IR Meeting Q&A (November 27, 2017)

– Progress of Mid-Term Management Plan –

Management Strategy/ Numerical Management Targets

Q: How likely are you to achieve your forecasts for FY2018 considering the changes that have happened to date, including the softening insurance market and the acquisition of Sompo International (formerly Endurance; hereinafter, “SI”)?

A: In FY2017, the domestic P&C insurance business underperformed its forecasts due to one-time factors such as natural disasters. Excluding these one-time factors, I believe that the numerical targets for FY2018 will be fully achievable. In the domestic life insurance business, we expect to increase earnings at a constant pace of around ¥4.0-5.0 billion a year on the back of the accumulation of policies in force so far. In the nursing care business, we now expect to achieve our numerical targets as a result of an improving occupancy rate. In the overseas insurance business, we are currently aggregating the numerical targets of each company and carefully reviewing them. We recognize that we could outperform our numerical forecasts, mainly based on the growth of SI.

Shareholder Returns

Q: The phrase “DPS (Dividend Per Share) growth” has been added to your shareholder return policy. Have you made any changes to your approach to shareholder returns?

A: There have been no changes to our approach to shareholder returns. When discussing shareholder returns in meetings of the Board of Directors, we have always made judgments by considering share buybacks together with dividend increases as an integral whole. In the current fiscal year, we conducted share buybacks. With regard to dividends, we recognize that the dividend yield could decline even if we increase dividends by ¥20 per share in the current fiscal year as planned, due partly to our strong stock price performance. Meanwhile, some major shareholders from North America and certain other regions have expressed the view that we should continue to give priority to share buybacks, based on the belief that the current stock price remains undervalued. Taking into consideration such feedback from the stock markets, we will determine the right balance between dividends and share buybacks by the end of the fiscal year.

Q: Will you cancel any treasury shares?

A: It doesn’t cost us anything to administer treasury shares, so the option of cancellation treasury shares does not offer any compelling benefits. In any case, we have no specific plans to cancel our treasury shares and to release them as well, at this time.

Capital Policy/ M&A

Q: The reduction of strategic-holdings stocks has the potential to generate a capital buffer going forward. With this in mind, could you please share your thoughts on the criteria for disciplined M&A activity?

A: Currently, the difference between our capital and the amount of risk is around ¥1 trillion. Apart from the reduction of strategic-holdings stocks, we recognize that we have a certain extent of capacity to issue hybrid bonds that could satisfy ratings and ESR requirements. In terms of our criteria for disciplined M&A activity, we will focus on factors such as whether the M&A is undervalued, and whether the M&A is a good match with our global platform, SI, and offers prospects for synergies with this company. In addition, the M&A targets will be P&C insurance companies, in principle, but we are also keeping a close eye on non-P&C insurance companies.

Q: There are many companies whose stock prices are rising as a result of inflows of funds into the stock market. You noted that you will be focusing on the post-merger integration (PMI) of SI in the current fiscal year. In considering M&As aimed at further growth from the next fiscal year onward, won’t it be difficult to find suitable M&A candidates that will surpass your hurdle rate?

A: The large inflows of funds into various markets have also become evident in terms of the softening P&C insurance market in recent years.

Meanwhile, it is generally believed that the recent hurricanes in North America will lead to capital outflows of around US$1 trillion. We believe that the P&C insurance market will move in the right direction. It will take a certain amount of time to develop SI's global platform, a unique strategy of Sompo Holdings, Inc., because we will need to integrate systems, corporate cultures, insurance underwriting and other aspects. We have continued to conduct specific research related to M&As. In any case, there has been no change to our policy of considering undervalued M&A opportunities, while maintaining discipline based on the hurdle rate and other criteria.

Domestic P&C Insurance Business

Q: What is your outlook for the expense ratio in the domestic P&C insurance business from FY2018 onward?

A: For now, the expense ratio is projected to remain largely flat, as we are making upfront investments, including outlays for a major reformation of our core systems and digital strategies. Further ahead, we expect the expense ratio to decrease as the effects of the upfront investments gradually materialize.

Overseas Insurance Business

Q: SI's net loss ratio has deteriorated. Has it worsened in specific insurance lines? You noted that SI is targeting +10-15% growth in net premiums written. What kinds of insurance lines other than crop insurance offer prospects for growth?

A: Although a worsening in the net loss ratio for certain policies has been a factor, our analysis shows that the main reason for the deterioration in the net loss ratio was a decrease in net premiums largely caused by the softening market. In anticipation of the trend toward a hardening market ahead, SI plans to reduce natural disaster risk (hereinafter, "CAT") in conjunction with driving growth primarily in the fields of specialty and casualty (other line) insurance. Earnings in these fields are generally resilient to fluctuations. However, in ordinary times when no major natural disasters occur, the net loss ratio for these fields tends to be relatively higher than the net loss ratio for CAT insurance.

Q: Did you incorporate the decrease in tax expenses in connection with the reorganization of SI, etc. into the M&A price?

A: In the course of the PMI process after the M&A, we decided to establish Sompo International Holdings Ltd. and liquidate Endurance Specialty Holdings Ltd., judging this to be the best option for building a global platform. The decrease in tax expenses in connection with the reorganization of SI, etc. arose solely as a result of this decision. These factors were not incorporated into the valuation of the M&A.

Q: Won't sales activities be hindered if the former Endurance companies are renamed as Agri Sompo and so forth and the Endurance name is not preserved?

A: The name Agri Sompo was given to the platform for applying SI's expertise in crop insurance. It is not a new name for a company. We believe that beginning the names of the companies with "Sompo" will not hinder sales activities.

Q: How far do you expect to raise premium rates for each insurance line next fiscal year, in response to the hardening market?

A: Although this can be looked at from many different perspectives, we could assume that premium rates could be raised by around 20% in CAT insurance, by around 15% in property insurance and by around 10% in casualty (other line) insurance.

Q: Could you provide an overview of the sale of Sompo Canopius?

A: When acquiring a company, Sompo Holdings Inc. will not merely leave the management of the acquired company up to the local management team. In the case of Sompo Canopius, we explored the option of keeping both Sompo Canopius, which is strong in the Lloyd's market, and SI, which is strong in North America, within the Group. However, given that the two companies' businesses have considerable overlap, we determined that we could stand to lose a lot by forcibly integrating Sompo Canopius into SI, which has superior profitability and expertise. With this in mind, we made a major decision to sell Sompo Canopius. In light of Sompo Canopius's profit contribution to date, we believe that no substantial losses have arisen as a result of its sale.