

Conference Call Q&A (November 17, 2023) – 1H FY2023 Results

Domestic P&C Insurance Business

Q: The forecast of loss ratio of automobile insurance for the full year of FY2023 has been raised. Is there a possibility to further raise the ratio again, for example due to a larger increase in traffic than forecast or other factors?

A: In 1H FY2023, accident rates of automobile insurance increased by 4.0% year on year. For 2H FY2023, accident rates are expected to recover to the level in the period with the largest traffic volume during the decade up to FY2019, and conservative accident rates are reflected in the forecast.

Overseas Insurance Business

Q: How do you expect the top line of the overseas insurance business for FY2024 to be?

A: The overseas insurance business has made aggressive growth following the acquisition of Endurance Specialty Holdings Ltd. They are focused on portfolio management in recent years, and as a result even the high frequency of natural disasters in FY2023 has little impact on the reinsurance business of SI Commercial. From FY2024 onward, although we assume possible changes in rate environment and reinsurance market, we will continue to focus on profit growth and develop reasonable strategies and measures.

Q: Currently investment profit of the overseas insurance business stays better than the forecast, given that its asset duration is about three years, can we expect book yield to further increase in the next fiscal year as well?

A: There are two major reasons for the significant growth of investment profit of the overseas insurance business. One reason is higher reinvestment returns driven by higher interest rates. Another is that a capital of ¥200.0 bn. transferred to SI in October 2022 was invested in high-yield bonds and other schemes. Considering the duration of about 3 years, if interest rates stay at the current level, a high-level of reinvestment return can be expected for another 2 years. Therefore, there is a room for book yield to improve.

Q: What is the outlook for the expense ratio of the overseas insurance business?

A: The expense ratio has been on the rise mainly due to changes in portfolio including reduced weight of agriculture insurance, a decline of the topline owing to the shift to profitability-focused underwriting, and investment in geographic expansion. Geographic expansion is making progress as expected, covering expenses for business development in the U.S. (Midwest and West Coast), Canada, and Continental Europe. We are working on pay-scale increases to address inflation in Europe and the U.S., but inflation itself is about to peak out. We will continue to take flexible measures in response to changes in the environment and appropriately control expenses.

Principles of the Next Mid-Term Management Plan

Q: Gain from sales of strategic holding stock is excluded from adjusted profit, is there a possibility to position gain from sales of strategic holding stock as a tool for profit normalization in the next Mid-Term Management Plan?

A: The Company pursues profit stability by reviewing insurance lines of the portfolio for domestic and overseas underwriting incomes. We will not position gain from sales of strategic holding stock as a tool for achieving profitability stability.