May 28, 2013 IR Meeting Q&A

Domestic P&C Insurance Business

- ◆ My question concerns the effective merger you discussed earlier. Looking at past mergers in the P&C insurance industry, there has been a tendency for the insurers' market share to decline slightly after mergers. When implementing this effective merger ahead of the full merger, what do you think will be the timing of any market share adjustments, and when will these adjustments come to an end?

Sompo Japan and Nipponkoa have already made progress with management integration and the effective merger, so the two companies will not be merging all at once. Although we cannot rule out the possibility that the market shares of the individual companies may be adjusted, we believe that on the whole there will be almost no impact. It is difficult to predict at this point whether or not we will see market-share adjustments take hold at a faster pace following the official merger. At the very least, in commercial lines, we believe that the impact of reducing strategic-holding stocks on insurance underwriting warrants more caution than the impact of market-share adjustments due to the merger. That said, the impact of reducing strategic-holding stocks has been limited at this time.

Domestic Life Insurance

- ◆ New business value on an EV basis has increased, while annualized new premiums for high-margin third-sector insurance have decreased, partly reflecting a drop from the high growth rates seen to date. Could you please share your thoughts on the future product mix, and your policies for achieving sustainable growth in the life insurance business?

The cross-selling ratio between the life insurance and P&C insurance business has remained at just over 6%. To attain sustainable growth in the life insurance business, we intend to further step up collaboration with the P&C insurance companies. Since the merger of the life insurance companies, we have seen a particularly high growth rate in the Nipponkoa sales agent channel. Going forward, we would like to harness this growth to drive further expansion. One of our priorities is to lay a strong foundation over the next few years.

In addition to NKSJ Himawari Life, whose business is centered on the sales agent channel, NKSJ Holdings has Sompo Japan DIY Life, which conducts direct marketing that enables it to approach a more expansive range of customers. In the long term, we also seek to capture synergies in the life insurance business by leveraging the strengths of these companies.

Overseas Insurance Business

- What are the reasons for the lower earnings forecasts for the current fiscal year? In addition, you said that you want to be seen by outsiders as conducting overseas insurance business skillfully. Could you discuss this point in more detail?

The main reasons for the lower earnings forecasts are the anticipated integration costs that will be incurred, as well as a greater-than-anticipated decrease in overseas interest rates on the whole. In the overseas insurance business, we know what we need to improve upon based on our experience to date, and we are aware of the key issues ahead. Accordingly, we aim to steadily generate returns after amortization of goodwill in regions we know well. We aim to expand the overseas business based on a management philosophy emphasizing profitability, not just the amount of earnings.

Asset Management

- You said that you drastically reduced strategic-holding stocks in FY2012, and also that you aim to continue reducing these stocks by the roughly the same amount in FY2013. It follows that the proportion of stocks in the general account (34% as of March 31, 2013) can be expected to decline. What is your target level, if any, for the proportion of stocks in the general account? Furthermore, assuming that you continue to reduce strategic-holding stocks as planned through FY2015, what impact will this have on the risk amount in terms of the solvency ratio on an economic value basis?

You will note that we have disclosed our adjusted consolidated net assets. As we reduce our stocks, we also have a policy of keeping stocks within a fixed percentage of adjusted net assets. For example, we might keep our balance of stocks within 70% of adjusted net assets of P&C business.

In regard to the amount of the reduction in strategic-holding stocks, we reduced strategic-holding stocks by 370 billion yen from FY2010 to FY2012, against our reduction target of 300 billion yen for the same period. Over the next three years from FY2013, we aim to continuously reduce strategic-holding stocks with nearly the same amount of reduction in mind. On a single-year basis, we are targeting a reduction close to the actual amount of 197.8 billion yen that we achieved in FY2012.

Next is the risk amount in terms of the solvency ratio on an economic value basis. To give you a rough idea, the risk amount will be reduced by approximately half the amount of reduction in strategic-holding stocks.

Shareholder Returns

- NKSJ Holdings plans to conduct share buybacks equivalent to 20 yen per share, in addition to paying an annual dividend of 60 yen per share. When you announced this policy last year, I believe that you explained that you would also consider going back to paying dividends instead of buying back shares depending on market conditions and other factors. How does your thinking stand at present?

As we disclosed previously, our basic shareholder return policy is to return to shareholders 50% of adjusted consolidated profit over the medium term, excluding the domestic life insurance business. Although NKSJ Holdings was in the red for the first two years since its founding, the Company consistently paid a dividend of 80 yen per share. One reason why we have decided to buy back our shares at this point is that we believe that our stock price is low.

In regard to shareholder returns for FY2012, we have decided to conduct stock buybacks equivalent to 20 yen per share as soon as possible, in addition to paying a dividend of 60 yen per share. In regard to shareholder returns for FY2013, we have announced an annual dividend forecast of 60 yen per share, including an interim and year-end dividend of 30 yen per share each. However, we have yet to make an official decision on stock buybacks. We intend to discuss shareholder returns within the Board of Directors and other forums once we have a clearer picture of business performance for FY2013, such as when we announce interim results. As for decision-making criteria, we will consider the status of investment projects, in addition to business results and capital. Moreover, we will also make decisions based on the market's evaluation of our stock buybacks, which is the first since our management integration.

In FY2014, the merger of the two P&C insurance companies will give rise to the Japan's largest P&C insurance company in terms of net premiums written. In light of this development, we will certainly give positive consideration to dividends as we would like to retain the support of our shareholders.

Consumption Tax Hike

- If the consumption tax hike is officially approved this autumn, I think you will start to see an impact from FY2014. What is your estimate of the amount of this impact? Could you please explain any measures designed to offset the impact of the consumption tax hike?

We estimate that the increase in the consumption tax will have an impact of around 35.0 billion yen on the entire group. In the P&C insurance business, the consumption tax hike will impact on commissions paid to sales agents, as well as insurance payments to cover automobile and home repair costs. As with the P&C insurance business, the life insurance business will also see an impact on commissions paid to sales agents.

As with previous responses by P&C insurance companies to past consumption tax increases, we will adjust premium rates in line with profitability when the consumption tax is increased. In our mainstay automobile insurance business, we have seen improvements in some quarters as we have progressively reviewed premium rates, such as by revising the non-fleet driver rating system. In this context, while we will make in-house efforts to improve profitability, if we are unable to absorb the higher costs from the consumption tax increase and we find that this hinders the improvement of profitability, we will consider the option of transferring the higher cost to premium rates. We will consider our policy on responding to the consumption tax increase from next fiscal year onward by comprehensively examining the impact on account profitability and other factors.