November 26, 2012 IR Meeting Q&A

Insurance Underwriting

Q: According to the management plan presentation materials, NKSJ is projecting that premiums will increase by approximately 80 billion yen during the plan's period. This projection is based on factors such as premium rate revisions in automobile insurance and expansion in the overseas reinsurance business. To what extent will each of these factors contribute to the projected increase in premiums?

A: We expect automobile insurance to contribute about 50 billion yen and the overseas reinsurance business to contribute about 30 billion yen to the projected increase in premiums of approximately 80 billion yen. These two factors will have the largest impact, although other factors are involved.

Q: NKSJ faces a difficult environment for achieving top-line growth, as it strives to reduce expenses. In these circumstances, what are the measures you will implement to achieve top-line growth?

A: There is a large difference between what the two P&C insurance companies have tried to accomplish by cooperating under a two-brand structure, as they have done up to now, and managing the two companies under the same leadership. Although we have not reflected top-line synergies in the latest plan's forecasts, we aim to take full advantage of the strengths of both companies in each of their markets by capturing synergies that contribute to top-line growth. For example, if Nipponkoa possesses strengths in relation to certain specific financial institutions, Sompo Japan will strive to apply those strengths and approaches to other financial institutions. We believe that we are well positioned to capture top-line synergies.

Our ability to reduce expenses will depend on two factors: how far we are able to reduce personnel expenses and system costs over the long term.

Accordingly, we will keep a close eye on these two factors as we go about reducing expenses.

Q: A deterioration in the profitability of direct P&C insurance sales is predicted to follow worsening profitability in face-to-face P&C insurance sales. What is your view on the profitability of direct P&C insurance sales going forward?

A: When considering profitability, one must look at the profitability of the entire automobile insurance business, not just the profitability of the direct P&C insurance sales business. Sompo Japan and Nipponkoa will continue to make efforts to help themselves. Meanwhile, we expect that profitability will stabilize and improve due to premium rate revisions and other factors, although this will come later. In this climate, we must not lose our current share of the automobile insurance market. We believe that direct P&C insurance sales are essential to maintaining our share of this market.

Q: Am I correct in assuming that NKSJ will expand the overseas reinsurance business after considering the aggregate amount?

A: Naturally, we will expand the scale of the overseas reinsurance business while confirming the status of aggregate risk. Our strategy for the overseas reinsurance business is closely tied to the aggregate risk conditions. Although there are risks, these risks can be properly controlled. Therefore, we believe that further expansion in the overseas reinsurance business is feasible.

Merger and Expenses

Q: What portion of the one-time merger costs will be treated as an extraordinary loss?

A: We plan to record personnel expenses and non-personnel expenses (excluding system costs) as extraordinary losses. Meanwhile, we must determine for each individual system development project whether or not to treat system costs as an extraordinary loss. Therefore, not all one-time merger costs will necessarily be booked as extraordinary losses.

Q: A simple comparison of merger synergies and one-time merger costs shows that the one-time costs are larger than the synergies. In future fiscal years, can I correctly assume that merger synergies will offset the one-time merger costs by continuing to accrue?

A: We have disclosed merger synergies for fiscal 2015, but these synergies will continue to accrue in future fiscal years. Based on a simple calculation, the one-time merger costs of 120 billion yen will be recovered in around two years.

Q: After simply deducting the one-time merger costs from the improved profitability, NKSJ's business results still appear weak through fiscal 2014. Would I be correct in assuming that NKSJ's profitability on the income statement will not improve until fiscal 2015?

A: As you point out, one-time merger costs will put a large burden on NKSJ in fiscal 2014. The main reason is system costs. After this period, we expect to see our income statement start to improve, based on projected improvements in earnings. Since we understand the main factors at play, we believe that proper control and monitoring will be possible.

Domestic Life Insurance

Q: NKSJ expects to expand the life insurance business. What systems and initiatives, including reviews of personnel assignments, will you implement to expand this business further?

A: Before the merger, Nipponkoa Life sold mainly whole-life insurance. We shifted its sales channel to the highly profitable medical insurance and cancer insurance, which have the potential to increase MCEV. As a result, we were able to achieve strong results in this business in the previous fiscal year. As part of rationalization, we are planning to cut 4,800 jobs at the two P&C insurance companies. We intend to reassign some of these employees to the life insurance business, one of the Group's growing fields, with the aim of increasing sales.

Capital Management Policy

Q: NKSJ is forecasting no major changes in the risk amount from the end of fiscal 2011 to the end of fiscal 2015. However, certain factors will increase NKSJ's risk amount, such as the inward reinsurance business. In this context, are there any major factors besides reducing strategic-holding stocks that will lower your risk exposure?

A: Reductions in strategic-holding stocks are the greatest factor in lowering the risk amount. We also believe that we can hold down the risk amount to a certain extent by revising the overall insurance underwriting portfolio, including inward reinsurance.

Q: Could you please go over your capital allocation policy? Notably, NKSJ seems to have allocated a comparatively large amount of capital to the domestic P&C insurance business. Although profitability will start to improve going forward, what is the background to NKSJ's need to allocate such a large amount of capital to this business at this time?

A: In automobile insurance, there was a time in the past when a single company could have an underwriting profit of more than 100 billion yen. We believe that it is unlikely that those days will return. Meanwhile, in the aftermath of the Great East Japan Earthquake, automobile, fire and other types of P&C insurance have become recognized as vital systems that support people's daily lives. Although improvements in profitability should follow in the future, we must now allocate a sufficient amount of capital to the P&C insurance business to cover the risk exposure until the improved profitability is achieved.

Shareholder returns

Q: Page 34 of the presentation materials shows that there will be no stock buybacks in fiscal 2013 and fiscal 2014. Shareholder returns seem to temporarily decline before increasing in fiscal 2015 and beyond. On the other hand, on page 33 of the presentation materials, NKSJ is assuming that it will continue to conduct stock buybacks. Could you please confirm whether or not NKSJ intends to conduct stock buybacks from fiscal 2013 onward?

A: We are conducting stock buybacks in fiscal 2013 not just to maintain the total level of shareholder returns, but also in consideration of the low valuation of the Company's stock price. We believe that it is imperative to maintain a dividend of 60 yen per share going forward. However, this does not guarantee that we will conduct stock buybacks in the future. Consequently, we plan to flexibly decide on whether to conduct stock buybacks, considering the prevailing stock price and other factors.

Q: Could you please confirm whether NKSJ will resume dividend payments of 80 yen per share if it meets its adjusted consolidated profit target (excluding the domestic life insurance business) for fiscal 2015, as planned? This dividend is based on the dividend payout ratio called for in your policy on shareholder returns.

A: We will not resume dividend payments of 80 yen per share simply on the basis of a by-rote calculation. Of course, we consider the choice between returning profits to shareholders through dividends or increasing net asset value to be an important point of discussion. However, we believe that increasing corporate value is of fundamental importance. We may consider increasing the dividend if a large number of shareholders seek cash-based returns, but we cannot take such a decision at the present time. In any case, improving corporate value is crucial. To this end, we intend to ensure that we meet the targets we have disclosed, including expanding the scale of the life insurance business and improving profitability in the P&C insurance business.

Q: Could you please confirm whether you plan to retire any shares that you buy back?

A: We have not made any official decision as a company at this time. However, since we could utilize these shares for future overseas M&As and other transactions, we believe that temporarily holding these shares without retiring them is a viable option to consider.

Q: Considering that the integration is proceeding smoothly, the adjusted consolidated profit target has been upwardly revised, and certain other factors, I believe that there is little need to reduce the dividend. Could you please explain your rationale for reducing the dividend?

A: The Company's stock has been highly regarded as a high-dividend stock. However, management must consider prospects for sustainable growth, in addition to the dividend yield. Above all, NKSJ Holdings' stockholders have called on management to enhance corporate value. We are focusing on MCEV as a means of increasing our corporate value. In addition to retaining the funds needed to invest in growth, management believes that it should prioritize improving net asset value, as long as the dividend yield does not fall sharply below that of other companies.