

IR Meeting Q&A (November 26, 2018)

Management Strategy/ Numerical Management Targets

Q: The forecast of adjusted consolidated profit after adjustment for domestic natural disasters did not reach the initial forecast of ¥220 - ¥230 billion which was announced when the mid-term management plan was formulated. What are the main reasons?

A: The main reason is that we conservatively included large losses in the forecast for the domestic P&C insurance business, based on actual results in the previous fiscal year and other factors. In other businesses, the progress is largely in line with forecasts.

Q: Will improving profitability become the main goal of the second half of the mid-term management plan (FY2019 to FY2020)? Do you really think it is possible to significantly improve profitability in the domestic P&C insurance business given the upcoming consumption tax hike and the amendment of the law of obligations?

A: Our goals will vary slightly depending on the business. In the overseas insurance business, Sompo International (SI) has achieved a rate-hike at a level above the current industry average. In addition, SI has increased its outward reinsurance centered on the underwriting of natural disaster risk, while curtailing retention of risk. Accordingly, we see growth prospects for increasing premiums when SI starts increasing retention of risk, and we believe that further growth in profits is possible. In the nursing care business and domestic life insurance business, we are focused on strengthening customer contacts. The domestic P&C insurance business is our driving force for generating cash flows. By continuing to effectively control expenses and others, we believe that we can improve profitability to a certain extent.

Q: Is there any possibility of allocating additional capital to areas other than the overseas insurance business?

A: We are considering business acquisitions, in addition to strategic investments in startups that contribute to qualitative evolution. We could conduct M&As other than overseas insurance companies based on the fundamental premise that the M&A improve capital efficiency.

Shareholder Returns

Q: Could you please share your thoughts on the shareholder return policy for the current fiscal year and for the second half of the mid-term management plan?

A: At the beginning of the current fiscal year, our shareholder return policy for FY2018 was to

allocate 50% of adjusted consolidated profit to shareholder returns as before, and to retain the remaining earnings internally. We are now reviewing this allocation balance, based on factors such as the impact of domestic natural disasters. For example, the level of capital in terms of ESR at the end of September was close to the upper limit for our target capital level, and this allowed for a certain capital buffer between the current level of capital and the lower limit for the target capital level. Even if we execute a large M&A deal comparable in size to SI, or if there is a disaster of a certain scale, I believe that we could still maintain an appropriate level of capital. In addition, given that prices and valuations have remained high in the current M&A market, we are cautiously considering investment opportunities. Next, let's look at shareholder returns for FY2018. Taking into consideration a comprehensive range of factors, including the matters I just described, we are discussing various options in meetings of the Board of Directors. One of the options is to maintain the actual amount of shareholder returns around the level of the previous fiscal year in conjunction with reducing the internal accumulation of profits. We will consider the shareholder return policy for the second half of the mid-term management plan based on a full range of factors, such as profits in FY2018 and the level of capital.

Q: If business performance is once again revised downward in the next fiscal year due to natural disasters, will you maintain your policy of not reducing the total amount of shareholder returns?

A: There will be no change in our policy. We are determined to maintain and possibly increase the total amount of shareholder returns as we pay out stable dividends.

Domestic P&C Insurance Business

Q: What is your assessment of the amount of the net incurred loss on domestic natural disasters in the current fiscal year?

A: In the past five years, we have reduced the amount of risk related to domestic natural disasters by around half through the use of outward reinsurance and others. Losses for the industry in FY2018 are expected to be around twice the level of FY2004, when natural disaster losses were the largest in recent times. In this context, our net incurred loss is forecast to be lower than the level in FY2004. My assessment is that our recent reinsurance strategy has functioned effectively to a certain extent.

Q: In light of the impact of domestic natural disasters in FY2018, could you please share your thoughts on your initial forecasts for next fiscal year, particularly the domestic natural disaster assumption, the provisioning rate for the catastrophic loss reserve, and the outward reinsurance

strategy?

A: Those matters are currently under review. First, with regard to the domestic natural disaster assumption, we feel that net claims paid have been increasing over the past five years. Therefore, we will probably need to consider setting this assumption conservatively. With regard to the catastrophic loss reserve, we will achieve our provisioning target within a certain time frame as we continue to make additional provisions at the current pace. Therefore, we do not expect to increase the provisioning rate at this time. Turning to the outward reinsurance strategy, we expect outward reinsurance costs to increase to some extent. However, given that reinsurance involves the arrangement of schemes based on complex combinations of policies, reinsurance premiums will not increase sharply. Management will consider various reinsurance schemes as it closely monitors earnings volatility and other factors. We plan to further optimize premium rates for the underwriting of fire and allied lines based on advisory rates.

Q: There has been progress on the development of packaged insurance product and services for automakers, for example, automakers forming tie-ups with certain insurance companies for specific models. Has there been any impact on your business?

A: We have seen these tie-ups before. In the past, automakers and insurance companies have teamed up to provide tie-up products such as automobile brand insurance. However, there have been no major changes, such as large movements in market share. Going forward, we expect any large impacts to come from more drastic changes in the market, such as the widespread adoption of autonomous cars and car sharing.

Overseas Insurance Business

Q: Organic growth in SI's top-line was reduced from an initial growth rate of 10% to a revised growth rate of around 6%. In the presentation materials, your mid-term organic growth rate target is between 10%-15% at SI from the next fiscal year onward. What is the basis for this outlook?

A: Based on SI's outstanding underwriting skills, we plan to continue to expand the underwriting business in specialty fields including crop insurance. Growth in this business will be driven primarily in Europe and the Americas, leveraging our insurance licenses in 30 countries. In addition, we believe that it will be possible to conduct further bolt-on type M&As and recruit additional underwriters. Therefore, we expect to achieve continued growth in SI's underwriting business. Moreover, with premium rates increasing for the past four consecutive quarters, there are now signs of a slowdown in capital inflows into the market. From the standpoint of profitability and risk management, SI has been increasing outward reinsurance and curtailing

retention. If premium rates continue to trend upwards, SI will be able to increase net written premium without much difficulty by executing a strategy of increasing retention. With this in mind, we believe that double-digit mid-term growth in SI's net written premium is well within reach.