IR Meeting (Overview of Overseas Insurance Business) Q&A (March 2, 2022)

General

Q: Mr. James Shea, new CEO, what were the motivation that led to your decision to become a member of SOMPO? What attracted you to SOMPO Holdings?

A: I have lived in Japan and was interested in Japanese society and business, but what made me decide to become a member of SOMPO was the vision of the CEO, Mr. Sakurada, which impressed me very much. SOMPO is already a large global player, but I believe we can enhance our presence further, and I am very excited that I have become a member of SOMPO, which is full of such opportunities.

Q: Mr. John Charman has retired. What's your view on the further growth in the future?

A: I am fully aware of Mr. Charman's achievements, and I would like to run the business based on the foundation he has established, while also being conscious of consistency. I, myself, have 25 years of experience in the industry and have built a wealth of knowledge and networks. Sompo International ("SI") is blessed with excellent people, so I would like to work closely with them to carry on the foundation that Mr. Charman has created.

Ukraine and Russia related risks

Q: I understand that you are underwriting aviation insurance and surety insurance. Is there any impact related to Ukraine and Russia?

A: The aviation insurance is mainly for small and light aircraft in the U.S., and the surety insurance is also mainly for the U.S. In general, underwriting of other risks in those regions is insignificant and is being managed appropriately.

Q: How much exposures to Russia and Ukraine do you have? What is your view on the impact of the situation in Russia and Ukraine, including indirect impacts?

A: We are closely watching a wide range of indirect impacts including financial markets, supply chains, inflation, and rising commodity prices, and will manage them appropriately according to the situation. Our investment portfolio is managed conservatively, focusing on dollar-denominated U.S. fixed income securities, and we have very limited exposures to Russia and Ukraine. Credit spreads are also widening, but the sensitivity is low and the impact is negligible.

Progress of Mid-Term Management Plan and future growth strategy

Q: The Mid-Term Management Plan calls for a combined ratio of below 90%. In light of the current environment, is there any need to revise the plan?

A: It is difficult to predict the impact of natural disasters, but we have taken and will continue to take necessary measures such as reduction of the property risk in North America. With the improvement of the terms and conditions of overall contracts, the loss ratio and the expense ratio are improving, and I am confident about the future improvement of the combined ratio.

Q: Toward your adjusted profit target for FY2023, are there any internal risk factors?

A: Generally speaking, internal risk factors should be challenges about culture, people or motivation, etc. But, I do not see any internal risk factors right now and have very high expectations for achieving the target.

Q: Please tell us about the path to get to the adjusted profit target for FY2023. Do you expect organic growth to be a main driver such as insurance underwriting and investments? Or do you think M&A is necessary to achieve the target?

A: The revised profit plan for FY2023 does not factor in inorganic growth from M&A. We will continue to pursue profit growth and geographic diversification through organic growth, but we will achieve the target by combining not only the top-line growth but also strengthening underwriting and other measures. Specifically, we plan to achieve further growth through specialty lines such as financial lines, surety insurance, credit lines, aviation insurance, and crop insurance. From geographic standpoint, we believe there is room for growth in Canada, Germany, Switzerland, Spain, and Southeast Asia, where our market share is small. We also intend to conduct M&A as opportunities arise. In terms of expanding regions and insurance lines and acquiring human resources, I believe that not only large-scale M&A, but also bolt-on M&A is important.

Q: Generally speaking, Japanese companies tend to be late in doing large-scale M&A and buy at high prices. What about the case with SOMPO?

A: I believe, up to date, SOMPO has done M&A at a right time and at a right price. Although potential targets have become expensive these days, I believe SOMPO should continue its M&A activities, emphasizing discipline. SI has conducted M&A with an awareness of not only stable medium- to long-term returns on investment, but also on the cultural and business fit. Diversified, which was executed last fiscal year, is one example of this. SI has reached the top player position in the U.S. crop insurance business through its medium- to long-term efforts over the past several years. Going forward, we will continue to pursue new opportunities with patience.

Responding to increasing risks such as natural disasters

Q: How are you mitigating natural catastrophe risk?

A: We are consciously reducing natural catastrophe risk by lowering underwriting limits and shifting to upper layers of its catastrophe reinsurance tower. At the same time, we are working to further diversify of our portfolio by increasing underwriting of non-natural catastrophe risks, which has led to lower profit volatility.

Q: If you take a look at the latest global situation, risks tend to become larger such as COVID-19 pandemic. What kind of impact do you see on your business in the medium to long term?

A: We recognize that we are seeing major challenges and changes in the market. In the insurance business, 20 years ago, actuaries calculated future loss projections based on historical long-term loss trends. Today, risk portfolio analysis has become more difficult. The insurance industry needs to adapt to challenges that may arise in the future, such as cyber risk, geopolitical risk, and climate change, and I recognize the importance of superior underwriting know-how, portfolio management, capacity deployment, and diversification. While our portfolio is solid, I recognize that further geographic diversification can be achieved, and I will continue to work on this with a medium- to long-term vision in mind. The external environment is changing at an unprecedented pace, but I also recognize that changes in the external environment are also opportunities, as we are making digital investments that contribute to improve our product development, distribution, business efficiency, and risk selection.

Q: Please tell us about the impact of inflation and how you deal with it. I think part of it is reflected in rate increases, but is there any possibility that it could lead to worsening of loss ratio in the future?

A: I think the rate increases we have seen over the past two to three years have outpaced the loss cost inflation including social inflation, and we are comfortable with our current underwriting portfolio. We will also review past contracts and reserve levels as appropriate, and we are also comfortable with them right now. When thinking about inflation, the level of reserves associated with the past contracts and the pricing level of new contracts are important. For accidents occurred in the past years, while also taking into account recent social inflation trend, we factor in the current and future inflation as we establish the loss reserves. Regarding new business, we are working to ensure that our rate levels remain high enough to reflect future inflationary influences ahead of time and to enhance profitability.

Others

Q: How solid is your cooperation with the Domestic P&C insurance business?

A: We work closely with the Domestic P&C insurance business on a regular basis to provide underwriting and service to our global clients. We are collaborating with the CEO of the Domestic P&C insurance business in all aspects of strategies including reinsurance and human resources development, and we hope to create further synergies. We will further expand cross-business initiatives in underwriting, underwriting capacity, reinsurance, and product development, leading to further progress of scale and diversification.

Q: Please tell us about the level of ROE of SI? Do you intend to allocate more capital if high growth continues in the future?

A: The ROE of SI Commercial has been slightly under 10% without debt leverage for the past several years, and we intend to raise it to over 10% while maintaining high growth over the medium to long term. On the other hand, SI Retail has not yet reached the level of SI Commercial, due partly to the restructuring of its business in Brazil, but it is expected to improve to an attractive level during the current Mid-Term Management Plan period. The adjusted consolidated ROE target of the whole group is set at over 10%. In addition, we have set a target for ROE by business segment starting from the current Mid-Term Management Plan. For the Overseas insurance business, the ROE by business segment is calculated using real capital, and the necessary capital is allocated in accordance with the growth plan. On the other hand, the Domestic P&C insurance and the Domestic life insurance businesses have surplus real capital, but given the situation where such surplus capital is allocated to growth investments of the whole group, ROE by business segment is calculated using virtual capital as the denominator in accordance with the amount of risk. Through the achievement of targets of ROE by business in each business segment, we will achieve the group adjusted consolidated ROE target of over 10%.

(End)