

S&P Reports on Japan Captives

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According to a new report - "Tighter Regulations Spark Rating Demand In Japan's Growing Captive Insurer Market" - published by Standard & Poor's Ratings Services; more attention is being focused on the relatively new phenomenon of Japanese captives.

S&P noted that it had "assigned its first ratings to captive insurers of Japanese companies: New Century Insurance Co. Ltd. (A-/Watch Pos/--), owned by Mitsubishi Corp.; and Insurance Co. of Trinet (U.S.A.) Inc. (A-/Watch Pos/--), owned by Mitsui & Co.," on Jan. 6, 2006.

S&P's report explains: "As Japanese firms extend their reach to meet the growing demands of globalization, they are likely to expand their use of these insurers as a comprehensive risk management tool. Japan's Financial Services Agency (FSA) has recently tightened regulations governing the reinsurance risks held by Japanese insurers, and this may encourage companies to seek credit ratings on their captive companies. Also, these captive companies may need ratings for when they reinsure overseas direct insurers.

"Captive insurers are significant players in global markets, accounting for more than 20 percent of written premiums in the non-life corporate insurance segment. Standard & Poor's has assigned ratings to the captive insurers of many U.S. and European companies, including Volkswagen AG in Germany, Royal Dutch Shell PLC, and BP PLC in the U.K. Even so, Japanese companies have made little use of captive insurance compared with U.S. and European firms."

S&P also indicates that, although some captives are direct insurers, "many function as reinsurers. As with regular insurance policies, the parent company purchases a policy and pays premiums to the direct insurer. The direct insurer cedes a part of the insurance risk to the captive insurer and pays a reinsurance premium.

"The number of Japanese captive insurers has been steadily increasing, but it still stands at only 60. Parent companies span a wide variety of industries, including finance, general trading, automobiles, shipping, oil, and travel. The captive insurers primarily underwrite parents' fire, shipping, and general liability insurance."

The report is available on RatingsDirect, Standard & Poor's Web-based credit research and analysis system. It can also be found on S&P's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar select News & Analysis.