

IR Meeting Q&A (November 25, 2020)

Management Strategy/ Numerical Management Targets

Q: In the next mid-term management plan running through FY2023, how much do you attach importance to the adjusted consolidated profit level of 300 billion yen, which have been set as a target for the early 2020s? Will the data business be positioned as an independent business unit?

A: We are putting strong emphasis on the adjusted consolidated profit level of 300.0 billion yen, and we will disclose the numerical management targets in May 2021. While the data business will assume the role of supporting each business from the perspectives of improving its resilience and efficiency, we intend to generate profits from the data business itself.

Q: What is the policy for M&As going forward? Are there any changes to the current policy?

A: In terms of cross-border M&As, we will continue to focus on specialty insurance lines in developed countries from the perspective of better capital efficiency and early profit contribution. Meanwhile, we are also considering new business investments that we anticipate will contribute to social issues and to profits in the medium term. We are discussing how to achieve a balance between the two in the framework of the next mid-term management plan.

Digital strategy

Q: How will you utilize the “Real Data Platform”?

A: Given the volume of real data and the impact of the solutions, we are considering giving priority to providing solutions in the nursing care business first. In the P&C Insurance business, it could be used for advanced and automated underwriting and for providing services that contribute to the prevention / mitigation of accidents and disasters. In the life insurance business, we are also exploring its use the “Real data platform” in areas such as health enhancement services. In addition, across the group, Palantir's software can be customized for use in decision-making in management and human resources.

Q: What are the competitive advantages in data acquisition and utilization?

A: We are oriented towards business based on "real data" analysis. The business model is fundamentally different from that of a recommendation-based business based on Internet data analysis and that of providing solutions based on real data. Each of our businesses serves as a point of contact for collecting real data, and by analyzing the obtained real data and providing solutions, we will realize our vision of a "Theme park of security, safety, and wellbeing". We are able to collect real data not only from the insurance business, but also from the nursing care business, and we are aware that there are not many similar companies in the world.

Q: Palantir's share price has been trending firmly. How do you perceive the ESR level to fluctuate significantly due to movements in Palantir's share price?

A: As Palantir's stock price has risen, the impact on ESR has been limited to a few percentage points, as unrealized profits have increased, but the amount of risk has also increased.

Shareholder Return

Q: With the ESR approaching the upper end of the target range, is there a possibility of increasing shareholder returns to adjust capital levels?

A: The shareholder returns to adjust capital levels should be considered in light of our risk appetites in the next medium-term plan and growth investments such as M&As. Considering the possibility of goodwill arising from future M&As and its deduction from capital, we do not believe we are in a position to immediately consider a capital level adjustment. In any case, assuming that the ESR level is permanently near the upper limit, we will present a more transparent policy on shareholder returns in the next medium-term plan.

Domestic P&C Insurance Business

Q: How fast does the reform on the profit structure reform progress in the Domestic P&C Insurance business?

A: We expect the effects of the profit structure reform to be about 19 billion yen for the full year of fiscal 2020. When we announced in November 2019, we estimated the total effect of the reforms to be about 60 billion yen before taxes, and we are currently making further efforts and examining the effects of the reforms. Specific figures will be presented in May 2021.

Overseas Insurance Business

Q: What is the background to the downward revision of profits in the Overseas Insurance business while the top-line revenue will increase significantly in fiscal 2020? Will the increase in top-line revenue in the current fiscal year lead to a contribution to profit in the next fiscal year?

A: The top line in the Overseas Insurance business is expected to increase substantially this fiscal year, partly due to rate increases of ca. 25%. On the other hand, in addition to the impact of COVID-19 and natural disasters, much of the increase in revenue is expected to be recognized as net premiums earned for the next fiscal year, which has led to a downward revision. Most of the increase in revenue this year is expected to contribute to profits in the next fiscal year onward.

Q: How will you control SI's natural disaster risk in the future?

A: SI was originally a reinsurer that mainly underwrote natural disaster risks, but recently it has been diversifying its lines of business by expanding its primary insurance business. We also recognize that crop insurance is primarily for drought and price decline risks and does not necessarily correlate well with natural disasters such as hurricanes. With the acquisition of Diversified Crop Insurance, a U.S. crop insurer, we expect SI crop insurance business to become more stable as it further expands in scale and diversifies in the future. In any case, SI as a whole has seen an increase in the number of policies for which it has been able to secure reasonable rates due to the progress of rate increases over several years, and we believe that lowering the ceded rate of policies going forward would enable us to achieve further organic growth and diversification of lines of business with better control our natural catastrophe risks.

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