Best's Credit Rating Effective Date
August 30, 2024

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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)	Issuer Credit Rating (ICR)
A	a+
Excellent	Excellent
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	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	AMB #	Rating Unit Members
075961	The Toa 21st Cent Re Co, Ltd.	001730	Toa Reinsurance Co of America
085179	The Toa Reinsurance Co Ltd		

Rating Rationale

Balance Sheet Strength: Strongest

- The balance sheet strength of Toa Reinsurance Company, Limited (Toa Re), is supported by its risk-adjusted capitalisation, which is assessed as being at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR).
- As of 31 March 2024, the company reported consolidated capital of JPY 290 billion (USD 1.9 billion), reflecting a significant 48% increase compared to the prior year. The enhancement was attributed to higher net unrealised gains on securities, an increased foreign currency translation adjustment, and higher retained earnings.
- The elevated reserve position resulting from the reserve strengthening initiative carried out by the company's North American subsidiary remains the major factor that offsets and brings about uncertainty to its balance sheet strength.
- Overall, the company maintains good capital quality with no outstanding debt.

Operating Performance: Adequate

- The company posted net profits and net comprehensive income in three of the last five fiscal years. Its reported net profit for fiscal year 2023 (FY2023) also showed a notable improvement, rising to JPY 15.6 billion from JPY 2.5 billion in FY2022.
- The company's profit in FY2023 was mainly supported by higher investment returns. Additionally, its underwriting performance saw significant improvement due to the absence of COVID-19-related losses from the domestic life and health portfolio, as well as the reduction of large-scale overseas natural catastrophe losses resulting from reduced underwriting exposure and stricter underwriting conditions.
- The company's net premium written (NPW) decreased by 13% to JPY 281 billion in FY2023 as it focused on enhancing profitability and embraced a cautious underwriting approach. Moving forward, the company anticipates its premium income to remain stable in the coming years as it continues to prioritise earnings stability over aggressive premium expansion.
- The investment performance of the company remained consistently stable and profitable, with a five-year average net investment return (including gains and losses on securities sales) of 2.9% (FY2019 - FY2023).
- Over the past five years, the company's underwriting performance has been impacted negatively by persistent reserve strengthening conducted by its North American subsidiary, The Toa Reinsurance Company of America (TRA), in response to social inflation trends. While the ongoing reserve strengthening may continue to put TRA's underwriting performance under pressure, the adoption of a more cautious underwriting approach and the strategic exit from unprofitable business in recent years are expected to enhance its profitability gradually over time.

Business Profile: Favorable

- Toa Re maintains its position as the sole domestic commercial reinsurer in Japan, holding a strong market presence with a consistent market share in the non-life treaty segment in the domestic market.
- The company upholds a diversified underwriting portfolio, both in terms of product and geography, to mitigate its significant exposure to natural catastrophe risks in Japan's non-life market.
- Approximately 34% of Toa Re's total NPW is derived from its life portfolio, providing both premium and risk diversification to enhance the overall stability of the portfolio's profitability.
- Toa Re also has a sizeable overseas portfolio that contributes approximately 59% of total NPW and has provided further premium diversification and growth in recent years.

Enterprise Risk Management: Appropriate

- Toa Re's overall enterprise risk management is considered appropriate given its current size and risk profile.
- The company has a well-established risk appetite framework for each major operating entity as part of its risk management to maintain its long-term profitability and capital adequacy.
- The company periodically runs stress tests to check the effectiveness of its risk management and to identify events that would cause serious impact to its capital.

Outlook

- The stable outlooks reflect the expectation that the company will maintain its overall balance sheet assessment, supported by risk-adjusted capitalisation at the strongest level, as measured by BCAR. Operating performance is expected to remain adequate over the intermediate term, although moderate volatility is also expected as part of the nature of reinsurance business.

Rating Drivers

- Negative rating actions could occur if the improvements in underwriting performance from current measures prove to be unsustainable, leading to a resurgence of a negative operating performance trend.
- Negative rating actions could also occur if there is material deterioration in risk-adjusted capitalisation or absolute capital size caused by severe underwriting losses or further material adverse development in reserving practices.
- Positive rating actions could occur if the company demonstrates a consistent and sustainable enhancement in its operating performance exceeding the industry average; however, the likelihood of such actions remains limited at this time.

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	73.7	60.6	55.1	53.6

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2023 JPY (000,000)	2022 JPY (000,000)	2021 JPY (000,000)	2020 JPY (000,000)	2019 JPY (000,000)
Net Premiums Written:					
Composite	280,826	320,822	302,024	287,547	270,252
Net Income	25,989	-8,905	-9,580	7,339	-5,437
Total Assets	1,021,441	905,749	860,421	772,108	711,690
Total Capital and Surplus	394,993	291,205	307,564	296,845	277,135

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2023 JPY (000,000)	2022 JPY (000,000)	2021 JPY (000,000)	2020 JPY (000,000)	2019 JPY (000,000)	Weighted 5-Year Average
Profitability:						
Net Income Return on Revenue (%)	8.4	-2.7	-3.0	2.4	-1.9	0.6
Net Income Return on Capital and Surplus (%)	7.6	-3.0	-3.2	2.6	-1.9	0.6
Net Investment Yield (%)	3.0	1.2	2.4	2.5	3.0	2.4
Leverage:						
Net Premiums Written to Capital and Surplus (%)	71.1	110.2	98.2	96.9	97.5	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

As of 31 March 2024, The Toa Reinsurance Company, Limited (Toa Re), reported consolidated capital of JPY 290 billion (USD 1.9 billion), marking a 48% increase compared to 12 months earlier. This improvement was primarily driven by a rise in net unrealised gains on securities of JPY 64 billion, a higher foreign currency translation adjustment of JPY 15 billion and increased retained earnings of JPY 14 billion attributed to improved net profits recorded in the fiscal year ended March 2024.

Balance Sheet Strength (Continued...)

Capitalisation

Toa Re has maintained the strongest level of risk-adjusted capitalisation as shown by its Best's Capital Adequacy Ratio (BCAR) score, which is comfortably above 25% at the 99.6% VaR confidence level as of 31 March 2024. This result reflects the company's strong capital base to support its underwriting, investment, and natural catastrophe risks.

The BCAR score is considered to be stable and remains at the strongest level relative to its most material risks at the 99.6% VaR confidence level.

The group's North American subsidiary, The Toa Reinsurance Company of America (TRA), has persistently strengthened reserves in response to social inflation and economic inflation in recent years. As a result, the group has experienced a continual rise in its underwriting leverage. As of 31 March 2023, the net premium to adjusted capital ratio peaked at 110%, while the net technical reserves to adjusted capital ratio reached 188%. These ratios then moderated to 71% and 137%, respectively, by 31 March 2024.

Toa Re does not have any outstanding debt or debt-like instruments that may place a call on earnings and strain its cash flow.

The company carries no outstanding debt on its balance sheet. While it has some capital exposure to intangible assets (e.g., software), this represents less than 1% of its net assets. Historically, the company has issued subordinated debt following a weakening of its capital position due to losses from the Tohoku earthquake and the 2011 Thailand floods. Nevertheless, this subordinated debt was fully redeemed in fiscal year 2017 (FY2017). Over the past five years, the company's capital structure and quality have remained relatively stable, reflecting its diligent efforts.

For the fiscal year ended 31 March 2024, Toa Re recorded positive operating cash flow of JPY 20.2 billion, which is an increase of 114% compared to the last fiscal year. Furthermore, the company has consistently generated positive operating cash flow in the last five years with a five-year average of JPY 22.6 billion (FY2019 - FY2023). On the other hand, the company continues to maintain favourable balance sheet liquidity with an average five-year liquid assets to underwriting funds ratio of 118% (FY2019 - FY2023), which suggests the company has minimal risk of having insufficient liquid assets to cover its insurance liabilities.

In addition to its domestic business in Japan, Toa Re has overseas businesses through various subsidiaries and affiliates, with its two major subsidiaries being TRA and the Toa 21st Century Reinsurance Company Limited (TRE). Therefore, the company may be exposed to fungibility risk along with its overseas operations due to different insurance regulatory jurisdictions. However, the company's current capital position and capital allocation plan are considered appropriate to ensure that each subsidiary has sufficient capital and sound liquidity.

While Toa Re is not a listed company, and therefore may not be able to raise funds directly from the external equity market in a timely and cost-effective manner, it is privately owned by major insurance companies, as well as financial institutions in Japan. As a result, the company enjoys relatively high financial flexibility provided by its shareholders and is deemed similar to some mutual insurance companies. The company also has a track record of successfully raising new capital on short notice when it was needed.

For example, the Tohoku earthquake and Thailand floods in 2011 had significant impacts on the company, resulting in a capital erosion of approximately 25%. Nevertheless, the company was able to quickly raise funds to restore its capital position by issuing a JPY 30 billion 50-year subordinated bond, with most of this bond undertaken by its major shareholders. Subsequently, the company has focused on restoring its capital base through profitability improvement and allowed the redemption of its JPY 30 billion subordinated bond in July 2017.

Balance Sheet Strength (Continued...)

Capital Generation Analysis	2023 JPY (000,000)	2022 JPY (000,000)	2021 JPY (000,000)	2020 JPY (000,000)	2019 JPY (000,000)
Beginning Capital and Surplus	291,205	307,564	296,845	277,135	293,235
Net Income	25,989	-8,905	-9,580	7,339	-5,437
Net Unrealized Capital Gains (Losses)	64,421	-26,721	9,684	15,628	-9,934
Currency Exchange Gains (Losses)	15,389	17,892	11,312	-2,453	188
Change in Equalisation and Other Reserves	643	...	...	1,288	878
Stockholder Dividends	-1,165	-1,165	-1,165	-1,144	-1,129
Other Changes in Capital and Surplus	-1,489	2,540	468	-948	-666
Net Change in Capital and Surplus	103,788	-16,359	10,719	19,710	-16,100
Ending Capital and Surplus	394,993	291,205	307,564	296,845	277,135
Net Change in Capital and Surplus (%)	35.6	-5.3	3.6	7.1	-5.5

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2023	2022	2021	2020	2019
Liquid Assets to Total Liabilities	134.7	114.3	125.9	129.4	131.0
Total Investments to Total Liabilities	136.2	115.9	127.7	131.5	133.3

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Toa Re has a diversified investment portfolio made up of mainly liquid assets including cash and deposits (3%), Japanese government bonds (1%), domestic corporate bonds (17%), domestic stocks (22%), and foreign securities (55%). The majority of its foreign securities are fixed-income investments including foreign government bonds and corporate bonds, which account for more than 80% of its total foreign securities investment. While bond assets continue to make up the largest composition of its total investments, more than 90% of its bond holdings are investment-grade bonds. At the same time, Toa Re has a relatively small stock investment portfolio and hence is less exposed to equity risk as compared with other major domestic insurers in Japan. However, the company's stock investment portfolio exhibits a degree of concentration in financial institutions, thereby heightening its exposure to that sector.

Composition of Cash and Invested Assets	2023 JPY (000,000)	2022 JPY (000,000)	2021 JPY (000,000)	2020 JPY (000,000)	2019 JPY (000,000)
Total Cash and Invested Assets	853,507	712,454	706,027	624,743	579,156
Cash (%)	3.4	3.9	5.3	9.0	10.8
Bonds (%)	73.9	79.5	78.4	75.5	74.1
Equity Securities (%)	21.5	15.3	15.0	13.9	13.4
Real Estate, Mortgages and Loans (%)	1.1	1.4	1.4	1.6	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

Reserve Adequacy

As of 31 March 2024, the group's net outstanding claims totalled JPY 393 billion, with 37% attributed to its non-consolidated company, The Toa Reinsurance Company, Limited (TRJ), 51% to TRA, and the rest to TRE. The net outstanding claims remained stable compared to last year.

Since December 2017, TRA has strengthened its reserves by USD 556 million. As at the end of FY2023, TRA's reserve position had surged by 63% in terms of US dollars or 104% in Japanese yen compared to the FY2017 year-end level. In response to the continued reserve increase in the US casualty lines, TRA continued to explore different strategies to contain the loss reserve increases, including potential reserving risk transfer to third parties. At the same time, TRJ has shown its support for TRA by establishing an internal working group to assess and develop capital solutions for TRA. In FY2022, TRJ injected USD 85 million in capital.

Balance Sheet Strength (Continued...)

Nevertheless, the company's current strong capital level, as evidenced by the BCAR score at the 99.6% VaR confidence level, suggests that it has sufficient capital to absorb the elevated reserving risks and potential claims. While TRA has taken necessary measures to stabilise its US casualty lines of business and reserve levels, supported by TRJ's USD 85 million capital injection, AM Best is of the opinion that close monitoring of TRA's reserve position is needed as further claims development from evolving social and economic inflation in the US remains highly uncertain.

Operating Performance

Toa Re's net premium income has decreased by 12.5%, from JPY 320 billion (USD 2.5 billion) to JPY 281 billion (USD 1.9 billion). The company has maintained a stable and profitable investment performance, with a five-year average net investment return (inclusive of gains and losses on securities sales) of 2.9% (FY2019 - FY2023). On a consolidated basis, Toa Re reported an improvement in net income to JPY 15.6 billion (USD 103 million) in FY2023, compared to JPY 2.5 billion (USD 18.5 million) in FY2022. This profit enhancement stemmed from both improved underwriting performance and increased investment returns. In FY2023, the company's underwriting performance was primarily driven by the absence of COVID-19-related losses from the domestic life and health portfolio, along with the reduction of large-scale overseas natural catastrophe losses attributed to reduced underwriting exposure and stricter underwriting conditions. Furthermore, the company's net investment return saw an improvement due to higher interest and dividend income, as well as increased gains on securities sales in FY2023.

Toa Re's five-year average return on equity (ROE) based on net income stood at 1.5% (FY2019 - FY2023). Similar to other major insurers in Japan, Toa Re's investment portfolio is made up of sizeable securities investments including domestic stocks, albeit at a much lower proportion relative to its overall investment portfolio. In FY2023, the company recorded JPY 64.4 billion of unrealised gains from available-for-sale investments (mainly foreign bonds and domestic stocks). These unrealised gains positively impacted the company's other comprehensive income, reflecting the improved global and domestic financial market conditions during the year. Going forward, the running yield is anticipated to rise, primarily driven by the foreign securities portfolio in a higher interest rate environment.

Additionally, the company's foreign operations have contributed to sizeable foreign currency translation gains/losses to its other comprehensive income, influenced by market volatility and the depreciation of the Japanese yen. In FY2023, the company reported JPY 15.4 billion of currency exchange gains, which also positively impacted the company's other comprehensive income.

Hence, in addition to examining the return on equity (ROE) based on net income, which tends to be relatively stable from year to year, AM Best also evaluates the ROE based on comprehensive income to provide a more holistic view of Toa Re's overall income and its impact on its capital position over time. In FY2023, Toa Re reported net profits of JPY 15.6 billion (USD 103 million), alongside a gain of JPY 78.5 billion (USD 520 million) from other comprehensive income, resulting in a total comprehensive income of JPY 94.1 billion (USD 622 million). The increase in comprehensive income was fuelled by JPY 64.4 billion in unrealised gains on available-for-sale securities, and JPY 15.4 billion in foreign currency translation gains from its foreign operations during the year.

Over the last five fiscal years (FY2019 - FY2023), Toa Re's ROE based on comprehensive income has shown some volatility but recorded a profitable five-year average of 11.5%.

In FY2023, the company's consolidated net premium written (NPW) saw a 12.5% decline to JPY 281 billion (USD 1.9 billion) from JPY 320 billion (USD 2.5 billion) in FY2022. The company's overall non-life portfolio experienced a 16% decline in NPW. While the domestic non-life NPW of TRJ contracted by 23% in Japan during the year, its life portfolio remained relatively stable with a minimal NPW decline of less than 1%. Moreover, TRA and TRE witnessed NPW contractions of 14% and 6%, respectively, reflecting Toa Re's emphasis on stable profitability over aggressive growth. Looking beyond FY2023, the company foresees a slight contraction in premium income as it continues to uphold stable profitability and financial soundness as its priorities, along with a cautious underwriting approach. Domestically, TRJ continues to reduce its exposure to natural catastrophes such as earthquake, wind and flood risks in Japan. In the overseas markets, TRA anticipates ongoing re-positioning of its property and casualty portfolio in the US market, resulting in lower NPW, while the NPW of TRE is expected to remain stable.

Toa Re has demonstrated enhanced underwriting performance in FY2023, driven by several positive factors such as the absence of COVID-19-related losses from the domestic life and health portfolio, reduced overseas natural catastrophe losses, and tightened underwriting conditions. Its overall combined ratio improved from 105.5% to 98% compared to FY2022. On a non-consolidated basis, TRJ's non-life portfolio also saw its loss ratio improve from 74.8% to 61.3% due to fewer losses from domestic natural catastrophes, cost reductions through optimisation of outward reinsurance, and premium rate increases. Similarly, TRE in Europe improved its loss ratio from 73% in FY2022 to 67.8% in FY2023 by exiting underperforming contracts and adopting a conservative underwriting approach.

Operating Performance (Continued...)

TRA's NPW continued to shrink from last year's USD 554 million to USD 444 million in FY2023 as it persisted in restructuring its underwriting portfolio and shed unprofitable business. The company's loss ratio improved from 86% in FY2022 to 80% in FY2023, while its combined ratio improved from 117% to 111% during the same period. Nevertheless, TRA's underwriting performance remained under pressure due to the necessary reserve strengthening in response to social inflation trends in recent years. Despite an improvement in underwriting performance, TRA reported a net underwriting loss of USD 44 million in FY2023, compared to a net underwriting loss of USD 94 million in FY2022. The company continued to place a priority on improving its profitability and reducing reserving risks. Measures taken included restructuring the US property and casualty portfolio, a capital injection from TRJ, and strengthening group governance over TRA to enhance risk management.

Financial Performance Summary	**2023 JPY (000,000)**	**2022 JPY (000,000)**	**2021 JPY (000,000)**	**2020 JPY (000,000)**	**2019 JPY (000,000)**
Pre-Tax Income	31,434	-8,354	-7,781	6,479	-3,137
Net Income after Non-Controlling Interests	25,989	-8,905	-9,580	7,339	-5,437

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	**2023**	**2022**	**2021**	**2020**	**2019**
Overall Performance:					
Return on Assets	2.7	-1.0	-1.2	1.0	-0.8
Return on Capital and Surplus	7.6	-3.0	-3.2	2.6	-1.9
Non-Life Performance:					

Source: BestLink® - Best's Financial Suite

Business Profile

Established in 1940, Toa Re is the first domestic reinsurer headquartered in Japan. It is now the only full-line comprehensive reinsurance company headquartered in Japan and is privately owned by major Japanese insurance companies and financial institutions. The company has a long history of overseas expansion, with subsidiaries in the US and Switzerland, and branches in Singapore, Hong Kong, and Malaysia. In FY2023, on a consolidated basis, Toa Re reported net assets of JPY 290 billion (USD 1.9 billion), and NPW of JPY 281 billion (USD 1.9 billion). The company ranked 25th among global reinsurance groups, based on FY2022 gross reinsurance premiums.

In the domestic market, Toa Re continues to uphold a stable share of the non-life segment by being the sole domestic commercial reinsurance company in Japan. It maintains enduring business relationships with major non-life insurers in Japan, which are also its shareholders.

Toa Re maintains a diversified portfolio in terms of product and geography. The company's domestic operation, TRJ, is its core business and accounted for approximately 66% of its NPW in FY2023. Its domestic business is divided into life and non-life segments, contributing 33% each to the group's NPW in FY2023.

Toa Re also has sizeable overseas operations. TRA is the company's largest overseas subsidiary, which contributed approximately 22% of its NPW in FY2023, followed by TRE, which contributed about 12% of its NPW in the same period. TRE has also ventured into life reinsurance business since FY2021, albeit on a limited scale at the moment.

Life business remains a key source of premium diversification and profit stability for Toa Re. While the volatility associated with risks and profits in the company's life business is typically low, this segment also exhibits a low correlation with its non-life business, which is exposed to natural catastrophe risks. In FY2023, the life business accounted for approximately 34% of the group's NPW.

Under the company's current business plan, the company is looking to optimise its underwriting portfolio across all segments to enhance its profits. In the domestic market, Toa Re maintains a conservative approach towards underwriting natural catastrophe risks and prioritises enhancing profitability through improving underwriting terms and business selection. In its overseas non-life business, the company also places a strong emphasis on securing more stable earnings. It continues to exercise caution when underwriting new business in the US market, concentrating instead on enhancing the profitability of existing contracts through premium rate adjustments and improvements in terms. Outside the US market, Toa Re pursues a prudent approach to business expansion, targeting lines of business where it possesses expertise and can achieve sustainable profitability.

Business Profile (Continued...)

For its overseas life business, the company will persist in optimising premium rates for underperforming long-term treaties and refining underwriting terms and conditions to improve profitability for existing business, in addition to acquiring profitable and quality new business.

Being Toa Re's primary overseas subsidiary, TRA continues to hold an important role in the company's overseas strategy, contributing significant premium income and providing risk diversification. In FY2023, TRA accounted for approximately 22% of the group's NPW by underwriting both proportional and non-proportional property & casualty business in North America and agriculture reinsurance globally. Its portfolio is structured around three segments: US business (excluding agriculture reinsurance), Canadian business (excluding agriculture reinsurance), and agriculture reinsurance.

TRA has undergone several key management changes since 2021. The new management team has placed an emphasis on diversifying away from its traditional focus on excess and umbrella casualty, which has faced challenges from adverse reserve developments due to social inflation. The company has implemented various mitigation strategies, including a comprehensive review to enhance its US casualty reserve position and a restructuring of its non-life business portfolio.

TRE, another major overseas subsidiary of Toa Re, holds a crucial position in Toa Re's strategies for global expansion and risk diversification. Headquartered in Switzerland, TRE focuses on traditional non-life reinsurance business but has also ventured into life reinsurance business since FY2021, albeit on a limited scale. The successful implementation of its business expansion initiatives is evident as TRE's contribution to the group's NPW surged to 12% in FY2023, which is a substantial increase from 2% five years ago.

Enterprise Risk Management

The company established a group-wide risk appetite statement with the aim of maintaining a long-term stable profit and adequate capital. Based on the group risk appetite statement, each major operating entity including TRJ, TRA, and TRE also formulates its own risk appetite statement to define its risk tolerance and support for the business. Business plans are formulated based on these statements and executed by each operating entity. Assessment and analysis of the business results are regularly reviewed and reflected in the subsequent formulation of policies and business plans.

Capital allocation and risk tolerance are also set based on quantitative benchmarks. For example, a minimum solvency margin ratio of 400% is set for the group and TRJ, and a minimum Swiss solvency test ratio of 150% is set for TRE.

The company carries out stress tests periodically to check the impact of extreme events on its capital to ensure business continuity. The company has adopted scenario analysis (both of historical and hypothetical events) and sensitivity analysis (including natural catastrophe and stock market declines) to assess the potential impact on its capital. In addition, reverse stress tests are also performed to identify events that would cause serious consequences, such as an insufficient capital requirement, to the company.

The company periodically performs exhaustive risk identification, including identifying and classifying emerging risks based on frequency and severity for the purpose of assessing their materiality. Under the company's risk management structure, the risk management department periodically reports to the board of directors on matters requiring deliberation and decision-making.

TRJ's board of directors developed and approved the company's risk management framework based on a top-down approach. Under this framework, the enterprise risk management (ERM) committee was established to hold discussions on ERM-related issues including risk appetite statement, the own risk and solvency assessment, capital adequacy status, solvency margin ratio, and timely reporting of risk status to the board. At the same time, the independent internal audit department acts as a check and balance to evaluate the effectiveness of the risk management framework regularly and to identify areas that need further improvement.

The company developed a corporate governance structure to ensure appropriate management is in place to make decisions and manage risks in response to the fast-evolving business environment. This includes external directors making up a third of its board, and an independent audit and supervisory board to monitor the performance of the board of directors. The company also established a compliance committee, which is chaired by the president and consists of third parties, such as external counsel, to ensure the effectiveness of the company's compliance framework. A "whistle-blower" system is also in place for employees to report or seek consultation on unlawful conduct within the Toa Re group.

Enterprise Risk Management (Continued...)

Reinsurance Summary

Toa Re continues to have a diversified reinsurance panel, which consists of various reputable and highly rated domestic and overseas reinsurers.

Toa Re's reinsurance programme is deemed appropriate relative to its risk appetite and underwriting risk, as well as able to manage the high exposure to natural catastrophe risk in Japan. The retrocession programme has adopted a conservative approach to mitigate risks associated with the company's high catastrophe risk accumulation in the Japanese market, providing coverage for losses up to a 1-in-250-year return period. For managing the top risk of the company, i.e., wind/flood risk exposure in Japan, Toa Re has reduced the net retention through rigorous underwriting discipline and appropriate reinsurance protection as a means of mitigation for the risks associated with climate change. For its 2024 renewal, the company further reduced its net retention for earthquake risk from JPY 7.8 billion to JPY 7.5 billion, while increasing its net retention for wind/flood risk from JPY 6 billion to JPY 6.5 billion, both representing less than 5% of the reported capital.

Environmental, Social & Governance

The consideration of environmental, social and governance (ESG) factors is rapidly gaining traction in Japan in recent years. A number of market developments in Japan have facilitated ESG adoption. Examples include the launch of the Japanese stewardship code in 2014 to promote sustainable investments and to encourage institutional investors like insurance companies to get more involved with the companies in which they invest.

The Japanese government pension investment fund, one of the world's largest public pension funds, became a signatory of Principles for Responsible Investment (PRI) in 2016 and took steps to integrate ESG factors into its investments. This has encouraged domestic financial institutions to address ESG issues in recent years. The latest development in the form of the Japanese government's commitment to achieve carbon neutrality by 2050, puts further pressure on domestic companies to formulate their own roadmap to zero carbon emissions.

Japan is generally considered a natural catastrophe-prone country, and it is expected that climate change will increase both the frequency and intensity of extreme weather events such as typhoons, floods, and heavy rainfall. As one of the largest reinsurance companies in Japan and the world, Toa Re is exposed to moderate climate change risk, which could have potential impact on its profits and the expenses related to its claims over the long term. To address these ESG issues, the company has incorporated ESG initiatives into its medium-term management plan and investment policy.

The company currently considers climate change countermeasures, respect for human rights, and internal controls as key areas to be strengthened under its business plan. Activities being undertaken include reducing carbon dioxide emissions in operations, strengthening disclosures related to ESG issues, and enhancing information security.

In underwriting decisions, the company has now suspended in principle the underwriting of new reinsurance policies for coal-fired power plants and coal mining projects. At the same time, ESG factors are now being considered in the company's investment decisions. The process includes research on investee companies' ESG disclosures and engagement with the investee companies on ESG issues before making investment decisions. In alignment with its stance on reinsurance underwriting, the company has in principle ceased financing for coal-related projects. The company has also made ESG-themed investments, including the purchase of green bonds, to support society in recent years.

The company has also established a range of medium- and long-term ESG targets. These include a 50% reduction of carbon emissions by FY2030 compared to 2019 and achieving carbon neutrality for all operations by FY2050. Measures like transitioning to renewable energy sources and adoption of energy-saving technologies support these goals.

Overall, although Toa Re has moderate exposure to ESG-related risks, the company has gradually incorporated ESG factors into its business strategy and investments to address ESG issues. AM Best believes there is a low risk to the company's credit quality over the short to intermediate term.

Financial Statements

Balance Sheet	3/31/2024 JPY (000,000)	%	3/31/2024 USD (000,000)
Cash and Short Term Investments	29,161	2.9	193
Bonds	631,110	61.8	4,172
Equity Securities	183,703	18.0	1,214
Other Invested Assets	9,533	0.9	63
Total Cash and Invested Assets	853,507	83.6	5,642
Debtors / Amounts Receivable	107,669	10.5	712
Other Assets	60,265	5.9	398
Total Assets	1,021,441	100.0	6,752
Unearned Premiums	149,395	14.6	988
Non-Life - Outstanding Claims	393,160	38.5	2,599
Total Gross Technical Reserves	542,555	53.1	3,586
Other Liabilities	83,893	8.2	555
Total Liabilities	626,448	61.3	4,141
Capital Stock	5,000	0.5	33
Retained Earnings	137,287	13.4	907
Other Capital and Surplus	252,706	24.7	1,670
Total Capital and Surplus	394,993	38.7	2,611
Total Liabilities and Surplus	1,021,441	100.0	6,752

Source: BestLink® - Best's Financial Suite

Income Statement	Non-Life JPY (000,000)	Life JPY (000,000)	Other JPY (000,000)	3/31/2024 Total JPY (000,000)	3/31/2024 Total USD (000,000)
Net Premiums Earned	...	...	...	280,826	1,856
Net Investment Income	...	...	23,409	23,409	155
Realized capital gains/(losses)	...	...	4,536	4,536	30
Unrealized capital gains/(losses)	...	...	-13	-13	...
Other Income	...	...	...	4,690	31
Total Revenue	...	...	27,932	313,448	2,072
Benefits And Claims	...	...	219,991	219,991	1,454
Net Operating And Other Expenses	...	...	62,023	62,023	410
Total Benefits, Claims And Expenses	...	...	282,014	282,014	1,864
Pre-Tax Income	...	...	31,434	31,434	208
Income Taxes Incurred	...	...	...	5,445	36
Net Income before Non-Controlling Interests	...	...	...	25,989	172
Net Income/(loss)	...	...	...	25,989	172

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

Best's Credit Rating Methodology, 08/29/2024

Catastrophe Analysis in AM Best Ratings, 02/08/2024

Available Capital and Insurance Holding Company Analysis, 08/15/2024

Scoring and Assessing Innovation, 02/27/2023

Understanding BCAR for US Property/Casualty Insurers, 05/23/2024

Understanding Global BCAR, 08/01/2024