NKSJ Holdings Inc Management Plan Presentation

Company Participants

- Kengo Sakurada, President
- Shinji Tsuji, Senior Managing Executive Officer
- Unidentified Speaker, Company Representative

Other Participants

- Hideyasu Ban, Analyst
- Jun Shiota, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Takanori Miyoshi, Analyst
- Tatsuo Majima, Analyst
- Unidentified Participant, Analyst
- Wataru Otsuka, Analyst

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

I am Kengo Sakurada. Thank you for your attendance despite your very busy schedule.

NKSJ Holdings has reviewed the NKSJ Group management plan announced in September 2011, which was to be completed in fiscal 2015. The plan was revised in view of a basic agreement on the merger of the Group's main P&C insurance firms, Sompo Japan and Nipponkoa, as well as subsequent changes in the business environment and other factors. The losses coming from the natural disasters and also the other insurance policies after the September announcement and also the cost impact from the merger has led us to review the business plan.

We would have liked to make this announcement earlier; however, we wanted to assess the impact accurately, including the IT system cost. So in that context, we decided to make an announcement recently, last week.

Today, I will be talking about the numerical target, as well as the strategies. And also capital strategy and our thoughts behind the shareholder return.

Please turn to page 1. Here are the main points of the management plan that were revisited. First, we revised up NKSJ Group's numerical management targets for fiscal 2015. In order to leverage on the full margin of Sompo Japan and Nipponkoa to realize a sustainable growth cycle, we will clearly identify the strategy for each business lines.

NKSJ Holdings will lead the way to enhance the corporate value on net asset basis by optimizing the business portfolio.

In the domestic P&C insurance business, measures for better efficiencies, such as steps leading to joint head office system, have already been taken prior[ph] to the merger of the two P&C companies. By achieving the targets out of the group management plan, we strive to reach the highest level of efficiency and profitability in the industry.

For the domestic life business, we will strategically allocate the Group's managerial resources to growing scale, while sustaining our focus on the more profitable protection-type insurance products.

In the overseas insurance business, we will hammer out clear strategies for personal and commercial lines respectively. And also for different regions. And refocus on select strategy. We will prioritize our initiatives so that it will have bottom-line contribution.

For capital management, we aim to maximize the capital efficiency while rewarding the shareholders in a sufficient manner by keeping steady dividend and nimble share repurchase execution.

Please turn to page 2. The slide shows a rough idea of our numerical management targets. We will strive for JPY180 billion to JPY210 billion as adjusted consolidated profit, aiming for an adjusted consolidated ROE of over 7%. The breakdown would be JPY70 billion to JPY80 billion from domestic P&C business, JPY100 billion to JPY110 billion from domestic life business, JPY13 billion to JPY20 billion from overseas. And JPY2 billion to JPY3 billion for financial services and others.

We will continue to achieve steady growth with the domestic life business, which in fact is driving the Group profits today.

Domestic P&C business, which is now in the recovery phase for profitability, you'll see a fundamental earnings improvement with the full merger.

Earnings contribution from the overseas in the financial services business would be just about 10% in fiscal 2015. But we view the two businesses to be extremely important. So we've strived to realize our vision to become a truly service-oriented company. So we will make investment as needed for these businesses as well.

On page 3, let me go over the changes from the previous management plan. The adjusted consolidated profit was revised up from JPY160 billion. As you can see on this slide, this is mainly driven by the domestic life business, whose adjusted earnings outlook was almost doubled from JPY55 billion to over JPY100 billion. Details will be provided later. But basically we revised up the projection for the value of venue[ph] policies, given that strategy to push more profitable products from Himawari Life is nicely penetrating into the organization, thanks to the fact that the life subsidiaries are already merged.

On the other hand, in order to grasp the reality in our business, we slightly revised on the outlook for the domestic P&C business. Though we will enjoy merger effect, we consider that it will take some time to improve the profitability of the other insurance business. So due to the time lag, we revised down the outlook.

At the press conference, as Mr. Tsuji mentioned, obviously for fiscal 2015 we have targets. But this will be a transitionary target. So much more important for us is how we reach in fiscal 2015 and look at the future beyond. But our aim is to gradually improve the profitability of our respective year leading up to fiscal 2015.

Please turn to page five for our domestic P&C business. As announced in March, when we disclosed our intentions for the merger, Sompo Japan and Nipponkoa will fully merge to form Sompo Japan Nipponkoa in the first half of fiscal 2014. We will become the largest in terms of topline in Japan. But that alone is not our intention and that alone will not guarantee our survival.

To grow in the domestic P&C market where there's no expectation for medium market expansion, we need to increase our market share in the P&C insurance business by earning high recognition from the customers, as well as growing the non-insurance services. We will strive to provide the top-notch service in this industry so that we will be the number one choice for the customer, not just by slogan but by reality.

For cost reduction, we have implemented measures such as joint head office system and sites co-location prior to the official merger. And we have set up a single virtual company and also have actually reduced the headcount.

And as insurance for the whole industry to improve the profitability of the auto business, we will revise our products in the premium rate, as well as step up our underwriting capabilities in order to improve the profitability of the auto insurance business to an ideal status.

Please turn to page 6. This shows the specific measures leading to the merger in effect. In sum, we will make steady progress by completing these tasks prior to the merger date. Also, we will make necessary preparations and facilitate this process to reach the merger date. Every day, I can first-handedly feel that we are making progress.

On the next page is about the merger synergies. For fiscal 2015, we expect JPY56 billion as merger synergies, JPY28 billion each from personnel and non-personnel expenses.

On the personnel cost, as Mr. Tsuji mentioned at the press conference, we will have some natural attrition. And on top of that we have implemented a voluntary retirement program.

So by fiscal 2015, the headcounts will be reduced by 4,800 compared to fiscal 2012. We aim to achieve the industry's highest level of personnel efficiency.

Apart from the added cost savings, we aim to lower the non-personnel expenses by cutting the rent, administrative and printing costs, among others. System integration will help in lowering the running cost as well.

Please refer to slide eight for the changes made from the previous management plan. Through the new plan, the merger synergies were calculated conservatively by limiting the project synergy criteria to just personnel and non-personnel expenses on a financial accounting basis, while not accounting for the accounting-based numbers. So in that sense, we have not reflected the benefits of topline growth and reduced payments of insurance claims.

The base year was changed from fiscal 2009 to fiscal 2011, which was another reason why the merger synergies under the new plan look smaller.

From fiscal 2010 to 2011, we have already achieved cost reduction of JPY10 billion. So if we were to use the same starting point of fiscal 2009, the synergy under the new plan would have been JPY66 billion.

We believe there will be additional merger synergies, such as topline growth driven by enhanced brand value. This extra expectation is not baked into the numbers.

Please turn to page nine. This is the newly calculated one-time merger cost compared against the previous one. The previous plan called for a JPY72 billion in total. But this was increased to JPY120 billion.

The previous plan projected minimum costs, assuming that rationalization will be promoted with one platform and two brands. In the previous plan, we aimed to reduce the one-off costs as much as possible by promoting one platform and two-pronged strategy; however, with the decision to merge, incremental costs for system integration, branch relocation, rebranding. And voluntary retirement program, which is now in place, were calculated in details and added on in a very conservative way. And so, in total we expect the one-off costs to increase by about JPY50 billion.

This is the one-off cost for ourselves. And compared to the one-off costs which was observed with the other financial institutions that merged in the past, I think this is a rational level.

And next is about the auto insurance business, which is the biggest piece of our P&C business in Japan, facing a big challenge for the industry. The insurance payment is calculated by multiplying the number of claims and average insurance payment per claim. The number of claims peaked out early 2011. And subsequently it continues to gradually come down. So we can say that the number has peaked out.

On the other hand, the average insurance payment per claim shows a rising trend. As a result of the calculation, the loss ratio in sum, although have stopped to go up, has stayed unchanged at a high level.

Please turn to the next page. The insurance business, particularly the auto process which is inevitable for the people of Japan, when the profitability deteriorates the current measure cannot be implemented immediately and there's always going to be a time lag in reality. The rate calculation committee of the new rate will be implemented. But in that sense there's always going to be a time lag for the companies to adjust their products and their rates to the reality. That is what we're seeing in the current auto insurance market.

With the recent rate revision, as the other companies have done so, we have made stricter reform, including revising the drivers rating system. And going forward, we will try to cope with the reality to develop and adjust our products and rates so that it truly reflects the reality of the insurance events. And I think this is the strategy we need to take. And obviously, we will make our own effort to further improve our efficiency.

Also, we will be reinforcing our underwriting capabilities. And also try to promote the prime repair shops so that we can reduce the payment per claim without sacrificing the quality of the service. We will also promote more active use of the recycled parts.

Please turn to page 12. This is an overview of how we aim to improve the earnings, by lowering the operating expenses and beefing up the profitability of the auto insurance business. The graph indicates a trend of the underwriting balance and the factors behind the changes.

To better show the improving trend, this does not reflect the one-time merger cost. And we have indicated the merger cost at the bottom of the slide with a footnote. As you can see, the underwriting balance this year will be roughly negative JPY30 billion. And it will continue to consistently improve every year. And in fiscal 2015, we will reach about JPY90 billion and it will continue to improve beyond.

Combined ratio will improve from this year's 102% to 95% in fiscal 2015, which will be an improvement of seven percentage points. The breakdown of a seven points' improvement on the combined ratio is indicated on the right. We project very little contribution from the claims payment side. Some improvement expected from revising the driver rating system is likely to be offset based on the conservative assumption that payment per claim will continue to rise.

Also in that sense, we expect no contribution from the claims payment side. Increasing premiums will contribute with the auto insurance business improving with the rate and product adjustment. And also expansion of the reinsurance business. This will have a five percentage points contribution. Two points improvement will come from our internal cutting -- from our internal efforts to cut operating expenses.

Please turn to page 13. This visualizes the new earnings improvement picture against the previous plan. Reflecting a tough environment for the auto insurance business, the starting point dipped into the negative zone for 2012. But by revising the rate for the auto policies on an ongoing basis, the losses will be overcome. And the underwriting balance for fiscal 2015 is expected to be similar to what we projected in the original plan.

Please turn to page 14. In regards to our strategy for auto insurance direct business, we believe that there is a momentum in the current auto direct business. And it's also making it more convenient with the advent of ICT[ph]. And also the customers' experience of improvement in accessibility of their IT[ph] devices.

Personally, I am highly interested in the growth potential of the direct business. So we would like to consider to take a more active part in the market. In observing the trend to a direct market, it is consistently increasing. And we believe this will continue for some time. And the market share is definitely going to be double digit in the near future.

As a result, from the conventional underwriter, the customers may shift to the direct companies. We have Saison Automobile & Fire as a vehicle for the direct business. High appraisal from the customer and strategic targeting should enable us to outperform the market growth. This is just the beginning. But I can already feel the result of our efforts.

Now, let me turn to the domestic life business on page 16. As the P&C business, the domestic life market is on the contracting trend. But we leverage on the strong position of being a live company within the P&C group. The annualized premium of business in force grew by roughly 10% in the last three years. Relatively more profitable medical insurance has grown by a little less than 40% over the same period.

The growth of the high-margin protection-type insurance, particularly the strong jump in the medical insurance, has resulted in the rapid growth of MCEV, which reached JPY615.3 billion at the end of fiscal 2011.

Please turn to slide 17. The domestic life business for the NKSJ Group undertakes business strategy focusing on maximizing the EV. We use MCEV for disclosure, a highly reliable and transparent standard.

Since the merger of the life companies in October last year, product strategy focusing on the EV-centric protection-type product has penetrated well in the organization and it has been very successful. Promotion of the life policies on the P&C distribution channel is also making progress. As a result, the adjusted EV grid for fiscal 2011 stood at JPY100 billion, partially reflecting some one-off factors, such as experience variances and assumption changes.

We will strive to increase the EV on an adjusted basis by JPY100 billion to JPY110 billion leading up to fiscal 2015 by keeping the product portfolio focused on protection-type products, while steadily expanding the business in force with new policy sales.

Please turn to page 18. I don't believe I need to explain this to you all as you're analysts. But this shows an image of EV and how it contributes to the periodical P&L. Please take a look at this slide.

Please turn to page 19. More companies in Japan are disclosing EV; however, there are various types of disclosure, such as TEV, EEV. And MCEV. The NKSJ Group has adopted MCEV as our numerical management target as its assumptions are the most consistent with market assumptions, enabling elimination of the arbitrariness of the Company.

Please turn to the next slide. Here are our product and channel strategies. Products will be centered on high-profitability production-type products. Channel-wise, the focus will be on the P&C channel. Since the merger of the two life insurance companies in October 2011, this sales strategy has been accelerated and has become established.

Comparing the 12 months before and after the merger, the weight of protection-type products increased from 49% to 56%. As for the P&C insurance channel, its contribution has increased from 59% to 61%. It has been increasing little by little. But steadily. We will continue to promote this sales strategy.

Please turn to page 21. Sales will continue to be centered on the highly profitable protection-type products. In our approach to Japan's largest P&C customer base, which is our strength, there are about 20 million people, it's said. This customer base will be reinforced in order to expand sales. This will be key.

Compared to an annual average increased rate of 2.7% for overall ANP, the plan is to grow protection-type products by 6.1%.

For channel expansion, against 2.7% growth for the overall channel, we expect the P&C channel to grow by 4.3%. We will strengthen the alignment between the life insurance and P&C businesses in order to achieve the plan. And for management resources, we would like to shift the resources accordingly to the profitable businesses.

Next on page 23, we will talk about the overseas insurance business. Existing overseas sites have already started the integration process. The integration started before the two domestic P&C companies merged; hence, it is expected to be completed during fiscal 2013. The aim for net income in fiscal 2015 for the overall overseas business is JPY14 billion to JPY20 billion, which includes M&A contribution on top of existing operations.

Regarding -- on page 24, regarding overseas investments, I believe there are three different stances amongst the three mega organizations. But we have specified and prioritized regions which we will invest in so that, for one, we can avoid dispersion of management resources. Or in other words, we won't be doing anything we don't understand and we will be able to implement measures that will ensure success, that we are capable of executing. Especially in the retail sector for emerging countries, the idea is to set the automobile insurance business as the core and expand out the products we have strength in. We have determined that we will be able to roll out measures to succeed by leveraging our expertise from the Japanese market.

Though mergers and acquisitions, we will be following this policy for emerging countries. For key markets, such as Brazil, Turkey, or Malaysia in which we are already about 10th in the market, we aim to become a major player and establish a steady scale in order to ensure steady earnings so that we can be fifth in the market or above. This will include mergers and acquisitions.

Apart from the retail sector, as for the corporate sector, the basic policy is to generate stable earnings. I believe this is what people are thinking on an industrywide basis by distributing risk. We will look into M&A opportunities is the specialty field in western countries. And this might not be directly related to the overseas business. But we would like to also expand our B2B business, such as reinsurance.

On page 25, we talk about risk management. We learned lessons from the flooding in Thailand; therefore, we did a review related to an aggregate risk management system for the overseas market. We have started to rebuild the aggregate risk management system for overseas natural disasters following the floods in Thailand and expansion of the overseas insurance business. A reevaluation of all the regions and risks for which we have exposures to, such as wind and flood-related disasters in the US and Europe, as well as earthquakes in the US, have been addressed. And we have confirmed that there are no large aggregate risks we are unaware about.

Of course, our policy is to continue to see strength in the risk management system for natural disasters. If a disaster happens in one country, it can impact other countries. So we will look at this type of repercussion risk as we reinforce our operations.

Please turn to page 26 where we talk about the overseas reinsurance business that I mentioned earlier. So the overseas reinsurance business is a very steady and efficient market already. And we don't have to have sites on a local basis. But we are able to gain earnings from the markets. And from the viewpoint of diversifying global risk, we will continue to develop the overseas reinsurance business.

There are three prioritized categories. One is in Asia, which has a high growth potential. We have had a local presence in Hong Kong for over 20 years generating results. We also take general risk in western countries, as well as a certain level of exposure to overseas natural disasters, which is volatile but highly profitable.

With regards to these three categories, we would like to continue rigorous risk management as we strive to expand the business whilst generating profits.

Regarding quantitative products targets for net premiums written, we strive for JPY60 billion in fiscal 2015, as shown in the chart, which will account for more than 3% against total net premium written. We would like to increase topline, as well as earnings.

Now I would like to talk about the capital management policy on page 28. The basic policy, as shown in the title, for capital management has not changed since the NKSJ Group was established. We will balance three imperatives, namely maintaining financial soundness, improving capital efficiency. And increasing shareholder returns while aiming to increase corporate value, which is, in other words, increasing NAV.

For maintaining financial solutions, we target a credit rating of AA whilst we continue to reduce strategic holding shares. Regarding improving capital efficiency, we aim to be able to achieve an ROE of 7% or more constantly. The capital buffer generated by reducing strategic holding shares will be used for growth investments.

The basic policy for shareholder returns is unchanged. I will elaborate on this later. But first, please turn to the next page, page 29. On this slide, we look at the management plan from a capital and risk perspective. As of end of September this year, as you can see in the center bar chart, the capital buffer stands at JPY310 billion. The solvency ratio, capital divided by risk, is 121%. It says 0.31 -- it says buffer on the slide. That's what I am talking about.

After executing the management plan, profits should accumulate to where the bar graph on the far right shows. That would mean a larger capital buffer of JPY530 billion and a solvency ratio of 135%.

The chart on the right-hand side shows the sensitivities of the solvency ratio as of September 30. You can see that sensitivities are still high towards the stock market. We acknowledge that the reduction of strategic holding stocks continue to be an important management agenda. We would like to continue to watch the market; however, we would like to push forward the challenges we have set so that we can reduce the strategic holding stocks.

Based on this, please turn to page 30. We have strived to reduce strategic holding stocks by JPY300 billion over a three-year period from fiscal 2010 to 2012. We have broadly reached agreement already with the issuers regarding this fiscal year's reduction target of JPY127.1 billion; however, we will also consider the protection of shareholder assets on the other hand and sale at the best timing as we see some signs of improvement in the stock market. We are not going to sell down to stocks mechanically. But try to sell at the best timing.

However, we don't believe that the reduction of strategic shareholdings is enough, even after we achieve plan, when considering capital efficiency or future tightening of capital restrictions, which is likely to happen. We are considering on having an even larger reduction target in the next period.

Please turn to page 31. This is how we envision the asset portfolio over the medium term. Strategic holding stocks now account for over 30%, which will be brought down to the 20% range after reduction. The reduced amount will be reallocated to yen-denominated bonds, as well as investments in overseas insurance company M&A opportunities. Of course, nominal yields would be lower when comparing shifting from domestic stocks to yen-denominated assets; however, the capital buffer expansion coming from the reduction of stocks will allow us to generate profits in growth areas and the reinsurance business, leading to better capital efficiency on a Group-wide basis.

Please turn to page 32. This is a diagram showing how efficiency will improve through appropriate allocation of capital. You can see the ROE 7% line. Some of the businesses are above that and some are lower than that. So we would like to implement measures so that the businesses can exceed the 7% mark.

Please turn to the next page. Here are some numbers from a shareholder's capital return perspective. Net asset value per share at the end of this fiscal year is expected to reach JPY4,600. Total NAV is expected to be around JPY1.9 trillion. If we achieve the numerical targets as planned, NAV per share, including dividends, will increase by JPY1,200, reaching about JPY5,800 at the end of fiscal 2015. The increase from JPY4,600 to JPY5,800 will mean annual average growth of roughly 8%.

A breakout of the JPY1,200 increase is shown on the right by factor. The biggest contribution will be from the domestic P&C business. The business will lead the way with its profitability-focused strategy to steadily increase MCEV. They will drive the entire business. And by the end of fiscal 2015 the life insurance business is expected to exceed 40% in contribution out of total NAV.

Of course, we will make efforts on the P&C business as well. But in reality for the P&C business, cost-reduction measures are being implemented and we need to improve the profitability of the auto insurance business, which are our biggest themes. So it will take a little bit of more time. Its contribution leading to fiscal 2015, hence, will not be that large. In other words, when structural improvements are completed in future years, contribution to NAV per share will take place in earnest.

Stock buyback contribution is anticipated at JPY190. This is based on the assumption that dividends are kept at JPY60 and overall shareholder return levels, including buybacks, are maintained at 2012 levels, which is this fiscal year.

Please turn to the next page. Regarding shareholder return, like I mentioned, we will maintain our policy of paying several dividends. We aim to flexibly return profit to shareholders. The medium-term target for the total payout ratio of 50% of adjusted consolidated profit is unchanged. We have reduced our prospective dividend for fiscal 2012 from JPY80 per share to JPY60 per share; meanwhile, by buying back shares we expect to maintain total return, which includes dividends and share buybacks.

Also as announced, for next fiscal year, interim dividends will be paid out. We show on this slide an image of shareholder return beyond 2013. We will firmly maintain a policy of paying stable dividends as we conduct buybacks, depending on capital conditions.

From the next page, here we show the numerical targets of the new management plan. Whatever the case may be, we would like to -- we took time to put together this management plan. So we would like to ensure that we achieve the numerical targets and we hope to update you on a regular basis. And we would like to make efforts on a Group-wide basis to achieve this management plan.

This concludes my presentation. Thank you very much.

Now we would like to take questions from the floor. Please state your name and affiliation before asking the question.

Questions And Answers

Q - Masao Muraki {BIO 3318668 <GO>}

I am Muraki from Deutsche Securities. I have three questions. On page 35 the overpay[ph] of the targets. For the expense ratio, excluding CALI, for fiscal 2011, which was 35.4%, you expect that we improve to 32.6% under your plan. In this number, JPY56 billion reduction will come from the lower operating expenses, the net premiums written, excluding CALI, is JPY1.7 trillion. So just this will give an improvement of three percentage points.

And for the agency fee, what is your outlook for the agency commission?

And in improving the profitability, I have another question. On page 13, if you look at the diagram, the topline growth of the premium, the underwriting balance will be improved due to that. That's about JPY80 billion from this chart. As for the details, the retribution[ph] for the auto policies, which is already decided. And also expansion of the overseas reinsurance business, I think, is included here. On these two points, what kind of impact is this already included? For the revenue growth prospects.

And my second question is about the capital policy. On page 34, look at the diagram. The shareholder return this year is JPY33 billion, including share buybacks. And in fiscal 2013, 2014, it goes down. And then from fiscal 2015 and beyond it goes up again. This is what I see from the diagram. But on page 33, if you look at the footnote 3, you plan to the share buyback every year so that the shareholder return will be comparable to what was observed in fiscal 2012. What kind of assumption are you implying in these statements? What is the actual shareholder return going to be?

A - Kengo Sakurada {BIO 15149542 <GO>}

I think there were three questions. First is about the agency commission. Second was about the improvement of profitability out of the JPY80 billion, which is coming over the overseas reinsurance business. And what portion is coming from the old direct revision which is already a decided. What are the contributions of these two factors? And the third question was about the shareholder return, the policy and actual numbers. Are there any contradictions between the two?

Let me first answer the first question about the agency commission. The agency commission is based on the rate. So if we grow the revenue, the absolute value of commission will increase. Also in that sense, in terms of percentage points, it will not change on our operating expenses. So right now are we considering measures so that the commission fee will not go up in commensurate with the topline growth? So I can say that it will not go up pro rata to the revenue growth. But how much cost savings or how much increase we can contain is still under discussion.

In the second point about the overseas reinsurance business and the rate revision for the auto policies, there still some uncertain factors. But for the auto policies, out of the JPY80 billion the contribution will be made from -- a contribution of JPY50 billion will be made from the auto policies. And for the expansion of the overseas reinsurance business, roughly JPY30 billion will be coming from that. So out of the JPY80 billion a large proportions will be coming from these two businesses as contributions.

So these are the two factors which are already decided with high visibility. And on your last question, about the shareholder return, I was not sure I accurately understood the question. So can you repeat your question again?

Q - Masao Muraki {BIO 3318668 <GO>}

On page 33, on the footnote, you mentioned about the share buyback which is equivalent to JPY20 per share. And you said that you will continue to do this going forward. Meaning that the shareholder return in total is going to be JPY33 billion in the coming future. And if that is going to be the case, I guess you do not need to change the mix of the shareholder return coming from dividend and share buyback.

And in fiscal 2013 and fiscal 2014, does this diagram indicate that there is no share buyback? And for 2015 and beyond, you don't know the mix yet. But you intend to return the shareholder -- the amount which will be comparable to the previous levels. So in that sense, next fiscal year, are you incorporating share buybacks in the plan or not?

A - Kengo Sakurada {BIO 15149542 <GO>}

This time we announced a policy to buy back shares. As such, when our share price is undervalued compared to our intrinsic value we want to execute a share buyback. Also maintaining the JPY60 is our medium-term target that we would like to uphold. And I can say that we will maintain this level.

But the share buyback beyond 2013 is not guaranteed. Because it's subject to -- on the price level of our share price. So we would like to execute the share buybacks nimbly. And this does not guarantee that we will execute the share repurchase.

Q - Masao Muraki {BIO 3318668 <GO>}

For the first half, with regards to agency commission and amendments, you haven't accounted for it in your plan. However, you're going to think about some measures. Is that the way I should interpret your comment with regards to JPY50 billion from auto and the profitability improvement? If you just implement the measures that has been decided, I don't think it would be sufficient. Which means, are you going to amend the rates even more? Have you accounted for this in your plan already?

A - Unidentified Speaker

With regards to agency commission, the rates are the existing ones that have been applied. For P&C, the increase of a consumption tax has not been accounted for. If consumption taxes are going to go up, rates will be amended once again. That's what I surmise. In that case, agency commission will be a separate theme we will need to consider.

And Mr. Sakurada talked about JPYD50 billion from auto contributing to the profitability improvement. If I may follow up on his comment, starting from October this year, for most of the companies and industry they have amended their driver rating systems. And based on that, out of the JPY50 billion, about half of that will be achieved by fiscal 2015. That has been accounted for. Thank you very much. Any other questions?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I'm from J.P. Morgan, my name is Tsujino. I have several questions related to numbers. Page 12 is my first question. The one-time merger cost. It's shown how much it's going to cost at the very end. But if there are any extraordinary losses, let me know. Second question is, for this fiscal year, for underwriting profit beginning of the year plan. And when you look at your full-year performance, when you look at the breakout of cost and expenses, first of all on the Sompo Japan side, the claims for Sompo Japan is expected to increase by JPY15 billion.

And I believe that this is accounting for the increase of insurance payment claims, the unit insurance payment claims. How much have you accounted for this on the Nipponkoa side from auto? Claims is not expected to go up that much higher. So I was wondering why there is a difference of trend between the two companies?

Third question is related to life insurance. You talked about growing the life insurance business over the medium term and new business for medical insurance has been growing up substantially. But for this fiscal year, a year-on-year decline is expected to happen. You talked about reallocating people. But I was wondering under what mechanism you are going to grow the life insurance business. Can you talk about this in detail, about how you're going to leverage your sales force?

A - Kengo Sakurada {BIO 15149542 <GO>}

With regards to extraordinary losses, for personnel and non-personnel cost, we are thinking that part of it will be extraordinary losses. But for system cost we will make decisions accordingly. So at this moment in time, we haven't made a decision of which item it's going to be recognized under. So the one-time merger costs that is shown here is not necessarily fully extraordinary losses.

Regarding your second question, regarding the expectation difference between Sompo Japan and Nipponkoa for automobile insurance, in the first half, when you look at the trend of both companies for auto insurance, the number of policies for Sompo Japan has been on the rise. As for Nipponkoa, the number of enrollments have been going down.

Therefore the expectation for claims is different between the two companies. With regards to unit insurance payment of claims, we have the car insurance as well as the casualty insurance. But for cars that are subject to the eco-car system, there has been more electrification happening. So the components are more complicated and complex. And we have accounted for that in our expectations.

Also, for our life insurance business, our companies last year as of October 1, Sompo Japan Himawari Life and Nipponkoa Life have merged together and 12 months have passed already. So we are in year two since the merger. We used to have whole life types of products being sold by Nipponkoa Life. However, in order to increase MCEV, which is our policy, we have been carrying up evaluations internally and we are trying to sell more of third sector medical insurance and protection-type insurance, because it's evaluations are higher.

The channels that used to carry the conventional types insurance -- have been focusing more on protection-type, higher profitability insurance and 12 months have passed already since they've started to carry this kind of insurance. Therefore we are seeing growth in their businesses. That is one thing I can mention.

Also within the group, we have four business categories -- P&C, life insurance, overseas and other financial services. For P&C we would like to rationalize and streamline the business continuously and we have about 4800 people. And from 2012 to 2015, we would like to continue to reduce the headcount. Within the group, we have growth areas positioned such as life insurance and other businesses. And we would like to shift our personnel to these businesses, from the numbers perspective as well as from a quality perspective. And that is how we formulated this business plan.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So how many people are you going to shift and what are they going to do? And for the agencies are they going to be supporting the agencies, or are they going to be engaging in consultant-type services?

A - Kengo Sakurada {BIO 15149542 <GO>}

For P&C and life insurance, the cross-sell ratio at this moment is about 6% to 7%. So more than 90% are being sold individually. For the life insurance companies, 90% of revenue comes from the agency channel. However, there are agencies that are active and there are nonactive agencies for life insurance. Therefore, for the nonactive agencies, we would like them to become active in selling life insurance. And that is how we are going to shift our resources so that we can make these agencies active.

With regards to numbers, or how many from the P&C companies, there are people that are secondary to the life-insurance organization; that would be about approximately 300 people at this moment. Regarding our direction in the future, we haven't made a final decision yet. But on plan by 2015 fiscal year we would like to shift 100 more people. So that we can turn the nonactive agencies into active agencies. That is what we would like to focus on.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

My name is Miyoshi from Goldman Sachs. I'd like to ask about the net premiums written. In your plan for fiscal 2015, it were JPY1.7 trillion, which is 5.3% growth. And with the reduction of the operating expenses I think it will happen, a 1% contribution. But looking at three years from now, I don't think you can easily grow the topline because you have to rationalize the organization and also reduce your operating expenses.

Also in terms of business management it's going to be very difficult and tough. But against that backdrop, how do you plan to increase your topline? Please tell me if you have any specific measures in place.

A - Kengo Sakurada {BIO 15149542 <GO>}

There's no particular strategy. But what's evident is that we have not incorporated the topline synergy in our numbers. In the past we have been promoting two brands and have been working together to promote the business. But now we will be working under one wheel and that was -- going to be make a huge difference.

And in that sense, there is a synergy that we can anticipate. One is that in the retail business we can exit back[ph] synergy, because in the respective markets there are areas where one is strong and one is weaker. And obviously, for the financial institution channel, for particular financial institution and Nipponkoa may have a long-standing relationship with that organization. And that can be applied to Sompo Japan's business where we lack that strength. And we can do vice versa.

We can also get greater capacity in the reinsurance market. So with these factors we expect to see a good topline growth potential. So that's one potential that we are foreseeing. And in addition to that, regarding the reduction of the operating expenses, the personnel cost will be lowered and also nonpersonnel expenses, particularly IT cost, will be lowered. And I think those are the key elements.

So we will closely monitor these two expenses to rigorously manage the cost. The overall market is not likely to grow rapidly. So in order for us to increase our bottom line, we need to implement measures that I just explained. And we have decided to pursue a merger instead of two brands. Also we believe our vision as an organization is going to be different from what we previously upheld.

We cannot say how many percentage points is coming from topline synergy and how much is coming from the operating expense reduction at this point. I am not sure if I have gently[ph] answered your question but if you have any follow-up question, I would be happy to take that.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

Thank you very much.

Q - Jun Shiota {BIO 4127431 <GO>}

I am Shiota from Daiwa. I have two questions. With regards to the voluntary retirement system, I believe you are currently asking for people to apply. And as you are going to cut 4800 people going forward, have you accounted for another round of cutting personnel?

My second question is with regards to P&C direct sales which you talked about on page 14, for this business -- profitability, I believe, is deteriorating. So I was wondering how you view profitability of this business going forward? And you said growth that exceeds the market. But when you talk about the market, are you talking about the direct automobile insurance market or are you talking about the entire P&C market when you say outperform? Those are my two questions.

A - Kengo Sakurada {BIO 15149542 <GO>}

With regards to the retirement program, we have just initiated the process. So it's hard to talk about this. But I wouldn't say it's happening steadily. But you can say that things have started to move in line with our expectations. There have not been any negative surprises. So that's where we stand.

Therefore, out of the 4800 people you asked a question about, are you going to have another round of early retirement programs. If people don't apply at this moment, no, we don't have plans for that to happen. With regards to profitability of pure premium, we do expect it to go down. But for the direct business, I believe the direct business at a company like NKSJ engages in not only focus on the profitability of this business in particular. But looks at the entire P&C business to see how the direct automobile insurance business contributes or not.

So with regards to corporate cost, agency commission has been taken out. But we need to control the advertising expenses. So for automobile insurance overall, I believe this will account for 60% of the Japanese market. So if losses continue, I don't believe this will have a positive impact on the economy. So Sompo Japan, Nipponkoa, both need to make efforts to improve efficiency and profitability.

However, rates also need to head towards an appropriate direction. So I believe, going forward, our profit and losses will balance eventually. Then, the biggest line of our business, which is automobile insurance, is something we need to go after. We can't have our market share go down and that is why we believe the direct business is required. So we would like to implement this business based on that stance.

And with regards to outperforming the market, when we are talking about the direct market here on the slide, as you cherry pick, our direct automobile insurance business are insurance products for adults. We target people in their 40s and 50s. At this moment we have no intentions of changing our strategy. Any other questions?

Q - Wataru Otsuka {BIO 16340098 <GO>}

My name is Otsuka from Nomura. I have two questions. The first one is about page seven and page 9, the synergy and costs. The merger impact is JPY56 billion and the one-off cost is JPY120 billion. And if we do a simple calculation, the one-off cost is larger than the merger impact.

However, in your future plans beyond the current presentation, are you going to catching up or making up for this one-off expense, or as you have said on page 8, on the topline synergy, which is not incorporated in the figures, it will be enough to offset the bigger gap of one-off expenses. Can you give me an idea of the cost and synergy benefit?

And the second question is about the overseas reinsurance business on page 25, 26. I want to confirm the diagram on page 25. On the size of the pie, is the amount of the aggregate risk, is that the right understanding? And is this the aggregate risk for you or the aggregate risk for the market?

And based on that, when we look at page 26, are you going to assume reinsurance based on the aggregate risk that you have indicated on page 25? So can you elaborate the pages 25 and 26?

A - Kengo Sakurada {BIO 15149542 <GO>}

Your first question, it's both. Meaning for the one-off cost, it will be incurred as a one-off cost leading up to fiscal 2015, including 2014. And for synergy, we only look at single year fiscal 2015. But we can anticipate more synergies to come in the following years. Also, we should be able to collect on this cost within a little over two years.

And another question about the topline synergy and how we look at that potential, is that if we can realize the topline synergy, well then our payback period will be shorter. But it is not incorporated in this figure in our current presentation. So in this presentation, we are doing simple compression of how much cost savings will help to compensate for the one-off merger expenses. And regarding the aggregate risk, I will have Mr. Tsuji answer this.

A - Shinji Tsuji {BIO 16148256 <GO>}

This is aggregate risk for our group. And a slice of the pie in a way indicates the rough image of the aggregate risk in respective markets. We have overseas subsidiaries and also overseas branches, which is the same as this aggregate risk for natural disasters. And on page 26, this is just the overseas reinsurance business on page 26. But to date, as you can see on this slide, we have the existing overseas reinsurance business.

And along with the market, where we have some presence and business relationship, we aim to expand the business, leveraging on the existing clientele base and relationships. So in that sense, we will look at the aggregate risk of the natural disasters to expand our reinsurance business for the natural disaster, assuming that since these two slides are closely related.

Q - Wataru Otsuka {BIO 16340098 <GO>}

The portion is very large. But it seems that you have a good management over this. So does it mean you have more room to grow that reinsurance business?

A - Kengo Sakurada {BIO 15149542 <GO>}

Yes. That is correct. Any other questions?

Q - Hideyasu Ban {BIO 15250840 <GO>}

I am Ban from Morgan Stanley. I have two questions. I'm sorry I'm repeating this question. But for adjusted profits and for dividends, it was about JPY70 billion excluding life insurance. Timed[ph] 50% is JPY35 billion. Then, dividends can revive back up to JPY80 from JPY60. Is that the image I can have? That's my first question.

Second question is related to your capital policies raised on page 29. As of March 2016, the risk amount is not going to really change compared to the end of March 2011. But expanding underwriting will lead to bigger risk. However, you will also reduce risk by cutting the strategic holding shares. So with regards to cutting risk, apart from reducing strategic shares, how are you going to reduce risks?

Are you thinking about a different way? And also compared to March 2011, the buffer was JPY500 billion. That's the picture you have by the end of March 2016 or the solvency ratio is 135%. But how should we look at this number?

A - Kengo Sakurada {BIO 15149542 <GO>}

So with regards to adjusted profit, yes, on a calculated basis that's how it would turn out. If we have JPY35 billion we would say, okay, we can automatically bring it back up to JPY80 from JPY60. But on a -- we will think about whether it's important to increase dividends or show net asset value per share. But basically, our ultimate target is to grow corporate value. That's what we believe is important.

But of course, shareholders will evaluate highly monetary rewards, if that's their point. We would probably go through an appropriate level of increased dividends. But at this point in time it's really hard to say, yes, we are going to revive back dividends or not. But we do put importance on NAV.

From that end, we would like to put importance on the life insurance business growth, as well as the profitability improvement of the P&C business, although it might take time. Through the measures we have talked about today we would like to improve its profitability. With regards to the risk amount as well as the buffer, the target we have, as mentioned earlier, is more of ratings.

We would like to strive for AA. So that is why we have the JPY530 billion buffer, or the 135% solvency ratio. In order to reach those ratings, that comes first. So with regards to the plus and minuses, the minus factors would be the sales of strategic holding shares. Including reinsurance, we would like to review our portfolio. But we have accounted for that regarding underwriting risk.

Q - Hideyasu Ban {BIO 15250840 <GO>}

Thank you very much.

Q - Koichi Niwa {BIO 5032649 <GO>}

My name is Niwa from SMBC Nikko. In improving your P&C business. And also capital allocation for your different businesses, please elaborate. First, on improving the P&C business on page 12, how should I read this diagram? You have the positive underwriting balance impact and should I net the one-off cost, mature cost? It looks like until fiscal 2014, the business is going to be very tough.

But the one-off margin expense, are they going to be incurred in a big chunk in fiscal 2014, or does that also mean that they we will have to wait until fiscal 2015 for us to see the improvement in the business? And also I'd like to ask a question about page 32. Regarding the allocated capital on the right axis, how much capital are you allocating in different businesses based on what kind of policy?

My interest is the P&C business probably will see an improvement in probability going forward. But do you really need to allocate that much capital? That's the intention behind my question.

A - Kengo Sakurada {BIO 15149542 <GO>}

Yes, on your first question, I think in a nutshell, on a P&L basis, you included the extraordinary losses, meaning including the one-off merger cost. When do we expect to see the improvement in profitability, including on the extraordinary losses? On page 12, as you can see on the graph at the very bottom, you have the one-time merger cost listed.

As you pointed out, in fiscal 2014, it goes up quite substantially. This is mainly for servicing the IT systems. So if this is gone on then, the merger costs will pick out so the profitability should improve beyond that. So ultimately, for the bottom line, reflecting other cost to improve, there is a big challenge we have to overcome in fiscal 2014. So the bottom line should start to improve from fiscal 2015 and beyond.

And if I may reiterate, we know the reasons for the profit pressures. So I believe we can monitor this profitability levels. In regarding the allocation of capital, ROE 7% is a threshold, not just for P&C business but for all the businesses. And looking at the profitability of the P&C business, over the short-term we cannot see a rosy future and we cannot expect to see a big jump in the profitability.

And I think your question was, why do we need to allocate so much capital for that business? And I get your message. Also we have to look at this very closely. The point here is, I think about this a lot recently, that we have the P&C market industry in Japan, which is JPY8 trillion. And in the past, just the auto business has been generating JPY100 billion of underwriting balance in the past. I don't think we will be able to go back to that period.

As a system, we have the auto insurance, the fire insurance and also insurances to protect against the natural disasters. We have reconfirmed particularly with the big earthquake in March 2011, that is necessary. Also the industry and also NKSJ must make an internal effort so that the system can be maintained.

Then, if that is the case, we should be able to generate a certain level of profitability. And although we would sometime like if we were able to improve the profitability, then we need to allocate this much capital to cover for the risk included. The period may not just be 2 to three years.

A lot of the companies in the industry is making efforts to improve the profitability of the auto insurance policies and this will take multiple years. But sometime in the future I am definitely confident that we will see an improvement in the auto policy business. Any other questions?

Q - Tatsuo Majima {BIO 15338044 <GO>}

I'm from Tokai Tokyo, my name is Majima. My question is regarding page 26, your reinsurance business. That's JPY60 billion of overseas assumed reinsurance net premiums written, which is expected to double. And JPY20 billion was underwriting profit that you were expecting. So this JPY20 billion is based on the assumption that you're not going to achieve it. So obviously, if there is a natural disaster, you might be generating a loss. Is that the way we should interpret this target?

Or, by making use of the latest technology available, have you done a rigorous analysis of putting together this underwriting profit target of JPY20 billion?

A - Kengo Sakurada {BIO 15149542 <GO>}

Actually, Mr. Majima, where did you get that JPY20 billion number?

Q - Tatsuo Majima {BIO 15338044 <GO>}

Overseas reinsurance, JPY20 billion?

A - Kengo Sakurada {BIO 15149542 <GO>}

No. For the overseas business, JPY20 billion is the target. It's not just limited to the overseas reinsurance business. Of course, it's sourced from overseas. But is actually included under the domestic business. The underwriting profit is not shown here. But it's several billions of yen. So it's not that high.

Q - Tatsuo Majima {BIO 15338044 <GO>}

All right. My next question is, where this business going to be developed? Is this going to be operated from Tokyo, or is it going to be distributed over various bases overseas? If that's the case, would you need to allocate capital? How is it going to be operated?

A - Kengo Sakurada {BIO 15149542 <GO>}

With regards to reinsurance, we will be doing it at our headquarter office. Regarding page 26, we would like to expand this business by JPY30 billion and this operation will be covered by headquarters.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you very much.

Q - Unidentified Participant

My name is Suzuki for Mitsubishi UFJ. On page 33, NAV of JPY5800. What is the assumption of the number of shares issued, share price and interest rate on this JPY5800? And also the share buyback that you plan, are you assuming canceling these treasury stocks?

And the second question is regarding dividend, if the merger process is smoothly making progress and you have also revised up the adjusted earnings outlook, also I feel that you don't need to reduce the dividend per share. Why did you decide to reduce your dividend payment per share?

A - Kengo Sakurada {BIO 15149542 <GO>}

First, on the assumption I will give -- we will give the numbers from the Secretariat[ph]. The share price is, as of September end, JPY1528. And for the issued, it is as of September end, of 450 million shares. And as for interest rate, roughly 1% for Japanese interest rate.

And as for the cancellation of the treasury stocks, after buying back the shares, whether we want to immediately cancel the shares or not, we have not made a final decision yet. We may hold onto it for some time. And we have business plans, including various M&A opportunities. Also the treasury shares may be used for those purposes. Also we will be very nimble in making a decision for canceling the shares.

Thank you very much for your thoughts and questions. And obviously, this was a very difficult decision for me to reduce the dividend from JPY80 to JPY60. On the net asset value, this is not a reduction of return but in terms of dividend it is a reduction.

And with the earnings outlook, while we may not have had to reduce our dividend, one thing that was on my mind was the valuation on our share price. The dividend payout and looking at a dividend payout, our share was considered to be a high yield share. But as a business manager, we didn't want to be too focused on the high dividend yield to appeal to the stock market.

I do not think that it was a sustainable approach. And I thought that it was most important for us to enhance the corporate value in the eyes of the shareholders. Also, in order to enhance the corporate value, we came up with different measures. One of that was MCEV, focusing on the life business, because it will have a long-term impact, though it may not give us a quick jump tomorrow.

And when we think about the frontloaded investment, we wanted to have some capital buffer so that we can make investment. And also, looking at the three main group -- insurance groups, in order for us to be unique, having a high payout ratio was also important. But vis-a-vis the peers, we wanted to enhance the NAV to reach a comparable level.

And in order for us to pursue the future growth, we wanted to enhance the NAV. So at the Board meeting we reached an agreement and, as a basic policy, we would like to pay steady dividend and also maintain the current return policy to shareholders.

This is critical for us. So that's why I share it with you, some of the discussion that took place internally. Thank you very much. Any other questions? As time has come, we would like to conclude the investor relations meeting. Thank you very much.