IR Meeting Q&A (May 25, 2017)

– Progress of Mid-Term Management Plan –

Management Strategy

Q: In the presentation materials, Sompo Holdings states that it will “put soul into the achievements” to date in FY2017. Does this mean that you have built a platform through FY2016, and will start generating profits from this platform in FY2017 onward? Or does it mean that you believe that there are shortfalls in what you have achieved through various measures to date?

A: It means that we will realize measures according to the business phase of each field.

For example, in the nursing care business, now that we have achieved the industry’s second highest sales, I believe that we must enhance our quality and brand capabilities. In the domestic P&C insurance business, I’d like to implement concrete initiatives to maximize corporate value by optimally allocating resources to the three P&C insurance companies, namely Sompo Japan Nipponkoa, SAISON AUTOMOBILE AND FIRE, and Sonpo 24, under the leadership of the Domestic P&C Insurance Business Owner. In the overseas insurance business, I believe that it is crucial to promptly and effectively execute post-merger integration (PMI) to enable Sompo International (Endurance) (hereinafter, “SI (Endurance)”) to function as a platform.

Q: In which areas do you expect to achieve earnings growth as you progress towards the adjusted consolidated profit target of \220-\230 billion for FY2018?

A: At present, simulation results indicate that adjusted consolidated profit will surpass \220-\230 billion in FY2018. In the domestic P&C insurance business, the top line has shifted to a growth trend from November 2016. Adjusted profit in the domestic P&C insurance business is expected to trend firmly toward the adjusted profit target as a result of the accumulation of policies. In the nursing care & healthcare business, although the size of the business is still small, we expect profit to improve by several billions of yen. Moreover, the greatest growth driver will be the overseas insurance business led by SI (Endurance). In addition to continuing its organic growth as before, SI (Endurance) should be able to generate synergies with Sompo Holdings. Therefore, I believe that we will be able to increase our profit level further.

Q: What kinds of risk factors would you identify other than domestic natural disasters?

A: The risk of domestic natural disasters is being addressed appropriately, keeping in mind the balance between the level of risk control and the level of profit. Geopolitical risk and cyber risk could be identified as examples of emerging risks, but we are still at the stage of examining each of those risks. Going forward, given that the proportion of overseas insurance business is becoming larger, I also believe that we must pay close attention to currency risks in terms of both underwriting and claims payment.

Q: Does your investment in Trov envision that the company will enter the Japanese market? Or is it part of your efforts to step up investment in InsTech?

A: We see Trov as a digital startup driven by social media, not as an insurance company itself. The most frightening thing that could happen when digital disruption takes place is that insurance companies become mere providers of balance sheets. This investment will give us insights into what the disruptors are thinking. At the same time, the investment also envisions that in certain situations, Sompo Holdings could join forces with the disruptors to generate disruptive innovation.

Q: In your digital strategies, how many projects will help to improve the expense ratio by FY2018, and how many projects will you commercialize?

A: One year has passed since we set up SOMPO Digital Lab. Currently, 19 projects are undergoing demonstration trials, 14 projects are being planned, and 8 projects are being considered. Many of these projects are initiatives that will help to upgrade and expand services, improve quality and enhance productivity. Moreover, we are making progress on initiatives to utilize digital technology in the insurance claims divisions and call center divisions.

Shareholder Returns

Q: Looking at the balance of dividends and share buybacks, Sompo Holdings seems to have a lower ratio of dividends compared with its peer companies. What is the future course for dividends?

A: The Company's policy on shareholder returns is to return 50% of adjusted consolidated profit to shareholders over the medium term. We had previously noted that the total payout ratio could fall below 50% if we were to execute a major M&A deal, considering our ratings and other factors. However, in light of conditions such as our financial soundness following the acquisition of SI (Endurance), we have maintained a total payout ratio of 50%.

In considering the balance of dividends and share buybacks, we are keeping a close eye on the stock price level and other factors. The price-to-book ratio (PBR), adjusted for the catastrophic loss reserve and certain other items, now stands at less than 1.0. Accordingly, we believe that share buybacks remain an effective means. In addition, I have received extensive feedback from the stock markets, and I recognize that there are strong calls for share buybacks, particularly from North American investors. Based on my experience as Group CFO, when proposing share buybacks to the Board of Directors, share buybacks usually have been discussed together with dividend increases in the past. Moreover, I am well aware of trends in the market and the insurance sector regarding dividend yield and other metrics. Looking ahead, I plan to consider the balance of all of these factors, taking into account the opinions of investors and analysts.

Domestic P&C Insurance Business

Q: If advisory rates for automobile insurance are revised, will reductions in premiums be held back at the discretion of the insurance companies?

Or will you consider other measures to offset any reductions in premiums?

A: Assuming that advisory rates for automobile insurance are reduced by around 8% as reported by the press, we expect this will have an impact on premiums of nearly 5%. Considering that the revision of the advisory rates is being made in response to a decrease in accidents and related factors, insurance companies should naturally take the approach of returning the benefits to their customers. However, I have no intention of getting caught in an excessive price war. Going forward, we will comprehensively determine premium levels based on various elements, including the revision of consumption taxes and the Civil Code (law of obligations), and increase in repair costs.

Q: In FY2018, the expense ratio is projected to decrease. Do you expect to execute large systems investments as planned and to realize savings in expenses from FY2018 onward?

A: We plan to make upfront investments of around \10.0 billion a year, including systems investments, up to FY2018. We have not factored in any considerable savings in expenses during this period. The planned decrease in the expense ratio primarily reflects top-line growth.

Nursing Care & Healthcare Business

Q: Do you envision a growth scenario for the nursing care business in which, for example, the goal is to achieve the highest sales in the industry through additional acquisitions?

A: We expect the nursing care market to continue growing. However, demand for facility-based nursing care is projected to peak out and start gradually declining around 2025, whereas demand for home-based nursing care is expected to increase. Therefore, we recognize the need to focus on the home-based nursing care business over the long term. In the course of providing home-based nursing care services to numerous customers, we must pursue economies of scale to ensure quality and a certain degree of profitability. That said, we are giving first priority to building a platform in this business, and do not intend to bring acquisitions forward.

Q: What sorts of risks do you envision in the nursing care business, including the outflow of talented personnel?

A: As you suggest, the greatest risk is personnel. We believe that the expansion of scale and the use of digital technologies are the keys to pursuing personnel, profitability, and quality all at once. By securing operational scale and increasing our voice in the industry, we also seek to assume roles that will help to alleviate the Japanese people's general unease toward the social security system as a private-sector company.

Q: Could you please confirm the profit model after the occupancy rates in the nursing care business have reached a certain target level?

A: If profitability were our only consideration, we could have opted to target only wealthy customers. However, Sompo Holdings is targeting the volume zone of the market. To generate profits, it will be crucial to balance increases in occupancy rates, cost control, and quality. In terms of the unique aspects of Sompo Holdings, I believe that we will be able to provide services that reflect risk finance arrangements by leveraging the expertise of Sompo Japan Nipponkoa and Himawari Life. Although we do not currently have the full range of statistical data needed to do so, we have partnered with several universities that have cutting-edge knowledge in these fields, and have commenced research activities.

Overseas Insurance Business

Q: In a recently published interview article, CEO John Charman said that M&A deals of around \400-500 billion are being considered. How will the Head Office exercise control over future M&A deals?

A: The comment in the article was made by Managing Executive Officer Nigel Frudd, not CEO John Charman. To clarify the statement, the main point of the reply was not to convey our intention to execute M&As of around \400-\500 billion. Rather, the reply was intended to convey that we have a capital buffer of \400-\500 billion available for M&As. The Board of Directors of the management company for business in developed countries, comprising CEO John Charman, Managing

Executive Officer Nigel Frudd, and Overseas Insurance Business Owner Shigeru Ehara, can only authorize M&A deals worth around one-tenth of the foregoing amount. In cases where M&As involve larger amounts, a resolution by the Board of Directors of Sompo Holdings would be necessary as a matter of course, and as such the Group CEO would be fully involved. What we can say at this point is that we continue to have an appetite for M&As and a sizable capital buffer. However, we do not necessarily have any specific deals in mind at this time.

Q: After CEO John Charman joined SI (Endurance), the company recruited around 200 underwriters and achieved top-line growth of more than 10% on an annual basis. Will SI (Endurance) seek to generate top-line growth by continuing to increase its underwriters as before? Risk will also increase in step with this top-line growth. How will SI (Endurance) implement risk management?

A: There has been no change in SI (Endurance)'s plans to continue targeting top-line growth in conjunction with recruiting talented underwriters in an appropriate manner. SI (Endurance) is focusing particularly on the U.S. underwriting business (specialty insurance). In terms of the increase in risk, we are already undertaking disciplined risk concentration management with respect to natural disaster risk on a Group-wide basis, including SI (Endurance). Besides sending directors to SI (Endurance), Sompo Holdings has formed a majority on SI (Endurance)'s Nomination and Compensation Committee and Risk Management Committee by sending members to each committee. Through these measures, we have ensured the effectiveness and transparency of governance.

Q: SI (Endurance)'s profit level is expected to increase further toward FY2018. Does this mean that, at this stage shortly after the acquisition, you have judged that SI (Endurance) will outperform profit expectations?

A: Before the acquisition was completed, we had factored in the forecasts of SI (Endurance) into our mid-term management plan based on the business plan that SI (Endurance) had prepared, while adding our own fairly conservative adjustments to the forecasts. However, now that SI (Endurance) has already become a member of the Sompo Group at this time, we have had discussions of specific matters, and we have built up our forecasts based on consideration of what amounts of profits can be generated in which fields. As a result, we now expect SI (Endurance) to make a larger profit contribution than what we had expected based on our initial conservative estimates.

Q: What were the approximate increases in the risk amount and the dispersion effect in the overseas insurance business in line with the acquisition of SI (Endurance)?

A: According to initial estimates, underwriting risk and asset management risk were estimated to increase by a little more than \100 billion each, while the dispersion effect was estimated to increase by a little more than \100 billion. Therefore, a net increase of around \180 billion in the risk amount was added as a result of the acquisition of SI (Endurance).