

Best's Credit Rating Effective Date

August 25, 2021

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Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

The Toa Reinsurance Company, Limited

AMB #: 090762 | **AIIN #:** AA-1580095

Associated Ultimate Parent: AMB # 085179 - The Toa Reinsurance Company, Limited

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)

A
Excellent
Outlook: Stable
Action: Affirmed

Issuer Credit Rating (ICR)

a+
Excellent
Outlook: Stable
Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Strongest
Operating Performance	Adequate
Business Profile	Favorable
Enterprise Risk Management	Appropriate

Rating Unit - Members

Rating Unit: The Toa Reinsurance Co Ltd | **AMB #:** 090762

AMB # **Rating Unit Members**
075961 The Toa 21st Cent Re Co, Ltd.
085179 The Toa Reinsurance Co Ltd

AMB # **Rating Unit Members**
001730 Toa Reinsurance Co of America

Rating Rationale

Balance Sheet Strength: **Strongest**

- Toa Reinsurance Company, Limited (Toa Re), maintains the strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR).
- As of 31 March 2021, it reported consolidated capital in the amount of JPY 182 billion (USD 1.65 billion), which is a 9% increase compared to the prior year mainly as a result of higher retained earnings.
- Despite the elevated reserve position from the reserve strengthening exercise of its North American subsidiary and domestic large risk and catastrophe losses, Toa Re's BCAR suggests there is a significant amount of risk-adjusted capital to absorb the associated reserving risk.
- Overall, its balance sheet demonstrates high financial flexibility and liquidity, and strong quality of capital, with no financial or operating leverage.

Operating Performance: **Adequate**

- Toa Re's consolidated operating performance is adequate, underpinned by a five-year average return on equity of 2.3%, as calculated by AM Best.
- Its premium revenue continued to grow during fiscal year 2020 (FY2020), with a 6% increase compared to the prior year driven mainly by its non-life portfolio.
- Overall underwriting performance improved slightly compared to the prior year, but the combined ratio was still above 100% mainly due to continued reserve strengthening from its US subsidiary, COVID-19-related losses and higher large risk loss frequency.
- Investment performance remained stable and profitable, with a five-year average net investment return (including gains) of 2.8% (FY2016-FY2020).

Business Profile: **Favorable**

- As the sole domestic commercial reinsurer in Japan, Toa Re maintains a strong market presence and has a stable share of the non-life proportional treaty segment.
- It has a diversified underwriting portfolio, both in terms of product and geography, in order to mitigate its high natural catastrophe risk exposure in Japan's non-life market.
- Its life portfolio contributed 30% of total net premium written, and the life business remains a major premium diversifier and profit stabiliser of the overall portfolio.
- Toa Re has a sizable overseas portfolio that contributed approximately 30% of its consolidated net premium income and was the major driver of premium growth during FY2020.

Enterprise Risk Management: **Appropriate**

- Toa Re's overall enterprise risk management is considered appropriate given its current size and risk profile.
- A well-defined risk appetite framework was built for each major operating entity as part of its risk management to improve profitability while maintaining financial soundness.
- With the new medium-term management plan, Toa Re expects to achieve a risk management framework that more effectively contributes to the group's overall risk management and assists with the implementation of economic-value-based solvency regulations.

Outlook

- The stable outlooks reflect the expectation that Toa Re's rating fundamentals will remain unchanged over the intermediate term. Risk-adjusted capitalisation is expected to remain at the strongest level, and operating performance is expected to remain adequate, although moderate volatility is expected as part of the nature of reinsurance.

Rating Drivers

- Negative rating actions could occur if Toa Re exhibits a significant deterioration in its operating profitability.

- Negative rating actions also could occur if there is significant deterioration in Toa Re's risk-adjusted capitalisation or absolute capital size due to severe underwriting losses or further adverse development in reserving practice.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	78.4	67.6	63.2	61.9

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2020 JPY (000,000)	2019 JPY (000,000)	2018 JPY (000,000)	2017 JPY (000,000)	2016 JPY (000,000)
Net Premiums Written:					
Composite	287,547	270,252	248,288	237,911	223,749
Net Income	7,339	-5,437	-10,307	17,188	25,498
Total Assets	772,108	711,690	694,088	687,950	698,418
Total Capital and Surplus	296,845	277,135	293,235	316,998	300,358

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2020 JPY (000,000)	2019 JPY (000,000)	2018 JPY (000,000)	2017 JPY (000,000)	2016 JPY (000,000)	Weighted 5-Year Average
Profitability:						
Net Income Return on Revenue (%)	2.4	-1.9	-4.0	6.9	10.9	2.6
Net Income Return on Capital and Surplus (%)	2.6	-1.9	-3.4	5.6	8.9	2.3
Net Investment Yield (%)	2.5	3.0	2.0	1.9	1.8	2.2
Leverage:						
Net Premiums Written to Capital and Surplus (%)	96.9	97.5	84.7	75.1	74.5	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Capitalisation

The overall balance sheet strength of The Toa Reinsurance Company, Limited (Toa Re), is assessed at the strongest level, supported by risk-adjusted capitalisation that is viewed to be at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). As of 31 March 2021, Toa Re reported consolidated capital of JPY 182 billion (USD 1.65 billion), which is a 9% increase compared to the consolidated capital from the fiscal year ended 2020 (FYE 2020) due to an increase in retained earnings. Toa Re's balance sheet also demonstrates high financial flexibility and liquidity, strong quality of capital with no debt on its balance sheet, and no financial or operating leverage.

Toa Re maintained the strongest level of risk-adjusted capitalisation, as shown by a BCAR score of 61.9% at the 99.6% VaR confidence level as of 31 March 2021. This result implies that its capital base is strong enough to support its underwriting risks, investment risks and natural catastrophe (Nat CAT) risks. The BCAR score is considered stable and remains at the strongest level relative to its most material risks even at the 99.6% VaR confidence level.

Toa Re has underwriting leverage that is generally lower than industry peers, particularly against its regional peers that also write a large portion of proportional business. As of 31 March 2021, its net premium to capital ratio remained below 100%. Despite the continued reserve strengthening from its North America subsidiary, The Toa Reinsurance Company of America (TRA), due to social inflation, the consolidated net technical reserves to capital ratio is considered manageable and remained stable at around 140%.

AM Best assesses Toa Re's financial flexibility as positive. As a stock organisation owned by its cedants and their affiliates, Toa Re enjoys high financial flexibility provided by its shareholders, which is deemed similar to some mutual companies. As a result, Toa Re has a track record of successfully raising new capital on short notice at times when capital was needed. After the Tohoku earthquake in

Balance Sheet Strength (Continued...)

Japan and the Thailand flood in 2011, approximately 25% of Toa Re's reported capital was eroded at FYE 2012. However, it was able to quickly raise funds to restore its capital position by issuing a 50-year subordinated bond for JPY 30 billion, while its major shareholders undertook the majority of its debts. Since 2012, Toa Re has made efforts to restore capital that had been exhausted by the two huge natural catastrophes through improving profitability. The enhanced capitalisation allowed it to redeem its JPY 30 billion subordinated debt in July 2017.

For the fiscal year that ended in March 2021, Toa Re reported a positive net operating cash flow of JPY 27.7 billion, which is a 67% increase compared to the prior fiscal year. Its liquidity is considered strong with a liquid asset to technical reserve ratio of 149% and a current liquidity ratio of 132%, both of which indicate that there was minimal risk of having insufficient liquid assets to cover net insurance liabilities.

Capital Generation Analysis	2020 JPY (000,000)	2019 JPY (000,000)	2018 JPY (000,000)	2017 JPY (000,000)	2016 JPY (000,000)
Beginning Capital and Surplus	277,135	293,235	316,998	300,358	274,291
Net Income	7,339	-5,437	-10,307	17,188	25,498
Net Unrealized Capital Gains (Losses)	15,628	-9,934	-10,315	4,716	4,002
Currency Exchange Gains (Losses)	-2,453	188	-2,560	-88	-4,338
Change in Equalisation and Other Reserves	1,288	878	445	-3,799	1,196
Stockholder Dividends	-1,144	-1,129	-1,123	-1,043	-930
Other Changes in Capital and Surplus	-948	-666	97	-334	639
Net Change in Capital and Surplus	19,710	-16,100	-23,763	16,640	26,067
Ending Capital and Surplus	296,845	277,135	293,235	316,998	300,358
Net Change in Capital and Surplus (%)	7.1	-5.5	-7.5	5.5	9.5

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2020	2019	2018	2017	2016
Liquid Assets to Total Liabilities	129.4	131.0	137.7	155.2	148.4
Total Investments to Total Liabilities	131.5	133.3	140.2	158.0	151.1

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Toa Re's investment portfolio is considered diversified. For FYE 2021 on a consolidated basis, the investment portfolio comprises cash and cash equivalents (9%), domestic bonds (20%), domestic stocks (14%), foreign securities (53%), real estate (2%) and other investments (2%). A majority of foreign securities are fixed-income investments such as foreign government, municipal or corporate bonds, which account for more than 80% of total foreign investments. Its bond holdings make up the largest composition of its total investment assets, with more than 90% being investment-grade bonds. Unlike other domestic insurers in Japan, Toa Re has a much smaller stock portfolio that reduces its capital exposure to equity price risk.

Composition of Cash and Invested Assets	2020 JPY (000,000)	2019 JPY (000,000)	2018 JPY (000,000)	2017 JPY (000,000)	2016 JPY (000,000)
Total Cash and Invested Assets	624,743	579,156	562,053	585,935	601,357
Cash (%)	9.0	10.8	6.4	7.4	4.4
Bonds (%)	75.5	74.1	74.7	73.9	78.1
Equity Securities (%)	13.9	13.4	17.1	17.0	15.8
Real Estate, Mortgages and Loans (%)	1.6	1.7	1.8	1.8	1.7
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Reserve Adequacy

On a consolidated basis as of 31 March 2021, Toa Re's reported net outstanding loss reserves amounted to JPY 273 billion, of which 49% was from the operating company in Japan, The Toa Reinsurance Company, Limited (TRJ), 46% from TRA and the rest from The Toa 21st Century Reinsurance Company Limited (TRE). There was a 7% (JPY 18.7 billion) net claims reserve increase compared to the prior year, of which approximately 60% was from TRA's continued reserve strengthening in casualty lines due to social inflation in the US since 2019. Over the past three fiscal years (FY2018-FY2020), TRA strengthened its reserves by an approximate total of JPY 31 billion, which accounted for 9.8% of Toa Re's consolidated reported capital as of March 2018. At the end of fiscal year 2020, TRA's reserve position had increased by 37% compared to the end of FY2017 (pre-social inflation). On a standalone basis for TRA, unlike other insurers in the US market, which generated profit from other lines of business to offset loss caused by social inflation, the company's niche business specialization prevented it from diluting the impact from higher-than-expected emergency claims. Overall, on a consolidated basis, Toa Re's net claims reserve position has increased 27% compared to the end of fiscal year 2017, out of which 54% of the increase was generated by TRA.

On a non-consolidated basis, Toa Re's domestic business (TRJ) reported a 10% increase in loss reserves mainly due to claims related to COVID-19 and large losses from a series of large industrial fires. Nevertheless, the current BCAR score at the 99.6% VaR suggests that its available capital level remains sufficient for absorbing the elevated reserving risks over the past three years. AM Best notes that TRA's reserve position requires close monitoring even though the current reserves exceeded the actuarial central estimation by JPY 2 billion; further claim/reserve development may still be expected resulting from the continuance of social inflation in the US.

Operating Performance

Toa Re reported a net profit of JPY 2.7 billion (USD 25 million) in FY2020 (as of 31 March 2021) after two consecutive years of negative earnings due to losses associated with major typhoons in Japan in 2018 and 2019. Its investment performance remained stable and profitable, with a five-year average net investment return (including gains) of 2.8% (FY2016-FY2020). From a historical perspective, Toa Re's operating performance was considered adequate with a five-year average return on equity of 2.3% (FY2016-FY2020).

During FY2020, Toa Re continued to experience top-line growth with a 6% increase in net premium written (NPW) compared to the prior year on a consolidated basis. Its overall non-life portfolio showed a 12% increase in NPW, driven mainly by the overseas business expansion in the non-life segment and Co-op/small amount short-term segment in the Japanese market, while the life portfolio showed a slight contraction in premium revenue. Toa Re expects continued growth in the top line for FY2021, particularly in the Japanese non-life market, due to an increase in the primary rate of the fire business, continued rate hardening in the non-proportional treaty segment, as well as lower commission rates in the proportional treaty.

In the absence of major natural catastrophes during FY2020, Toa Re's overall underwriting performance improved with a combined ratio that dropped from 108.4% to 104.1%. The negative underwriting performance was due to TRA's continued reserve strengthening as a result of social inflation; losses related to COVID-19, which were considered non-recurring; as well as an increase in the number of large industrial fire losses. In FY2020, TRA strengthened its reserves with an additional JPY 11 billion in response to additional losses driven by social inflation. Despite growth in the top line for TRA, the loss ratio increased from 90.3% in FY2019 to 90.8% in FY2020, while the combined ratio remained at around 120%. As of 31 March 2021, total incurred net losses related to COVID-19 amounted to JPY 6.9 billion, of which 82% were retained by TRJ. It expects little or no occurrence of new losses from COVID-19 for FY2021. Thus, it is unlikely that underwriting performance will be further impacted by the pandemic. It continued to experience a number of non-Nat CAT large losses during FY2020; in response, it aimed for improvement by revising the underwriting terms for treaties with deteriorating performance.

Financial Performance Summary	2020 JPY (000,000)	2019 JPY (000,000)	2018 JPY (000,000)	2017 JPY (000,000)	2016 JPY (000,000)
Pre-Tax Income	6,479	-3,137	-10,072	17,613	26,329
Net Income after Non-Controlling Interests	7,339	-5,437	-10,307	17,188	25,498

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2020	2019	2018	2017	2016
Overall Performance:					
Return on Assets	1.0	-0.8	-1.5	2.5	3.7
Return on Capital and Surplus	2.6	-1.9	-3.4	5.6	8.9

Source: BestLink® - Best's Financial Suite

Business Profile

Established in 1940, Toa Re was the first domestic reinsurer headquartered in Japan that is privately owned by major Japanese insurance companies and financial institutions. Toa Re has a long history of expanding its footprint in overseas markets, with subsidiaries in the US, Switzerland and the UK. In FY2020 on a consolidated basis, Toa Re reported net assets of JPY 182 billion (USD 1.65 billion), and NPW of JPY 287.5 billion (USD 2.6 billion) that indicated steady growth of its portfolio.

As the sole domestic commercial reinsurer in Japan, Toa Re has a stable share of the non-life segment due to major non-life insurers being its shareholders. It maintains a strong position in the proportional treaty segment in its home market, while international peers compete in Japan's non-proportional treaty segment.

Toa Re maintains a diversified portfolio, both in terms of product and geography, in order to mitigate the high Nat CAT risks in Japan's non-life market. Its headquarters in Japan (TRJ), which accounts for the largest proportion of its overall business portfolio, generated 73% of NPW in FY2020. Both of TRJ's life and non-life books were major premium contributors to Toa Re and generated 30% and 43% of total NPW, respectively. In terms of Toa Re's overseas portfolio, TRA is the largest overseas subsidiary and contributed 22% of total NPW in FY2020, followed by TRE, which contributed 5% of total NPW. Under the new medium-term management plan, TRE has started to assume life reinsurance business in 2021, and it will become the main hub and driver of Toa Re's business expansion in Europe.

Enterprise Risk Management

Toa Re's enterprise risk management (ERM) is considered to be appropriate based on its current size and risk profile. Toa Re's ERM framework is developed, and the risk management capabilities are well aligned with its risk profile. Appropriate group-wide risk management practices have generally been implemented given its profile.

A well-defined risk appetite framework was built for each major operating entity as part of ERM to improve profitability while maintaining financial soundness through appropriate management of capital, return and risks. By implementing the "PDCA Cycle" in its risk appetite framework, Toa Re regularly analyses performance results, which are subsequently used in the formulation of operational policies. Specific risk tolerance indicators were set for the group level and each business unit level; for example, a minimum solvency margin ratio of 500% is set for TRJ and the group consolidated level, and a minimum Swiss Solvency Test ratio of 150% is set for TRE.

Toa Re performs exhaustive risk identification periodically, which identifies types of emerging risks and their materiality based on frequency and severity assessment. Clear risk limits and retention amounts have been set for major risks on a group-level basis for consolidation control.

Under the new medium-term management plan, Toa Re expects to achieve a risk management framework that more effectively contributes to the group's overall risk management and assists with the implementation of economic-value-based solvency regulations. Toa Re is in the early stages of preparing important items in relation to upcoming new regulations.

Reinsurance Summary

Toa Re's retrocession panel is diversified and consists of various reinsurers from both overseas and Japan with the top 10 reinsurers for wind/flood or earthquake risks being highly rated.

Its retrocession programme is considered appropriate relative to its risk appetite and underwriting risk, as well as in managing the high exposure to Nat CAT risks in Japan. Under the prudent retrocession coverage, Toa Re's net loss retention and the level of incurred loss development from the prior year's natural catastrophes are within AM Best's expectations. The retrocession programme was designed based on a conservative approach in mitigating risks associated with its high catastrophe risk accumulation in the Japanese market, covering losses up to a 1-in-250-year return period. For most of its wind/flood risk exposures that are in Japan, Toa Re reduced the group-level retention based on the assumption that the intensity of wind/flood events will increase due to global warming. For the 2021 renewal exercise, the net retention for wind/flood risk was reduced from JPY 11.0 billion to JPY 9.5 billion. In addition, the per event net retention limit of earthquake risk was decreased slightly from JPY 13.4 billion to JPY 13.0 billion.

Financial Statements

	03/31/2021		03/31/2021
	JPY (000,000)	%	USD (000,000)
Balance Sheet			
Cash and Short Term Investments	56,311	7.3	511
Bonds	471,519	61.1	4,279
Equity Securities	87,010	11.3	790
Other Invested Assets	9,903	1.3	90
Total Cash and Invested Assets	624,743	80.9	5,669
Debtors / Amounts Receivable	76,412	9.9	693
Other Assets	70,953	9.2	644
Total Assets	772,108	100.0	7,007
Unearned Premiums	138,759	18.0	1,259
Non-Life - Outstanding Claims	273,411	35.4	2,481
Total Gross Technical Reserves	412,170	53.4	3,740
Other Liabilities	63,093	8.2	573
Total Liabilities	475,263	61.6	4,313
Capital Stock	5,000	0.6	45
Retained Earnings	124,224	16.1	1,127
Other Capital and Surplus	167,621	21.7	1,521
Total Capital and Surplus	296,845	38.4	2,694
Total Liabilities and Surplus	772,108	100.0	7,007

Source: BestLink® - Best's Financial Suite
US \$ per Local Currency Unit .0090749 = 1 Japanese Yen (JPY)

	03/31/2021			03/31/2021
	Non-Life	Life	Other	Total
	JPY (000,000)	JPY (000,000)	JPY (000,000)	JPY (000,000)
Income Statement				
Net Premiums Earned	287,547
Net Investment Income	15,306	15,306
Realized capital gains / (losses)	4,572	4,572
Other Income	2,502
Total Revenue	19,878	309,927
Benefits and Claims	213,864
Net Operating and Other Expense	-27	89,584
Total Benefits, Claims and Expenses	-27	303,448
Pre-Tax Income	19,905	6,479
Income Taxes Incurred	-860
Net Income before Non-Controlling Interests	7,339
Net Income/(loss)	7,339

Source: BestLink® - Best's Financial Suite
US \$ per Local Currency Unit .0090749 = 1 Japanese Yen (JPY)

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)



BEST'S CREDIT REPORT

AMB #: 090762 - The Toa Reinsurance Company, Limited

[Understanding BCAR for U.S. Property/Casualty Insurers, 06/03/2021](#)

[Understanding Global BCAR, 07/22/2021](#)

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