IR Meeting Q&A (May 26, 2023)

Overview

Q: Current PBR is above 1.0 x. How do you improve adjusted PBR?

A: We will improve ROE, which is the base of PBR, over the medium- to long-term. We will improve ROE of the entire SOMPO Group by enhancing profitability with business lines with relatively lower capital requirements, such as digital and nursing care, compared to insurance business, the Group's origin, which is capital-intensive.

Q: What are your challenges to growing into a global leading insurance company?

A: Our biggest challenge is profitability. Compared to global peers, there are more decision-making layers at companies in Japan, and it takes more time for decisions to be made from the bottom up. We are working to speed up the decision-making process and actions to be taken based on it, by delegating authority and other means. To rank among global top 10, we would like to develop our scale and performance, while taking as example these global leaders' corporate culture and governance. From now on, by making use of cash from the domestic P&C insurance, our core business, human resources, know-how, and data, we aim to be a platformer that provides solutions contributing to security, health & wellbeing cross-sectionally.

Q: What is the impact of the improvement of generative AI and computing technology on SOMPO Group?

A: We see the current environment working favorably to SOMPO Group. We have already worked on experiments, comparison and analysis of ChatGPT and other large language models (LLM) and learned the development of DX would help us realize effects in broad areas such as insurance and nursing care, as well as RDP including "egaku." In addition, Palantir Japan is scheduled to release an AI platform utilizing LLM so that we will be well positioned to provide easy-to-use and low-cost services to customers.

Q: In what ways do your engagement stand out, for example gender, age, job type, and business unit?

A: The Company across the board is working to improve corporate management and employees' engagement centering on Individual Purposes, while confirming the relationship between these initiatives and business performance. We have so far held town hall meetings with a cumulative total of 200,000 employees inside and outside Japan to exchange opinions as to how to synchronize each employee's Individual Purpose and the Company's Purpose. Employees' engagement has steadily improved through these meetings, which obviously have produced positive effects on business performance. We will remain focused on these initiatives.

Q: Is the level of reserves for inflation and major accidents sufficient?

A: In FY2022, the domestic P&C insurance business added ¥3.0 bn. as reserves for IBNR losses in automobile insurance and liability insurance. Inflation impact of around ¥2.0 bn. in the fire & allied insurance line is included in FY2023. In addition, in the auto insurance line, unit prices of repair costs are expected increase by 5%. As for the oversea insurance business, appropriate loss reserves have been allocated. On top of that, we have achieved rate increases by 12 to 13% on average annually, which exceeds cost increases driven by inflation.

Capital Policy and Shareholder Return

Q: Please share your thoughts on the pace of dividend increase going forward.

A: It is the Company's policy to increase dividend in accordance with profit growth. Bearing in mind that dividend payout ratios were 40% on average in the past 3 years, we have raised the pace of dividend increase to ¥40 for FY2021 and then to ¥50 for FY2022. We are examining the dividend policy in the next Mid-Term Management Plan.

Q: How do you plan on implementing growth investment going forward?

A: Out of ¥600.0 bn. budgeted for investment for growth, which is set in the current Mid-Term Management Plan, we have already spent approximately ¥400.0 bn. on M&A, digital investment, and an increase in underwriting risk associated with the growth of overseas' topline. At this moment, total investment appetites are more than the remaining growth investment limit of ¥200.0 bn., so we will make investments in light of business environment and valuations.

Q: Please elaborate on the changing factors for ESR?

A: As for stock price risk, although the market value of strategic holding stocks is currently larger than the sale amount of them, but steady progress is being made in reducing the book value of strategic shareholding risks on a book value basis. The biggest factor is increased currency exchange risk caused by making hedged foreign bond free from currency exchange hedge in light of an increase in hedging costs, while the investment risk is increased. The volume of credit risk has barely increased. Since most part of capital increase of SI worth ¥200.0 bn. has been completed, there is no chance of a sharp increase in credit risk in FY2023.

Domestic P&C Insurance Business

Q: What specifically does "further actions" in the domestic P&C insurance business refer to?

A: The earnings structure reform initiatives have produced steady effects. However, amid current adverse business environment, it seems difficult to overcome difficulties just by taking different measures in an extension of previous ones, so we launched new initiatives starting from FY2023. Specifically, we will work on pricing optimization for fire & allied insurance and automobile insurance, which is the largest factor for the profitability decline in FY2022, and we will reassess rate levels from scratch. We will also aim to improve the portfolio by introducing drastic and more segmented underwriting criteria and revising coverages. In addition, in a bid to improve productivity, we will take different measures simultaneously and in a speedy manner, including a review of product/regulation systems, integration of the operations and underwriting functions into the headquarters, and optimization of headcount through natural attrition. As a guide, we aim to achieve the expense ratio, including system costs, of the 31% level in FY2027 at the latest.

Q: What are the assumptions for the outlook of automobile insurance for FY2023?

A: We estimate based on FY2022 results that automobile insurance has no impact of reduced accidents due to the COVID-19 pandemic. In addition, a decrease in accidents due to the widespread use of safety devices was conservatively estimated. Then, the expected unit price increases in vehicle insurance and property damage liability insurance were made lower. As a result, profit level is expected to be lower than that announced in the Mid-Term Management Plan. To address such adverse business environment, we would like to improve profitability, especially through cost saving and productivity improvement by utilizing digital technologies.