Sompo Holdings Inc Mid-term Management Plan and FY2019 to FY2020 of the Plan Presentation

Company Participants

- Kengo Sakurada, President, Group CEO, Chairman & Executive Officer
- Masahiro Hamada, Group CFO, Group CIO, Executive VP & Director
- Michael James McGuire, CFO
- Mikio Okumura, Group CSO, Executive VP & GM of Office of Group CEO & Director
- Unidentified Speaker, Unknown

Other Participants

- Kazuki Watanabe, Research Analyst
- Koichi Niwa, Director and Analyst
- Koki Sato, Senior Analyst
- Masao Muraki, Director and Senior Analyst
- Natsumu Tsujino, Senior Analyst
- Tatsuo Majima, Senior Analyst
- Wataru Otsuka, Analyst

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

Hello. I am Kengo Sakurada of Sompo Holdings. Thank you for coming today despite your busy schedules. Numbers for fiscal year 2019 -- I'm sorry, the mic was not on.

Numbers for fiscal year 2019 have been disclosed already last week on the 20th. So today, I will explain mainly about our strategies in the second half of our midterm management plan that covers fiscal years 2019 through 2020 as well as numerical management targets.

Please turn to Page 4. The 5-year midterm management plan started in 2016. And the first three years have passed, leaving us with 2 more years in the latter half. Looking back at the strategies of the midterm plans set three years ago, the key points were: first, to strengthen the superiority in each of our businesses and promote digital strategies, enhance collaboration between businesses and to utilize our solid financials so as to invest into growth areas that will enhance capital efficiency.

Through these measures, in the near future, we aim to evolve the quality of the group so as to realize the theme park for security, health and well-being. And quantitatively, achieve adjusted consolidated profit in the JPY 300 billion level within adjusted consolidated ROE of 10% or more.

Based off our plan, we steadily implemented the strategies in the last three years. As you can see, there are countless achievements that were made.

We were able to generate a good degree of results. Just to give some examples, on a group-wide basis, we introduced a business owner system. And in the following year, introduced a CxO system.

And furthermore, this fiscal year, we set up a global executive committee. We established a global and solid governance structure comprised of a diverse range of talent.

To that end, our CFO from Sompo International is here with us today. Furthermore in the digital field, we didn't even have a office that covers it before but we made progress by hiring a Chief Digital Officer from outside and established a trilateral structure connecting Tokyo that hears out the needs from each business with Silicon Valley and Tel Aviv that searches for the latest seeds of technology.

We are already having dialogue with a number of leading players that can accelerate the transformation of the Group.

For the respective businesses, we acquired Endurance, now SI and the overseas insurance business and turned it into a global platform leading to international profit expansion.

As for the nursing care business, initially, the business was loss-making. But with efficiency measures in place, we were able to make the business term positive at an early stage. And now the business has developed so far that it is symbolical uniqueness of our Group.

Please turn to Page 6. Here is a review of the first 3-year performance. Although we strengthened natural disaster risk control measures under the current midterm management plan, as you know, in fiscal year 2018, there were multiple numbers of major natural disasters, such as Typhoon # 21, Jebi, that is equivalent to a loss that only occurs every 30 years, once every 30 years. Our performance was greatly affected by this.

On the other hand, when excluding the impact of natural disasters, record high profit and ROE were achieved with this proof that our Group's profitability and capital efficiency are stronger than before.

Please turn to Page 7. This slide shows a review of our respective businesses. A strategic direction of each of the businesses differ. But as mentioned earlier, key KPIs are all improving, as you can see.

Please turn to Page 8. Although the fundamentals of the Group is strong, we do acknowledge that the speed of change and the external environment in last three years exceed our expectations such as the recent frequent occurrences of natural catastrophes in both Japan and abroad. The slowdown in global economic growth and acceleration of digitalization. And a heated M&A market. So we are exactly in the age of (inaudible) .

From the next page onwards, I'll talk about the measures we have planned for the second half of the midterm plan in order to overcome the sudden environmental changes and to accelerate our companies transformation.

Please turn to Page 9. Here are the main strategies. There will be some headwinds in the business environment during the next two years. Such as a consumption tax hike.

On the other hand, we look at the next two years to be a period during which we will further accelerate measures that we've been working on so far and generate results and create a solid base. So as to realize substantial growth in the next midterm onwards. So it's a preparation period. So to say.

The challenges we face in order to make each of them our businesses and its foundations resilient vary ranging from efficiency, growth and creating new profit sources.

This is basically based on theory. However in any case, we will accelerate the transformation of the Group heading towards what we envision.

Especially, for SJNK, the largest group company, in order to ensure that we increased profitability compared to fiscal 2017, we will cut head count by approximately 4,000 people and integrate and consolidate our organizations.

We will optimize personnel allocation and evolve it into a group of companies that is even more resilient.

I will elaborate on specific initiatives by business in the latter half of the presentation. On a group-wide basis, we will aim to realize open innovation in the Group by employing digital strategies, create synergies through collaboration amongst businesses. And through other measures, we will strive to evolve into a resilient group.

To that end, we will also strive to transform our corporate culture so as to realize the Group's mission, which is to create a Theme Park.

And we will do it with all of our might. Please turn to Page 10.

This page is about our digital strategy. A digital strategy, we believe, is indispensable in order to realize our Group's transformation.

Improving productivity of existing businesses and realizing open innovation cannot be done alone without digital. Moreover, digital is necessary to evolve existing businesses by creating new customer touch points.

We also need to be proactive in taking measures for the future, which may be just several years ahead, such as partnering with platformers in order to prepare ourselves for a digital disruption from other industries in the future.

Through the trilateral structure we created, which (cheers) (out the needs from businesses in Tokyo and searches for the latest seeds of technology through Silicon Valley and Tel Aviv, we are confident that we can accelerate the transformation.

And in Japan, we believe this is something that is very unique to our company and structure.

So we believe this is our competitive edge. On the next page, we talk about our ERM strategy.

We controlled the balance of risk appropriately in the past by reducing strategic holding stock and diversifying the Group.

In addition, due to the free current occurrence of natural disasters, we have optimized reinsurance schemes and substantially reduced domestic natural disaster risk. So as to stabilize performance.

We will continue on with these measures and control the balance between both earnings and risk, whilst we control earnings volatility.

Please turn to Page 12. This page is about governance, which is about our important governance structure. We established a Global ExCo, a global executive committee, as the highest conference body of execution.

We expect the Global ExCo to be a place where a diverse range of expertise can be gathered with John Charman and Nigel Frudd participating. Having a global management structure that is comprised of global diverse talent and not binded by past example is critical, as the Group strives to accelerate corporate transformation.

We also simplified the reporting line and appointed John Charman as the business owner of overseas insurance. And Nigel Frudd, as the CEO of SI.

Furthermore, the SI board members were increased so as to strengthen the effectiveness of governance.

We believe that faster decision-making together with good governance can be both achieved going forward. With the pending resolution of the transition to accompany with committee structure at next month's shareholder meeting. And in Japan, we believe our committee is going to be full-fledged, which is unique and so is our executive committee.

Today, we have simultaneous interpreters available and conducting this meeting. And for the Global ExCo for a full day even without a break at times, we run these meetings through simultaneous interpretation. Therefore, including myself, I spoke too fast in the past. But recently, I'm speaking slower than before and this is thanks to the simultaneous interpretation.

So this page shows the numerical management targets for the fiscal 2020. Through our initiatives of the second half of the midterm management plan, we aim to achieve the adjusted consolidated profit of JPY 205 billion to JPY 215 billion and adjusted consolidated ROE of around 8%.

In coming two years, we expect the consumption tax hike as well as the amendment of Civil Code and the other negative external factors, including the cost increase due to the huge natural catastrophe.

But through the improvement of the productivity and optimization of the product portfolio by optimizing and enhancing our business platform, we believe that we can offset some of those negative external factors and make ourselves more resilient. And based on that by building the strong business foundation, in the next midterm management plan, we would shift gears towards the drastic growth period. What is important here is, of course, to achieve our targets. But we would like to make it possible to achieve those targets. And we would like to make sure that we have a good momentum and in coming two years, I think, it is very important mission for us to do so. And our vision is to achieve JPY 300 billion in adjusted consolidated profit and adjusted consolidated ROE of 10% or more.

So we would try to achieve those targets in early 2020s.

Next is a very important shareholder return. We've continued to realize the attractive shareholder return and looking at the capital adequacy as far as external empowerment and the growth investment opportunities, we made some changes. Until now, our basic policy was to pay stable dividend, that is not to decrease the dividend. But based on the expanding profit level, which is quite fundamental. And also based on the stable financial platform, we decided that the basic policy of continuing to increase dividend is the new policy.

And as for the total payout ratio, in the medium-term, our target, we said, was up 50%.

But in the coming years, 50% is going to be the minimum line and our target is now changed to the range of 50% to 100%.

In consideration for the financial soundness as well as the growth investment opportunities, we would like to flexibly determine the total shareholder returns. So every term, once again, we would flexibly decide about these overall shareholder return.

And of course, we will always continue to have the perspective of the investors. And we will continue to try to expand the shareholder return.

Next page shows the transformation of the holdings, shows the business portfolio transformation.

And for the holding, the important thing is the business portfolio transformation. As you can see, in this slide, in fiscal 2020, the overseas weight versus domestic weight will be 30% versus 70%. And if you look at the Sompo Holdings alone, it will be -- our target is 40%, 60%.

And when we can revision -- realize our vision, the -- each business profit would improve. And the balance between the overseas and domestic will be 40% to 60%. And we would like to strike the good balance.

But in the further future, it would change to 50-50, eventually and is possible that the percentage will be reversed in the very long run.

Now towards the globalization, we will continue to pursue growth.

Now quantitatively, as you can see, the JPY 300 billion level of the adjusted consolidated profit and adjusted consolidated ROE of 10% or more, those are the targets.

But those are not our final goals. Qualitatively, as you -- which is more important, our Group will go beyond the framework of the insurance business. We will make a major transformation.

Please turn to the next page. This shows our vision. And once again, I'd like to explain this. Our vision is to be a Theme Park of security, health and well-being of customers.

This is not just the sum of each business and services, that is the domestic P&C, overseas insurance, domestic life insurance and nursing care & health care.

In addition to those, as a whole Group, as an integrated Group, we believe that there will be a added value, which is unique to our holding company or Theme park.

More specifically, unified added value source would be the data strategy, I believe. So first of all, we would like to improve the attractiveness of each business. So that more customers will trust us. And as a result, we would like to get more data from the customers, the private data.

And with that, we would like to bring higher added value to our customers. We'd like to build such a scheme or system to provide such a value. And that is indeed a theme park concept.

And including the digital, we believe that we have 5 pillars. So do we obtain, or do we have that sufficient data? Can we provide a sufficient level of the higher added value? Probably, we need more.

So naturally, what we have to be careful is a conglomerate discount. And we have to make sure that we watch that very carefully.

Also if there are any businesses which are not necessary, we will call them out. And would show from any of those businesses.

The source of our differentiation is the fact that we can to go beyond the existing insurance business framework and to provide added value to our Group customers, as you can see in the nursing care and the dementia area, which are unique to us to provide added value in the area of the security, health and well-being, they are also related to the ESG and SDGs, which will lead to the resolution of the social challenges that we are faced with.

By gaining the trust from the society, we would like to improve our brand image as a Theme park and increase our corporate value. In the second half of the midterm management plan, we would like to make sure that we would realize all of this. The following pages are -- shows each business.

Turning to Page 18. And direction of each business is different, for example, in domestic P&C, it is profitability in one word. And in overseas business, it's the growth capability.

So they are different. But in order to outpace the environmental changes and to realize the transformation, we would like to accelerate each initiative.

And more importantly, we would improve the profitability and try to realize sustainable expansion of our profit.

Now this page shows the domestic P&C business, which struggled -- which were faced with headwind of the natural disasters in fiscal 2017 and '18. In the coming two years, we expect a consumption tax hike, which is another negative factor. But we'd like to make sure that we realize the transformation to become more resilient and to improve the profitability. Through the use of the digital technology, we would improve the productivity. And we would work on the head count reduction of about 4,000 people in comparison to fiscal 2017. We will also accelerate the streamlining of the personnel allocation and in the area of the auto insurance and fire insurance, we work on the pricing optimization and collaboration with the SI to make sure that we have a very appropriate level of the underwriting business.

And as a result of this, we believe that we can improve the combined ratio. And through the system innovation, we believe that we can improve combined ratio further.

Also in terms of top line growth, we would expand the insurance products in other line and generate the customer connectivity as well as customer experience through line insurance and car sharing service.

And by doing so we would like to build the foundation for business models and develop products and launch them.

Next is Page 21. In overseas insurance business, just as domestic P&C, a business in fiscal 2017 and '18, there were many natural disasters. But the overseas insurance business continues to be a booster for the group-wide profit growth.

We would continue to -- we would try to realize the profit growth of about 10% per year.

Now the building of platform using the Sompo International as a Sompo Global platform has been done. And we have also reorganized our company. So SI has a very high underwriting scale. And Sompo has a overseas license network. So (inaudible) in this, we have been working on the global brand, that including Agri Sompo in agriculture insurance.

And also SomPro, which is a professional indemnity product, including D&O, or directors and officer's liability insurance, we would accelerate those efforts.

In retail, we would also promote the platform building. Turkey, Brazil. And Asia, those overseas retail companies can be integrated in the area of the management, HR, digital and product. We would integrate strategies and also aggregate the knowledge and expertise in those areas.

For example, the car insurance in Brazil, the car insurance in Indonesia and Thailand. How they are different, what kind of strength they have, we will be able to see that very quickly. And we would also add digital technology. So that we can find out what will be the best way. And how we should introduce the products to different markets.

I think that no other companies has done it in the world. In addition to these organic growth centering along the Sompo International, we will also promote (vote) on M&A. And we will also pursue the opportunities for large-sized M&A. But most recently, valuation has been very high. So we will be watching the status very carefully.

Page 23. So we are trying to become health and support enterprise with the domestic life insurance. We have been increasing the policies in force and also the profit.

Last fiscal year, we introduced the Insurhealth, a product that is a combination of insurance and health.

The income compensation insurance sales has been about JPY 8 billion. We have become the #1 in this industry. Also in the new industry, the dementia insurance, which is the -- to protect the mild dementia disorder, which is closely related to the nursing care business, the sales has achieved JPY 1 billion in six months. So we continue to improve the profitability and introduce the health support function products and to realize the sustainable growth and to try to become health support enterprise.

There are other products launched by other companies in the area of the Insurhealth. So we try to differentiate products since we were the first to introduce this. We have a very strong determination in this area.

Page 25. And final page. The nursing care business is the symbol of our uniqueness as a group. We have become the largest company in Japan. And soon after launching this business we turned profitable. And we have been trying to grow profit by securing the high-quality personnel in the nursing care. And also by increasing the occupancy rate. We will be also working on the investment to improve productivity. More specifically, this February, we opened the future care lab that is to validate and demonstrate the digital technology. And we would try to improve the productivity in the nursing care facilities.

So for example, one nursing care helper, or care provider, taking care of 3 territories. This 1:3 ratio, if this can be increased to 1:5 without reducing the productivity, then the profitability would dramatically increase.

So for that, this could be the growth engine and the productivity improvement engine that is indeed the digital technology.

In addition, another strength is the -- more than 100,000 users of the nursing care services, we can utilize the data from them. And we can listen to their voice. And by utilizing them in the nonnursing care business and the related field, for example food business, we would like to create other sources of the profit.

So for example, the mixed type treatment or mixed type care per patient is something that government is trying to promote to improve the productivity. And also the nursing care industry has the labor shortage. So how to take advantage of the non-Japanese workers, another possibility.

So in Japan, of course, that if we have any problem and this industry collapses in Japan, that would lead to the major social issue. And a stronger belief that the current prime minister believes that this industry is extremely important.

So once again, we would like to increase the presence of this business inside the group. And also continue to differentiate ourselves, which can be the core of the security, health and well-being.

The following pages are the stock price and investment in ERM. And we worked these out for your reference. And we will continue to work on all of those areas. And please refer to them later. And with that, I would like to end my presentation. Thank you for your attention.

Questions And Answers

A - Unidentified Speaker

Thank you very much, Mr. Sakurada. Now as usual, we'd like to move on to Q&A. When you'll ask a question, we will bring the mic to you. So please let us know your affiliation as well as your name. Now does anyone have a question?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Natsumu Tsujino from Mitsubishi UFJ Morgan Stanley Securities. (Audio Gap). My first question is about Page 14, total payout ratio, 50% to 100% is what you stated. So it's a wider range. I have questions from various points of views. I'm hoping that I could get a more specific range. If natural disasters are in line. And apart from that, there are no surprise elements or factors, what are you assuming? That's one question. And the other question is, originally as of last year, you were saying that you might review your -- the way of thinking. So I'm sure there is a lot of thought processes underpinning this. But in the other 2 companies with regards to sales gains of SOX, they were put into adjusted profit and that will be funding the shareholder return. So in your definition that's probably not included. So you will account for something else. I think that was your message before. So now you are communicating at this point on in your slides in abstract way and on a net basis, JPY 60 billion is the level of sales gains you are anticipating. And you had some additional provisioning last year. So that would be JPY 100 billion, which might fluctuate. But how are these factors being accounted for in this target number?

A - Kengo Sakurada {BIO 15149542 <GO>}

Miss Tsujino, thank you very much for your question. With regards to shareholder return, the CFO will answer your question.

A - Masahiro Hamada {BIO 20083917 <GO>}

My name is Hamada. First of all, 50% to 100% was the revised target we raised. It was medium-term 50% that we communicated before. However, if there were large acquisitions, for example, it was 50% in 2016. So the total payout ratio of 58% was a strong mindset that management had in the past.

To that end, now we have set 50% as the minimum line. So we have progressed.

The backdrop to this, there are 2 factors. One of them is it goes back to environmental changes that Mr. Sakurada was referring to it.

Globally, the M&A market is pretty heated. And the prices are surging. So globally, the trend is to focus more on shareholder return these days.

For our company, of course, for large M&As, we continue to have a strong appetite. Of course, we would like to be disciplined. For the next two years, under the current midterm management plan, I pretty much believe that there aren't tremendous opportunities for this kind of large acquisition to happen. And we are not accounting for that either.

If that is the case, ESR, the ceiling is now visible. And if there are no M&As, what kind of stance are we going to adopt? Compared to the conventional 50%, we wanted to show something that was more act-proactive and forward-looking. The second backdrop -- the second factor to this change was because looking at our competition, the definition of the funds for shareholder return was different.

Of course, we had discussions internally. Our point of view is that as always the -- not returning the sales gains from strategic stock holdings but to expand profits from making business investments and by growing our profit we would like to fund our shareholder return program.

With IFRS now visible, we are not going to change our standpoint on that under the current midterm plan.

However, whether it be investors or competition, when it comes to total payout ratio and total yields, we are looking at where people are. And we would like to be flexible and strive for attractive shareholder return on our part.

So although I went on for a little bit long time, that was the backdrop. And to answer your question, Tsujino-san, for a fiscal year where nothing happens, no large M&As and normal natural disasters and profits at normal levels. And no market turmoil. With regards to how much we are going to return back to shareholders, it's probably not going to be 50%. If it's 50%, what I just mentioned and communicated would be wrong. So it won't be 50%.

But specifying the exact amount would be hard to do right now.

However, 6.5% of total return yields is one of the benchmarks we have in place at a JPY 4,000 plus in shareholder price. Total return would be a 53% payout ratio. But if stock prices go up to JPY 4,500, it would be 59%. So those are the things we will benchmark against. And those are the things we consider against.

Whatever the case may be for the next two years, where the M&A market is heated, I talked about the backdrop based on the current market conditions. But then after and then -- in next midterm management plan, we would like to communicate a different perspective if necessary with regards to how we fund shareholder returns and so forth.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

You were saying 6.5% for total return yields? You're targeting that?

A - Masahiro Hamada {BIO 20083917 <GO>}

6.5% is what we believe is expected from the market.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

And you think that, that is okay and fine? Is that the right way to interpret that?

A - Masahiro Hamada {BIO 20083917 <GO>}

Of course. Profits, stock prices will make that number change. There's a lot of variables. So of course, if we can pay more, that would be an option as well.

What I just said about 53% and 59% payout ratio, I am just talking hypothetically. I'm not saying that, at this point in time, this is what we're going to do. That's not what I'm saying. Thank you, Tsujino-san.

A - Unidentified Speaker

Now moving onto the next question.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Watanabe from Daiwa Securities. (technical difficulty) I have 2 questions. First is about the domestic P&C. The 4,000 head count reduction was mentioned.

So ultimately, the reduction by 4,000 -- in terms of the cost reduction impact, how much would that be? And what is the timeframe of reducing the head count by 4,000? And about the scheme, is it early retirement or attrition, the relocation to the subsidiaries? How do you plan to realize this head count reduction?

The second question is on Page 15, that is the second half of the medium-term management plan. On the right-hand side, you have a diagram, chart. And this is the -- here it says that early 2020s is the timing to realize your vision. And could you explain the background of coming up with these numbers. And what are the missing pieces in order to realize this vision?

A - Masahiro Hamada {BIO 20083917 <GO>}

Thank you. First of all, some project (inaudible), the head count reduction, in comparison to 2017, by the end of 2020, the reduction of 4,000 is our plan.

Originally, in fiscal 2014, in September, we had a major merger. And at that time, certain level of reduction or reorganization was done.

But still, or at least in comparison to our competitors, still we have too many people. So in our view -- so it's attrition, that is to say that by adjusting the number of the new recruits and without having the voluntary retirement, or early retirement, we believe that we can achieve the reduction of 4,000. So for example, we -- what we call channel innovation to improve the productivity of the distributors, agencies and also introduction of the (RPA) and AI. And the -- reviewing the work style or work-style reform. And through those efforts, a reduction of 4,000 will be done.

And at the same time, the major improvement of the productivity we have been investing in systems. And the impact or the effect of that will appear in the next midterm management plan.

So those are the major things that we're considering right now. In terms of the Yen value, in fiscal 2020, about JPY 10 billion or more is expected. And of course, there'd be the coming and going. So ultimately, the number would be bigger than that.

As to your second question -- sorry, early 2020s, that is 6% that we used. And since the beginning of the fiscal 2016 beginning of the midterm management plan, we used this expression. And we have done various simulation. And based on all of those, we are using this term early 2020. So no changes made, in fact.

A - Unidentified Speaker

Next person please?

Q - Masao Muraki {BIO 3318668 <GO>}

I also have a question about shareholder return. I'm Muraki from Deutsche Securities.

For shareholder return, when you think about it, those two years. And I think this is transitional. However on Page 14, in the part that's in green, with regards to ESR, how should we -- how did you discuss about the relationship between ESR and shareholder returns?

You are in the upper part of the range. And the more it goes up in your target level, does that mean that your return ratio is going to increase? Or is that not relevant for the next two years? The next midterm plan, you probably are intending to conduct a major M&A, which means that you need to accumulate capital to a certain extent at the same time. So that is my first question for you.

My second question is on Page 11, bottom right, with regards to reinsurance program and policy. So short term, medium to long-term, I'd like to hear your thoughts about both phases. As of end of 2018, you reduced your risk. And that's what you explained. But for this fiscal year, JPY 15 billion -- close to JPY 15 billion worth of reinsurance cost increase is what you are anticipating. So for reinsurance compared to last year, are you doing more coverage for reinsurance or not?

And are you doing a 2-year contract and over the mid; to long term for fire insurance underwriting and reinsurance policies, when you are not able to see decent ROE for the next five years, it probably wouldn't be good ROR. And if your insurance cost is cheap, are you going to assume a certain level or if cost were to increase and if you consider that risk, are you going to do something about it from an underwriters point of view? So can you give me your mid; to long-term perspective as well with regards to reinsurance.

A - Masahiro Hamada {BIO 20083917 <GO>}

Thank you very much for your question. First of all, it's about shareholder return in ESR and its relationship. I talked about 2 backdrops earlier. And one of them exactly is response to your question. For the next two years, as a possibility, there isn't a large possibility to conduct a large M&A, which means that every year, several percentage points of ESR increase is expected, meaning the ceiling of 250% will be close.

If I were to say, we are striving to be a Lean company. Of course we need to make future business investments but we would like to first think about capital efficiency. And when necessary, we would like to have capital available. But for the rest, we would like to do active shareholder return, that is our thought process. So if there is no M&A, ESR will go up. And if ESR goes up, that would mean that we will do shareholder return that is higher than 50% when it comes to payout ratio.

For reinsurance, as you know, as for last fiscal year, for the reinsurance policies that we were hit, there were some price increases but we became creative trying to control that with regards to coverage.

If there are major cases, like in the case of last fiscal year, reinsurance is something that we try to make more efficient by being creative and as a result, whether we made other coverage greater, then smaller, which led to higher reinsurance cost.

With regards to domestic natural catastrophes, the majority affected the retail policies. So underwriting wise, rather than controlling underwriting, it's more about the reinsurance strategies and pricing strategies, which is the core part of our measures. So in the future, if reinsurance starts to become challenging, we will focus and try to do something around pricing. That concludes my remarks.

Q - Masao Muraki {BIO 3318668 <GO>}

I'm sorry. I have a technical follow-up. So JPY 15 billion increase in reinsurance cost. Beginning of your plan last year, are you saying this in comparison to your beginning of the year plan or is this in comparison to actuals?

A - Masahiro Hamada {BIO 20083917 <GO>}

It's a matter of how we account for reinstatement insurance. It includes it and when you compare it with actuals last fiscal year, we are seeing more.

A - Unidentified Speaker

Thank you. Next question.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Wataru Otsuka from JPMorgan Securities. On Page 15, I have 2 questions. First, the confirmation of my understanding. So there is a plan for 2020 and also the vision for the early 2020s.

In your presentation, early 2020s, or I just said consolidated profit of JPY 300 billion is unchanged. But as Mr. Sakurada said, if the environment --well, the environment are changing very quickly. And there are some headwind. And based on those factors, timing of achieving those targets, why are they -- is it not changed. As you said, the reduction of the head count or introduction of the digital technology investment into the digital technology. With those, are you saying that you'd be able to achieve those targets same as before? So just a confirmation on that.

On the same slide about the Overseas business. In the middle and on the right-hand side, the Overseas consolidated profit is now changing to JPY 60 billion to JPY 120 billion. So you mentioned that the M&A, price of the valuation is high right now. So in coming five years, say, achieving the early 2020 targets, that's we have but with JPY 60 billion, I believe that you consider some possibility of a major M&A. So does that mean that adjusted consolidated profit come down because of that?

A - Kengo Sakurada {BIO 15149542 <GO>}

Thank you for that. Now as for the inhibitor of the growth. And of course, there are always those negative factors. But potential positive factors, for example, the frequency of the natural disaster becoming less, or as you mentioned, the interest rate or other financial market, the M&A market might change. That is to say that the current overheated market might come down.

So it is not always the case that it's not all of them are downside pressure. So -- but we don't know which way it would go. So why we reducing from JPY 300 billion to JPY 280 billion? I cannot explain it. But since we've said that those are the targets, we would like to achieve them.

As I mentioned in regardless of the environment, achieving targets is something that we need to commit to. But we're not saying that we should not deviate by JPY 1 or so. Rather, if we exceed the timing, say, that the losing the sustainability or losing our capability, that should not happen. So it's not just a nominal number. But rather how we achieve those targets, or how do we build those businesses and what would happen in the future. So it is not just a technical discussion. But looking at, for example, the GAFA market valuations, we wonder why their valuations are so high.

So in the nonlife insurance, we are still quite rigid. I'm not criticizing you people but in that sense, the insurance business, of course, is our core business. But in the future, what would happen in the future, we would like to show that to you. And we would like to make it convincing to you. So that you might change the valuation.

So that's one of our challenges. So JPY 300 billion is the target that we would like to achieve. And sorry, we say early 2020. But if it is achieved in 2025, that's not early 2020. So that should be earlier than that.

And also Mr. Okumura, our CSO can touch upon that. So we are (not) going to go below those numbers. Mr. Okumura, the CSO can make a comment.

A - Mikio Okumura {BIO 15901852 <GO>}

As for the overseas business in early 2020s, Hamada-san, mentioned that we were doing a lot of simulations. So 2020, JPY 59 billion and the JPY 65 billion or more in 2020. That is -- those are the commitment and Mike McGuire is here with us from SI.

So clearly, the rate up -- organic growth are incorporated. And in addition to that, both on opportunity if it emerges, we will acquire or conduct a merger. And if there is an opportunity aside from that, the major M&A, if there is an opportunity, we would like to pursue that.

But through the steady growth, we believe that we can achieve those numbers. So we're not saying that those numbers cannot be achieved without the major M&A. But of course, there is -- if there is an opportunity since the environment is changing so rapidly, building the more resilient business portfolio is important. And if there is an opportunity, we are interested in M&A. So maybe Mike can talk about the SI and other business situation.

A - Michael James McGuire {BIO 15329889 <GO>}

Okumura-san, with respect to the overseas businesses, we are achieving good organic growth in the businesses within Sompo International. We have been achieving very strong double-digit growth in premiums over the last several years. And as we look ahead through the early 2020s, we expect to continue to generate roughly 10% organic growth and premiums and profitability.

And that is based on our ability to achieve rate increases in the market, which we've been achieving now for the past two years as well as from the significant investments that we have been making in our underwriting capabilities globally with a particular focus in the United States markets as well as the international markets through our London operation.

The rate increases that we are achieving so far this year are in line with our plan. Our plans have assumed about a 6.5% rate increase across our insurance businesses. So far through the end of April, our rate increases have been closer to 9% across our portfolio of insurance business. So we're tracking little bit ahead of plan in terms of our ability to get rate on our insurance business.

Reinsurance has been a little bit slower to catch up. But we have seen our reinsurance business pick up at our January renewals for reinsurance, pricing was about flat. However, at the April renewals, which was a lot of the domestic Japanese buyers of reinsurance, we saw that business as an overall basis price up mid; to high single digits.

The next key renewal date that we're right in the middle of is June 1, which is when U.S. hurricane exposures renew. We are expecting double-digit rate increases in our reinsurance business for Florida hurricane and U.S. hurricane-exposed businesses. And so we are taking advantage of those rate increases in our portfolio. So to add on to the comments that my colleagues have made, we are seeing strong rate opportunities that are additive to the strong organic growth that we are achieving in our business from investments in people and technology to build our platform.

We are also benefiting in the overseas businesses from the synergy with Sompo Holdings Group. And the balance sheet strength of Sompo Holdings, the global licenses that Sompo Holdings has as well as the underwriting opportunities and talent that Sompo International has are providing great opportunities for global expansion. We are able to offer Sompo International products to Sompo's Japanese client base. That has been a unique area of growth for Sompo.

We've launched several global products, Sompo professional liability, AgriSompo, that provide unique underwriting capability from Sompo International to the global client base of Sompo Holdings. Those have all been very effective ways for us to accelerate the growth of the overseas businesses. And the fact that we are now achieving very solid rate increases across almost every line of business that we are in, gives us greater confidence in our ability to achieve the percentage growth in premiums and profitability for the overseas businesses.

A - Unidentified Speaker

Thank you very much. Next person please.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Majima from Tokai Tokyo Research Center.

At the meeting in the second half, you were talking about auto insurance and autonomous driving as well as sharing economy. With regards to car sharing, you established a JV with DeNA, why did you pick DeNA as a partner is my first question? And why is it a JV? So I'd like to hear about the reason why.

And also for autonomous driving, if you were to partner with a company, I believe, it's probably going to be someone like Nissan with regards to sharing data and so forth. Of course, developing the product itself is going to be far ahead. But you have to basically prepare. So for Nissan, they have a lot of things on their side happening as well. So for autonomous driving and product development, together with Nissan, are you already having some talks with them? So that's a question I'm curious to hear about.

My second question goes back to Sompo International. Looking at last fiscal year casualty, property, marine, the traditional primary insurance business was growing and as well as specialty insurance as well, such as the professional liability and so forth. But for agriculture insurance, although there was growth in the second half, I believe, the growth rates were not that high according to my impression, that is. So for this fiscal year, for specialty lines, compared to casualty and property traditional lines, are you expecting that specialty lines are going to grow more this fiscal year? So those are my 2 questions.

A - Kengo Sakurada {BIO 15149542 <GO>}

So for the first question, I would like to take your question. So why DeNA? It's because our visions matched. So DeNA, originally, had a car-sharing business in place. And the philosophy we both had matched. Therefore, we decided to establish a joint venture company.

Our aim and target under this new company is to expand profit in the C2C car-sharing business, of course. But what we are ultimately aiming for is to respond to social changes through insurance, not only insurance. But in order to sell insurance the way that customer touch points should be and the way insurance should be sold is something we would like to research into through this venture.

As for autonomous driving, I can't really talk about with whom we're talking to, specifically by name. But there is a company called Tier IV which was already disclosed in our press release, that was successful in autonomous driving systems on public roads already based off their tests. And also there is a company that does high precision 3D mapping in simulators, which is a company called AISAN TECHNOLOGY. We're engaged in a partnership with these entities.

So autonomous driving, when it comes to Level 5, that level is not visible yet. However, for Level 4, within a certain specific area, the realization of Level 4 is now somewhat in view. So solutions in this area is something that we would like to create in this trilateral partnership. And in autonomous driving, we would like to think about how insurance should be and how customer touch points should be. So that's what we're trying to learn through these partnerships.

A - Michael James McGuire {BIO 15329889 <GO>}

Regarding Sompo International, the specialty business is comprised of a number of different parts. Firstly starting with agriculture insurance. If you look at our segmentation, that business is our U.S.-based agriculture insurance business. We are among the largest U.S. federally sponsored crop insurance companies in the U.S. That is a very mature market. We have a stable market share in that business. And that's one that the growth rate is really a factor of does the industry grow or not in the United States. And as I said, the U.S. is a very mature stable market and premium levels, that really have only fluctuated based on the underlying changes in commodity prices.

So the growth that was targeted or that was mentioned in the question was relatively flat. And that's consistent with what happened to the overall premiums available in the United States, federally sponsored crop insurance business.

The other part of our business that where I would include AgriSompo's expansion in, is within our reinsurance business where we provide our global agriculture products. And If you look at the specialty reinsurance line of business within Sompo International, that is an area that has shown substantial growth.

Part of that has been driven by the AgriSompo expansion in combination with our U.S.-based agriculture insurance business. We've now been able to offer global agriculture products as well as weather-derivative products, with both of those fall into our Specialty Reinsurance business. So you may not see the details in the line of business splits. But we have seen some growth opportunity within SI from that perspective.

As I look ahead, we're expecting, as I said, roughly high single-digit to 10% growth in gross written premiums over the next year and into the future. A significant portion of that --

about 2/3 of that, would come from our insurance businesses, in particular, our U.S. insurance business, which consist of some 25-plus different product lines across property, casualty, specialty, professional liability, aviation, other lines of business.

We are expecting a reasonable growth from those areas, both from the investments that we've made to bring that underwriting capability into our company. But also from the ability of our teams to achieve rate increases. And as I said earlier, we are achieving at or above plan rate increases across all the lines of business that we're targeting.

Q - Koki Sato {BIO 19983862 <GO>}

Sato from Mizuho Securities. I have 2 questions. First is a kind of repetitive question on Page 15, JPY 300 billion, the pie chart. The timeframe you mentioned has not been changed but the breakdown for three years ago, did it change from three years ago? The domestic P&C was I think 50%. And life insurance was about 20%. And overseas was 25% also. So the -- since that those percentages have changed. But the early -- the midterm management plan period, how your way of thinking changed?

And the second question is about the overseas, aside from SI that is in Asia, the emerging businesses. So other mega P&C company, they say that there is a great growth potential. So in your case, those businesses or in Asia or that region, what are your thinking? Could you tell us what you're thinking about that kind of region?

A - Masahiro Hamada {BIO 20083917 <GO>}

Yes. To your first question, we do not -- that the portfolio has changed that much. But the fact is that the major -- excluding the major M&A, we have conducted various simulation about the future. And those are the percentage that we assume right now. But of course, this is about the future. So of course, there are a lot of question whether they can be realized and if a major M&A, occurs the portfolio could change.

A - Mikio Okumura {BIO 15901852 <GO>}

About the overseas, known as SI business, yes, the emerging market grows. We will try to make a growth And in the retail, in SI, we consolidated that. So we create a retail platform, as it was presented, underwriting know-how. And rating know-how and supporting digital technology, the nation's regulation and also there is a regulation about the product. But if we can integrate or unify some part of it. And if we can emulate or learn from the best practices related to do it. And we're currently making a preparation for that.

So emerging market growth, we are likely to achieve at the similar level of the growth of the emerging market economies.

Q - Koki Sato {BIO 19983862 <GO>}

As for the capital or investment, I'm sure that it's difficult to say about the prioritization that developed nations and emerging nations. What would be the breakdown, the different weight?

A - Kengo Sakurada {BIO 15149542 <GO>}

Well as of now, it's still high. I'm not in a position to make comment about the other companies but the PBR, if there is a probability which can justify the PBR, the China, India, Indonesia, there are a lot of confusion in the world.

So PBR in 10 years, 20 years, 2.5x, 3x. Saying those, I don't know, whether we can say them or just generally speaking, of course, if we can find a great company and bind a company's story. But well, we have not had that kind of opportunity.

So in terms of the capital allocation, organic growth is not sufficient. And probably, we have to have a high adequacy ratio. That kind of requirement, will be demanded from the major shareholder and the consolidation will continue in the developed nations. So M&A momentum still remains.

So the problem is whether we have sufficient capital. As you've said in terms of prioritization, probably, we are still prioritizing the developed nations. But it's not up to me. At the global executive committee, we have to have a thorough discussion and has to be decided at BoD. But my impression is exactly that. So uncertainties are mounting.

Q - Koichi Niwa {BIO 5032649 <GO>}

Citigroup Securities. Niwa is my name. So I have a question around shareholder return as well as your management strategy. For shareholder return, I'm sorry, I'm very short term in my question. But with regards to flexibility, can you realize that through share repurchases?

When there is a possibility that M&A opportunities are going to be low, you were saying that you'll focus on shareholder returns. However, if you wanted to be agile, that's hard to realize during that given fiscal years. So I was wondering if share repurchases would be an option?

And my second question is with regards to your vision of turning into a theme park in the near future. As you are about to realize this vision already, I think it's now time to compare yourselves against competition. But what would be your viewpoint when you do this comparison?

Then over the mid to long term, I think you're talking about 2045 this year. So in 2045, are you putting together this presentation by having this vision in mind because when you look at the insurance business, it might be highly functional and highly profitable. However, I was wondering your viewpoint is about this?

A - Masahiro Hamada {BIO 20083917 <GO>}

For shareholder return, with regards to agility, we might be using this in the wrong way. But agility in our definition is, we used to raise a payout ratio target of 50%. And that was the focus. And that was where our management was committing themselves to. And of course, we don't know what's going to happen in the next 12 months. There is M&A

opportunities, there may be nat cat. And there's going to be rate increases for fire insurance and some things may happen in association to that.

But in accordance with what happens, we would like to offer shareholder return that fits with the situation we're in by the end of the year. So that's what I mean by being agile.

A - Kengo Sakurada {BIO 15149542 <GO>}

So you asked a very grand question. But I've always thought about that question and there is no one correct answer, I believe. And if you know the answer, I would like to know. With regards to comparing with who, why are -- do we have a vision of turning it into a theme park? It's because each of the rides, the dining places. And so forth. So to say, are not just simply added together to comprise a theme park.

For example, Disneyland is a typical example I give. They have jet coasters, not a Ferris wheel. But they have other rides, they have restaurants. And so forth. It might have been fun. It's something may have been delicious. You may have met Mickey Mouse. So it's not like 1 plus 1 plus 2 plus something equals 5. And there is 5 pieces of value. It's more about the comprehensive value it's able to generate.

Like I've spoke about from before. So Disney World is something that's conceptual. And they turned Disney World into something that's tangible, visible. It's not about those physical values. But it's the experience value of Disneyland World that generates value for their customers.

Sompo, the P&C business, offers a certain value. The life insurance business generates a certain value and digital does this. Overseas business offers value as well. If you just add the pieces together, it's just going to be a consolidated balance sheet or a consolidated P&L. That's not what we're striving for.

Theme parks, going back to my example, are places where data is important. So when you change perspective, going forward, data is going to be a value. So information banks are (joho ginko), when that goes to market, I'm very curious to hear how much of a price are they going to be able to generate. But data is oil. That's what people are saying about data these days.

But not many players are able to monetize data yet. Of course, GAFA is, to a certain extent. But they are being criticized as well. So being able to offer solutions based off data, if we're able to do that, it should generate substantial value. People, kind of understand that. And that's why people are making a big fuss over data these days. If that's the case, if we had a theme park called Sompo Land, it will be a treasure trove of data.

For people that are 65 years and above. And if they cause accidents, the damage that they caused is accumulated as data. We know what -- how they spent their day and there are similar people. And we know how they behave in nursing care homes, for example. So there's various pieces of data available. And we have that as real data. 20 million people for auto insurance, for nursing care. It's already 100,000 people worth of real data that we have.

However, of course, personal information needs to be cleansed before it is utilized. Of course, we will build trust with our customers but the solutions that we are able to generate based of data, we may be able to address dementia as a segment and also diabetes. We may be able to offer solutions in those segments. I think there is a good possibility of that happening. For dementia, there is pessimism around drug discovery at this point in time. But there are a lot of people who have not acquired -- adopted dementia. though they have a lot a of beta-amyloid.

So because we have an insurance business, because we have a nursing care business, because we have digital, including accidents, we have a lot of cases available at our disposal. So that's what why believe this is an opportunity. But we can't realize everything in two years' time. So I believe we will start to see the theme park concept manifest in the next midterm management plan.

For 2045, that's a harder question, before there's 2025. And then there is October 1, when consumption tax hikes are going to happen. So I think we're talking of singularity for the year 2045. Whether it happens or not, with regards to the function of insurance, I wonder if that's going to actually exist or not, even for banking as well because there is fierce digital disruption happening. Maybe the definition of vehicles will change as well. But wisdom of people, emotion of people are going to remain.

And it's a matter of whether we can coexist with artificial intelligence. So AI as well as gene analytics are going to be important as well as from a trade point of view, 3D computers. So 3D computers may send things to other countries without the actual physical product moving.

So I don't want to actually think about what may be happening to insurance companies by that time. But the notion of that casting, to your point, I believe, is important. So the question you asked is something that I would like to remember and think about going forward.

A - Unidentified Speaker

Thank you very much. Any other questions? No? Now it concludes this meeting. Thank you very much for joining us today.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)