IR Meeting Q&A (May 24, 2018) – Progress of Mid-Term Management Plan –

Management Strategy/ Numerical Management Targets

Q: Is there any possibility of upwardly revising your targets of ¥300.0 billion for adjusted consolidated profit and 10% for adjusted consolidated ROE for FY2020 and beyond?

A: We have set the target of ¥300.0 billion for adjusted consolidated profit as a benchmark for realizing our vision of becoming a global top 10 insurance group. We have started to reexamine our vision from many different angles. However, we have no intention of simply modifying our numerical management targets while the current vision we have announced remains unchanged.

Q: How do you think the market has evaluated your stock price performance over the past year?

A: Looking at the market, we believe that companies whose stock prices have outperformed over the medium and long terms are alike in that they have not only achieved short-term earnings growth, but have also articulated a concrete vision for future growth. Moreover, we are convinced that if we are able to steadily increase our bottom line, and articulate and realize our vision for future growth, including specific numerical targets, our stock price performance will increase dramatically. Therefore, we will focus on pursuing our bottom-line growth potential—or in other words, positioning our overseas insurance business as a catalyst for earnings growth—in conjunction with further enhancing the combined ratio in the domestic P&C insurance business. Having done so, we will lay out specific plans to establish unique business models that transcend insurance as we work to bring those plans to fruition. We believe that these actions will lead to an increase in our stock price performance.

Shareholder Returns

Q: Your competitors in the insurance industry have started including gains on the sale of securities into profits available for shareholder returns from FY2018. Is there any chance that SOMPO Holdings could change how it defines profits available for shareholder returns?

A: In FY2018, we intend to provide shareholder returns appropriately in line with our current shareholder return policy, with no plans to change this policy. SOMPO Holdings believes that the basic principle of shareholder returns is to generate profits in each business through management efforts and to return those profits from each business to shareholders. Meanwhile, we have not made any decisions regarding shareholder returns for FY2019 onward. We will flexibly consider a variety of options, without rigidly adhering to any fixed notions. In any case, in the course of conducting management appropriately on an economic value basis, we will consider factors such as how we define adjusted profit, the source of funds for shareholder returns, and the total payout ratio, taking into account the economic solvency ratio (ESR) level and the enhancement of capital efficiency.

Governance/Human Resources

Q: Could you please discuss your activities to develop a succession plan? As your overseas insurance business grows, is there any chance of appointing non-Japanese personnel to management posts?

A: SOMPO Holdings has established the Nomination and Compensation Committee, the members of whom are four outside directors, including the chairman, and the Group CEO. The succession plan and other related matters are being discussed appropriately in this committee. With regard to non-Japanese management professionals, we have appointed Managing Executive Officer Nigel Frudd to promote M&As and develop the SOMPO International (SI) platform. The platform encompasses a commercial platform and a retail platform. We recognize that governance will be vitally important to the platform. We plan to advance the development of the retail platform with a multinational team of management professionals who possess a diverse range of backgrounds.

Domestic P&C Insurance Business

Q: Looking at the future of automobile insurance, the Japanese government has recently announced its policy of using the current automobile insurance framework to provide insurance protection for autonomous cars up to Level 3 (conditional automation) as a mainstream from around 2020 to 2025. How do you think this will impact premiums written in automobile insurance? Additionally, if fully autonomous driving becomes possible in 2026 and beyond, vehicle owners may no longer be held responsible for any accidents caused by autonomous cars. What impact will this have on automobile insurance?

A: Advanced safety vehicles (ASVs) have penetrated the market to a certain extent, currently accounting for around 60% of the number of new vehicles sold. We recognize that the current declining trend in the accident rate has started to show signs of slowing down. If this trend persists, we believe that autonomous driving will not have a significant impact on the profitability of automobile insurance even in FY2020 and beyond as well, although we will need to keep close eyes on developments going forward. Over the medium and long terms, we anticipate developments such as the complete early adoption of autonomous cars in certain limited geographical areas. However, there will be a certain number of automobile users who will want to continue driving their vehicles. Considering these and other factors, we believe that there will remain a mix of autonomous and non-autonomous vehicles on the roads for a fairly long period. The emergence and widespread adoption of autonomous cars are highly likely to—and should—reduce conventional risks. Meanwhile, other risks, such as product liability risk, recall risk, and cyber risk, could increase. With this in mind, we don't expect the overall risk associated with automobiles to decrease sharply.

Q: What is your outlook for the future course of automobile insurance premium levels and the combined ratio? In light of the recently reported revisions to advisory rates in fire and allied lines, what would you consider to be your ideal combined ratio for fire and allied lines in the future?

A: The current combined ratio for automobile insurance has fallen far below 95%. Meanwhile, as you know, the combined ratio for fire and allied lines could exceed 95% at times, mainly due to the impact of natural disasters. Looking ahead, we expect the combined ratio in automobile insurance to rise slightly based on factors such as revisions to premium rates. On the other hand, in light of current conditions, we recognize that revisions to premium rates could be considered in fire and allied lines, as reported in the press. In that case, we believe that we can maintain an overall combined ratio of under 95% as the impact on automobile insurance is covered to a certain extent by fire and allied lines and other areas. Looking at automobile insurance premiums, as part of premium rate revisions in January 2018, each insurance company reduced their premiums by about 2-3% based on future changes in the external environment and related factors. Therefore, we believe that there will be very little need to reduce premiums in the near future. Going forward, we plan to optimally revise products and premium rates based on a careful assessment of environmental conditions.

Q: Do you have any plans to increase upfront investments in the domestic P&C insurance business in the future?

A: We have been implementing a large-scale overhaul of our information system platform for some time. Because this is a long-term project, the costs and benefits of the overhaul are basically timed to materialize under our next mid-term management plan from FY2020 onward. Meanwhile, in the short term, we plan to reduce costs by working to streamline operations through investments in digital technology such as robotic process automation (RPA) and artificial intelligence (AI). We expect to make investments of about ¥10.0-15.0 billion per annum centered on these sorts of upfront investments until FY2020.

Q: Assuming that the benefits of the large-scale system overhaul will not materialize until FY2020 and beyond, how do you expect profits in the domestic P&C insurance business will trend going forward?

A: We will disclose the details at a later date. For now, we envision a scenario where the consumption tax increase planned for FY2019 and certain other factors could temporarily slow down earnings growth. However, profits should return to the existing growth trajectory as the benefits of the system overhaul materialize.

Q: What is your view on possibly competing with companies such as Amazon?

A: We are considering a new insurance delivery service in collaboration with LINE Financial Corporation, a platform holder like Amazon. At this time, we plan to explore opportunities to collaborate with platform holders, rather than focusing on competing with them.

Overseas Insurance Business

Q: CAGR for SI's top line is projected at about 10-15%. What is your specific strategy for achieving this high growth? In addition, what is your outlook for the level of the combined ratio?

A: SI's top-line growth is forecast at about 30% in FY2018. About 10% of this growth will be derived from factors such as the integration of Sompo America and bolt-on M&As, and the remaining roughly 20% will come from organic growth. We expect that about half of the organic growth will be generated by rate increases from the hardening insurance market, and the remaining half will be derived from the acquisition of new policies. There have been reports that current rate increases for the industry as a whole are in the low single digits. In this environment, we believe that SI has been outperforming the industry by achieving growth of about 7%. The acquisition of new policies has been growing steadily, covering the anticipated rate increases. SI has had very high growth potential from before. For example, it has consistently delivered a CAGR of about 16% for the past five years, even in the softening market spanning this period. In the current hardening market environment, we expect SI to deliver even higher levels of growth. We plan to control the combined ratio at a level of about 90%, despite a slight increase in the cost of acquiring new policies.

Q: What will be the impact of U.S. tax reforms?

A: Since SI is headquartered in Bermuda, U.S. tax reforms will impact business performance in FY2018 only through taxes levied on reinsurance within the Group. That said, the impact on business performance will be limited primarily because of the revision of reinsurance schemes within the Group. The adjusted profit forecast for FY2018 that we disclosed has already included this impact.

Domestic Life Insurance Business

Q: In future, advances in medical technology could enable the early detection of cancer through genetic tests and other breakthroughs. How do you see these breakthroughs impacting medical and cancer insurances? Could they lead to an increase in paid claims?

A: The life insurance industry as a whole currently plans to cautiously address the use of genetic test results. Generally speaking, if the detection rate of a disease increases, paid claims could increase at the initial stage. However, as more and more data is accumulated, this information will be reflected in premium rates.

Q: Looking at an example of developments overseas, I have heard that problems, such as adverse selection for specific diseases, are being caused. What is your view on this matter?

A: At this time, we have not begun studying this matter in earnest.