Conference Call Q&A (November 19, 2018) – 1H FY2018 Results

Domestic P&C Insurance Business

Q: The forecast of the E/I loss ratio for Sompo Japan Nipponkoa (excl. domestic natural disasters) was reduced. What were the main reasons?

A: The forecast was reduced mainly because we are conservatively forecasting large losses in Japan. Through 1H FY2018, Sompo Japan Nipponkoa had incurred large losses of ¥1.6 billion. In the full-year forecast, we included roughly the same amount of large losses (around ¥25.0 billion) that we had recorded in FY2017, when we incurred around twice the amount of losses than in a normal year. While we recognize incurring a certain amount of losses after 1H FY2018, that said, our forecast is conservative, and it has pushed up the E/I loss ratio. The impact of overseas events such as flooding in Mexico is also included.

Q: In fire and allied lines, the net reversal of the catastrophic loss reserve has increased. Will you plan to make any extra ordinary provisions?

A: There is a possibility that we may temporarily make extra ordinary provisions depending on the balance of the catastrophic loss reserve. However, we will consider all options from a comprehensive viewpoint, while taking into account the earnings balance.

Q: Will your costs of reinsurance cover increase from the next fiscal year onward as a result of the typhoons in FY2018? Will there be any changes to your strategy of reinsurance cover?

A: Our strategy of reinsurance cover is currently under review. So the impact of costs of reinsurance cover from the next fiscal year onward has yet to be determined. Given that reinsurance involves the arrangement of schemes based on complex combinations of policies, I don’t believe that costs of reinsurance cover will immediately increase in response to market conditions. The reinsurance strategy is determined based on several factors. First, we seek to control the impact of risk on our capital within a certain threshold. Other factors to consider include the need to mitigate earnings volatility in a single fiscal year. There have been no changes to these policies. In parallel, we will consider matters such as optimizing products and premium rates in fire and allied lines at the underwriting level.

Overseas Insurance Business

Q: Looking at the financial results of Sompo International (SI), you have reduced your forecast of top-line. To what extent did organic growth factors, excluding the rate-hike effect, contribute to this reduction? In addition, your forecast of the loss ratio was kept largely unchanged. Could you please discuss your assumption for overseas natural disasters and current conditions?

A: The gross premiums written of SI were initially forecast to grow by 34% year on year. Looking at the components of this forecast growth, as previously announced, we had expected an increase of 13% from the effect of integration with companies such as Sompo America; an increase of 11% from the rate-hike effect; and an increase of just over 10% from organic growth. In our revised forecast, gross premiums written are now forecast to increase 25% year on year. While we expect the integration effect to remain in line with the initial forecast, we have reduced growth from the rate-hike effect to around 6% and organic growth to around 6% in light of current conditions. The outlook for organic growth was reduced partly due to measures to tighten the underwriting of policies that do not meet SI's profitability standards, primarily for property insurance, as SI continues to conduct underwriting with an emphasis on profitability. The forecast of the loss ratio was revised slightly to 60.6%, from the initial forecast of 60.4%. Looking at the overseas natural disaster assumption of SI, there were only a few overseas natural disasters in 1H FY2018. However, we expect to incur a certain amount of losses due to a hurricane (Hurricane Michael) in 2H FY2018. Based on these factors, we have maintained our initial overseas natural disaster assumption of ¥26.0 billion.

Shareholder Return

Q: Assuming a total payout ratio of 50% against the revised adjusted profit forecast of ¥105.0 billion, I believe that you will no longer have very much buffer for share buybacks. What is your policy on the total payout ratio for the current fiscal year?

A: We are targeting a total payout ratio of 50% over the medium term. In fact, we have delivered a total payout ratio of 50% for the past four years. I believe that investors and shareholders are well aware of management's strong commitment to a total payout ratio of 50%. Meanwhile, looking at the total payout ratio for FY2013, a year when there was major snow damage, we set the total payout ratio at 220% in order to maintain a stable dividend and other returns. This means we have responded flexibly, including setting the total payout ratio above 50% when profits available for returns have fluctuated due to temporary factors. Therefore, one of the options for FY2018 will be to set the total payout ratio above 50%. Let me also add that management is strongly determined not to fall short of the shareholder return policy.

Q: What led up to your decision to cancel treasury stock?

A: We have previously noted that we have no intention of releasing the treasury stock back into the market. As a result of share buybacks conducted in FY2018, our treasury stock had represented more than 10% of the total number of issued shares. Consequently, we received questions from outside directors and had more opportunities to exchange opinions with investors and shareholders about the handling of the treasury stock. In light of these opinions and other feedback, we have decided to cancel all of the treasury stock for the purpose of shareholder returns.