

Conference Call Q&A (May 20, 2020) – FY2019 Results

Overview

Q: How has the result of adjusted profit for FY2019 improved against the forecast for FY2019 (128 billion yen) announced in November 2019?

A: The main factor was an improvement in the loss ratio of automobile insurance due to a decrease in the accident rate caused by the warm winter and less snow.

Q: In comparison with the plan of adjusted profit for FY 2020 announced in May 2019, does the business progress as expected except for the impact of COVID-19?

A: That's right. Though the cost of reinsurance protection in the forecast for FY2020 increased more than that in the initial plan due to the impact of domestic natural disasters for the last two years, there is no change in the plan since it will be offset by corporate management efforts such as profit structure reform.

Impact of COVID-19

Q: Does the initial impact of COVID-19, which is factored into the forecast of consolidated net income for FY2020 as the impact reasonably estimated with high certainty of occurrence (- 14 billion yen), include an increase in claims of SI's business interruption and surety insurance? If the duration of spread of COVID-19 is prolonged, does the impact increase proportionally?

A: The impact of the increase in claims of SI's business interruption and surety insurance is not factored into the current forecast for FY2020. On the other hand, additional impact based on provisionally estimated scenario (from 0 to - 30 billion yen) includes the potential impact on underwriting profit of SI. Any additional impact may vary depending on future conditions, and it may be less depending on the combination of positive and negative factors.

Q: In some cases, additional impact mentioned above may not occur, but what impact on underwriting profit of SI include into it concretely? Also, is there a specific insurance line that has a significant impact on the profit?

A: The impact on underwriting profit from SI is expected to be a certain amount and is included in the above additional impact. While SI underwrites surety insurance, license and permit products which are relatively less affected by COVID-19 are the primary lines. In addition, the amounts of event cancelation and business interruption insurance specifically covering pandemics are limited.

Capital Policy and Shareholder Return

Q: What factors made the total return ratio in FY2019 60%? Is there any possibility that the spread of COVID-19 will affect the execution of the share buyback?

A: Total return ratio was decided based on the fact that adjusted profit for FY 2019 increased compared to the previous fiscal year, there is no problem with the ESR level, and there is enough capital for growth investments. While there are uncertain factors such as the outlook for the spread of COVID-19, we believe that there is no problem with the execution of share buyback at this time.

Q: If additional impact of COVID-19 (- 30 billion yen) occurred, adjusted profit for FY2020 could be roughly unchanged from the previous fiscal year, but why would the dividend increase be planned?

A: Shareholder return policy of the current medium-term management plan is to continue increasing dividends, and considering the balance between the forecast of earnings and the total amount of dividends, it is possible to increase dividends as planned at this point.

Q: What factors has the ESR not declined from the end of FY2018 despite the deteriorating financial market?

A: It was due to the steady reduction of strategic holding stocks, reduction of foreign currency assets, and cautious investment stance toward credit risk.

Domestic P&C Insurance Business

Q: How much of the effect from the reform of strengthening profitability is included in the forecast of the core underwriting profit (Excluding the impact of domestic natural disasters and the impact of foreign currency reserves for outstanding claims) of Sompo Japan for FY2020? Is additional provisions in underwriting reserve related to natural disasters expected?

A: In the forecast for FY2020, the effect of the reform such as rate revisions, personnel optimization, and loss prevention, is expected to be about 20 billion yen. The impact of additional provisions in underwriting reserve related to natural disasters is limited.

Q: Given the decline in traffic since March 2020, is there a possibility that the loss ratio of automobile insurance in Sompo Japan will improve beyond expectations in FY2020?

A: Loss ratio of automobile insurance in Sompo Japan for FY2020 is expected to worsen, mainly due to the rebound of the warm winter in FY2019 and the impact of the revision of the Civil Code. While the accident rate has been decreasing recently, the possibility of a rapid increase in traffic after COVID-19 and the timing of the restoration of COVID-19 are unclear. Therefore, the impact of changes in the loss ratio of automobile insurance is not included in the forecast for FY2020, but included in the aforementioned additional impact.

Overseas Insurance Business

Q: Regarding the forecast of SI's top line for FY2020, you said that you expect market hardening and organic growth, but what are the expectations for a rate increase? Are there any negative effects under the circumstance where face-to-face interviews are difficult due to the effect of lockdown mainly in Europe and the United States?

A: SI expects around 8% increase in the rate for FY2020. Lock-downs occurred in Europe and the United States, but at present there is no significant impact on SI's sales activities which is typically conducted through brokers and has continued through electronic means such as video conferencing and audio calls.