Conference Call Q&A (May 20, 2019) – FY2018 Results

Overview of the Business Results

Q: Why is your FY2019 adjusted consolidated profit forecast of ¥185bn lower than your FY2018 initial forecast of ¥220bn?

A: At Sompo Japan Nipponkoa, the main reason was a roughly 1.5pt deterioration in our E/I loss ratio assumption compared to our FY2018 initial estimate because we made a cautious assumption on the loss ratio in addition to factoring in the impact of the consumption tax hike, higher reinsurance costs, and an increase in our budget for domestic natural disasters. Also, one reason for the profit forecast decline in the overseas insurance business was the fact that we tweaked our assumptions on the impact of market tightening at Sompo International to reflect actual FY2018 results, in addition to our conservative loss ratio forecast for the reinsurance division.

Domestic P&C Insurance Business

Q: Why did you make extra ordinary provisions to the catastrophic loss reserve in FY2018?

A: We made extra ordinary provisions of ¥80bn to the catastrophic loss reserve in order to maintain a balance capable of covering payouts if natural disasters occur again on the same scale as in FY2018.

Q: FY2019 forecasts for Sompo Japan Nipponkoa appear conservative, but supposing the loss ratio in FY2019 does not deteriorate as much as you anticipate, adjusted profit will come in higher. Will this mean you make special provisions to the catastrophic loss reserve just like in FY2018?

A: Given that we made extra ordinary provisions to the catastrophic loss reserve in FY2018, at this point in time we do not expect to make extra ordinary provisions in FY2019 because we will be raising the provision rate for fire and allied lines.

Q: In your FY2019 earnings estimates for Sompo Japan Nipponkoa, by roughly how much do you expect to normalize your fire insurance premiums? Also, have you factored in adjustments to automobile insurance premiums ahead of the consumptions tax hike?

A: Based on revisions to the FY2018 advisory pure premium rates for fire insurance, even though each product is different, we plan to normalize our premiums in October 2019 by around 6%–7% overall. At the same time, we are considering revisions to our automobile insurance premiums in order to sustain profit margins, but we have not factored this into our earnings estimates.

Q: Do you anticipate an improvement in profitability for fire insurance as a result of product revisions? Supposing that you hiked the price of automobile insurance in January 2020, how would that impact earnings?

A: That is right. We expect full-year profit to be boosted by around ¥2bn with the attachment of policy riders due to the automobile insurance product revisions in January 2019. We will consider the possibility of hiking the price of automobile insurance in January 2020 in light of profit margins and the impact of the consumption tax hike, which is why at this juncture, we have yet to factor it in to our earnings estimates. However, supposing that we did hike prices, the impact in Jan-Mar 2020 will materialize in our FY2019 financial results.

Q: How much of an impact from the consumption tax hike have you factored into your FY2019 earnings estimates for Sompo Japan Nipponkoa?

A: We estimate the consumption tax hike to dent full-year earnings by around ¥17bn, so we have factored in a decrease of ¥13bn, or about 70%, in FY2019.

Overseas Insurance Business

Q: You are forecasting sharp growth in net premiums earned at Sompo International in FY2019, but could you please explain your assumptions for higher rates and your ceding policy?

A: We forecast roughly 10% growth in gross premiums at Sompo International owing to a 6.5% rate increase alongside organic growth. Given the recent indications of market tightening, we will maintain our strict underwriting standards and expect to decrease our ceding ratio mainly with policies that ensure profitability.

Q: What about your assumptions for higher rates at Sompo International in your FY2019 earnings estimates, as well as recent revisions? Are your assumptions conservative? Also, can you please explain roughly how much organic growth you expect to achieve?

A: We expect a rate increase of 6.5% but considering that preliminary figures for Jan-Mar 2019 indicate that we have achieved a rate increase of 7.9%, our full-year forecast looks slightly conservative. We factor in organic growth of around 3%.

Q: It looks like retrocession reinsurance commissions are increasing. Is there a risk of profitability deteriorating in the reinsurance business?

A: We are seeing signs of market tightening and retrocession reinsurance commissions are increasing for some products, but our policy for Sompo International is to seek new earnings opportunities.

Q: Roughly how much of a decrease in the ceding ratio do you anticipate in your FY2019 earnings forecast for Sompo International?

A: We expect a decrease of around 4%–5%.

Q: How much do you estimate for overseas natural disasters in FY2019?

A: We estimate around ¥28bn for the entire overseas insurance business to cover large-scale overseas natural disasters, ¥23bn of which is for Sompo International.

Q: While you anticipate the loss ratio at Sompo International to worsen from your FY2018 forecast of 60.6% to 62.8% in FY2019, what is your view on your budget for natural disasters and other damages?

A: In our FY2018 full-year forecast we estimated a budget of ¥26bn for large-scale natural disasters, but we forecast ¥23bn for FY2019. In FY2018, apart from large-scale natural disasters, damages arose from the accumulation of smaller and multiple natural disasters, so in total, damages from natural disasters came to around ¥69bn (roughly ¥74bn for the overseas insurance business overall). In light of this situation, even though we expect to see improvement in the loss ratio in the underwriting business in FY2019, we factored in a conservative loss ratio estimate for the reinsurance business.

Q: FY2018 adjusted profit of ¥33bn in the overseas insurance business fell short of your full-year forecast for ¥54bn. Was the impact of natural disasters the main reason for this? Or was it the impact of the wildfires in California?

A: That is right—the main reason for the shortfall was the impact of natural disasters. While the biggest natural disaster impacts came from the hurricanes in the US (Hurricane Michael, Hurricane Florence), Canopius bore the brunt of the impact of the California wildfires in FY2017, but this impact was limited in FY2018 partly because we completed the sale of Canopius.