November 18, 2015 IR Conference Call – FY2015 1H Results Q&A

Domestic P&C Insurance Business

Q: The number of non-fleet vehicles in voluntary automobile insurance had decreased by 0.9% through 1H FY2015. What is your outlook for the number going forward? What is your current view on premium rate revisions for FY2016?

A: Looking at the number of vehicles under non-fleet insurance policies, following the merger of Sompo Japan and Nipponkoa in September 2014, we believe that sales of new policies were negatively impacted by the extra administrative workload until policy renewals could be largely completed. (Most P&C insurance policies are one-year policies.) Now that one year has passed since the merger, we believe that this impact has subsided. Moreover, we believe that factors such as insurance premiums levels may have also negatively impacted new policy sales. In October 2015, we implemented measures to boost our competitiveness by revising product and premium rate to better reflect the actual state of risk. Efforts have also been made to strengthen sales capabilities by increasing the number of frontline sales staffs. Through these and other initiatives, we aim to increase the number of vehicles in 2H FY2015.
We will continue to explore product and premium rate revisions from FY2016 onward. However, if current conditions in the automobile insurance market persist, we do not think the market will support large premium rate hikes as before. Neither do we believe that the timing is right for reducing premium rates. Looking ahead, we will target an even more appropriate premium rate structure that better reflects the actual state of risk. In the medium term, events, such as consumption tax hike, could take place. Our policy will be to address those events in a timely and appropriate manner.

Q: Will you need to revise premium rates for fire & allied lines insurance as a result of an increase in natural disasters?

A: We are closely watching the situation with respect to natural disasters, particularly the higher frequency of natural disasters, and their timing.

Under our ERM, ROR is calculated for each business line. We have already recognized that if premium rates were to fall out of the actual state of risk, we will need to take appropriate measures, such as product and premium rate revisions.

Q: Impairment losses on securities were booked in the second quarter. Was this because of any particular domestic strategic-holding stock?

A: The impairment losses on securities were booked at a group subsidiary. On a consolidated basis, the impact of the impairment losses will be eliminated.

Q: Net interest and dividend income declined year on year. In particular, interest and dividend income from foreign securities seems to have decreased. How do you expect interest and dividend income to trend in 2H FY2015 and beyond?

A: The decrease in net interest and dividend income reflects the absence of gains recognized in the previous fiscal year, mainly on the cancellation of foreign funds in consideration of foreign exchange movements and other conditions. In 2H FY2015, no major cancellation activity is anticipated at this time. In any case, we do not believe this will hinder the achievement of the forecast for net interest and dividend income presented as part of our business forecasts.

Q: In regard to your business forecasts for FY2015, I would like to confirm the reasons for the change in ordinary profit from the initial forecast. In addition, how does the change in core underwriting profit break down in terms of factors other than domestic natural disasters and of domestic natural disasters?

A: Core underwriting profit decreased by approximately ¥20.0 billion mainly due to an increase in domestic natural disasters. Meanwhile, our forecast for investment profit was upwardly revised mainly based on expectations that impairment losses on securities will now be lower than initially forecast, in addition to the sales of foreign bonds, which was not initially forecast. Looking at other components, revisions have been made based on a precise calculation of purchase adjustment, etc. reflecting stocks sold and stock planned to be sold as of the end of 1H FY2015.

The ¥31.2 billion increase in core underwriting profit in FY2015 comprises an increase of ¥64.0 billion due to factors other than domestic natural disasters, and a decrease of ¥32.7 billion due to domestic natural disasters.

Q: Could you please confirm the likelihood of achieving your full-year business forecasts?

A: Despite a low progress rate in 1H FY2015 against full-year business forecasts, we should be able to catch up and reach our FY2015 forecasts. In 1H FY2015, an underwriting loss of around ¥65.0 billion was booked in fire & allied lines insurance due to the impact of domestic natural disasters. In 2H FY2015, we expect to turn this around to an underwriting profit of around ¥30.0 billion based on an anticipated reversal of the catastrophic loss reserve and other factors. Therefore, we are anticipating an improvement of almost ¥100.0 billion in underwriting profit. In addition, we expect realized gains on security sales to increase because sales of strategic-holding stocks tend to be concentrated in 2nd half. And if market conditions prevailing at the end of September remain largely unchanged, we do not expect to book impairment losses on securities in 2H FY2015. Based on these factors, we believe that we can achieve the earnings projected in our business forecasts.

Q: You have reduced the adjusted profit forecast for the FY2015 domestic P&C insurance business by ¥5.0 billion. Why is this reduction smaller than the decline in underwriting profit due to domestic natural disasters and other factors?

A: One reason is that we believe that underwriting profit excluding natural disasters will improve. Another reason is that the estimated extraordinary loss related to the Special Measures for Life Plan Support announced in September was excluded from the calculation of adjusted profit as a special factor.

Overseas Insurance Business

Q: Did you reduce your profit forecast for the overseas insurance business from ¥19.2 billion to ¥18.4 billion to reflect the impact of one-time big claims?

A: This adjustment is due to the impact of updating the forecast to reflect exchange rates prevailing at the end of September. The depreciation of the Brazilian real had a particularly large impact on the forecast.
There have been no changes to the operation aspects of the forecast. However, we can provide additional information about one-time big claims overseas, specifically that Canopius saw the occurrence of several insured events of around ¥1.0 billion each.

Q: Are Canopius' business forecasts achievable? Will Canopius be able to increase its earnings from FY2016 onward?

A: Barring any one-time big claims or shifts in the investment environment, we believe that Canopius can catch up with its forecasts. When we acquired Canopius, we believed that the company could generate stable earnings in the range of ¥9.0 to ¥10.0 billion. Under softening reinsurance market conditions, earnings will not improve dramatically. Nevertheless, we expect Canopius to generate stable earnings between around ¥9.0 and ¥10.0 billion.

Capital Policy

Q: Japan's mega-banks have announced plans to proactively reduce their strategic-holding stocks and other insurance companies are also accelerating measures to reduce these shares. Considering changes in the environment such as the introduction of Japan's Corporate Governance Code, could you change your plans to reduce strategic-holding stocks?

A: We have steadily reduced our strategic-holding stocks to date. While changes in the environment, including the introduction of the Corporate Governance Code, are supportive of those reductions, we believe that it is crucial to first plan to continuously reduce strategic-holding stocks. In addition to reducing risk, we expect to improve ROE by using the capital released by the sales of strategic-holding stocks to invest in growing business fields. We are also considering plans to steadily reduce strategic-holding stocks as part of our next mid-term management plan.

Q: Are there any changes to your plans to reduce strategic-holding stocks in FY2015?

A: Internally, we have formulated a four-year plan from FY2012 to FY2015 for reducing strategic-holding stocks and have frontloaded the execution of those plans. We have set internal targets for reducing the same amount of strategic-holding stocks in FY2014 and FY2015, and there have been no changes to this plan at this time.