolidation of small and medium-sized agencies. TMNF's traditional agencies have contributed strongly to top-line growth in life insurance by cross-selling, using its brand and client base.

Figure 12

Tokio Marine Holdings' Breakdown of Adjusted Earnings from Outside Japan

(FYE15)



Source: Tokio Marine Holdings, Inc.

International Insurance Businesses Sustain Profitability

Annual premiums from TMHD's international insurance units were JPY1,075bn in FY13 and JPY1,303bn in FY14, due to both organic growth and the Japanese yen's depreciation. Its US operations comprise more than 50% of adjusted earnings among TMHD's international operations.

TMHD's international operations have been much more successful than those of its Japanese peers. The group is building up a solid presence around the world. International operations account for more than one-third of the group's total adjusted earnings, and are growing strongly.

TMHD announced in June 2015 that it is acquiring US-based HCC Insurance Holdings, Inc. (HCC; its core insurance operating companies' IFS Ratings AA/Rating Watch Negative) for JPY940bn. The acquisition should enhance TMHD's global diversification by increasing overseas insurance premiums and business unit profits to 38% and 46% respectively of the group's total in FY15 compared with 32% and 38% (pre-acquisition basis) according to TMHD's estimate. The negative impact for TMHD in terms of capital adequacy and leverage is likely to be manageable.

Figure 13

TMNF: Investment and Liquidity Risk

	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Fitch's expectation
Total investment assets (JPYbn)	7,897.9	7,613.9	7,529.2	7,718.2	n.a.	TMNF's domestic equity holdings are still high relative to adjusted equity, but it will continue to reduce its domestic equity position. TMNF's liquidity is strong among traditional non-life insurers. The company will maintain its sufficient liquidity.
% of cash and cash equivalent to total assets	15	14	9	6	n.a.	
% of fixed income securities to total invested assets	52	53	49	51	n.a.	
% of stocks to total invested assets	35	32	37	39	n.a.	
Risky assets to adjusted equity (%)	115	113	114	111	n.a.	
Liquid assets to net technical reserves (%)	140.5	138.2	136.9	141.9	n.a.	
Cash and cash equivalent to net technical reserves (%)	26.1	24.0	15.6	10.1	11.2	

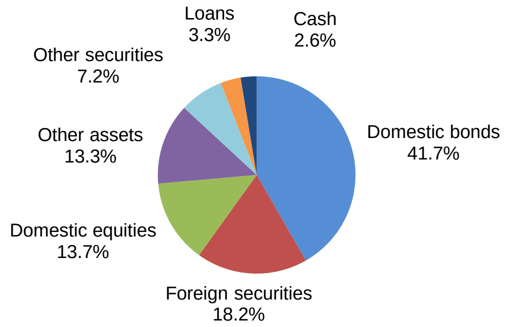
Source: Fitch

Portfolio is Liquid but has High Risk Assets (Domestic Equities)

- Large holdings of Japanese equities relative to capitalisation
- TMNF is steadily reducing its holdings of Japanese equities
- High-grade bond portfolio
- Sufficient liquidity

Figure 14

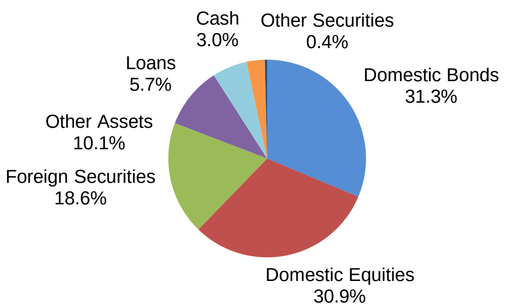
Tokio Marine Holdings Asset Breakdown



Source: Tokio Marine Holdings as of end - Mar 15

Figure 15

TMNF Asset Breakdown



Source: Tokio Marine Holdings as of end - Mar 15

Large Holdings of Japanese Equities Relative to Capitalisation

The biggest risk for TMNF and TMHD remains their holdings of Japanese equities. A total of 14% of the assets of TMHD (31% of the assets of TMNF) were domestic equities at end-March 2015, a higher level than global peers. Domestic affiliated company exposure is included in domestic equities, which has been a small part of the total domestic equity holdings.

TMNF is Steadily Reducing Holdings of Japanese Equities

TMNF reduced its portfolio of domestic equities by JPY187bn (8.5% of holdings) in FY10, JPY206bn (10.7% of holdings) in FY11, JPY115bn (5.3% of holdings) in FY12, JPY111bn

(4.8% of holdings) in FY13, and JPY110bn (4.7% of holdings) in FY14. Fitch expects the company to maintain or even accelerate the de-risking of its exposure to high-risk assets, especially Japanese equities, by more than JPY100bn in FY15.

The market value of equity holdings has not fallen recently due to the robust Japanese equity market. However, Fitch believes the management of TMHD and TMNF recognises the risk and expects TMNF will continue to steadily reduce exposure.

High-Grade Bond Portfolio

More than 70% of TMNF’s domestic bond holdings comprised Japanese government bonds at end-March 2015. Fitch expects Japanese government bonds will maintain the absolute majority share of the total portfolio as TMNF keeps its de-risking. Fitch believes this is prudent from the standpoint of risk management and asset-and-liability management. It demonstrates that the company and the group will be soft capped by Japan’s sovereign rating.

Sufficient Liquidity

TMNF has sufficient liquid assets to cover unexpected payments, and TMNF has maintained good relationships with Bank of Tokyo-Mitsubishi UFJ, Ltd. The agency believes TMNF will not suffer from liquidity issues in future.

Figure 16

TMNF: Reserve Adequacy

(x)	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Fitch's expectation
Net loss reserves to net claims incurred	0.77	0.65	0.75	0.79	0.78	TMNF's loss reserve continues to develop favourably, which indicates that the company's reserving practices are conservative. Fitch does not expect changes in TMNF's reserving practices in future.
Net loss reserves to adjusted equity	0.38	0.41	0.36	0.34	0.27	
Net claims paid to net claims incurred	0.93	1.01	0.99	1.00	1.03	
Change in ratio of net claim reserves to net premium earned (%)	5.4	0.4	-6.5	-2.9	-4.1	
Loss reserve development/adjusted equity (%)	-0.67	-0.27	-0.10	1.50	n.a.	
Loss reserve development/net premium earned (%)	-1.05	-0.40	-0.12	1.85	n.a.	
Catastrophe reserve (JPYbn)	1,046.0	851.8	850.5	890.9	956.6	

Source: Fitch

TMNF's Loss Reserve is Adequate

- Most of TMNF's reserves are short-tail
- TMNF routinely monitors reserve levels
- Ample catastrophe reserve

Most of TMNF's Reserves are Short-Tail

Most of reserves are for short-tail business, reducing volatility and other risks derived from long-tail business.

TMNF Routinely Monitors Reserve Levels

TMNF's internal actuarial staff review its loss reserves twice a year. Independent auditors also examine loss-reserve adequacy as part of their annual review of the company. Loss-reserve development trends have been favourable for recent accident years.

Ample Catastrophe Reserve

The Japanese regulator requires non-life insurers to accumulate a catastrophe reserve to ensure balance-sheet resilience in the event of a catastrophe. Reserving levels are determined by law, with the target for catastrophe reserves set at 35% of annual gross written premiums. The upper limit of the catastrophe reserve is set at the level of expected losses from a one-in-70-year event, while the lower limit is a once-in-30-years event. Catastrophe risks include both wind and flood (caused by typhoons/hurricanes) in Japan/US, and earthquakes in Japan.

Figure 17

Reinsurance, Risk Management and Catastrophe Risk

(%)	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Fitch's expectation
Net premium written to gross premium written	83.7	82.5	82.2	80.8	n.a.	Fitch expects TMNF to maintain its current levels.
Reinsurance recoverable to adjusted equity	4.4	5.9	6.1	4.5	4.0	

Source: Fitch, company

Reinsurance, Risk Mitigation and Catastrophe Risk

Risk Mitigation Through Reinsurance is Working Effectively

- Government reinsurance of earthquake risk for residential properties
- Catastrophe risk reinsurance programme for properties
- Issuing catastrophe (CAT) bonds by taking advantage of favourable financial markets

Government Reinsurance of Earthquake Risk for Residential Properties

Earthquake insurance for residential properties is provided under the government's 'no loss, no profit' reinsurance scheme. The scheme was changed in non-life insurers' favour in April 2014, mitigating the risk further.

Catastrophe Risk Reinsurance Programme for Properties

Catastrophe risk accounted for 21.9% of TMNF's total risk at end-March 2015 under the Japanese methodology for calculating statutory solvency margins, making it the company's second-largest risk after investment risk.

Natural catastrophe risk is by far the most critical risk for its domestic non-life insurance business; TMNF purchases reinsurance protection against both typhoon and earthquake exposure on commercial properties. The reinsurance ratio as measured by outward reinsurance premiums/gross written premiums was 19% in FY14 (FY13: 19%).

TMNF's reinsurance programme consists of excess-of-loss and quota share protection coverage. Total insured losses from the earthquake and tsunami of March 2011 and floods in Thailand in late 2011 fell within the maximum reinsurance limit, highlighting the effectiveness of the programme.

Counterparty quality is high with reinsurers, most of which are 'A' category or higher.

TMNF has underwritten earthquake risks even more prudently since the March 2011 earthquake, partly because reinsurance premiums for earthquake risks in Japan had risen. Reinsurance costs for Japanese earthquake risks have been declining in FY14.

Issuing CAT Bonds by Taking Advantage of Favourable Financial Markets

TMNF launched Kizuna Re II Ltd. to issue CAT bonds to cover its Japanese earthquake risks. In February 2014, the company issued USD245m in CAT bonds with coupon rates of 2.25% to 2.50% depending on different tranches. Also, in March 2015, the company issued JPY35bn in CAT bonds. The coupon levels are historical lows for CAT bonds covering Japanese earthquake risks.

More investors have entered the CAT bond market to seek higher yields and more diversification, due to monetary easing by major developed countries such as the US, Japan and in the European Union. To diversify capacity procurement, TMNF has taken advantage of the recent favourable financial markets when purchasing protection for its catastrophe risks.

Appendix A: Additional Financial Data

Statistical Solvency Margin Ratio

Figure 18

Solvency Margin Ratios (%)

Groups/subsidiaries	FYE12	FYE13	FYE14	FYE15
Tokio Marine Group	717.8	737.0	728.4	781.3
Tokio Marine & Nichido Fire	629.7	665.3	685.4	751.7
Tokio Marine & Nichido Life	2,145.8	2,195.2	2,624.6	3,122.2
MS&AD Insurance Group	553.8	738.8	772.5	803.9
Mitsui Sumitomo Insurance	486.8	581.3	600.3	651.5
Aioi Nissay Dowa Insurance	442.6	649.1	754.0	804.9
MSI Aioi Life	1,212.8	1,309.8	1,264.9	1,429.9
SOMPO Group	549.8	688.3	783.1	803.4
Sompo Japan Nipponkoa	n.a.	n.a.	n.a.	716.3
Sompo Japan	502.5	645.6	713.3	n.a.
Nipponkoa	470.8	534.0	653.0	n.a.
Sompo Japan Nipponkoa Himawari Life	1,449.5	1,555.3	1,583.2	1,676.3

Source: Fitch and companies

Appendix B: Other Ratings Considerations

Group IFS Rating Approach

Fitch regards TMNF is a 'core' company of TMHD. TMHD has managed the whole group in a centralised manner and consequently, Fitch believes that the consolidated group's IFS rating should be applied to all core operating companies.

Figure 19
Notching Summary

Holding company	Fitch does not rate Tokio Marine Holdings, Inc.
IFS ratings	Due to lack of policyholder priority, IFS rating is similar to IDR.
Debt	Not applicable.
Hybrids	Not applicable.

Source: Fitch

Notching

Under Fitch's notching criteria, Japan has a moderately strong regulatory environment with restrictions on payments from operating to holding companies.

Short-Term Ratings

The company has no short-term ratings.

Hybrids – Equity/Debt Treatment

TMNF's capital structure does not include any hybrids.

Participation Status

The issuer's rating above was unsolicited and has been provided by Fitch as a service to investors.

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