Conference Call Q&A (November 18, 2022) – 1H FY2022 Results

Capital Policy and Shareholder Return

Q: You put off an additional return this time. What is your approach for additional returns in the future?

A: For shareholder returns, the board of directors decided to maintain the dividend growth by 50 yen— the forecast as of the beginning of the fiscal year (initial forecast). At the same time, we had thorough discussions on a share buyback as well; however, given our latest performance, we have decided that we will make decisions in a flexible manner as we go toward the fiscal year-end. What we consider and discuss in deciding an additional return includes progress of growth investments, capital forecasts such as in ESR, the forecast for the second half of the fiscal year, the previous year's basic return (130.7 billion yen), one-time factors adjusting the business results, and the achievement rate of target ROE.

Domestic P&C Insurance Business

Q: What is the background of the loss ratio (E/I) of SOMPO Japan's automobile insurance, which is expected to decline over the second half of the fiscal year?

A: The loss ratio (E/I) of automobile insurance for the first half of FY2022 remained higher than expected, due to the effects of natural disasters such as hails and the typhoon Talas. The loss ratio (E/I) for the second half of the fiscal year is expected to remain lower than the first half because the said effects will be absent. In forecasting the second half, we have properly factored in the seasonality such as skidding accidents during the winter season, and forecasted more conservatively than the initial forecast, given the fact that the decline in accident rates due to the COVID-19 pandemic was smaller than expected in the first half, and higher-than-expected unit prices during the first half of the fiscal year.

Q: Do you have any room for rate (pricing) optimization in the next fiscal year onward? Large-scale accidents have been on the rise. What is your view on that as a trend?

A: We will have a rate (pricing) revision of the automobile insurance in January 2023. Our original plan was to lower the rates by a few percentage points. However, given the latest unit prices of payment, we have changed the course of revision to maintain almost the same rates. Nothing concrete has been decided regarding future rate revisions, and we will make decisions as we go along, keeping an eye on the status of unit prices and other factors. Since large-scale accidents under corporate contracts have been on an increasing trend, the plan was developed in a conservative way. Regardless of existence or absence of accident, we will continue to make progress on underwriting optimization. The overall fire & allied lines had a large impact from natural catastrophe, and the combined ratio exceeds 100%; therefore, we think, there is more to review. At this moment, however, a next rate (pricing) optimization is undecided.

Q: How likely is the Domestic P&C's target adjusted profit for FY2023 (150 billion yen) to be achieved?

A: We see that most of the gap between the E/I combined ratios for FY2023 target (91.7%) and the FY2022 full-year latest forecast (99.8%) will be eliminated, as the one-time factors disappear and the effects of earning structure reform, such as rate (pricing) optimization for the fire & allied lines, emerge. Meanwhile, we are aware that there are some uncertain elements, such as how the accident rates of automobile insurance, which were forecasted conservatively for FY2022, will turn out in the future. In any case, we will further increase our profit through growth of casualty (other) insurance, combined with productivity improvement supported by digital transformation (DX). Even if the Domestic P&C did not achieve 150 billion yen target in FY2023, we believe that as the Sompo Group, the adjusted consolidate profit of 300 billion yen, one of the numerical management targets, would be within our reach. It is because we have already factored in the top-line increase of the overseas insurance business and buffers for market fluctuations and exchange rate volatility.

Overseas Insurance Business / Domestic Life Insurance Business

Q: What are the points on the FY2022 full-year latest forecast for the underwriting income of SI Commercial P&C?

A: SI Commercial P&C increased the budget for the catastrophe losses from the initial forecast of $522 million to the latest one of $611 million, due partly to the impact of the hurricane Ian. The loss ratio is the same level as that of FY2017 when multiple powerful hurricanes hit. Thanks to the effects of portfolio restructuring, it accounts only for approximately one-third of then-net premiums earned. The adjusted profit of the total overseas insurance business keeps the initial forecast of 100 billion yen, due to improvement on investment profit and the off-setting effects of exchange rates (yen-depreciation effect), after factoring in the aforementioned effects on underwriting.

Q: The plan for the recoveries of the overseas insurance business and domestic life insurance business for the second half of the fiscal year seems to be significant. How will each business recover?

A: The overseas insurance business assumes an increase in underwriting income of 30 billion yen mainly due to higher net premiums earned, and partially due to growth of investment profit as drivers for the recovery. As for the domestic life insurance business, the base profit will recover because the impact of paid claims, etc. for COVID-19 will become smaller, due to the effects of changes in the deemed-hospitalization standards.