Conference Call Q&A (May 18, 2018) – FY2017 Results

Overview of the Business Results

Q: Adjusted profit for FY2017 was ¥30.0 billion below the previously disclosed forecast. What were the main reasons?

A: Our result for adjusted profit fell below the forecast for FY2017 that we had disclosed in November 2017. The main reasons were as follows: (1) In the domestic P&C insurance business, there was a negative impact of around ¥15.0 billion mainly due to a greater number of large losses than the average year; (2) In the overseas insurance business, there was a negative impact of nearly ¥20.0 billion, comprising the impact of around ¥10.0 billion from wild fires in California, combined with expanding the impact of hurricanes in North America, etc. at Sompo Canopius.

Q: The adjusted profit forecast for FY2018 (¥220.0 billion) is at the lower limit of the numerical forecast (¥220.0 billion - ¥230.0 billion) disclosed previously. What is the background to this forecast for FY2018?

A: FY2018 is the interim milestone of our current medium-term management plan and we had already announced numerical forecasts for this year. In our most recent outlook, we have set conservative forecasts that are likely to be achieved in each of our businesses. At that time, we had believed that we could outperform our numerical forecasts primarily in the overseas insurance business. However, we have decided to set forecasts that reflect the fact that the rise in premiums following the hurricanes in North America, etc. have not reached the level we had anticipated. The forecasts also reflect the current status of measures to optimize underwriting as a means of improving the loss ratio.

Domestic P&C Insurance Business

Q: What are the main factors behind the projected year-on-year increase of ¥33.1 billion in underwriting profit of Sompo Japan Nipponkoa for FY2018?

A: We expect expenses to decline by around ¥10.0 billion, mainly due to additional cost reductions. This decline is one factor behind the projected increase in underwriting profit. We believe that trends excluding one-time factor such as natural disasters and large losses will remain largely unchanged from before.

Q: In your forecast of the loss ratio for automobile insurance for FY2018, you note that the increase in repair costs per claim is forecast conservatively. Does your forecast include the impact of the reduction in automobile insurance premiums in January 2018?

A: Looking at the reduction in automobile insurance premiums, we implemented revisions to products and premium rates in January 2018, specifically by lowering the premium level for non-fleet policies by 2%. This impact has been covered partly by factors such as increases in insurance protection and increases in the number of policies. Nonetheless, we expect net premiums written in automobile insurance in FY2018 to decrease by ¥9.7 billion year on year. Additionally, we are conservatively forecasting a year-on-year increase of ¥1.8 billion in claims paid in automobile insurance.

Q: In your initial forecasts so far, I believe that you had often expected to record provisions for catastrophic loss reserve in the domestic P&C insurance business. However, in your forecast for FY2018, you are projecting a ¥10.0 billion reversal of the catastrophic loss reserve. What are the reasons for this reversal?

A: The reversal of the catastrophic loss reserve is attributable to the projected decrease in the top line, as well as the impact of our loss ratio forecast primarily for automobile insurance and fired and allied lines, partly due to conservative estimates of the increase in repair costs per claim in automobile insurance.

Q: Why did you reduce provisions for reserve for price fluctuation from FY2018?

A: We have made additional provisions to the reserve for price fluctuation ever since we recorded a large reversal of this reserve at the time of Global Financial Crisis. From FY2018, we have decided to switch from making additional provisions to recording a basic level of provisions. This decision reflects factors such as the accumulation of the reserve balance up to a certain level, and a reduction in the volatility of business performance as a result of progress on the sale of strategic-holding stocks to date.

Overseas Insurance Business

Q: The loss ratio of Sompo International (SI) rose in the previous fiscal year. What were the main reasons for this increase?

A: In FY2017, the loss ratio was 82.4%, 24.2pt higher than the initially forecast 58.2%. The main components of this increase were: (1) an increase of around 20.8pt from the impact of the hurricanes in North America, etc.; (2) an increase of around 1.5pt mainly due to the impact of reducing premiums through such means as optimizing insurance underwriting; and (3) an increase of around 1.9pt from the impact of increased net incurred losses such as ordinary losses.

Q: The gross premiums written of SI is expected to increase by around 34% in FY2018. Could you please discuss the composition of this increase, taking into consideration the latest conditions?

A: Looking at the main components of the projected increase, there will be an increase of 13% from non-organic effects such as the impact of reorganization, including the integration of Sompo America into SI, and bolt-on M&As. The remaining growth of 21% will come from other sources. As before, SI expects to achieve organic growth of 10-15% per annum mainly through the recruitment of underwriters. Meanwhile, the business forecast of SI includes the positive impact of a certain increase in premiums. Recently, we have recognized that the rise in premiums has been slightly below the level we had anticipated. That said, the gross premiums written as a whole has been increasing within a steady range. If adjustments become necessary in light of future conditions, we will make further announcements.

Asset Management

Q: In FY2018, will you continue to use domestic stock futures as part of the sale of strategic-holding stocks?

A: In FY2018, we have conducted negotiations with issuers on the sale of shares so that we can execute the sales of the actual shares in a systematic manner. If the sale of the actual shares progresses steadily, we believe that we could reduce the amount of stock futures to a certain extent. Meanwhile, the use of hedging is partly intended to increase the likelihood of achieving our business forecasts. If stock prices surpass the level at the end of March, which are the assumptions for our business forecasts for FY2018, we could make use of the futures to lock in profits.