IR Meeting Q&A Summary (May 27, 2015)

Mid-Term Management Plan

Q: Could you give me an idea of your envisaged target level for ROE and of your earnings structure in the next mid-term management plan?

A: We plan to make the final determination on the level based on our aspiration to be a globally competitive group and the Group's internal and external status. In our earnings structure, we envisage an increasing contribution from the overseas insurance business on both the top and bottom lines. We expect to increase the earnings contribution from the overseas insurance business by continuing to make investments in growth fields. We plan to disclose more detail in our next mid-term plan.

Q: What kind of comparison indicators and perspectives should I use to understand what you mean by "a globally competitive group"?

A: There could be more than one indicator, but the important thing is that they allow comparison. Rather than using adjusted profit or other standards unique to the Group, a common standard such as IFRS could be a good comparative indicator.
Another important point is the originality of our business model. Companies such as Allianz, AXA, and MAPFRE are all making their original business models. It's important to note what kinds of differences there are between our business model and these others.

Domestic P&C Insurance Business

Q: In the next mid-term management plan, you've indicated that you won't be satisfied with ROE around the 7% level. What plans do you have to improve the combined ratio, and in particular the expense ratio?

A: With regard to non-personnel expenses, when we consider that we will complete our migration of the system for managing policies in force at the former Nipponkoa Insurance from FY2016 and other factors, we expect to be able to cut IT costs by an order of several billion yen. Moreover, with the completion of the merger, we also anticipate making progress on liquidating unused real estates. With regard to personnel costs, we consider the concentration of staff into the domestic P&C insurance business to be inefficient, and would like to push forward with a reassignment of staff across the entire Group. By advancing these measures carefully and specifically, we believe further efficiency should be achievable. We have also started to address the issue of structural overlap with our sales agencies by utilizing ICT, and we can expect to reduce staff numbers in our sales division and increase efficiency. On the other hand, it will take quite an investment to achieve our final form, and we will therefore proceed with care.

We plan to disclose the positive and negative factors in our future business expenses in the next mid-term management plan.

Q: Is there a possibility of correcting the structural overlap issue by using directly-invested agencies?

A: We are currently experimenting to see whether agencies can function as sales offices of P&C insurance company. Depending on the region, we may be able to control the personnel structure at the sales offices through this initiative, and this could lead to improve the expense ratio.

Q: Have you made progress in studying automobile insurance that could be applied to autonomous cars?

A: Since autonomous cars do not meet the legal definition of an automobile under current laws, automobile insurance does not apply to them. In the future, autonomous cars will share the roads with human-driven vehicles, and the type of the risk may change to something such as product liability. However, the risk itself will still be there. In addition, problems such as cyber terror might occur. We are examining what kind of insurance would suit autonomous cars, but it looks like telematics-related insurance is set to lead the way and penetrate the market.

Domestic Life Insurance Business

Q: Could you share your specific initiatives for growing earnings at Himawari Life going forward, and your projected embedded value?

A: We will continue to position domestic life insurance as a growth driver, together with overseas insurance. A new president was appointed in April, and he has announced an intention to double Himawari Life's earnings under J-GAAP from their current level of ¥10 billion in five years, ultimately aiming over the long term to secure 7 million policies in force and grow the company into one of the top 10 life insurers in Japan. The specific strategies are currently being considered; however, initial measures for growth are gradually taking shape, such as innovating the sales method using ICT and launching simple underwriting medical insurance.

In our current mid-term management plan, we are using MCEV as a life insurance earnings indicator. However, given that we are now making preparations to adopt IFRS, we may examine the option of an IFRS-based approach to life insurance earnings indicators in the next mid-term management plan. We also believe we need to address issues regarding the inclusion of life insurance earnings in calculating funds for shareholder returns, and we are examining its direction.

Overseas Insurance Business

Q: Going forward, do you plan to conduct any overseas M&As during the period of the next mid-term management plan? Also, please let me confirm my understanding that you are targeting M&As with primary insurers in Europe and the US rather than Asia.

A: The general opinion is that the outlook for the insurance market through to 2020 is for high growth in emerging markets. However, their global share in absolute amount will be at more or less the same level as now.

If we are to set ambitious bottom line targets in our next mid-term management plan, meeting them will require more than just aggressive investment in emerging markets. As we have already learned from our investments in Canopius and SCOR, there is a need to consider entering developed country markets. The timing for our M&As will depend on the situation surrounding each investment.

ERM and Capital Policy

Q: The total shareholder return ratio (excluding life insurance) for FY2014 was 50%. Thinking in these terms, in FY2015, the amount of 50% of ¥138.0 billion will be amount of total shareholder returns. That seems to offer considerable scope for share buybacks. What is your current policy on that?

A: Assuming we pay a dividend of ¥80 per share as announced, calculating it mechanically at 50%, we would buyback ¥36.7 billion worth of shares. Since the management integration in 2010, we have continued to pay a stable dividend, even when we recorded a loss due to natural disasters. As a result, the cumulative amount for FY2010 to FY2015 (including the forecast dividend for FY2015) works out at shareholder return of ¥212.1 billion, while the total earnings come to ¥176.0 billion and the total shareholder return ratio is expected to be 124%. Therefore, even if we do not conduct a share buyback in line with our FY2015 results, we consider that we can achieve “50% over the mid-term.” In terms of possibility, we could conduct a share buyback between 0 and ¥36.7 billion. Furthermore, I think we will begin specific discussions from around the middle of the year, after the typhoon season has passed and we have a clearer view of the domestic P&C insurance results. In making the decision, we plan to remain mindful of the balance between growth investments and shareholder returns, as well as the total shareholder return of ¥45.5 billion on the FY2014 results, and to consider the opinions of our independent directors.

Q: Could you talk about the status using return on risk (ROR) that you mentioned in the briefing on reducing strategic-holding stocks and the status of your response to the Corporate Governance Code?

A: In relation to the Corporate Governance Code, we are required to give a specific explanation of the purpose for holding strategic-holding stocks, in terms of risk and return, as well as economic rationale.

The entire group has been making progress on reducing its strategic-holding stocks from a risk and return perspective. Going forward, we will continue to reduce our strategic-holding stocks by emphasizing ROR as a quantitative index for even more individual stocks, while also considering qualitative aspects such as the insurance transaction status.

With regard to our disclosure in our Corporate Governance Report, we plan to make a decision in June, based on the opinions of our independent directors and so forth. With regard to ROR, it won't be disclosed for each individual stock; however, our policy is to utilize it as an internal metric for judging and explaining the economic rationale for selling or holding a stock.