May 25, 2012 IR Meeting Q&A

Automobile Insurance

Q. What impact will revisions to the non-fleet driver rating system in automobile insurance have on insurance payments?

A. We believe that revising the rating system will have some impact on the occurrence of losses going forward. Based on current estimates, we expect underwriting results at both Sompo Japan and Nipponkoa combined to improve by around 10.0 billion yen in fiscal 2015. However, the current management plan does not factor in this improvement, and is based on the assumption that current levels of losses will persist. Going forward, we will look at this matter closely and consider reflecting the projected improvement in the management plan.

Q. Do you believe that revising the non-fleet driver rating system alone is a sufficient countermeasure? Do you plan to implement additional measures to deal with losses?

A. To set premiums at appropriate levels, we have continued to raise premiums over the past two years. However, more time is needed before the benefits of the premium increases become apparent, partly due to the impact of installment payments. In terms of countermeasures other than revising the rating system and premiums, we will continue to strengthen underwriting operations, where automobile insurance policies originate. Meanwhile, to address the final stages of insurance, we will steadily work to optimize insurance payments, such as by forming tie-ups with prime auto repair shops, which have a certain positive impact on optimizing unit repair costs. We will also strive to reduce the number of auto accidents.

Q. The loss ratio for automobile insurance is projected to improve. Will this improvement happen faster after the two P&C insurance companies are integrated?

A. There might be a slight positive impact as a result of the merger, such as increased bargaining power for unit repair costs covered by insurance payments along with more insurance agencies that conduct strict and appropriate underwriting. However, we do not believe that the merger will make a sizable difference in the rate of improvement, relative to the market.

Capital Structure and Overseas Business

Q. You have revised the calculation method for the solvency ratio based on internal standards. Does the new calculation method conform to EU Solvency II? Specifically, the confidence level for the amount of risk is 99.95%. Why is this different from EU Solvency II?

The solvency ratio, for which we have revised calculation methods, is based on the same assumptions as EU Solvency II / QIS5. The confidence level of EU Solvency II is 99.5%. However, we are implementing risk and capital management with the goal of restoring our AA rating. For this reason, we are measuring risk using a confidence level of 99.95%.

Q. Do you believe that your current buffer is adequate? If you reduce your equity risk, where will you allocate the corresponding buffer?

A. Whether or not the current buffer is adequate depends on how you see our future business plan. At this time, we don’t believe that there is a shortage of capital in the life insurance business. Accordingly, the buffer will be allocated overseas.

Looking at possible sites for overseas business expansion, we are considering regions where we are familiar with local conditions, regions where we already have an operating base of some kind, and developed countries that already have well-established disclosure systems. When entering emerging countries, we must clearly separate the objective of entering these markets from the purpose of entering developed countries.

We aim to enter emerging countries with a focused target, such as capitalizing on the expansion of local markets or capturing growth in automobile insurance. In contrast, the purpose of entering developed countries will be to diversify earnings. Also, we have no intention of relying solely on M&As. Rather, we will consider our course of action based on the perspective of determining the optimal means of achieving our targets.

Q. Can I correctly assume that NKSJ has adequate capital to implement overseas M&As and that no major M&A deals will emerge until this fall?

A. It is difficult to give a clear answer at this time. Also, we do believe that spending the remaining amount of 150 billion yen should not be coming first.

To supplement this discussion with quantitative data, NKSJ currently has a buffer of 400 billion yen. We believe that the execution of an overseas M&A of around 150 billion yen would increase our risk exposure by around 70 to 80 billion yen. Meanwhile, the reduction of 100 billion yen in strategic-holding stocks would create an additional buffer of more than around 30 billion yen. We aim to balance both of these factors as we proceed with various measures.

Strategic-Holding Stocks

Q. Wouldn’t selling strategic-holding stocks diminish the diversification effect, resulting in an increase in underwriting risk? Could you please go over your future approach to managing underwriting risk and related methodologies?

A. Underwriting risk could increase as a result of a decrease in the diversification effect. However, we believe that insurance companies should ideally generate profit by properly taking on underwriting risk. Although we could have done more to manage the flooding in Thailand, we believe that we have adequately managed the risk of major natural disasters. Based on the lessons learned from the Thai floods, we are now launching an ERM system.

Q. What is your approach to damage control with respect to underwriting earning, as you sell more strategic-holding stocks?

A. We believe that it is important to consider the purpose for which corporate customers are seeking insurance. In recent times, risk protection methods such as captives, derivatives and so forth have become available. We believe that increasing our ability to provide such solutions will lead to damage control. Another means of damage control will be to fulfill the role of an alliance partner by linking our customers' core business with the NKSJ Group's service operations.

Q. Could your equity portfolio become biased toward specific sectors as a result of the sale of strategic-holding stocks?

A. Our first priority is to reduce the amount of strategic-holding stocks as a whole. We will give consideration to the possibility that biases toward specific sectors could consequently emerge in the portfolio as we proceed with the sale of these stocks.

Management Plan

Q. Under the "Five Challenges," NKSJ has positioned "Become Japan's Best in Terms of Customer Evaluations" as its most important strategic objective. Have you defined how to assess those evaluations? How do you think achieving this objective will contribute to your earnings?

A. We want to emphasize that this is a strategy, not a slogan. We are using objective indicators as assessment methods. We are making quantitative assessments by using a large number of indicators, including evaluations from third-party agencies, the number of complaints filed with the General

Insurance Association of Japan (comparison with other companies), questionnaires, and the number of days needed to process insurance payments.

We believe that this strategy will contribute to earnings given the importance of having customers feel that the price they pay justifies the value they receive. This is especially true in the current environment where there are no prospects for significant market growth, and to avoid price-based competition when it is difficult to differentiate products.

Furthermore, the NKSJ Group has around 20 million customers. Based on questionnaires, we have found that there are customer needs for services related to health, peace of mind, and security. By having customers feel that the NKSJ Group is a good and reliable company, we believe that we can offer fare-paying services according to certain customer needs, which could lead to new earnings streams. To ensure that the NKSJ Group can develop in these ways, we see the goal to "Become Japan's Best in Terms of Customer Evaluations" as our most important strategic objective.

Q. In FY2013, NKSJ could post a net loss, given the absence of the gain on reversal of catastrophic loss reserve recorded in FY2012, and persistently high system costs for the next 3 years, as stated in previous forecasts. Selling strategic-holding stocks is one option for covering these negative factors. Do you plan to increase and accelerate the sale of these stocks?

A. Considering system costs in FY2012, integration costs in FY2013, and positive impacts that would disappear in FY 2013, we might very well have to increase and accelerate the sale of strategic-holding stocks in order to generate earnings. The amount of sales of strategic-holding stocks could differ from the past three years. The key issue is how to minimize the negative impact on earnings in the corporate sector. After close consideration, we plan to announce our target for sales of strategic-holding stocks this fall.

Q. What is your current rough estimate of targets for the domestic P&C insurance business for FY2015?

A. In the medium-term management plan announced in September 2011, the NKSJ Group projected adjusted consolidated profit of 81 billion yen for the domestic P&C insurance business in FY2015. However, this target assumes a 5 percentage point improvement in the combined ratio. Because the targets announced in September 2011 do not reflect merger plans, we are currently revising our targets to reflect the merger. We plan to announce the new targets this fall.

Q. Can I assume that the new costs to be incorporated into the targets will be merger-related costs? I believe that negotiations with labor unions concerning salary levels and other issues will become an issue. Have you made progress on these talks?

A. Although the merger was not decided as of September 2011, our plan was to reduce personnel based on the co-location of functions and assignment of concurrent duties, based on a one-platform, two brands structure. Although we will incur additional costs as a result of the merger, we may be able to reduce some costs. We are currently reviewing these costs. Also, we intend to conduct labor negotiations carefully and diligently.