

A Message from the Group CEO



Delivering SOMPO's Purpose:

Start of a new Mid-Term Management Plan (FY2021-2023)



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Introduction

Following last year, the novel coronavirus (COVID-19) disease continues to have an overwhelming influence on people's lives around the world. I would like to express my deepest sympathy to everyone who has been infected, and my sincere respect and gratitude to all medical, healthcare and other frontline workers who are making strenuous efforts every day despite the risk of infection. Also in the Sompo group, many employees are working in various frontlines every day. Especially in frontline nursing care where challenging conditions continue, positive minded employees with strong sense of mission literally use their bodies to protect the happiness and meet expectations of people needing support. I feel proud of such colleagues and renewed my determination to be responsible for contributing to society as a Group even in the current difficult environment.

Huge paradigm shifts are occurring in the mind and behavior of conventional society and people. The increasing frequency and severity of natural disasters due to climate change and the prolonged low interest rate environment, which have substantial effects on the Group's insurance business, are already the new normal.

In addition, the serious problem of low birthrate and population aging in Japan facing the nursing care and other businesses, is indeed a reality from which we cannot turn our eyes away. Our daily lives have also changed. The wide use of remote work and digital transformation (DX), which were expected to occur sometime in the near future, have advanced rapidly, and new work and life styles are becoming rooted in the Group as well. I believe that these trends are essentially irreversible. The Group will continue to take on the challenge of realizing "A Theme Park for Security, Health & Wellbeing" which has been our goal, while proactively making change happen and adopting ourselves to change rather than being reactive to it. A new fiscal year has started and we announced "SOMPO's Purpose" and a new 3-year Mid-Term Management Plan. We will work to steadily grow existing businesses and expand new businesses in the digital domain, etc. and surely implement measures to create further value and enhance corporate value.

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“A Theme Park for Security, Health & Wellbeing” and “SOMPO’s Purpose”

I have many opportunities to discuss with diverse people in Japan and abroad, including political and business leaders, executives of startups, and students, at the World Economic Forum annual meetings (Davos) and through activities as Executive Director of the Japan Association of Corporate Executives (Keizai Doyukai). And I strongly feel that the tide of multi-stakeholder capitalism, sustainability, and digitalization, which are big waves engulfing society, lose no time. The society became unworkable with conventional capitalism, and companies have to rethink the pursuit of short-term profits and management biased toward shareholder supremacy. I also think that the management approach represented by the SDGs, which is long-term oriented, attentive to all stakeholders, and enhances diversity and sustainability, is now a prerequisite. The Group has also decided to make further advances in living together with society and collaboration with stakeholders, which we have been working on over many years through the insurance and nursing care businesses, incorporate priority issues (materiality) in management framework, and strategically implement these as the Group’s business foundation. And the potential of digital technologies that the Group has been focusing on is clearly accelerating changes in the world, and traditional financial businesses are no exception of being affected. The current situation is entirely different from a few years ago. As I have been saying, I believe that the unpredictable era of VUCA will continue and that the business environment surrounding the Group will continue to change and transform at a tremendous speed.

Amid the COVID-19 pandemic, a 100-year historic disaster, people’s desire for “security,” “health,” and “wellbeing” that everyone in the world has as a basic desire, and hope for the realization of a society that ensures these have become even stronger. Companies in the future will be asked based

on such common values which challenges they address and how they solve them to contribute to society. However, this is not a new realization for the Group, but rather a path that we have been following. I am convinced again that our management strategy aimed at realizing “A Theme Park for Security, Health & Wellbeing” based on the management philosophy of making all value judgments from the customer’s perspective and providing the highest quality services that contribute to the security, health, and wellbeing of customers was not wrong. Even in the current difficult environment, the Group aims to maintain a robust business foundation and continue to grow with solid strategies.

In light of the external environment, “SOMPO’s Purpose” was newly established to communicate both internally and externally in an easy to understand manner the approach to what the Group aspires to accomplish in the long term, such as in the next 20 and 50 years, which challenges we will address, and what kind of value we should aim to deliver by returning to the core of business management. SOMPO’s Purpose is to create a society in which every person can live a healthy, prosperous and happy life in one’s own way with “A Theme Park for Security, Health & Well-being.” Specifically, we will protect people from future risks facing the society, create a future the society for healthy and happy lives, and foster the ability to change the future society with diverse talents and connections. We decided to place “SOMPO’s Purpose” at the core of business management and aim for sustainable growth as a Group.

SOMPO's strengths

In conducting business, I am strongly aware of “fluidity and immutability,” that is, there are essential things that should not be changed, and things that should be changed many times. As an insurance group with a history of 130 years, we will fulfill our role of supporting customers in “unforeseen circumstances.” As a nursing care provider, we will fulfill our role of “always” supporting all users of facilities. Thus, continuously protecting everyday lives which matter to people through business activity as a social infrastructure, while addressing various challenges with diverse services and talent delivering these is an important DNA and strength of SOMPO. I believe that this attitude will not change in the future and should not be changed. The roles and responsibilities of Sompo are large in the “new normal” world where changes in the natural environment threaten people’s daily lives and require adaptation to new risks, such as cyber risks, and in the “low birthrate and aging society” that all countries in the world will experience starting with Japan. In formulating the new Mid-Term Management Plan announced recently, management discussions were held many times being acutely aware of this.



And what will change is the future of SOMPO. We will thoroughly think through a growth story, such as how to deliver “SOMPO’s Purpose” by making the most of our strengths, and how to engage with society with what kind of partners, determine what choices we need to make and take actions.

SOMPO's value creation using Real Data Platform

The Group is able to obtain various data from the frontline on a daily basis through the insurance and nursing care businesses. The most important feature of the data is that it is an accumulation of real information related to the behavior and daily life of customers, residents and users, in other words, “real data.” This real data with clear sources obtained from the actual society and people’s daily lives is necessary for

addressing social challenges, and the real data is a “vast repository” for realizing the extremely unique and new business potential of Sompo. The Real Data Platform (hereinafter “RDP”) is a unique system of Sompo to create new solutions that contribute to security, health, and wellbeing by integrating and analyzing the extensive and vast amount of real data as the following examples demonstrate. I think that RDP is

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the most important key for the Group to realize sustainable and dramatic growth. I believe that the new solutions and ecosystems created by SOMPO by making full use of RDP are certain to deliver unprecedented size of value and contribute to society. Therefore, it is absolutely necessary to have a partner with high technological capabilities to turn free thinking into reality and understands the future direction of the Group's businesses to realize RDP.

We expect that Palantir Technologies Inc. (hereinafter "Palantir") in the U.S. with which we are deepening relationships will fulfill such needs. Palantir is a group of professionals with the highest level of data analytics capability in the world and has provided advanced technology and services to organizations with highly complex and confidential data environments. What blew my mind more than their magnificent achievements was the encounter with Co-Founders Peter Thiel and Alexander Karp. I strongly empathized with their philosophy that superior technology should be used to make the world and people happy, and became convinced that there is no other way than to partner with such player and create new values for the Group to continue growing. Therefore, we formed a business alliance with Palantir,



Press conference on the establishment of a new company (November 2019)
From left to right, Koichi Narasaki, Group CDO of Sompo Holdings, Peter Thiel, Co-Founder and Chairman of Palantir Technologies Inc., Kengo Sakurada, Group CEO of Sompo Holdings

established a joint venture, and decided to carry out concrete initiatives.

As a result, the Group is finally ready to start full-scale development of RDP, a solution for delivering new values that can only be created by SOMPO by combining Palantir's technology and valuable real data. In Japan, I believe that data utilization at the national level, including the My Number system, will steadily advance in the future. The Group will capture such trends and take on the challenge of building a unique business model by enhancing the quality and resilience of existing businesses while delivering new values through RDP. At the same time, it is important for management to draw a path for this business model using RDP to substantially contribute to Group profit. Contributing to addressing social challenges through business will generate profit for the Group in the future, which will be returned to society. By creating trends and markets for new values and supporting them with solid evidence, we will raise expectations and earn the trust of stakeholders, and eventually enhance the Group's corporate value.

Realizing happiness through nursing care

One of the areas in which we are carrying out concrete initiative is the nursing care. Needless to say, nursing care is important and necessary, and it is definitely one of the social challenges that will become increasingly serious in the future. Nursing care costs continue to increase year by year, and have swollen to exceed 10 trillion yen recently. And it is estimated that this will reach 25 trillion yen by 2040, and the tight fiscal situation is a major concern in the future. Even more problematic is the supply-demand gap in frontline nursing care. The nursing care business has been facing labor shortage and the demand for nursing care is expected to increase further such that we may see demand for caregivers reach around 3 million in 2040, while the actual aggregate number was only 2.1 million in 2019, leading to a fairly serious situation. It is safe to say that this is an important topic and

we must take action now to enable the people needing support as well as the people providing support to lead happy lives, and ensure future prosperity and happiness. Therefore, SOMPO decided first to take on the challenge of changing frontline nursing care. I think that one aspect of frontline nursing care has been a difficult place to work for employees with high principles having to rely heavily on their experience and skills to support residents and users through various ingenuity and hardship. However, if “visible nursing care” and “predictable nursing care” are realized by converting the accumulated valuable experience and daily detailed information of around 100,000 people, including employees working at facilities, residents and users, into data, it should help, for example, inexperienced employees in effectively providing the services needed. While adopting advanced technology in this way, we will create an environment where we can fully focus on providing warm services that only humans can and are truly needed in frontline nursing care. The vision of the Group is to support the realization of the mission of delivering happiness to residents and users as we should. PoC of a business model using RDP is already being carried out at facilities within the Group, and we aim to introduce it to all facilities by the end of FY2023. These know-how should be useful not only for the Group but also for many other nursing care providers suffering from labor shortages. I think it is possible to contribute to raising the level of the whole industry while expanding our business by proposing the Group’s business model as a service on a subscription-basis (member) to other providers supporting frontline nursing care for joint use.

Utilization of RDP in various areas, such as disaster prevention & mitigation

We are also making advance in the area of disaster prevention & mitigation which has high affinity with P&C insurance. Many earthquakes, heavy rains, and typhoons struck Japan in recent years and employees all over the country are working hard to fulfill our responsibilities as an insurance group.

Also, we are preparing ahead in normal times at frontline nursing care for safety assurance and emergency evacuation to protect residents, and making thorough preparations so that we can respond promptly in the event of an emergency that is expected to affect the facility. And one of the most important things in dealing with disasters is to detect the danger as soon as possible and take effective measures. One Concern, Inc., a business partner of Sompo Japan, develops simulation technology that enables prediction of floods up to 72 hours in advance. The combination of this technology with the vast amount of data obtained through the Group’s approximately 20 million insurance policies should be a huge boost for practical application. Concrete plans are already being implemented, such as aiming to develop a flood prediction model for about 50 cities within this fiscal year. If cooperation with many local governments and companies realizes, evacuation instruction to local residents, damage prediction, disaster prevention planning in normal times, and sign detection will be enhanced and lead to better protection of invaluable lives and property.

In developing RDP, we will continue to bring service ideas into shape by assuming various situations, such as responding to the evolving society of autonomous driving and mobility, a mechanism to support farmers through global climate analysis, etc., and efforts to realize “healthy aging” where many people can live long and happily until the end of their lives.

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“My Mission” motivating each employee and SOMPO’s Core Values

It is definitely people that support Sampo’s business strategy. I believe that human resources are treasure of a company and important asset. During the COVID-19 pandemic, we promoted work from anywhere (WFA) to ensure employee safety first of all, and then made continuous efforts to improve work efficiency in the frontline. From now on, I would like to put a lot of effort into aligning the job satisfaction of each employee with “SOMPO’s Purpose.” I will encourage employees to think about what motivates them at work or in life, face “My Mission” derived from these, and think about how they want

to work and live. To support this as the Group CEO, I held a virtual roundtable discussion in front of about 1,000 employees who participated voluntarily. I was able to hear from employees with different jobs, background, and gender about their thoughts on each job and sympathy for focusing on “My Mission.” I expressed my honest feelings about the enthusiasm to serve the society and wanting to feel happy and grow through work, and felt that time passed in the blink of an eye. I will continue to communicate to employees the thinking behind “A Theme Park for Security, Health & Wellbeing” and “SOMPO’s Purpose.” And I will try to make each employee understand how they want to work, that is, what it means to deliver “SOMPO’s Purpose” when one sees the company and work as part of one’s life, and consider it as one’s own issue. This should increase job satisfaction and productivity in the frontline, and increase engagement. The Sampo Group aims to become a corporate group with the core values that each employee is driven by My Mission and produces maximum results by leveraging professionalism and diversity. True diversity and inclusion, and an inquiring mind fostered by it, are the sources of innovation and the driver to transform SOMPO’s corporate culture. With that driver, we can engage others, form various partnerships and grow together with society, which I am convinced of the mission SOMPO must fulfill.



New Mid-Term Management Plan (FY2021-2023)

Based on the above, we formulated a new 3-year Mid-Term Management Plan starting in FY2021. As for financial performance, we aim to achieve “adjusted consolidated profit of 300 billion yen or more and adjusted consolidated ROE of 10% or higher” which were set as a Mid-term targets in the prior Mid-Term Management Plan. To enhance the Group’s real profitability and capital efficiency, we thoroughly strengthened the business foundation of existing businesses and executed a large M&A with the Endurance Group (current Sompo International) in the overseas insurance business during the prior Mid-Term Management Plan period. We also decided to make a full-scale entry into the nursing care business, which was a difficult decision at the time, and vigorously worked on various transformations, such as being among the first Japanese companies to have a base in Silicon Valley and promoting digital business initiatives. As a result, adjusted consolidated profit hit a record high of 202.1 billion yen and adjusted consolidated ROE was 8.0% in FY2020, the final year of the Plan, and I believe that the Group’s foundation for growth to make a leap forward is finally established. We aim

to bring out the earning power of the Group to the maximum while improving capital efficiency in each business. We will also make concrete efforts, such as “new customer value creation” by building ecosystems across the boundaries of existing businesses and evolving into a solution provider making full use of RDP, and “new work style” continued from last year.

How the three years of this Mid-Term Management Plan are spent is extremely important for the future. It’s not just about achieving Group management targets and KPIs. I think it is important to make stakeholders fully understand through the accomplishment of this Plan how SOMPO will grow in the future, what makes SOMPO stand out in the market, and what expectations they can have, as well as enhance corporate value for the future. The Plan also incorporates strategies to unlock corporate value of the Group. While accumulating as much concrete evidence as possible, I will take the lead in efforts to garner empathy for SOMPO’s future and growth story, and to construct a narrative that is convincing to the society and market.

Conclusion

The Group is at a major turning point. Since becoming the Group CEO, I have always wanted to be told later on that “SOMPO used to be an insurance company” and I think we are at a crossroad. The Group will make a concerted effort to evolve from a traditional insurance group to a corporate group that delivers value to society through “A Theme Park for Security, Health & Wellbeing.” By delivering “SOMPO’s Purpose” in this way, we aim to become one of a kind

“SOMPO regarded as a valuable and indispensable entity” that will be needed in the future world. I would appreciate the continued support of all stakeholders.