

Conference Call Q&A (May 20, 2022) – FY2021 Results

Capital Policy and Shareholder Return

Q: The dividend forecast for FY2022 was raised by 50 yen. Will you be able to maintain and increase the pace of dividend growth for the next fiscal year onward?

A: Given that the base profitability has been increasing steadily, we have decided to increase the pace of dividend growth to 50 yen for FY2022. Pushing forward “Scale and Diversification,” one of the basic strategies under the Mid-Term Management Plan should enable improvement in stable profit. The dividend policy for FY2023 onward is to be decided later, but we believe that the dividend growth by 50 yen is sufficiently achievable.

Q: Is the announced shareholder return of 58.0 billion yen part of the basic return policy and an addition to the buyback made in mid FY2021? What was the reason behind holding off additional return this time?

A: Your understanding of the 58.0 billion-yen share buyback is correct. We discuss shareholder return every quarter and make decisions, considering all factors involved including our growth investment appetite. We will continue to follow our shareholder return policy and have discussions in a timely and appropriate manner.

Q: Could you tell us your thoughts on future dividend policy?

A: If profit stability improves with greater risk diversification as planned in our strategy, it will allow higher payout ratio. We aim to maintain a stable payout ratio at the mid 30% level, and would like to look at the 40% range in the future. However, we do not have a fixed numerical target at this point.

Domestic P&C Insurance Business

Q: What caused the significant upswing in the actual adjusted profit of Sompo Japan for FY2021 compared to the forecast?

A: On the underwriting front, the FY2021 forecast assumed increase in accident rates and non-personnel expenses due to the resumption of economic activities, as part of the effects related to the COVID-19 pandemic. However, due to the spread of the Omicron virus, the decline in accident rates continued, and the non-personnel expenses, which we had forecasted rather conservatively, declined as well. These are major causes of the upswing. On the asset management side, increases in dividends from PE funds are the major contributor of the upswing.

Q: The FY2022 forecast for adjusted profit of Domestic P&C insurance is 120 billion yen, down 37.4 billion yen from the previous fiscal year. What are the causes of the change?

A: Regarding the underwriting profit of Domestic P&C insurance, the profits from the earning structure reform will partially offset the negative COVID-19 pandemic impact (increase in incurred loss of automobile insurance) and increase in operating expenses due to non-personnel expenses and advance investments. Regarding asset management, we expect that interests and dividend income from PE funds, which remained favorable in FY2021, will normalize.

Q: The forecast for Sompo Japan’s E/I combined ratio for FY2022 is 93.7%. How would you achieve the target in the Mid-Term Management Plan (91.7% in FY2023)?

A: We expect to achieve the target with top line growth, cost reduction through DX and improvement in profitability through the earning structure reform.

Q: Regarding profitability of Sompo Japan's automobile insurance for FY2022, what assumptions were used for the COVID-19 pandemic effect, specifically around resumption of economic activities, travel promotion measures and the effects of inflation on unit prices and labor costs for repair work?

A: As for the COVID-19-related effects, while economic activities resumes and demand for leisure recovers, we expect that business usage of car will not fully recover to pre-pandemic level, mainly due to the reform in work style; working from home more widely accepted and thus less commuting. We forecasted that the loss ratio of automobile insurance would decrease by about 3% from FY2019 (FY2021 actual was around 8% decrease). Regarding unit prices of repair costs, we estimated about 1-2% increase from the previous year, based on recent trends.

Q: The loss ratio (E/I) (excluding household earthquake and natural disasters) of Sompo Japan's fire and allied insurance for FY2022 is expected to decline to 46.7%. What is your assumption on reinsurance costs?

A: Loss ratio (E/I) (excluding household earthquake and natural disasters) of the fire and allied insurance for FY2022 is expected to improve by about 5 points, mostly attributable to rate optimization (improvement in pricing). Our plan is to continue to make progress on rate optimization in FY2022, which will contribute to the top line. On the incurred loss front, normal losses due to lightning strikes and damage/deface appear to be on an increasing trend. Even after taking that trend into account, we still expect the loss ratio to improve due to the effects of increases in net premiums earned. The reinsurance cost for FY2022 will remain around the same level as the previous fiscal year.

Q: What was the impact of foreign exchange rates on Sompo Japan's foreign currency reserves and losses in FY2021? Will the yen depreciation have a positive effect on the Group's total results in FY2022?

A: The negative exchange rate effect on Sompo Japan's reserves and outstanding losses in FY2021 was offset by the impact on foreign-currency assets such as foreign currency accounts receivable. To the Group as a whole, the FX impact was a 1.7 billion-yen increase in the yen based profit from the overseas insurance business. In FY2022, the yen based profit of the overseas insurance business will be affected by the exchange rates. As the depreciation in yen continues, we factored in an increase of approximately 5 billion yen to the FY2022 yen based profit due to the difference in exchange rate between the end of December 2021 and the end of March 2022, which is the rate assumption for the business forecast.

Overseas Insurance Business

Q: What is the assumption for the FY2022 forecast of the combined ratio of SI Commercial P&C (90.7%)? How did you factor in the effects of the Russia-Ukraine situation and inflation?

A: SI Commercial P&C has some exposures to trade credit insurance and aviation insurance related to Russia and Ukraine. Since, these areas are not our key geographic regions, the Russia-Ukraine situation has a limited effect on SI Commercial P&C and after examining relevant policies and we will likely book additional reserves of about 1 to 2 billion yen in 1Q of FY2022. As for inflation, we have already factored into the FY2022 business forecast approximately a few billion yen including operating and non-personnel expenses. At the same time, we expect that the past rate increases and premiums earned in the current fiscal year will exceed the increase in loss costs, and will result in a 3.2 points year-on-year decline in SI Commercial P&C's combined ratio for FY2022. We assumed a rate increase of 8% in FY2022, but our plan is to closely monitor the status of inflation and revise rates accordingly. As of mid Q1, we have successfully increased rates by 10%+.

Q: Due to the effects of the Russia-Ukraine situation and inflation, some are saying that the market hardening may last longer than initially expected. What are your thoughts on rate increase in the future?

A: With regard to market hardening, the trends of future natural disasters such as hurricanes need to be taken into account as well. The Russia-Ukraine situation and inflation may have a positive effect on our future rate increases.

Q: The FY2022 forecast of retention ratio (excluding US Agriculture insurance) for SI Commercial P&C is 68.8%. Do you plan to raise the retention ratio further if the rate increase improves profitability?

A: The retention ratio excluding US Agriculture insurance has already achieved the target level set in the Mid-Term Management Plan. In FY2022, we plan to raise the retention ratio to 66.0%, up 4.3 points year on year, by increasing the retention in the crop insurance. As for retention ratio in the future, our policy is to revisit the matter based on the status of rate increase and the level of combined ratio of each product line.

Q: Is the change in the composition of product lines the main contributor of SI Commercial P&C's improved combined ratio for FY2022? What are the product lines that are driving the top-line growth? Is there a premise in the forecast that overseas natural disasters will decrease in FY2022, compared to the previous fiscal year?

A: In SI Commercial P&C, casualty (such as liability insurance) and specialty lines are the growth leaders, and the effects of past rate increases are expected to contribute to net premiums earned for FY2022. Regarding overseas natural disasters, FY2021 actual was 53.4 billion yen and FY 2022 forecast is 64.0 billion yen, which takes into account the increase in overall net premiums written.

Q: What are the effects of commodities price increase on the crop insurance?

A: The commodity price increase will contribute to the top line of crop insurance. There may be additional positive effects from increases in commodity prices influenced by the Russia-Ukraine situation.

Q: What is the background of the outlook that the expense ratio of SI Commercial P&C for FY2022 will be lower than the plan figure given in the initial Mid-Term Management Plan?

A: The expense ratio remained lower than the level set in the Mid-Term Management Plan as a result of our continuous expense control primarily of G&A expenses. For FY2022, we expect a certain level of increase in G&A expenses, partially due to inflation effects. Still, we foresee that the total expense ratio will continue to decline.

Q: Financial markets have been increasingly volatile since early 2022. How did you factor in the effects of interest rate and exchange rate fluctuations in the forecast?

A: Since the asset duration of SI Commercial P&C, about three years, is short, the impact of interest rate fluctuations is not significant. The foreign exchange rate assumption for the FY2022 business forecast is based on end of March 2022 rate.