

## Questions and Answers from November 27, 2014 IR Meeting

### Management Plan and Trend of Business Results

Q: Could you confirm the probability of achieving the adjusted profit for FY2015?

A: We are making steady progress on the adjusted profit, mainly due to improved profitability in automobile insurance and so forth.

We have taken a somewhat conservative outlook on the combined ratio in the domestic P&C insurance business. For example, in automobile insurance there are multiple factors impacting profitability, such as premium rate revisions, driver rating system revisions, and increases in repair cost per claim. Therefore, we cannot be optimistic here, so we have made somewhat conservative estimates on our full-year forecast for FY2014, while leaving our initial planned targets for FY2015 unchanged.

Q: Under the current medium-term management plan, you are targeting ROE at the 7% level and a total payout ratio of 50% with the adjusted profit (excluding life insurance). Can I confirm your stance on target ROE level, total payout ratio, and the source of funds for shareholder returns under the next medium-term management plan?

A: We recognize all of these as important issues in formulating the next medium-term management plan. As our profitability increases, we will examine our approach to the scale of shareholder returns and other issues, as we strive to achieve a balance that satisfies all stakeholders in our formulation of the next medium-term management plan.

To carry out structural changes to promote further evolution on the key themes of security, health and wellbeing, our main focus of discussion in the next medium-term management plan will be what each Group company should do. Furthermore, in order to become a globally competitive organization, each business needs to set a global player within its industry as the benchmark. As a result, the vision for each business organization and the overall ROE level will become clear.

ROE in Japanese companies is generally low overall, not only in the financial industry. Given this environment in Japan, if we aimed to try and push ROE up to a global standard of say, 15%, all at once, there would be the potential for some negative impact on customers. We aim to set an ROE target that will enable sustainable growth over the medium to long term.

## Domestic P&C Insurance Business

Q: I believe you had a policy of aiming for a combined ratio in the 95% level. Do you intend to continue targeting this level? Will you aim for an even lower level?

A: One of the big factors that cause fluctuations in earnings is natural disasters. With natural disasters currently on the increase, we have recognized our capacity to absorb their impact as a management issue. The combined ratio may fluctuate from year to year in range between the early and late 90%<sup>s</sup>, but there is no change to our policy of aiming to secure a stable 95% level.

Q: What do you think the probability is of capturing ¥56.0 billion in merger synergies in FY2015?

A: The ¥56.0 billion figure for merger synergies relates to the amount of cost savings compared to FY2011. At this point we are proceeding as planned, and I believe it highly likely that we will achieve this amount. Moreover, from FY2016, we also anticipate further cost reductions from shifting our systems into runoff and we believe there will also be scope for personnel reductions by making efficiency gains in the operation of the domestic P&C insurance business.

Q: How will new technologies such as telematics insurance and big data that may make premium classification more detailed impact on the P&C insurance business? Also, what is the timeframe for the full-scale introduction of telematics insurance and what are the challenges to overcome in popularizing it?

A: For the past 10 years we have seen repeated mergers between P&C companies. As a result of each company having actively responded to the changes in the market, their market shares have not moved much. Telematics insurance is also one of the changes in the market, and we plan to make a trial introduction starting with fleet policies. After examining the status of the trial introduction, we plan to consider whether it is likely to become popular in the future, and whether we even need to have telematics insurance to compete with other companies. Also, right now, telematics equipment is expensive to procure, and the price would need to come down before it could be popularized. Telematics insurance is really an ultra-risk differentiated type insurance product in some ways; since it precisely reflects the risk of the individual, some will find their premiums increase while others will find that they decrease. However, it will not bring a massive shift in market share as was seen in the smart phone market, and it is not likely to suddenly repaint the industry landscape.

## Domestic Life Insurance Business

Q: You say you are going to target the life insurance professional channel in the third-sector market, but price appeal is in strong demand in the channel. What points will you make appealing other than price?

A: The proportion of the life insurance professional channel within our sales channels has declined from 22% in FY2012 to 19% in FY2013. However, during April-September 2014 it increased to 23%. The marketability of the new medical insurance products we launched in May appears to have won strong approval.

With regard to specific points that have emerged in our discussion, I won't give a detailed explanation here, but we believe marketability to be the important factor in our outlook for the level of the EV increase amount from FY2016 onward. We also believe it is important to design products from the customer's perspective. We are continuing discussions within the Group and aiming to come up with innovative products.

Q: Price competition is heating up in cancer insurance. Do you intend to adopt a strategy of competing on price?

A: Sales of cancer insurance account for only around 6% of our premiums written in the life insurance business. We therefore do not intend to adopt a strategy of focusing on this field and competing on price. Our policy for the entire third-sector, including medical insurance, is to seek an optimal balance between price and marketability.

## Financial and Other Services

Q: Could you please explain the envisaged scale of funds for investment in the financial and other services business and the target returns?

A: We are thinking about investments that are absolutely necessary for the Group to realize its desired direction. However, at this point we have not determined clear investment amounts and target returns. Our aim for this business in the future is to build its presence as a contributor to the Group's bottom line, and we would also like it to play a more strategic role in our next medium-term management plan.

## ERM and Capital Policy

Q: You say you are discussing the level of strategic holding stocks from FY2015 onward. Are you intending to increase or decrease the level?

A: We are thinking to decrease the overall level of strategic holding stocks. What we

are discussing right now is the amount and the pace for reducing them. Where the stocks are to be retained, we would like the reason to be strategically defined and to be accountable to external parties.

Q: Could you confirm your policy on shareholder returns?

A: With regard to shareholder returns for FY2015, we intend to examine them appropriately in line with our existing policy as this is the final fiscal year in the current medium-term management plan. From FY2016 onward, there is a possibility that we may see higher levels of profit. We also recognize the method of returning profits from our domestic life insurance operation is an issue that needs to be addressed. We plan to give this issue sufficient consideration in the next medium-term management plan, and to give a clear indication of our thoughts.