Question and Answers from November 26, 2013 IR Meeting

Domestic P&C Insurance Business

Q: The combined ratio has declined faster than anticipated but it is expected to rise by 3 points due to the consumption tax increase. As countermeasures, it seems that action can be taken with both insurance premiums and operating expenses, but could you please explain your thoughts at the present time? Also, the increase in consumption tax has been decided, so don't you intend to revise your numerical management targets?

A: Against the backdrop of improved profitability in automobile insurance, the overall combined ratio is tending to improve. The impact of the consumption tax rise has not been factored into the medium-term management plan, but if the tax increases 5% then the impact is estimated to be around 35 billion yen (after tax). Insurance premiums themselves are not taxed in principle, but claims paid and operating expenses will be impacted by the consumption tax increase. As a result, I believe that this could lead to premium rate revisions in the future. In our mainstay automobile insurance business, we have revised the driver rating system and so we are seeing a declining trend in small-size insurance claims. Nevertheless, at present we are not seeing any effect of the revision on insurance premiums, and we intend to decide whether or not to revise numerical management targets after analyzing this factor and so on. At the present time, we do not plan to revise our management plan targets because of the consumption tax rise. We want to examine the necessity of adjusting insurance premiums, and take action if necessary, after closely observing the impact of the revision of the driver rating system.

Q: From the long-term perspective, what will be the impact of the innovation of automated driving on profitability in the automobile insurance business?

A: The total impact of automated driving at the present time is unclear. From the standpoint of an insurance company, I believe there will be significant changes in the type and quality of risk. For example, there is the matter of whether the responsibility for an accident lies with the driver or with the automobile maker. If the automobile maker is responsible, the loss from the accident may be covered by product liability insurance. In some cases, the accident may not fall under insurance at all. Furthermore, there are still people who like to drive non-automated vehicles and so for some time we will see a mixture of automated and non-automated vehicles on the roads. We really cannot say if there will be an increase in automobile accidents. At the present time, I don’t believe that automated driving will immediately lead to lowering of insurance premiums.

As regards the effect of curbing the number of accidents related to accident avoidance support systems, we are on the data collection phase. This needs some time, partly because it takes long time to amass data until law of large numbers works.

Q: I know you have made some preparations and schedule for the merger of the 2 P&C insurance companies, and I would like to hear the positive and negative aspects of these matters. Also, what are the reasons that you have revised forecasts for both the merger synergies and the one-time merger costs?

A: I believe that the largest positive impact has been in the area of personnel. It is very significant that we have early-on decided such posts as those of the directors and branch managers. Moreover, we have been able to create a fair and open personnel system. As a result, we have clarified the company's direction and removed any employee apprehension, thereby moving on to the stage of being able to tackle concrete issues.

We have upwardly revised our forecasts for both the merger synergies and the one-time merger costs. As regards the increase in one-time merger costs, we are recognizing additional costs of 5.7 billion yen related to our call for additional voluntary early retirement, and there are costs related to the merger of branches ahead of schedule. As regards the merger synergies, the effect of the voluntary early retirement carried out last fiscal year should result in synergies related to personnel costs.

Domestic Life Insurance Business

Q: Last year’s trend of a decline in annualized new premiums from new business has continued even for third-sector insurance. Please talk about the background to this. Also, what are the possible measures to take to strengthen channels, and what policies are you actually carrying out?

A: The competition is intensifying, including for third-sector insurance. From this year, we will probably see some companies reduce their medical insurance premiums.

As regards sales strategies, we are further strengthening the P&C channels, which are our strengths, and we are pursuing alliances between P&C companies and life insurance companies. As regards price strategies, there is the case where there has been no change for five years in the insurance premiums of some key products of

NKSJ Himawari Life, but we are now at the stage of examining the possibility of lowering them.

Furthermore, with our two P&C insurance companies, our sales targets are based on the combined figures for the two companies, and we expect further benefits from the merger from the perspective of being able to strengthen the P&C channels.

Overseas Insurance Business

Q: What, if any, indicators of profitability are there in the assumed reinsurance business, such as underwriting profit in the overseas assumed reinsurance business?

A: We plan to improve the combined ratio by 2 points through expansion in the assumed reinsurance business. We forecast that we can guarantee profitability to a certain extent. Earnings will fluctuate because of risks associated with natural disasters, but our forecasts have been normalized to factor this in.

Management Plan

Q: You have made a head start toward achieving your medium-term management plan—which business has played a larger role in this: the domestic P&C insurance business, domestic life insurance business or the overseas insurance business?

A: In order to expand our Group's top line and bottom line, I believe we must increase the percentage of overseas insurance business. However, from the viewpoint of strengthening our foundations, we must continue to implement initiatives in the areas of domestic P&C insurance and domestic life insurance.

Uncertain factors in the domestic P&C insurance business include the consumption tax rise and the increase in unit repair costs. However, I believe that the situation has bottomed out and we should be able to secure profits of around 5%.

In domestic life insurance, I feel that the price competition has started at a speed faster than anticipated. In order to avoid creating a bottom line problem, we will carefully examine the price aspects. Moreover, I believe that regional banks possess great strengths as sales channels, and this possibility will increase in the future.

As regards the conditions in the P&C market, there seems to be a trend shifting away from price-sensitive. In fact, Saison Automobile & Fire is also performing well, and this is not just because of its prices but also because there is an increasing trend toward favoring a good quality of customer service.

Capital Management Policy

Q: Over the long term, PBR is hovering below 1x—What do you think is the biggest cause of the discount?

A: The important point to realize as regards improving PBR is that the only way is to improve ROE. Even insurance companies in Europe and the U.S. as typified by Allianz, had periods when their PBR fell below 1x. My understanding, however, is that they too followed the textbook, so to speak, and steadily attended to the basics. And I want our Group too to improve our corporate value by steadily implementing the basics, namely, the matters described today.

Q: What level of ROE do you anticipate from fiscal 2015? Also, is it possible that the combined ratio will improve below 95%?

A: In the medium- and long-term, the numerical target for ROE is to exceed 7%, aiming to achieve double digits. At the same time, I believe that 90-95% would be a reasonable level for the combined ratio based on such perspectives as the public nature of the P&C insurance business. With the assumption that the combined ratio is 95%, ROE would not reach 10% or more, but I want us to achieve it through initiatives outside the insurance business in the financial business and service businesses. This is the background to my intention to expand as a service enterprise.

Shareholder Returns

Q: Could you please share your thoughts on the conditions for increasing the dividend in the future, and on the balance between making shareholder returns through stock buybacks or through dividends?

A: Although it does not have the certitude of a mathematical calculation, basically we will pay a stable dividend while maintaining a payout ratio of 50% on an adjusted profit basis after deducting life insurance. By increasing the adjusted profit centered on the domestic P&C insurance business, we intend to raise ROE and expand the shareholder returns fund. At the same time, there is a discussion about how much longer life insurance profits should continue to be subtracted from the source of funds for shareholder returns. If the Embedded Value clearly contributes to accounting-basis profits, I feel that this might somehow be a way to provide additional returns calculated by multiplying life insurance profits by a certain coefficient.

As regards stock buybacks, we will decide whether to conduct them on a case-by-case basis after looking at the profits and risk buffer circumstances. For example, if we acquire an insurance company of around 150 billion yen size and PBR of around 2x, the risk buffer should be decreased by around 100 billion yen. On the other hand, with the reduction of strategic-holding stocks, risk should be lowered by nearly 40% of the monetary amount reduced. In addition, we intend to decide about stock buybacks along with each individual management issue, including as responses to the impact of amended driver rating systems and the consumption tax increase.

Q: Is it correct to expect that the amount of stock buybacks will exceed last year's figure of 8.3 billion yen?

A: We should recognize that the stock buybacks of 8.3 billion yen carried out are equivalent to a dividend reduction last year of 20 yen per share. Although we will not disregard the past record at this stage, I do not think there is any upper limit to the monetary figure.