# Sompo Japan Nipponkoa Holdings Inc Business Strategy Presentation Webcast

FINAL

Bloomberg Transcript

## Company Participants

- Kengo Sakurada, CEO
- Unidentified Speaker, Analyst

## Other Participants

- Futoshi Sasaki, Analyst
- Jun Shiota, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Taichi Noda, Analyst
- Tatsuo Majima, Analyst

## Presentation

### Kengo Sakurada {BIO 15149542 <GO>}

My name is Sakurada, the CEO of the Group. Thank you very much for taking your precious time to come to the IR meeting today.

Before the explanation, I'd like you to take a look at the cover sheet for the presentation. Please check the logo of Sompo Holdings. As of September 1, with the merger, the name of the Company became Sompo Japan Nipponkoa Holdings. But our customers asked us to make it shorter and easier to call.

Honestly Sompo Japan Nipponkoa Holdings will sound easy for some people because they understand the merger. However, some customers say this is a very long name. So we would like to make it short and easy, to make it Sompo Holdings. But the official name is Sompo Japan Nipponkoa Holdings. So for applications. And also for forms for bank transfer, we would like to make the Sompo Holdings as our name. It might take time. But we just started to think about this process for the naming.

So please use this name, Sompo Holdings. Some investors are already using this name. Thank you very much. And we would like you to continuously use this name.

Today's key points are here in this presentation. Last week, we have disclosed the latest business environment. And taking that into consideration, we revised up the full-year forecast. The forecast of the ordinary profit is JPY172 billion. And the net income is JPY45 billion. An increase is expected for both year on year towards fiscal year 2015, the final year of the midterm plan.

The management regards the progress as stable. And also, as long as the environment is not changed drastically, we can achieve the target.

As for the domestic P&C adjusted combined ratio, improved faster than planned due to the continuous profitability of automobile insurance, which has been a focus for our management. At the same time, cost reduction effort bore a good result. And we would like to make it as a step for the next midterm plan.

In domestic life insurance, sales of the new medical insurance products launched in May 2014 is favorable. Not being complacent about that, taking into consideration the future business environment, we would like to have a customer-centric approach with added value. And right now, we are examining new strategies for the further growth of the Company.

In overseas insurance, since Canopius joined the Group in May, the business has been in good progress. In terms of investment, in terms of ERM, we do have strong capital position. And we'd like to continue our selective position; and also, we would like to explore synergy effect further. And at the same time, we would like to hold strong appetite towards the future as well.

In terms of the capital, there is no problem at all. And as for reduction of strategic holding stocks, because of the effect of economics [ph], in terms of market cap, even though we are selling at the balance, it's not really declining. This is a good situation.

And going forward, we would like to steeply reduce strategic holding stocks. Especially what is important going forward is why we have to reduce the strategic holding stocks. This is not only the reduction of risk asset. The transitional approach of reduction is in the past.

In terms of demand and supply, we have to explore better capital efficiency and also higher R on R [ph]. And because of that, we'd like to reduce strategic holding stocks.

Domestically, and about [ph] shareholders' policy, midterm and long-term we would like to have a stable policy going forward.

Please turn to page 3, the progress of the management plan. All the analysts, all of you, are already experts and you have seen the data. So I would like to make it very short.

The progress in FY14 is better than our plan. It's not only for our Group but this is related to all the Groups because of the backing by the market and the favorable market environment. And also the improvement of domestic P&C business that is largely contributing. Also, the progress of domestic life and overseas business, they are contributing as well. So the probability of our achieving our target is very high.

Page 4. These are J-GAAP based numbers. Due to the improvement of profitability in domestic P&C business and favorable market environment, we revised up our full-year forecast for FY14. The ordinary profit is revised up by JPY20 billion. Net income is revised up by JPY12 billion.

September 1, we have completed the merger. And we have a new structure and system. The speed of the management is very important for us so that we would like to accelerate the process.

And also, the net income, well, we have JPY80 billion [ph]-some of the one-time merger cost. So year on year, we have only a slight increase. However, next fiscal year and onwards, with no further impact of the merger cost, we would like to improve.

Please turn to page 15. Now I'd like to talk about the domestic P&C business. I'd like to talk about the key points for each business segment, the adjusted combined ratio, one of our business targets, has improved faster than our plan due to improved profitability in the automobile insurance and synergy from the merger.

The adjusted combined ratio and first half of FY14 improved significantly by 2.5 points year on year. And we expect to achieve 92% range for the full year. Originally, the plan was to achieve the 95% level in FY15. So we've already achieved the goal set for the domestic P&C insurance business in terms of profitability. But recently, there are natural disasters that are very difficult to forecast and so we cannot be too optimistic when we think of this. But if the situation is the same as last year, then we believe that we can say that we have achieved our target, if there is no natural disasters. So we will be able to make faster decisions and we would like to continue to focus on efficiency as well in managing this Company.

For the next fiscal year, it will be the last year of the current midterm plan. But not only that, we have to take this time next year to prepare for the next midterm plan so we'd like to accelerate our management for these activities.

This is the combined ratio of our core business, automobile insurance. Well we've gone through struggles, not just us but the whole industry in automobile. But we really feel that our efforts are bearing fruit now. On the other hand, we have another new competition in the life insurance area. But this core automobile insurance gaining back profitability gives us some assurance.

As for the first half of FY14, the combined ratio was down by 1.5 points to 94.6%. So we have achieved the below 95% level.

We are aware that trends such as consumption tax and repair costs need to be monitored carefully going forward. But still we will take appropriate measures to address situations in the future. Currently, any surprises that can happen would only be natural disasters.

That's it for P&C.

If you turn to page 17 we have the merger topic. Thank you, to all of you for watching us through the merger of the P&C Company. It has been completed on September 1 with no issues at all.

The merger synergy and one-time costs are trending in line with our expectations. The merger synergy expected for FY14 is approximately JPY30 billion. And half of the effect has already been realized in the first half.

We expect more cost reduction later this year, as well as FY15. And further system cost reductions in FY16 and on. So therefore, the synergy will continue to expand.

The one-time merger cost is also in line with the plan. The forecasts are approximately JPY80 billion in FY14 and JPY5 billion in FY15.

Please turn to page 18.

So our Group, Sompo Holdings, Saison Automobile & Fire, which conducts direct sales of Otona no Jidosha Hoken the automobile insurance product, is actually selling wonderfully, I should say.

The policies in force are increasing steadily. And especially in regards to new premiums, its share is estimated to be 12%. This is new premiums. We assume that the ranking of this is around third place in the market. It has good momentum, therefore.

At this point, increasing customers is the most important key to this business so that we can continue to win in this industry over the mid to long term. So we would like to continue to make the efforts across our Group with this very important vehicle. So we would like to continue to step on the accelerator as we go forward.

Please turn to page 33. This is life insurance.

As for the domestic life insurance business, our P&C insurance sales channels will continue to be the pillar to increase policies in force. Focusing on high margin, protection-type products, we will continue the growth with high profitability. However, the market situation is changing drastically. Later, I'd like to refer to that point.

The next page is Himawari Life's position in the industry. This is still a small company. In terms of policies in force, the market share is 2.3%. And that is number 15 in ranking. But the share in medical insurance is 4.7%. That is twice as much.

This is a unique life insurance company, Himawari Life is. However, as I mentioned before, the market situation is not favorable because of the intensified price competition and we have started from the third sector. So to some extent, we need to compete hard so that we can aim at the top, or underwriting should be solid.

And also, for the first time in six years, we launched new medical products. Owing to all of you, the sales has been very good. And the sales share of this medical insurance is going to be closer to 8%. It's going to be almost double.

Please turn to the next page. This is a forecast of these new medical insurance products.

As of the end of September, we have achieved 135,000 policies. Our sales target for FY14 is 300,000. So we are in line with the plan.

Next page, please, page 36. This is the uniqueness of Himawari Life. The presence in medical insurance business is going to be enhanced. And taking into consideration the current environment, the biggest investment and asset for Himawari Life is P&C sales channel, which should be made the best use of.

And also, we have professional life agents in bank channels as well which we'd like to enhance. And for that, we would like to launch more products and services. So as for the life insurance business, we would like to properly observe structural changes of the life insurance market so that we can address real needs of our customers by expediting development of customers' handshake [ph] products, topical products. And also, we would like to be number 1 in terms of the customer satisfaction level.

We would like to aim at launching such products. And right now, we are working on the next midterm plan. So I cannot specify the plan right now. But later, I'd like to refer to how we are interpreting the market environment right now.

Next, please turn to page 44. So I'd like to explain our overseas strategy here.

Within our global expansion, our largest business, as you can see on this slide, is Brazil, South America. But our presence in UK is also growing significantly after welcoming Canopius to our Group.

In terms of sales, I would assume that Canopius now has the biggest sales among the overseas subsidiaries. Also, regarding China, as we announced on Tuesday this week, we have become the very first Japanese P&C company to be certified for a compulsory automobile insurance in China local office. This is the type of insurance that is similar to the compulsory automobile liability insurance in Japan.

Definitely, we can expand this business dramatically going forward. But the non-Chinese life insurance companies, I don't know how the potential would be. It is not that we are so optimistic about it. We believe that it's a JPY10 trillion market and 80% is auto. And among that already, close to 60% of that -- excuse me, close to 20% is direct sales channel.

This is a very fast speed of the market growth and market structural change. These two are happening very quickly in China. So the foreign affiliated share is only 1%, just 1% in the JPY10 trillion market. But we believe that there is vast room for growth going forward. So therefore, we would like to be creative in devising our way to expand this.

We need to be careful about the profitability though, otherwise we might be dealing with fire. And we will need to be careful that we don't.

So for other markets, as we've mentioned earlier, we already have many offices around the globe. For the existing subsidiaries, if we need to inject capital, we would like to do so to accelerate organic growth. But other than that, we know that there are a lot of M&A targets out there. So we would like to continue to have a selective attitude in finding the right potential.

I know that the foreign investors are very interested in this point or rather, they're also worried too, I understand. So I would like to make sure that this does not become a worry for you when pursuing our investments.

If you turn to page 45, this just confirms the current state of our overseas business.

In our existing key regions such as Brazil, Turkey and Malaysia, which we are familiar with, we aim to become a major player. But not just this. In other emerging markets where we expect future growth, we're constantly researching for good M&A opportunities.

Brazil, we have a standstill just a bit. But overall, we are still proceeding well. Turkey, there's political instability. But in mid to long term, there is no concerns.

So again, back to Brazil, Turkey and Malaysia, we would like to continue to pursue organic growth. And also M&A too as an option.

In any sense, we're not going to just invest broadly everywhere or all over the place, we would like to make sure that we nail our targets; narrow down and make sure we have a very intense investment where we think it's most important.

Please turn to page 46. This is for your reference, the performance of Canopius.

In the first half, the combined ratio was 92.2%, ROE was 13%. Please look at these figures along with our track records in the past.

I don't know if this is to be boasted of, or maybe we should regret this. But we have continued to generate profit close to JPY 10 billion with a combined ratio as high as this. And one of the reasons for this is that we have a very good underwriting knowhow. But not only that, we are focusing our business mainly on B2B.

Just with a head count of 650 employees, we are actually running such a great operation. On top of that, Nipponkoa has few tens of thousands of headcount to operate this. I'm not going to talk about the profit. But JPY 2 trillion is the current state.

So I think in that sense, I think efficiency is a key word. If we call this the center of excellence, the business model is B2B. It's different from retail. So there's a lot to learn.

There are knowhow that we can provide to them. But at the same time, there is a lot of learning that we can get from them. I think this will become additional synergy that we hadn't even expected for.

I'd like to move on to page 47. This is the overseas assumed reinsurance business.

We are making efforts across the Group to optimize assumed reinsurance business and to utilize the resources from Canopius. Specifically, this September, we have already integrated the Zurich office. So we have the overseas P&C business that we can still sort out within our Group. And so we would like to continue to pursue this sorting out of the organization.

Please jump to Page 51. Next is about expansion of financial and other services.

We explored and developed businesses to provide services that contribute to our customers' security, health and wellbeing. We have stressed the importance of those three. In concrete, we already began road assistance services in our Sincare [ph] businesses.

In this fiscal year, we started a vehicle maintenance workshop project with SAIS, which is a group company of the largest Chinese automaker, Shanghai Automotive Industrial Corporation. Whilst still this is a prototype but the progress has been good. When we can make a success, we can expand our business to other major cities in China.

And there are some companies which have strengths which we do not have and to form such an alliance with those companies will be very important to provide security, health and wellbeing that not can be covered by only insurance. Especially, there are two major factors for differentiation. One is ICT.

It's not only about P&C. But to provide customer security, health and wellbeing and differentiation, we need to have low-priced and also expedited process to provide services for that. ICT is very important. And we made an announcement about the alliance with Internet initiative.

But also what's necessary is physically agile team and well-trained teams. And in August, we formed an alliance with Alsok. Those companies have strengths. And also we have 20 million customers and we do have the needs from those customers. By compiling those, we would like to provide our customers security, health and well being. And we would like to be a theme park like company. That means when the customers think about security, health and well being, they can sell at Sompo Japan. And that should be the brand they can think about. We would like to be such a company.

In terms of profitability, it's still low. But going forward, those businesses are very important parts for the future.

Page 53 is about ERM.

The internal solvency ratio was 163%, within the target range. And this is a very high level. That means we have no problem about the capital level. Capital efficiency is very important as well, return. And also, investment should have well balance.

And also, in the current midterm plan, we would like to continue the current stance. And also, FY 16 and onwards, that should be included in the next midterm plan. And at the right timing, we would like to communicate to you our approaches for the next midterm plan.

The next page is about the market risks.

So as you can see on this slide, the market sensitivity of our solvency ratio is maintained at an acceptable level.

Page 57. This is the status regarding reduction of strategic holding stocks.

The amount of reduction in FY14 is estimated to be a bit less than half of the reduction made in FY13. And in first half of FY14, we have been able to achieve a reduction of our exposure steadily by JPY 42.9 billion. We have very steady progress here. And we will continue to review the necessary amount of reduction strategically from the standpoint of ROE improvement and periodic earnings because we believe it's about the supply and demand of the capital within the Group. And also, we really need to focus on reduction of strategic holding stocks at this stage.

Finally, please turn to page 58 regarding the shareholder return policy which I have already mentioned a few times in this presentation.

During this midterm plan period, we would like to maintain JPY60 per share every year during this midterm, adhering to a policy of stable dividend. We have no changes in our intent to consider flexible share buybacks according to capital and adjusted profit conditions in balance with investment for growth.

In regards to the shareholder return from FY16 and on, we would like to announce this in the next midterm plan.

So this concludes my presentation. And for life insurance and P&C insurance, I would like to comment that we'd like to confirm the current status in the market once again and talk about the P&C insurance business growth. And also, reconfirm the meaning of our midterm plan that we are putting together for next time.

Number 1, the domestic market. We're going to focus not only the top line but also the profit. The profit is very important in terms of not only percentage but absolute amount. But the market is really about the population. It's all about the population. So we need to continue to come up with new products; for example, regenerative medicine or auto driving cars.

So we would like to continue to work. But coming up with these products will never be enough to overcome the declining population.

So how about P&C? Well the very tough situation we experienced for the automobile insurance is behind us. And oligopoly is the situation today. But if we continue steadily with our business, as long as there is no consolidation in the players, this condition will continue.

Even if there are some consolidation in the players in the market, we will continue to have competitiveness. P&C will continue to have oligopoly. And even if we look at 10 years' term, the growth will be 1% or 2%. So it's really not going to be about the change in top line. It's really about the bottom line.

To be more specific, how fast we improve the combined ratio and how much improved, how fast, how much we change the combined ratio really is the key. And as a group company with P&C business, we have still room for growth. We have merger synergy from FY15 and on. We have expectations that this will help us.

And the overseas business will also contribute to top line and bottom line, not only the emerging markets. But also I'd like to mention that the Japanese P&C business is not the most superior business compared to developed countries. But moreover, compared to even emerging countries, Japan is not the most superior, because taking Turkey, for example, there's retail systems, sales knowhow. These are areas where Japan has a lot to learn from.

I use the words center of excellence again. And really, the center of excellence doesn't always have to be Tokyo headquarters. It is not that the Japan life insurance business will always be the top. The physical distance between Japan, Brazil, Turkey, doesn't matter anymore really compared to the past and so we believe that we can show even more synergy. And we'd like to make sure that we exert our power as a holding company and also be bold with our capital allocation throughout the Group.

Talking about life insurance business, maybe I'm being a bit too aggressive to say this. But really, life insurance is about population. And so we cannot expect our domestic insurance business to grow, at least not if we continue at this state.

Hypothetically, or actually we have to, except from the deflationary period. But when we do, the Japan's GDP per capita and the proportion of life insurance is extremely high. You already know this fact. And I think it's too optimistic to think that it would never be revised. In other words, I'm saying that it will probably be revised because the social burden becomes heavier on the rich but the private medical facilities and the life insurance industries. And also the third-field price competition that we see right now, are all going to have a great impact.

This situation actually we believe is completely opposite from the auto insurance situation. There will be changes in the mindset of the policyholders. Price competition has just started. We need to make sure that we are in the midst of these changes. And these policies that are held right now will become more liquid.

Actually, we should think about how we can make it more fluid. And trying to become a company with better footwork maybe is important because we are a company that has relatively less vested interests so we are in such a position. And we must keep this in mind when we come up with the next strategy or the next products.

In terms of growth strategy, I guess I would be preaching to the preacher. But we need to turn to quality in this business going forward because we are approaching the super ageing society. And also, I should even say abnormal natural disasters that are happening frequently.

And when we also think about the regenerative cell technology, auto-drive cars and the advancement of IT, these are phenomena that will continue to accelerate.

And so that's why we like to provide this service group, the theme park type of service group that provides safety, assurance and health. To launch this as soon as possible is very important because this is the key to our mid to long-term growth.

These structural reforms never happen overnight. It takes time. To give an example that giant IBM used to make that huge big computer in 1990. But they completely changed to a solution company over 10 years. The wall, the biggest wall to structural change was the change in mindset of the employees, they say.

Why do they have to change from selling computers to service? Why do we have to change from the current products to a theme park type of group company? This really needs to penetrate into our employees' minds. And it really needs to be understood by them.

And the management need to continue to make efforts until this is understood by the employees. And we need to start as soon as possible, because the faster we start, the competitive edge of our strategy will be exerted in the future.

This is our thought as we go into the last day of our midterm plan and the ear [ph] to put together our next midterm plan.

Thank you very much for your attention.

## Questions And Answers

### A - Unidentified Speaker

Now we would like to receive questions from you. Please give us your name and the company name before asking questions.

## Q - Natsumu Tsujino {BIO 2234779 <GO>}

Natsumu Tsujino, JPMorgan Securities. I have two questions, the first one; page 58. This is a revised-up profit. I suppose share buyback is about JPY10 billion. And that is about 45% and that is above [ph] 50%. So what happens next year when you think about this?

We have something visible here. In the revised profit, well, JPY20 billion because of the snow in February and a cost reduction about JPY21 billion for the next fiscal year. And also the increase of the automobile insurance premiums is about JPY10 billion or so. And before tax and JPY60 billion. And after tax it's about JPY40 billion.

Would it be the improvement we can expect? If so, when you think about return-to-shareholders policy, the growth is really remarkable. But still 2011, 2012 and 2013 the profit was not that high but you were able to maintain. And now you are going to jump. And after that I believe next year, you are going to have the midterm plan for the next year. In other words. So is it really possible that you are really growing like this in terms of revised-up profit?

And my second question is about according to your forecast for this fiscal year, as I tried to interpret full year, the reversal of the provision is about JPY20 billion for the private insurance business. And as of the end of March, because of the snow, about JPY50 billion was in the provision for snow [ph] and you have to reverse most of them. So I always expecting you to reverse more. But you have been very conservative. Is that really true?

And because of the overseas assumed insurance business is growing, are you thinking about more provisions or are you thinking about any major projects? Could you please tell me what's behind the revisions?

## A - Unidentified Speaker

Thank you very much for the questions.

First of all, I'd like to explain about the revision, revised profit and the growth. As the CEO mentioned at first, the progress of the business is very good. That's in page three right now, JPY180 billion to about JPY200 billion-some.

And after life insurance business return to shareholders is considered because of the automobile insurance, the improvement is very drastic. So we have expected very high growth and that is a positive situation for us. And also, it might be related to the next question. But overall, we have been very conservative.

As for your question about our being conservative, in FY15, the combined ratio is written in the presentation. P&C business, the combined ratio is written in page 15. This is the FY15 plan. And page 16 shows FY15 plan for the automobile insurance.

Including this fiscal year, we have been very conservative, as you say. And toward FY15, the biggest factor of the improvement is the revision of the automobile insurance rates and there are some factors behind that.

For example insurance premiums, the premium rates have been increased. And also, the rating systems were changed; and also the unit price for our repair; and also the construction tax hike. And the traffic volume was reduced because of the accident rate was reduced as well. And also, the premium rate increase is step-by-step approach.

So we cannot really specify which one of them is really contributing. We haven't really confirmed. So in this stage, this is not really wise for us to revise. So for FY15, we maintain the same stance. And also, it's also the same for FY14. We are conservative.

As for return-to-shareholders policy, midterm without life insurance, 50%; and also stable payment of the dividend. And according to the policy, up to FY15, the shareholders' return is going to be the same.

And after that, FY16 and onwards, after achieving the midterm plan, up until FY15, we are going to have good capital for the return. And the challenge is the return about the life insurance business. So FY16 and onwards, we are going to enter a new stage. And that is going to be covered by the next midterm plan.

## Q - Natsumu Tsujino {BIO 2234779 <GO>}

Well you were talking about loss because of snow that you say in February the snow had an impact of about JPY20 billon and that is included already.

## A - Unidentified Speaker

But other than that, for example, liability insurance and also the cargo insurance, the loss ratio was deteriorating, as you have pointed out. That's about some tens of billions of yen. And compared to the beginning of the year plan, we have higher assumption incorporated already and we already have a more-than-imagined improvement in terms of balance. We can incorporate that as well.

## Q - Natsumu Tsujino {BIO 2234779 <GO>}

One confirmation you were talking about, the revised-up profit. You have said there are three major factors for improvement.

## A - Unidentified Speaker

Yes.

## Q - Masao Muraki {BIO 3318668 <GO>}

Muraki, Deutsche Securities. I have two questions. One is about P&C. The second one is about life insurance.

And finally, at the end of your presentation, I think you talked about the mid to long-term perspectives of the Company. And regarding P&C, you were saying that the automobile insurance profitability is improving and the share is relatively stable. And it will stay that way over a long time, you said.

But for example, telematics insurance or big data utilization in diversifying your risk even further, in regards to this, I think the major life insurance enterprises already have vested interests and they cannot move so quickly. I think that's what you said in your presentation. But from your perspective, when there are these new movements, how do you think this will impact the profitability of the existing life insurance companies?

And also, with the shorter, more pragmatic perspective, do you think you will do it as Sompo Japan? Or how will you introduce telematics in Japan? I'd like to ask you the approach.

And the second question is regarding life insurance. In the third field. And using the life insurance professionals to introduce new products into the market, which was my interpretation of your presentation, I think the area that has the most intense price competition is this. So what other appeal points do you have?

It seems like you were think about elements other than price competitiveness. It's life insurance professionals and it's the third field. But what is the other element that you can appeal to, other than price competitiveness? If you can talk more about the competitive situation in this life professional and telematics area. And also your approach, please.

## A - Unidentified Speaker

To your first question, P&C business, I understand the mid to long-term forecasts, well, if you ask us are things going to change between the past and the future, well, if you look at the past 10 years, we have continued to have consolidation in the market. But still the market share hasn't changed. It just goes back and forth among the players. We increase; Tokio Marine increases. Then we reduce; they reduce. If they go up, we go up. It's been repeated.

It means that if we have any standstill moments in the market, we'll be left behind. And we very well understand that. And that's because we know that we need to be very quick to react to the market changes. And if we don't, we'll be left behind. That's the past.

Going to the future, are we going to start this competition or not? Are we going to follow? Well in any sense, we need to really understand the customers and grasp how they feel, because we have these business practices in the P&C business. And if you want to survive, you cannot stand still. That's really the point in a nutshell.

So therefore, we do have cannibalization right now; Sompo Japan Nipponkoa's auto insurance cannibalizing Saison Auto. It's shifting more to Saison Auto. And the way we interpret it as a holdings company as well, it's better than being taken share aware from someone outside the Group. And the net is incrementally positive. So when you think about it that way, again, we think that if there is a standstill, you shrink.

So we need to -- to your point about telematics, the new technology, are we going to wait for someone to launch that first and then prepare for us as well so that we can react when someone launches? I don't think things will go that well. So therefore, we need to look at the freight and auto businesses. And we have decided to launch through telematic marketing. We would like to do this proactively. And I'm sure that the other companies will follow right away.

## Q - Masao Muraki {BIO 3318668 <GO>}

So as a result what will happen? Are we going to grow dramatically by 5%/10% like in other industries? I don't know if this is an appropriate example or not. But maybe in the smartphone or mobile industry, will there be systematic changes like they have?

## A - Unidentified Speaker

I don't think so. I think we will rather be going around in a circle relatively making sure that we increase our number of customers, make sure that we don't have less. And the benefit of this oligopoly would be to get costs benefits. And I think we can do that.

The other point about life insurance, to your question about what other points can you appeal other than price competitiveness, I'm thinking about this more primitively. Do you think the customers really understand the appeal points? I actually question this. What do you really need as the perspective that we have? Do they feel that they're being told you need this? This product from this Company is relatively low. This is what you need.

I think that is the way our customers are being sold to. And I think this situation will continue. And the Himawari [ph] state will not change for a while. So we're asking Himawari and the President of Himawari to start this discussion about this.

## Q - Masao Muraki {BIO 3318668 <GO>}

From the customer's perspective, they already have health insurance. And on top of that, they have medical insurance options, or there's health insurance and death insurance on top of that. What does this mean to the customers?

## A - Unidentified Speaker

I asked Himawari to think about this from Ground Zero once again. What matters to them when we think about it that way? Maybe it's not just price. Yes, price. But not just that. Maybe the way the channel should be or the way to approach the customers' needs to change.

In that sense, I think the elements that we can compete for have diversified. I think there's more points to appeal to, in other words. And I cannot actually give you what those other points are. I'm sorry, I cannot give you that.

But for the life insurance professionals, the benefit of this channel is -- well, there's this new ambulatory health, Kenko no Omamori [ph], from May for the life insurance channel. It was 22%. But it went down to 19% in 2012. Then in 2014, for this new health ambulate

[ph], it went up to 23% after we launched this new product. The weight of the life insurance professionals went up to 23%.

Mr. Muraki, you call this price competiveness but, actually, it's not just that. It's the product quality; it's the product's features that were appreciated. To be specific, it is the benefit that you get when you go through an operation. The amount changes according to the type of operations you get. In the market, it's usually 10 times or 20 times. But we have a variety all the way up to 40 times, again, depending on what kind of operations you get. But this is the unique points of this product.

As Mr. Sakurada mentioned, in next fiscal year, which is the last year in this current midterm plan, this year's EV is JPY80 billion, we estimate. But I think it will go beyond JPY100 billion in the next fiscal year according to various calculations that we've done.

Then what happens after FY16? Well we are putting together various strategies. But the most important point is the products. As Mr. Sakurada mentioned. And I will be repeating what he said. But it's really about the product from the consumer's perspective. We need to make sure that it looks innovative to our customers. That's the kind of discussion we are having.

## Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

## Q - Futoshi Sasaki {BIO 17564798 <GO>}

Futoshi Sasaki, Merrill Lynch. I have two questions. The first one is about cancer insurance, about price strategy. Alsok has launched the insurance. The price is about half. And so that really leads to price competition. And that kind of reduction of prices, are you thinking about the same?

That's my first question.

And the second one is about strategic holding stocks FY15 and onwards. There's a site [ph] that explains that after FY15 and onwards, you are going to revise the plan. Are you going to increase it, or are you going to decrease it?

And I understand you have adopted a stewardship code. And principle number 2 specifies strategic holding stock which is not allowable. And what is your thinking about this?

## A - Unidentified Speaker

Now I'd like to explain the first question about the price competition of life insurance products. And especially when you focus on cancer insurance. Cancer insurance is only 6% of the total for our Company. So with these cancer insurance products, for price competition, that is not included in our strategy.

We have newly launched medical insurance. And when you think about the prevalence of cancer insurance in a market, cancer insurance is not the one with which we would go for price competition.

As was explained by Mr. Tsuji, including medical insurance, we have protection-type products to address the needs of customers. So in the balance of prices and also protection, we would like to strike the best balance to address the customers' needs.

And also, because of the regulation, I talked about the professionals of life insurance, total explanation capability is very important for those professionals. So we'd like to address customers' needs in that sense. And that is what we are thinking about right now.

And the second point is about strategic holding stocks. Of course, as for the total volume, we are reducing strategically holding stocks, of course. And the speed and also the volume, what is the optimal speed and the volume will be discussed in the next midterm plan.

And depending on the stocks, it should be necessary for us to strategically hold some of the stocks. So we are not thinking about making it zero. Right now, we have about JPY1.5 trillion [ph] and from which we should reduce.

And how the speed could be is something we would like to explore for the next midterm plan. And of course, that's written in the principle as well; and, of course, cross-holding share would have some stability. But it's not the approach for us. We would like to have accountability as to how much strategically holding stocks we should maintain.

## Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you.

## Q - Taichi Noda {BIO 16478436 <GO>}

Taichi Noda, Goldman Sachs. I have two questions. First question regarding the financial services. I think you had one slide explaining that. I think it was slide 51. To this I have a question. Going forward, how much capital do you plan to invest in this? Is it going to be five years ahead, or more in the future? How much profitability do you expect? And what are your expectations going forward? What are you doing now to achieve that? How much will this contribute to the consolidated numbers? If you have an idea, let us know.

Second point is regarding the merger. First of all, the top line, I think there's an impact from share adjustments, etc. Are there? I'd like to confirm?

And regarding cost, you're saying JPY56 billion cost synergy next fiscal year and on. So are you confident that you will really get this amount of synergy, or are you going to have a reduction in headcount which may contribute to more upside in the cost reductions? If you can give color to this, that would be helpful.

## A - Unidentified Speaker

Okay. To your first point, the financial service businesses and how we roll out this business, well, Mr. Sakurada mentioned earlier that in order to realize the direction that the group company is trying to pursue, this is definitely essential.

As to how much more information we can disclose, like how much more investments we'd like to make, or what time, how much profit we expect and all that, well, let me put it this way. Including the overseas business, how much capital are we going to invest, that's very strategic and we cannot disclose the answer at this point.

And how much volume and business do we want at one point? This is exactly what we are considering for the next midterm plan. And even in the bottom level of this financial service, we'd like to make sure that it has a good presence in our Group.

These are some of the ideas we have as we put together the plans for this in the next midterm plan.

To your second question about the merger, you mentioned JPY56 billion synergy effect. At this point, the top management of the Group are thinking that this is quite a secure goal. In other words, we can achieve this with confidence. As was explained in the presentation, this is versus FY12 absolute amount of cost improvements. The absolute amount.

And so even from FY16 and on, we have the system with will be -- the IT system which will be integrated after run-off. And this will continue to help us expand our synergy effect.

And also, in terms of the headcount, there's still room to reduce this. In other words, let me just say that there's much more efficiency that we can pursue in the P&C business.

In terms of the share adjustment in our operations of our P&C business, this is a merger for the claims payment. And various divisions are already merged together physically. We have been preparing to do so before the merger and even after the merger. Some time has passed already.

This is really like a first-time experiment for us. But we've already done this experiment before the official merger. Therefore, we can say right now that we don't have any surprise in share adjustments at least. In other words, we're seeing good effect.

## Q - Taichi Noda {BIO 16478436 <GO>}

Thank you. Follow-up on the first question regarding -- you said the capital investment plan, including the overseas business. And you said ultimately you cannot disclose the answer, the M&A as a scale of like JPY10 billion is also an option for you?

## A - Unidentified Speaker

Well earlier, we talked about the solvency status last time. If you look at slide 53, the target level we are looking is 120% to 170%. This is the range. But within this range, we're at a very high level. So as a group, we believe that we have enough financial strength and good status to take risks.

## Q - Taichi Noda {BIO 16478436 <GO>}

So it wouldn't be limited that number that you just mentioned?

## A - Unidentified Speaker

I think we can invest even more than that if we decide to. Having said that, as we have mentioned, it has to contribute to our Group. And we also have to be selective and disciplined to choose the target.

And we've repeated this in various presentations in the past. We're not going to try to buy anything and everything. We need to be very familiar. Familiar with is one of the key words that we have repeated. So we need to clarify the target and make sure that we know them well and make sure that we have a good connection with someone or the region that we know very well. Those are some of the points in investing overseas.

Thank you.

## Q - Taichi Noda {BIO 16478436 <GO>}

Thank you very much.

## Q - Jun Shiota {BIO 4127431 <GO>}

Jun Shiota, Daiwa Securities. I have two points. In page 15, you are talking about domestic business. And the combined ratio is written here. And as the CEO says, well, in terms of longer term, the profitability is going to be high. And right now, until 92%, the combined ratio is declining. And next fiscal year it should be about 94% conservatively. So it should be around 95% and that is the assumption. And the profitability is improving and the average level is lower for the next 10 years or so. And are you going to able to keep this kind of %?

My second point is -- maybe you cannot disclose right now for the next midterm plan. The current midterm plan says 7% of ROE and also 50% of the return. And as for the capital level, that is very sufficient and you have room to invest more. And in the next midterm, what the ROE would be?

And also, as for the return, is 50% going to change, or how would you incorporate the profit from life insurance when it comes to 50% of return? Well it should be the next midterm plan. But if you can disclose, could you please share that with us?

## A - Unidentified Speaker

Now I'd like to explain the first point. That's written in page 15 about the P&C domestic business and the profitability.

Well the revised combined ratio is presented here. And also, about the natural disaster, JPY38 billion. And the risk that should change drastically is natural disaster. Some people might call it new normal. But natural disaster is going to be normal. That is risk. And how we can absorb that should be a challenge.

And of course, loss ratio and also expense ratio should be the combined ratio. And also, compared to the conventional way, it's improving. And also, we are aiming at more improvement. And we can challenge the next stage of the improvement. So we'd like to continue our effort to challenge. And that should be incorporated into the next midterm plan.

As for loss ratio, as I mentioned before, well, some of the disasters might be included. And what we are aiming at is 95% level should be secured safely [ph]. And that is what we are aiming at right now.

Depending on the fiscal year, sometimes the first half of 90% or sometimes latter half of 90%. So on the average, 95%. That should be a very important point for every business.

And the second point, the next midterm plan. Well as for the matters we have pointed out, those are the challenges that should be incorporated into the next midterm plan. ROE 7%. According to the international standards, this should be increased and enhanced. Of course, that is a challenge for us.

And as for return to shareholders, our stance is stable payment. And also 50% of return to shareholders midterm, as I have mentioned at first.

And how life insurance should be incorporated is something we have to explore. And right now, we are discussing.

So are we going to change the percentage or are we going to incorporate different environment? That's something we have to explore and we have to discuss.

And the entire Group is going to enhance profitability. And under these circumstances, of course, we have to return to stakeholders and also shareholders. And we have to strike a good balance between the return and also the other investments and also for stakeholders. And that should be addressed in the next midterm.

And about the second point about midterm plan, next midterm plan, well, right now, we do not have any official discussions yet. And also, we already told the executives in each company to start discussing. And it's been already some months since the initiation. However, I'm not really saying we don't have any direction.

So we have these pillars. And one of the pillars is -- well, this might be qualitative. But as I mentioned before, as an entire group, in the next midterm plan, we would like to have a structural reform. We are going to incorporate services business as a structure and also structural reform in life insurance. And also P&C; and also the other, for example, nursing care business. And those should be included. That's the direction. Then qualitatively, they might know what they have to do.

And the next one is it might not be qualitative. But as I said, security and health and wellbeing of the patients and the customers are very important. So we would like to be something like a theme park company and we should give each company some targets.

So after the merger, as a group, total group, we would like to be a group that can address the global markets. To address the global market, that means we have to benchmark global players. And right now, I don't intend to specify how we should be; like number 12 or 18. But we shouldn't really say number 20 or number 50.

Well to address the global market, we would like to have qualitative and quantitative approach and targets. So that means we should have some targets for ROE as well.

Now why Japanese companies' ROE is so low, well, this is not only about Japanese financial industry. Overall Japanese ROE is low. Well maybe the profitability is low, or maybe some other factors. But we cannot really say immediately we should achieve 15% and that should be the level of the international companies. We cannot say that because we would like to have a customer-centric approach. But midterm and long-term, we would like to have a sustainable growth.

I'm sorry. I cannot really specify some numbers. That is a direction. Thank you very much.

## Operator

Thank you. Can we answer any other questions?

## Q - Tatsuo Majima {BIO 15338044 <GO>}

You talked about telematics earlier. So I have a question regarding this. The one that you're going to introduce this time is -- I heard that it's just about collecting data. Will this be --? I guess this will be reflected to your -- the rates next year, or do you think you can start this year according to the operating status? Will it be later? What is the timing of the reflection to the prices?

The other point about telematics is that I think it will be a burden of cost if you're going to really introduce this fully fledged. And I'm sure there's efficiency after you invest in this. But I wonder how the ROI of this investment looks like.

In the case of the United States, telematics is currently popular. But some of the P&C companies have just let go of this and they said, rather than just spending time on this, why don't we just invest in more TV commercials and increase revenue, they say. I was wondering, listening to this debate, how good the ROI is for telematics.

## A - Unidentified Speaker

Yes. So I would like to answer this one. In terms of telematics, the areas that we have started are still limited. We have started to take experimental measures in the fleet business first of all. And also partially in leaf [ph] too.

But well, it's not like because we did this we're going to get market share expansion. It's not like that. At this point, primarily it's, well, about pay as you drive. That's about the distance. But we can get more information. So the next step would be pay how you drive based on the characteristics of the driver and how they drove.

So we like to get the information there, learn to use this and make a decision ultimately whether this is something that we can use or not, or whether it is important for competition with our rivals or not. And so we would like to make these considerations as we go forward.

But in terms of ROI and how it will contribute to our profits, there is a risk of being adversely selected by our customers. Because we have this information, the customers will make their own choices to maybe go to a different type of product. And some people will stay with their conventional products because they decide that that's a better choice.

And so this adverse selection may have a negative impact on us. It may pressure us to [ph] consider various elements, not just the price. But other elements. And also, as we increase the number of customers, which is something that we are trying to do as a group, looking at not only the automobile insurance but looking at the other insurances, see how we can provide these services across the types of insurance. These are all the things that we need to review over a relatively long amount of time.

## Q - Tatsuo Majima {BIO 15338044 <GO>}

I'd like to follow up. Telematics is still quite expensive. So I think step by step, if this is supposed to penetrate more, I think the price has to go down. Otherwise, in the automobile dealer channel, if they try to sell their products with telematics, then it will probably be quite -- from the car purchasers quite a hesitation to step into this.

## A - Unidentified Speaker

I think that is the current status. Even if you think about it from the sales perspective, I think it's still quite expensive. So if this penetrates well into the market, I'm sure that time will bring down the prices and then it will be easier to use for us as well.

And I would add another comment, which should be last. And I think this is a very basic discussion. And so pay how you drive is how telematics is supposed to advance us. And so it will be a very risk-diversified insurance. If there's 10 people, there will be 10 different insurances. That is the ultimate idea of this product.

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And so some people because of this will have higher rates. The total fund probably should not change because there is the agencies' rates that are fixed based on their past track records. And they've calculated this all through history. And as long as they continue to roll over their calculation, the total fund will not change.

But the way you cut the total fund is going to change. And so this will be more a role [ph] where some people will lose and some people will benefit. Then we would have to have a discussion of whether this is really beneficial to the citizens or not. We would probably have to have the consumers' agencies and other governmental agencies together to look at this.

We have our reference rate. Should we continue to adhere to that or should we exit from that when we implement this telematics? This is not an easy discussion. But what we're thinking currently is if we are able to capture how you drive and allow the users to pay how you drive, maybe a young 26 year old person does not have to pay like a regular 26 year old would do; or a 60 year old person which have very much taken the burden for higher rates maybe don't have to.

There will be some adjustment. And I don't want this to be a stark adjustment all the way from the right to left. Therefore, this is not going to lead to a drastic structural reform or a big change in the picture of this industry.

## Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you.

## A - Unidentified Speaker

Do we have any more questions? If not, we would like to conclude today's presentation.

Thank you very much for being here today at our IR meeting.



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