

Conference Call Q&A (May 19, 2023) – FY2022 Results

Overview

Q: What are the reasons that actual adjusted consolidated profit, the determining factors for shareholder return for FY2022, was lower than the forecast announced in 1H FY2022 results?

A: We estimate that actual adjusted consolidated profit excluding one-time factors for FY2022 is ¥225.0 bn. Main factors for the deviation from the consolidated profit forecast (¥245.0 bn.) announced in 1H FY2022 results are changes in trends, including the constant occurrence of severe natural catastrophes and an increase in major accidents.

Q: Would you elaborate on your new credit portfolio based on conglomerate premium?

A: To build the best investment portfolio for the group, we have been engaged in credit investment in a phased manner since October 2022. We also have been investing in lower-rating bonds, which still is a very small ratio of the Group's total investment assets.

Capital Policy and Shareholder Return

Q: What are the factors for ESR decline from 241% at the end of December 2022 to 223% at the end of March 2023?

A: As for market factors, we made our impact smaller by significantly reducing domestic interest rate risk, whereas we received some impact of higher US interest rate. Regarding other factors, accumulation of profit, reduction of interest rate risk through reduction of strategic-holding stocks and strengthening of ALM made positive contributions. Meanwhile, shareholder return, investment in corporate growth, an increase in underwriting risk associated with organic growth in the overseas insurance business, and an increase in asset investment risk including exchange risk made negative contributions.

Q: Regarding investment budget for growth worth ¥600.0 bn., please explain the recent investment status and how much is remaining now.

A: Out of ¥600.0 bn. budgeted for investment for growth, approximately ¥400.0 bn. have already been spent. The investment made includes the acquisition of ND Software, Co. Ltd., initiatives for creating conglomerate premium and digital investment.

Q: Why did you increase dividend per share by ¥40 in FY2023 forecast?

A: The Company's basic policy is to increase dividends in line with profit growth. We expect adjusted consolidated profit in FY2023 to be ¥280.0 bn., and therefore we estimate dividend increase at ¥40.

Domestic P&C Insurance Business

Q: In the forecast for full year of FY2023, the amount of net incurred losses from domestic natural disasters is raised from FY2022 initial forecast. To what extent does the upward change relate to an increase in reinsurance costs? Is it because potential risk increased or because you made more conservative assumptions?

A: Our assumptions for natural disasters take more conservative stance than previous forecasts. Specifically, we reviewed the impact of snow disasters based on recent situation. Meanwhile, reinsurance costs slightly decreased year on year.

Q: What are the assumptions for the loss ratio of automobile insurance in FY2023 forecast?

A: The automobile insurance was affected by hail disasters in FY2022. Excluding this impact, the loss rate is expected to increase year on year in FY2023. Although the widespread use of safety devices will decrease accidents, we include factors such as the complete absence of the impact of COVID-19 and an increase in unit prices of repair costs. The combined ratio of the automobile insurance stands at 95% or higher, we need to figure out the rate optimization.

Overseas Insurance Business

Q: Regarding SI Commercial's rate increases, please share your outlook going forward and the status in 1Q FY2023?

A: SI Commercial is expected to continue to offset an increase in loss costs caused by inflation with rate increases. In the plan for full year of FY2023, rate increases are estimated conservatively at approximately 4%. Meanwhile, FY2023 1Q (preliminary results) achieved rate increases of approximately 7%, making good progress.

Q: What is the progress of investment income of the overseas insurance against FY2023 forecast?

A: According to the preliminary results on 1Q FY2023, the overseas insurance is making good progress against FY2023 forecast mainly due to an increase in book yield driven by higher interest rates. SI Commercial has a duration of a little less than 4 years, so further effects are expected to be accumulated by reinvestment.

Q: What is the estimated book yield level of SI Commercial in FY2023?

A: Given the current market yield at higher than 5%, its book yield is expected to move up to between 4% and 4.5%.

Q: What are the reasons in the forecast for full year of FY2023 that the combined ratio of SI Commercial increases compared to that of FY2022 initial forecast?

A: The forecast for full year of FY2023 is prepared somewhat conservatively. We will grow the topline through rate increases and higher retention of premiums, while, in reinsurance, making close examination of risks and tightening discipline in underwriting. An increase in loss ratio is due to the impact of changes in portfolio composition, for example because of an increase in insurance lines with a higher predicted loss ratio. As a result, the combined ratio is expected to slightly increase in the forecast for full year of FY2023 compared to FY2022 initial forecast.