November 19, 2014 IR Conference Call - FY2014 Interim Results Q&A

Trend of Business Results

Q: How likely are you to achieve your adjusted profit target for FY2015?

A: The domestic P&C insurance business is already projecting adjusted profit of more than ¥60.0 billion in FY2014 against the FY2015 adjusted profit target of between ¥70.0 and ¥80.0 billion. The overseas insurance business is also projecting adjusted profit within range of target, so we are making steady progress against our adjusted profit targets. Therefore, we believe that we are now even more likely to achieve our FY2015 targets.

Q: What monetary impact will the reduction in corporate income taxes have on profits? Won't this reduction affect adjusted profit?

A: Every one percentage point reduction in the corporate income tax rate will have a negative impact of around ¥10.0 billion on profits for the group as a whole. When corporate income taxes were reduced previously, the impact was excluded from adjusted profit as a special factor.

Domestic P&C Insurance Business

Q: In your full-year business forecasts, the written paid loss ratio, excluding domestic natural disasters, is projected to improve. However, the earned incurred loss ratio is projected to be higher than the written paid loss ratio. Could you please explain the factors behind this difference?

A: The projected improvement in the written paid loss ratio is based on improving profitability centered on automobile insurance. On the other hand, in regard to the earned incurred loss ratio, we anticipate an increase in the outstanding loss reserve in fire & allied lines insurance and marine insurance based on growth in overseas assumed reinsurance and the yen's depreciation. We also expect to incur large losses in step with the large insurance policies we have steadily won in miscellaneous insurance categories since the previous fiscal year. In addition, we are assuming only a small decline in the outstanding loss reserve in automobile insurance, despite a large projected decrease in automobile insurance claims paid. These factors are behind the difference between the written paid loss ratio and the earned incurred loss ratio.

Q: Looking at your assumptions for the catastrophic loss reserve in your full-year business forecasts, you were initially forecasting a net reversal of ¥16.5 billion, but you have now revised your forecast to a net reversal of ¥1.3 billion. This has had a negative impact on underwriting profit. Could you please tell us how much of this impact will bear on automobile insurance?

A: We were initially forecasting a ¥1.0 billion provision of the catastrophic loss reserve in automobile insurance. However, we revised our forecast to a ¥21.0 billion provision of the catastrophic loss reserve. Therefore, we expect the cost burden to increase by ¥20.0 billion.

Q: While your full-year forecast for the company expense ratio is lower than the previous fiscal year, the projected net expense ratio is unchanged year on year. Could you please tell us what factors are at play?

A: The main factor behind the decline in the company expense ratio was lower personnel costs, reflecting efforts to systematically streamline personnel since before the merger. On the other hand, the commission ratio increased, mainly as we captured demand from insurance categories with a relatively high commission ratio, such as overseas reinsurance.

Q: Net expenses have started to come down, with a projected decrease of almost ¥20.0 billion from the first to second half of the current fiscal year. Can I correctly assume that the merger benefits are starting to appear?

A: We are projecting savings of approximately ¥30.0 billion from reduced net expenses from the merger by FY2014, compared with FY2011. Since the savings of around ¥18.0 billion have appeared through FY2013, we expect savings from reduced net expenses to be approximately ¥12.0 billion in FY2014.

Q: In your revised full-year business forecasts, you have increased projected one-time merger costs from ¥78.0 billion to ¥80.0 billion. In the previous plan, you were forecasting one-time merger costs of ¥75.0 billion. Could you please explain the difference?

A: We announced projected one-time merger costs of ¥75.0 billion in November 2012, when we drew up the plan. The difference from the initial plan can be put down to the impact of the increase in the consumption tax and slightly higher system development costs. The difference of ¥2.0 billion we announced reflects actions to reinforce our help desk and other measures to ensure steady implementation of the merger in September, along with printing costs and other expenses to issue various types of related notices. All in all, we have been making progress largely in line with the initial plan.

Overseas Insurance Business

Q: You said that you are expanding assumed reinsurance, but does this mean that you have changed your reinsurance scheme? Could you tell us what kinds of reinsurance policies you are bringing in?

A: We have not necessarily changed our reinsurance scheme. During the current management plan period, we are increasing underwriting of ordinary overseas risks, among other risks, mainly for the purpose of diversifying risk, which is excessively concentrated on natural disasters in Japan.

Q: Canopius is forecasting net income of ¥7.9 billion for the full year. To what extent will Canopius contribute to consolidated net income after the deduction of goodwill?

A: Canopius is forecasting net income of ¥7.9 billion for the full year, and the deduction of goodwill is estimated to be approximately ¥1.1 billion. However, realized gains and other items of ¥3.0 billion booked before the acquisition in May 2014 had already been reflected on the balance sheet in the first quarter. Accordingly, this amount was adjusted for in the consolidated accounts.

Investment

Q: Investment profit has improved in your revised full-year business forecasts. However, this improvement cannot be explained solely by increases in net interest and dividend income and capital gains. What other factors are involved? Are hedges used to reduce strategic-holding stocks?

A: We expect foreign exchange gains and losses to be ¥7.5 billion higher than the previous forecast. Of this amount, nearly ¥3.0 billion represents gains on the sale of foreign currency-denominated funds and other assets, with the remainder representing the impact of changes in foreign agency accounts receivable and related factors. The rest can be explained by a decrease in impairment losses on securities.

The reduction in exposure of strategic-holding stocks during 1H FY2014 was ¥42.9 billion. Of this amount, the sale of stocks accounted for ¥30.5 billion, while hedges were used for the remaining ¥12.4 billion.

Capital Policy

Q: Could you please tell us the reasons for not revising the dividend at this time and your approach to returning profits to shareholders going forward?

A: FY2015 is the final fiscal year of our current management plan. During this period, we will adhere to our current policy of maintaining a stable dividend of ¥60 per share, while flexibly buying back shares. In the past, we have maintained total shareholder returns even when impacted by the Thai floods and other events. Mindful of this approach, we will examine total shareholder returns at the end of FY2014. In addition, FY2016 and subsequent fiscal years will fall under the period of our next medium-term management plan. Accordingly, our capital management policies will be presented as part of the new plan.