Analyst Meeting - Business Plan

Company Participants

- Akira Harashima, Senior MD
- Satoru Komiya, President
- Shinichi Hirose, Director
- Tadashi Handa, Senior Managing Executive Officer
- Taizou Ishiguro, Group Leader of Corporate Communications & IR Group
- Takayuki Yuasa, EVP
- Yoshinari Endo, Managing Executive Officer

Other Participants

- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Koki Sato, Analyst
- Masao Muraki, Anlayst
- Natsumu Tsujino, Analyst
- Shingo Kawaguchi, Analyst
- Takayuki Yuasaz, Analyst
- Wataru Otsuka, Analyst

Presentation

Taizou Ishiguro {BIO 20620398 <GO>}

At this time, I'd like to start the session. Thank you for joining us for the Tokio Marine Holdings IR Briefing for the First Half Fiscal Year 2021 in spite of your busy schedules. I'll be serving as the moderator. I'm Ishiguro, Head of IR Group. As for the format of the briefing, to prevent the risk of COVID-19 infections, we are holding this briefing through online live streaming and telephone conference system. We may cause inconveniences, but your understanding is greatly appreciated. We have taken precautionary measures in our venues with minimum required staff in operation. The speakers today will be speaking without wearing masks for better clarity in their voice. Let me introduce our participating officers from Tokio Marine Holdings, Group CEO; Mr. Satoru Komiya will be presenting. Vice President, Executive Officer, Mr. Takayuki Yuasa. Senior Managing Executive Officer, Mr. Akira Harashima. This is Harashima. Managing Executive Officer, Mr. Kenji Okada. Managing

Executive Officer, Mr. Yoshinari Endo; Managing Executive Officer; Mr. Masashi Namatame. From TMNF, President and Chief Executive Officer, Mr. Shinichi Hirose; Senior Managing

Director, Mr. Tadashi Handa; Senior Managing Director, Mr. Shingo Kawaguchi. From Nichido [ph] Life, President, Mr. Katsumi Nakazato is joining this session.

Today our group CEO, Komiya, will give a presentation using the materials posted on our home page, followed by Q&A. We are scheduled to end at 5 p.m. Japan Time. Mr. Komiya, please take the floor.

Satoru Komiya {BIO 17943039 <GO>}

Hello. This is Komiya. Thank you very much for joining us for the business strategy briefing today. I also want to take this opportunity to express our appreciation for your continued support. At the Investor Day held in November last year, we presented our directions for the new midterm business plan. Today we will take you through the KPIs and the various measures in achieving them. We are happy if your determination towards growth gets across to you in the capital market and up here engaging. Today I will take you through our growth story as well as commitment of the management in contributing to a sustainable society and continuing to grow not only for the next three years under the new midterm plan. But beyond 10 years and even 100 years in a sustainable manner. Without further ado, let me start my presentation.

Please turn to Page one of the handout. The presentation consists of 4 parts: I will spend the next 40 minutes or so on my presentation, after which, I am happy to take your questions, comments and feedback as usual as much as time allows. Please now turn to Page 3. First, let me briefly recap the previous midterm business plan. In the previous midterm business plan, 3 KPIs were sustainable profit growth, enhanced capital efficiency and enhanced shareholder return. During this period, a few years, we faced numerous challenges, such as natural catastrophes and COVID-19, to name a few. And as a result, profit amount plateaued. However the challenges enabled us to gain capabilities in a different way and made us steadily boost our capabilities. There are 2 points I want to highlight in what we implemented and achieved during the previous midterm plan.

Please turn to Page 4. First, as explained earlier, the period covered by the previous midterm business plan was characterized by tough challenges as a global insurer, such as natural catastrophes, COVID, social inflation and low interest rate.

We might be able to look back on those three years as the most demanding years for us as we expanded our international business over the past 20 years to globalize our business. During this time, our management team gathered wisdom globally. By uniting our efforts, we took measures steadily against each and every challenge we faced, put it in a different way I'd like to say that by experiencing the challenges and overcoming them, we were able to enhance our capability and the confidence as our management team capable of managing the insurance business globally.

Please take a look at Page 5. The other key point is that we were able to further strengthen our portfolio by leveraging our core strength, insurance portfolio performance management. It is extremely critical to be forward-looking and optimize our portfolio by assessing business growth and diversification. During the previous midterm plan, we acquired Pure Group an expansion driver of growth and executed meaningful investments in emerging markets such as Brazil and Thailand as well as in renewable energy areas.

On the other hand, we seem to have surprised many by divesting from TMR, which we founded in 2002. Through acquisition and divestment, we were able to sell seeds for profit growth.

As described, environment and business challenges encountered during the previous midterm plan was not easy. The company, however was able to prepare itself for the next stage of growth. I have confidence in that and that the seeds will blossom, will be brought to fusion in the new midterm plan. Now let us see where we position ourselves today.

Please go to Page 7. The company thus far, has been using capital generated through organic growth and portfolio review, first, into business investment. When there are no good deals, made shareholder return. This has been the growth cycle. We have been operating with the sense of speed. As a result, we have visibility in achieving our milestone of over JPY 500 billion in adjusted net income and about 12% in adjusted ROE. Through steady enhancements in our capabilities. We have established top-level businesses in each regions.

Please go to Page 8. Page eight illustrates our position and strength in Japan and overseas. First, in our mother market, Japan, and in oligopoly market, where stable profit can be generated, we have achieved above market top line growth and below market expense ratio. Turning to overseas. In the United States, the largest insurance market in the world and Lloyd's market, the company became top-class player in specialty areas. Outperforming our peers in realizing steady profit growth while suppressing volatility. In emerging markets, where high-growth can be expected the company has conducted business strategically to achieve above-market top line growth. Please refer to Pages 9 and 10 later for more details.

Please take a look at Page 11. Top level business portfolio we've established at home and abroad is robust at the global level, but the value is not only on a stand-alone basis. Network and expertise of the group companies are leveraged in creating various synergies with an impact of $300 million annually.

Then on Page 12, as shown on this page, our insurance portfolio is diversified in geography and business and in product with diversification effects reaching 50%. As a result, while our business is expanding, risk volume is well controlled. Although risk increased slightly with rise in stock prices among other factors in 2020.

Please turn to Page 13. This shows ROE improvement as a consequence of implementing our initiatives. As already explained, by enhancing profitability and risk diversification, ROE on the horizontal axis has stably increased while holding down volatility on the vertical axis. In other words, you will find that the company has realized a growth while raising the stability of profit. Fiscal year 2020 was obviously impacted by COVID. Yet, the company positions itself in the upper right quadrant, the first quadrant, with ROE closing in on peers. We intend to further raise this level by realizing our milestones.

Next, please turn to Page 14. As an example of how the capital market gives us credit, total shareholder return is shown here. We have been evaluated to a certain extent already. But as far as I'm concerned, this is not a satisfying level. In order to be better evaluated by the market, I intend to accelerate the execution of our management strategy to achieve our milestones. That is all for our current positioning.

Now let me turn to our sustainability strategy. Please turn to Page 17. First, what is our purpose? The company was the first insurance company in Japan. Since our founding, the purpose has been to protect your customers and society in times of need. This is a sustained purpose of the company regardless of times. There is no sanctuary other than our purpose that cannot be changed. This purpose is the only reason for which the company must grow. And by offering purpose-driven solutions to various social challenges that change over time and by contributing to the evolution and advancement of the society, the company has grown sustainably. Our business offers solution to social issues. We did not start working on it as if it suddenly came to mind. The more we pursue our business, the more social challenges address, the better the society. This is our aspiration. Now to what are we aiming for?

Please look at Page 18. What we aim for is to circulate business-oriented social issue resolution initiatives to enhance our social value and economic value or profit growth at the same time. To step up our initiatives, last month, Group Sustainability Officer, CSUO, has been newly established. The sustainability of global committee was also established. On the left side of the slide, you will find our stakeholders, shareholders, investors, customers, society, employees. This time, we clearly positioned future generations as our stakeholder. What are the values we will offer to each stakeholders and how?

Please look at both pages 19 and 20. There is a manifold of social challenges. The company will clearly outline our thinking towards the challenges that humanity is facing common across the world and allocate experts, use our wisdom and enthusiasm in areas where we can be of help or rather where we need to take action.

The ones marked with a black star on the slide. Enhance disaster resilience, promote climate actions, support people's healthy lives and D&I are the 4 core themes, the company will steadily execute as a top runner in addressing social challenges to create social and economic values. The foundations for such initiatives are, as I always say people and culture.

Please open up Page 21. Since insurance business deals with intangible products, it was once referred to as a business of paper, pencil and people. The process has largely transformed today making insurance a truly people's business. To me, people are the driving force, aspiration and enthusiasm.

That is why I believe it absolutely indispensable to promote diversity and inclusion for all 40000-plus employees of our group to perform at their full potential for us to be able to continue to solve increasingly complex social challenges.

Bringing together the diverse talent as Tokio Marine one team and turning it into an even greater power is what culture is all about. By instilling the corporate culture, engraving our corporate purpose in all aspects from individual action to management decision-making, I will create a company of enthusiasm and sense of Unity. To realize this, I will lead as the group culture officer to ensure our corporate culture syncs in across the entire group.

Let me turn to our new midterm business plan for the next three years, Page 23. Left-hand side, inside the orange box, target KPIs for the new midterm business plan, adjusted net income CAGR 3% to 7% and adjusted ROE around 12%. Payout ratio 40% or higher for ordinary dividend alone. Dividend payout will be increased sustainably along with profit growth.

Page 24 illustrates the image of profit growth. Adjusted net income, CAGR of 3% to 7% looks at organic growth only without M&A. I have been saying that by the end of the midterm plan, we should be able to have a visibility in achieving our milestone. This suggests that achieving adjusted net income over JPY 500 billion and adjusted ROE of about 12% is in our sight by organic growth alone. If we are blessed with good deals and be successful in a large M&A, further growth or achieving target in shorter time frame will become possible. Now how is the company intending to achieve this?

Please turn to Page 25. This is the qualitative aspects of our new midterm plan I showed on Investor Day in November last year. KPI will be achieved by implementing the 2 plus 1 growth strategy shown in the center. We are facing a major change and the structural change of the market, we will not lose against the speed. We will be accelerating the process so that we can even be ahead of the curve. Today I will go over the specific initiatives by business.

Please turn to Page 26. First is auto insurance in the domestic non-life market. Auto insurance for the company has, as shown on the left, continue to demonstrate top line growth regardless of the pandemic or rate revisions and the rate of the growth beat our peers. Combined ratio is stable, as you see on the right, generating stable income for the company.

The company launched a dash cam integrated with 2 cameras, this past April, a first in the industry. Sales is picking up. In a similar manner, we intend to launch high value-added products, authentic products together with stories to increase customer support and share. In the auto market, often referred to as having hit the ceiling, we intend to grow by generating stable income.

Let me move to the next topic, which is the largest growth driver in domestic non-life specialty insurance business. Page 27. The company plans to realize over JPY 100 billion revenue increase during the next midterm plan. Specialty insurance has been a market with large growth potential because of the low penetration, and the company has realized 3.5% growth so far. In the new and midterm plan, through the initiatives shown on the right, we will increase the rate of growth by close to double.

Health care in aging society and SMEs supporting regional economies. These are definitely important social challenges. The company has a talent, network technology, know-how and track record to contribute in solving those challenges by leveraging the comprehensive capability of the group, we will enhance our capabilities to a point where people will say if it's health care, you're looking for, go to Tokio Marine or go to Tokio Marine for SME. Initiatives have already begun. I believe the company can achieve strong growth by pursuing this path.

Let me now turn to the topic of profitability improvement of fire insurance, which is a major challenge for the company. Page 28. In Japan, a country prone to natural catastrophes, fire insurance system is highly critical. On the other hand, if the business is constantly loss-making, it is not sustainable. On the premise that the company will continue its cost cutting efforts, we will accelerate our efforts in taking a comprehensive approach in building resilience including, but not limited to rate revision, enhancement of underwriting and initiatives for disaster risk reduction as well as early recovery. Specific roadmap is shown on the left. By executing with unwavering resolve, I believe to achieve the more than JPY 26 billion in profitability improvement during the midterm plan and intend to secure profitability commensurate with comparable to capital costs in the following years.

Please turn to Page 29. On this slide, our initiatives to improve the combined ratio of the domestic non-life insurance business. In 2008, 13 years ago, we started a business innovation project and reduced the internal administrative workload by about 30%. And by reallocating the workforce to sales, we continuously expanded our market share. This time, we would like to take this to a higher level. The initiatives shown on the left are company-wide projects that Tokio Marine & Nichido's President, Mr. Hirose spearheaded since last fiscal year. This will significantly transform business processes and work styles through the advanced use of digital technology.

We will invest JPY 40 billion in this project, aiming to improve productivity. The outcome of this will be a reduction in internal administration of 15% by the end of fiscal year 2023 and 20% to 30% by the end of FY 2026, equivalent to a cost reduction of approximately JPY 30 billion to JPY 50 billion per annum. By reallocating the saved time and resources to the expansion of the top line, improvement of the loss ratio through loss control, et cetera, as well as through the development and support of human resources and investment in human resources, we aim to expand the denominator and improve the combined ratio by 1percentage point by the end of FY 2023, despite making large investments. This will not be an easy task, but we will do everything we can to make it a success. And further solidify our support from domestic customers.

Next, I'd like to talk about the domestic life insurance business as a driver of long-term profit growth. Please turn to Page 30. The domestic life business will aim to achieve top line growth of plus 5% CAGR in the new midterm plan, but profit will remain stable at JPY 50 billion due to conservative accounting treatment under J-GAAP. However over the long term, we believe that we will be able to break through the JPY 100 billion profit level and see profits support and contribute to our long-term growth and risk diversification in the next 10 to 20 years.

On Page 31, you will find the strategies that we will implement in the new medium-term management plan to achieve this goal. Regarding the 2 lines at the top, TMNL will focus on the fields of seniors, health care and asset building to help extend healthy life expectancy and asset life and will strongly promote the cross-selling of life and non-life insurance by leveraging Tokio Marine & Nichido's customer base.

As for the products to be introduced, we will shift our focus from savings type products to protection type products, and we will go one step further to introduce products that are directly linked to the solutions to the social issues and 100-year life expectancy that I mentioned earlier as well as products that have high profitability and ROR. That makes early profit contribution. In this way we will develop a win-win strategy that will lead to long-term profit growth for our company, while solving social issues.

Next, I'd like to explain about the overseas insurance business. Please turn to Page 32. The international insurance business is the driver of our risk diversification and profit growth. Our well-diversified portfolio and strong specialty franchise, which we have built over nearly 20 years, has grown to generate about half of the group's total profits. But it's not just the numbers. I feel that our strengths, such as our disciplined corporate culture of insurance underwriting and risk control and our integrated group management, which is our forte and the resulting realization of group synergies are evolving further. By taking advantage of the strength, we aim to achieve a CAGR of around 9% in the international insurance business under the new medium-term management plan, while controlling volatility. The details of how we are going to achieve this starts from Page 33, where we talk about specific strategies.

First, let's look at developed markets. In developed markets, we will aim to achieve profit growth at a CAGR of around 6% through 3 major strategies, specifically increasing underwriting profit Pure's growth and bolt-on M&AS. Out of the three, we are focusing the most on this stage, increasing underwriting profit. The market is hardening at the moment. So it is not difficult to grow top line.

However we need to be forward-looking in securing profitability by correctly assessing the increase in loss costs, et cetera, or else, it may be good for now, but will lead to reserve risk in the future. Similarly, the profitability of each business line also needs to be accessed. Therefore, we will intentionally not go after top line growth solely we will continue to apply the same strict underwriting discipline to build a healthy underwriting portfolio, even if it takes patience.

At the same time, we will steadily increase prices, which exceeds loss costs for lines of businesses that have no future profitability problems and opportunistically acquire risks whose profitability has improved due to the recent hardening of the market by leveraging our strong underwriting and risk underwriting capabilities. We will also engage in cost reduction without any exceptions and hope to create a lean or in other words, a high-quality and low-cost business structure. We believe there is an opportunity to do this in the international business.

The next strategy is on Page 34. Please refer to the left half. This is about the further growth of Pure Group, which we acquired last year. Pure has always been a high growth company, and it continued to grow by about 20%, even under COVID-19. Their main market is the high net worth market in the U.S., but one of its key success factors is its credit rating.

Last month, AM Best decided to upgrade Pure's rating. Pure has been able to raise prices of new premiums following upgrades in the past. And now it's on par from a ratings point of view with its rival, which will continue to drive its growth. This is one of the group's synergies, and we are making good progress in our efforts to expand synergies between each group company and pure, as you can see at the bottom left.

So the third strategy is on the right, which is bolt-on M&As, which we are aggressively engaging in. Following PHLY's acquisition of World Wide, Delphi recently announced the acquisition of SSL, a leading player in the paid leave compensation market, which is expected to expand in the U.S. TMHCC has successfully completed more than 60 bolt-on mergers and acquisitions in the past, and its expertise will be leveraged by the group companies and through proactive governance by holdings we will aim to enhance the quality of bolt-on M&As even further and roll it out to our group globally, so as to accelerate our growth.

Next, please turn to Page 35 for an explanation of our strategy in emerging markets. In emerging markets, we will aim to achieve profit growth of more than 10% CAGR by capturing the high-growth potential of the market, while developing one growth pillar after another. Looking at the left half of the slide, our company in Brazil is already generating profits of around JPY 10 billion and our joint venture with Caixa Bank started operations in February this year.

Backed by the strong Brazilian housing loan market. The JV business plan was revised upward as soon as it started operations, and we expect further growth going forward. Regarding the right half, in India, we will aim to double our profits during the new medium-term management plan by leveraging our expertise in the pan-Indian network with our partner, IFFCO, an agricultural corporation and developed the company into a driver of long-term profit growth thereafter.

Please continue on to Page 36 for an explanation of our asset management strategy. Our asset management policy is to generate long-term stable investment income based on the characteristics of insurance liabilities. In the new medium-term management plan, managing credit in the U.S. will be the key to income gain. As we are in a low rate environment globally, we assume that income yield will decrease by a certain degree at our company, too.

However we will continue to expand our investment income in a disciplined and stable manner by increasing our assets under management, in line with the expansion of insurance underwriting and fully utilize the strength of the Delphi investment team, which is a credit investor and their high level of discernment. I hope my explanation so far has given you a feel about our thoughts on organic growth.

But our company will also actively pursue inorganic opportunities too. Please turn to Page 37. We are often asked the question, what are the missing parts in our business portfolio. As we won't be able to make good acquisitions, if others get ahead of us, I won't be able to answer this question directly. However we will make the most out of our in-house functions, such as marketing intelligence and M&A execution, which have a track record of nearly 20 years internally. And by doing so, we believe that we will be able to execute good deals with discipline. As I mentioned at the beginning, we believe that our ability in managing a global insurance company is steadily strengthening every year. Therefore, larger M&As are feasible and the potential areas for investment is expanding.

In addition, we would like to explore the possibility of investing in businesses even if they are not in the insurance business. As long as they are in areas that match our company's purpose of protecting our customers and society in times of need, that would be in the areas of health care, cyberspace as well as asset management. We have already set up a new organization to look at the opportunities. We will be disciplined in our M&A activities and constantly monitor the status of our portfolio to take necessary actions. We will continue to work on this.

Lastly, regarding specific strategies, I'd like to talk about post COVID-19 and digital strategies that are key words of change, which will have an impact on our business. These strategies will be applied on a group-wide company-wide basis to lift the overall organization. Here, I would like to talk about the management view of these strategies and what our company is doing.

Please turn to Page 38. First is post-COVID-19 strategies. COVID-19 has led to a number of major changes in terms of customer needs and employee work styles. However if you think about these changes in depth, you will find that most of them are changes that were already underway but surfaced in light of COVID-19 were changes that were accelerated by the pandemic.

The issues themselves did not suddenly appear in the wake of COVID-19. We set up post-COVID-19 task force with participation from top management of overseas companies, too, in order to identify issues and review strategies. As you can see on the slide, there are no brand-new issues. What's important is to come up with appropriate measures that are spot on and to have executional power. In addition, the measures to deal with the issues have already been integrated into the strategies that will be implemented by each company. I'd like to say that the preparations for the next stage of growth based on post-COVID-19 are ready to go, and we are working on it with a focus on speed.

Next, I'll explain our digitalization strategy. Please turn to Page 39. At present, the use of digital technology in our business largely means that it's a catalyst for productivity improvement and creating new value. First of all, with regard to productivity improvement, as I mentioned in the section of domestic nonlife insurance, we would like to take the efforts we have been making to date to a higher level by using digital technology. As you can see on the slide, this is an area where we intend to have a greater impact in Japan and Asia, where we have a retail business. The other is on Page 40, which is creation of new value. As we recently announced in the news release, Tokio Marine dR will start operations in July of this year. Will be in charge of our core data capabilities. The new company will consolidate the group's advanced digital capabilities and will be responsible for strengthening the group's data analysis and solution development capabilities.

In the fields of health care, cyber and disaster prevention and mitigation, we will strengthen our efforts to prevent emergencies before they occur and provide peace of mind after they occur. In order to support our customers in times of need, which is our purpose. We will take on the challenge of evolving into a company that can always support our customers and a company that will be appreciated by our customers.

In addition to the initiatives described here, for example, we are further evolving e-design insurance in anticipation of the rise of digital natives and are creating a business model in which, although it may be a digital company, we are more caring and dependable than others. In addition, we will take all possible measures to create new value, such as establishing a new corporate venture capital to further expand the source of potential future alliance partners. We would like to do this proactively.

Lastly, please turn to Page 41 for an explanation of our capital policy. As I have explained from before, we believe that we can achieve our medium-term and long-term targets of adjusted net income of over JPY 500 billion and adjusted ROE of around 12% through organic growth alone. In reality, we are improving our organic growth earnings power steadily. On the other hand, although reaching JPY 500 billion or more in profits with an ROE of 12% in a steady manner is one of our milestones, we understand that maintaining profits at this level is an easy task.

In order to lower the volatility of profits, we believe that we need to further diversify and execute the acquisition and divestment strategy, so that our portfolio can be stronger. Therefore, if we find a good investment opportunity, we will continue to execute on it as we have done before. With this as a backdrop, regarding our current capital policy, as you can see on the slide, currently, ESR is at 127%, which is within the target range and at an appropriate level, so the capital generated will be allocated for investments and shareholder returns.

Please turn to Page 42 for a more detailed explanation of shareholder returns. The basis of our shareholder return policy is ordinary dividends. We would like to increase DPS in a sustainable manner in line with profit growth. This has not changed. In fact, the ordinary dividend for fiscal 2021 will be JPY 215 per share, an increase of JPY 15 a share and an increase in dividends for the tenth consecutive year. We will continue to focus on steadily increasing DPS. This is our baseline.

As for capital level adjustments, I mentioned earlier that we will use our capital for investments and returns. If there is a good deal, we will invest as before. However I think it's only natural that if there are no good opportunities, we should return the capital in a disciplined manner. This stance has not changed at all either.

Regarding what was announced last week, JPY 100 billion will be budgeted for capital level adjustments and small to medium-sized growth investments within one year. If we come across a good opportunity, however we may exceed this amount. In the past, as you know, we have made decisions related to capital policy adjustments biannually in May and November. But from now on, we will look at the conditions around those and take action immediately and flexibly when we feel it necessary, even if it's not the end of the fiscal period.

Moreover, large-scale M&As will be conducted under a different budget from the JPY 100 billion. Over the medium term, whether it may be three years or four years, we will consider the feasibility of opportunities and if we are not able to come across any or feel that a deal cannot be closed, we will return the capital in a disciplined manner as M&As are not the ultimate goal but a way to grow. We are not thinking about accumulating capital. As you can see, we want to move out of the trend of coughing anticipation in the market of whether or not we are going to do shareholder returns. Our intent was to show our determination that we are going to conduct shareholder returns, in what kind of way? We thought that we were communicating a stronger message about our shareholder return policy. Our point of view is that we took a step further in our shareholder return policy.

But if your impression was that we went a step back, I'd like to confirm that, that is not our intent. Needless to say if the situation changes drastically, such as a financial crisis or major changes in the economic situation, we will, of course revisit these decisions. In any case, we will steadily implement our management strategies to achieve our medium and long-term targets and meet the expectations of capital markets.

With that, I'd like to ask you for your ongoing support. That is all I have to say. Thank you very much for your kind attention. Now we would like to take any questions that you may have.

Questions And Answers

A - Taizou Ishiguro {BIO 20620398 <GO>}

There may be a case where we may not be able to accommodate all questions that are raised due to time. In that case, we will have the Investor Relations group, contact you at a later date. We appreciate your understanding. SMBC Nikko, Mr. Muraki, let us take your question.

Q - Masao Muraki {BIO 3318668 <GO>}

This is Muraki from SMBC Nikko, I hope you can hear my voice. I have 2 questions. My first point is with regards to investment going forward. And my second is non-life domestic improvement in profitability. I want to ask you to look at numbers. Detailed numbers. My first question, major M&A, if there is an opportunity, you want to be proactive, the engaging. You are holding shares of large listed companies who are saying that they will be making big investment. That is quite a risk for shareholders for what would be the reason or rationale for shareholders to hold your share, who is calling for conducting large M&As.

In terms of positioning for the company, what kind of position do you have which is different from peers. For example, you called for having a long list imagining for about 100 companies, but there is this story about the greenfield from last year to this year and also health care and cyber and asset management. What is the setup? And also, you are able to do a global M&A, your capability is enhancing. But how has the management structure strengthened itself over time. I would appreciate if you could show us some rationale what you described? And my second point is about domestic non-life.

On Page 29, the combined ratio, 92.2% has to improve. You said that you will improve to that level. There are a couple of things that are contributing to this. For example, Page 27 in specialty, JPY 100 billion in profitability. Combined ratio is likely low, and therefore, maybe 10% will be profit. And Page 28, fire insurance, improvement in profitability also might contribute. So if possible, so Holdings has come up with specific numbers, improvement in profitability. So for domestic non-life, I would appreciate if you could share with us specific numbers as to why you expect improvement in profitability.

A - Satoru Komiya {BIO 17943039 <GO>}

I see. Thank you very much for your questions. First question was related to investment. And now for investment, one is M&A, particularly overseas. So for overseas M&A, what kind of setup do we have what kind of organization do we have? I would like to ask Harashima san to answer. Then for non-overseas M&A, new type of investment from Holdings, the corporate planning section. So Yuasa, Mr. Yuasa, CFO, will take that question.

The second question, which is about the improvement in profitability for domestic non-life business, about the roadmap, the numbers, quantitative roadmap from TMNF, corporate planning, I think new Director, Mr. Handa, will respond to that question. Let me start with Harashima san.

A - Akira Harashima {BIO 18946450 <GO>}

This is Harashima, and thank you very much for your questions. With regards to our M&A setup for overseas, there is a team that is exclusively involved and dedicated to M&A. Using market intelligence, they're gathering information from the market-based on our appetite, basically, we will look at our targets. We have a long list and also a short list, and we are monitoring the situation regularly to seek the right -- our opportunities. And this team are based in Japan. But in the meantime, we are also gathering information from the international market. We have global meetings. We use these global meetings in order to have discussions on international targets to review our lists. And as for global management structure, as was mentioned in the discussion of M&A track record, large M&As and bolt-on type M&As have been conducted over the years. We have the know-how accumulated and therefore, leveraging the know-how is what we intend to do. And as was mentioned earlier, the global management structure consists of various global meetings and committees, engaging in discussions in order to further enhance our management capabilities. This is what we are currently working on.

A - Satoru Komiya {BIO 17943039 <GO>}

Mr. Yuasa, can you please continue on?

A - Takayuki Yuasa {BIO 17941516 <GO>}

This is Yuasa speaking. For domestic new business, in terms of our structure, the corporate planning department has now a new organization, who will be playing a key role in working on it. In terms of area or field, in areas where we have expertise, where we can enjoy synergy. Those are areas in which we will be looking into and also take action in areas that we see potential and growth. We will be looking into various aspects. If there is an opportunity. We want to take action as soon as we can. I think that is all for me.

A - Satoru Komiya {BIO 17943039 <GO>}

Handa san?

A - Tadashi Handa {BIO 20083844 <GO>}

This is Handa speaking. Combined ratio, 1-point improvement, this is about JPY 30 billion, a little less than JPY 30 billion in balance. Fire insurance, improvement in profitability, will contribute a little over JPY 20 billion. And for specialty business expansion, JPY 10 billion plus. This is taken into account, we're expecting in that quarter. That's all for me. Thank you very much.

A - Satoru Komiya {BIO 17943039 <GO>}

And this is Komiya speaking once again. As I mentioned earlier, Tokio Marine to achieve our milestone we want to achieve as soon as possible because it's a critical milestone for us. We also want to stably maintain the performance. The business not faltering at any times and be able to maintain JPY 500 billion and 12%, that we still need to diversify our risks. It is exactly for that, that new investment, overseas M&A and new businesses. So existing business as well as new business, nurturing new business we need to be addressing both aspects. So it is through those structures that was outlined in the responses that we are addressing.

Q - Masao Muraki {BIO 3318668 <GO>}

For overseas, in terms of new lines of business -- that's for domestic business, I guess. For overseas, apart from P&C, is it your target for M&A or not? And for domestic non-life, profitability improvement is for fire and specialty, you said, but since you'll be making investment, the expense cost, actual amount is not taken into account for the next three years under the new midterm plant. Is that a fair way to interpret?

A - Satoru Komiya {BIO 17943039 <GO>}

Well for the first point of this question, traditionally, should I say M&A for insurance companies is we have been conducting M&A overseas outside of Japan, and I think that will stay true. But when it comes to new business for domestic and overseas, we could think of new business in both markets, in Japan and outside of Japan. And may I ask Handa-san to explain once again about the second part of the question.

A - Tadashi Handa {BIO 20083844 <GO>}

This is Handa speaking. Let me explain a little bit about expense. We need to be making investment of JPY 40 billion upfront for growth. We've already made an announcement on this, the headquarters building will be rebuilt and relocated, it will incur huge cost. This is underway and the Mirairo project, which is currently underway we will seek to improve efficiency. And for expenses, we would like to offset any upfront investment that is necessary. That's all for me.

Operator

Next is Mr. Tsujino from Mitsubishi UFJ Morgan Stanley Securities.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I have a question about expenses as well as your midterm plan as well as the way you think about the target for adjusted net profit. And for the CAGR range, it is pretty wide that you set forth. And for fiscal year '20 results, you have said -- you have disclosed adjusted net profits, but for expenses at TM NAF, it's going to increase by approximately JPY 37 billion. So this will go down. That's how you have the JPY 40 billion investments. You're going to see higher expenses by JPY 37 billion due to that relocation or rebuilding of headquarters, which I presume is included. But there are some items that will be ongoing next fiscal year as well, I'm sure.

So what you just explained earlier. Expenses are expected to increase by JPY 37 billion in this fiscal year, in the March '22 fiscal year. What's going to drop off next fiscal -- the following fiscal year? And what is going to become capital life, what's going to be expense? Can you give me more flavor on how things are going to look like because you may be heading towards the JPY 500 billion target, but I just wanted to get a feel of are you growing closer to JPY 500 billion? Or is it still going to be distant?

A - Satoru Komiya {BIO 17943039 <GO>}

I think you were talking mainly about expenses in Japan and the balance between that and earnings or profits. So first of all, Mr. Handa will explain again. Then our group CFO will make some follow-up remarks.

A - Tadashi Handa {BIO 20083844 <GO>}

This is Handa speaking. For the details of expenses, the rebuilding of headquarters and making the IT system open and the recognition of software, we're capitalizing software is what we're going to be doing from an accounting point of view. So we're going to see expenses be higher by JPY 20 billion, which are nonpersonal expenses. And also, as you can see on Page 29, due to the Mirairo project, we are -- we will be striving to make back office administrative work more efficient. This will probably materialize earlier as a positive impact in non-personnel cost. Towards fiscal '23, annually, we expect the impact will be approximately JPY 20 billion to JPY 25 billion. To say a little bit more for business expenses, we don't have a target for that per se. But in accordance with our growth, we would like to reduce expenses. So for -- we are expecting growth from specialty insurance. We are expecting growth to be driven by specialty insurance. With that growth in place, we would like to strive to reduce business expenses.

A - Satoru Komiya {BIO 17943039 <GO>}

We would like to take this opportunity to have Mr. Hirose, the President of TMNF, to also add some comments.

A - Shinichi Hirose {BIO 18820991 <GO>}

Yes. Basically, what Mr. Handa said answers your question, but just to add one more thing is due to the Olympic and Paralympic games, we are a gold sponsor. Last year, the games were supposed to take place and there were some commercials as well as other types of expenses that we were budgeting. However it has been -- the budget has been deferred to this fiscal year, but this is a one-off expense. And depending on where the Olympic and Paralytic games go, it's a matter of whether the actual budget is going to be used or not. But that's one additional comment I wanted to make.

A - Satoru Komiya {BIO 17943039 <GO>}

This is Komiya speaking. So for the domestic non-life insurance business, we are currently working on improving the profitability of fire insurance, and we believe that's going to have a large impact. And for investments towards '23 as well as 2026, like Mr. Handa explained, we are expecting the impact to gradually materialize, and also for auto insurance. From our point of view, by launching new good products, we hope that our profits or earnings can stabilize even more. So this is the overall picture for the domestic non-life insurance business. So all in all, in the midterm plan, with respect to the numbers in our group, Mr. Yuasa will answer your question.

A - Takayuki Yuasa {BIO 17941516 <GO>}

So overall -- so we just gave us some comments on Japan, but -- we are expecting to increase earnings towards '23. But overseas, we believe COVID-19 impact will still remain in 2021. So reserve provisioning discounts reflects interest rates from the previous year, and that has been going up in our forecast as well. Towards fiscal '22, that kind of burden is going to drop off.

So going into fiscal '23, we're expecting that profits will increase. Overall, we have set forth a target of 3% to 7% growth, which is a wide range, but we basically are confident that we can achieve growth within this range. That's why we made that announcement. Therefore if our prediction was at the lower end, we wouldn't give out a range that is 3% to 7%. So our basic thinking is we would like to reach the midpoint or higher. And as Mr. Komiya mentioned earlier, reaching over JPY 500 billion should be what we should start to see at the end of the medium-term plan.

Operator

From Daiwa Securities, Watanabe-san, please.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

This is Watanabe from Daiwa Securities. I have 2 questions. First question, Page 23 of the handout. Adjusted net income profit under the new plan, CAGR to 7% in actual amount. We saw JPY 40 billion to JPY 100 billion in addition in terms of adjusted net income. What will be the breakdown? What are you taking into account? This is my first question. My second question is about the utilization of capital, investing in growth, large M&A and medium-sized investment are being separated out. What is the background? Where are you coming from in saying that? And as for DPS, stable growth, I think is your intent, according to explanation, but the JPY 500 billion in adjusted net income. If payout ratio increases to 50%, DPS will reach something like JPY 350. DPS is JPY 350, what will be the time frame by which you can achieve that level?

A - Satoru Komiya {BIO 17943039 <GO>}

Thank you very much for your questions. First question, breakdown by business area of our plan. I wonder if our CFO can take that question. And my second -- and your second question was with regards to investment, bolt-on types, medium and small-sized M&As and large-sized M&AS were separated out. So why are we separating that? And the third question was outlook for DPS. I guess all 3 questions could be addressed by Yuasa-san, our CFO.

A - Takayuki Yuasa {BIO 17941516 <GO>}

This is Yuasa speaking. Breakdown by business is not disclosed, but if I could give you some color, the explanation earlier was that for life insurance, short term, not much of changed, but overseas, 9% or more growth is expected. I think that could allow you to estimate. So that's the kind of broad breakdown, higher growth in overseas and therefore, greater take-up from overseas business. And about DPS, for DPS, Komiya-san said that we want to stably exceed JPY 500 billion in adjusted net income. In the midterm plan, we said that we will be able to have our sights towards achieving it. So JPY 500 billion is, I think quite tangible. But once we achieve that level, we don't necessarily believe that we will be able to deliver in a stable manner. And by the time we are able to deliver JPY 500 billion stably, we want to achieve the global peer level of 50%. So DPS to be stably increased. That is our intention. We will be increasing dividend for 10 years in a row, that's our current forecast. We want to be able to continue this over the long-term as much as possible. And also, there was a question on classification of investment. I think we talked about this for capital return, medium-sized investment is bolt-on type M&As that we've been talking about.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Is there anything else that you can talk about on this topic?

A - Takayuki Yuasa {BIO 17941516 <GO>}

Well basically, medium and small-sized investment, that could be included in organic growth and large-sized M&A has been conducted every 3 to five years -- three to four years, and that is how we want to seek further growth. But when we decided on shareholder return, basically, our thinking was the same, it hasn't changed over time. We just wanted to be able to clearly communicate our thinking to you. We said that we would comprehensively take this into account, that was the wording. But instead, we decided to present a specific number. That has changed, but our thinking has not changed over time. I hope you would take this as our willingness to be able to communicate in a more clear way.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

So going -- if I may ask another question. With regards to assumption on the price strategy, decrease in rates for auto and increase in rates for fire and rate increase overseas. If there's anything you could comment on that?

A - Satoru Komiya {BIO 17943039 <GO>}

Thank you for that additional question. Domestic non-life, fire rate up and rates for auto, Mr. Kawaguchi, responsible for product. And also for overseas market, hardening other markets, and track record, I will ask Harashima-san to take that question. So let me first of all ask Kawaguchi-san.

Q - Shingo Kawaguchi {BIO 5768643 <GO>}

The pricing strategy for the domestic market. For auto, as you know, safety device has become very popular, and therefore, accidents are on a decline. But in the meantime, with higher functionality on auto, the unit prices have increased. Claims have increased. If we do nothing, the rate, the advisory rate is on a declining trend -- advisory rate is on a declining trend.

And for auto insurance, we think that it's changing in substance. For example, road services riders have been added, and these are bodily injuries and DAP rider, which consists of a dash cam with telecommunication devices that is offered to the users, to the policyholders, to arrange for emergency vehicles and also extend support for tailgating. So we are increasing the rates in that way. So the advisory rate is on a declining trend but the riders is to be added in order to increase our income. To what extent is that going to increase? Well it's -- the answer will be that we want to achieve a level that will offset the decrease in rates. And for fire, twice already rates have increased.

October 2019, 7% to 8%, 7% for individuals and 8% for corporates, that was the kind of increase that we saw. In January this year, for individuals and corporates, 9% is the raise. This year, advisory rating agency is expected to revise their rate. Typhoon impact from 2019 and loss trend in recent years will be reflected, and therefore, we're expecting the rates to go up. We will be eyeing those changes in raising our rates as well. But basically, in fiscal year 2020, combined ratio if the natural catastrophes on our average year to have less than 100% combined ratio. That's the kind of adjustment that we want to seek for. But it's not just a rate increase for segments with lower profitability. Separately, reserve improvement measures will be strongly promoted. So in both ways, we intend to improve our profitability.

A - Satoru Komiya {BIO 17943039 <GO>}

Thank you for that. For auto, autonomous driving and shift to EV, and therefore, we are expecting a dramatic change in the performance, and that can have a challenge on our product. Therefore, we have developed products for support, victims and so forth. So the auto insurance or auto itself has become a social challenge. Therefore, we are trying to respond to needs of our customers by introducing new products. And for fire, as was explained, rate increases in underwriting and disaster prevention and so forth will be worked on. And now about the overseas market, let me ask Harashima-san to take the question.

A - Akira Harashima {BIO 18946450 <GO>}

This is Harashima speaking, the rate increase overseas. Page 33, on the left-hand side, in the center, 2020 -- 2020 rate up increase is shown. Please take a look at this. In 2021, in the First Quarter, as you can see, this is very similar to rate up that was seen in fiscal 2020. However if you look at the market, in certain line -- business lines, there is a sluggish performance in terms of hardening of the market. We need to be monitoring very closely. However although we are seeing somewhat of a slowdown in hardening, but we will seek to increase rates exceeding loss cost.

Operator

Next is Mr. Otsuka from JPMorgan Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

This is Otsuka. If it's possible, I want you to answer one question at a time. Is that all right?

A - Satoru Komiya {BIO 17943039 <GO>}

Yes.

Q - Wataru Otsuka {BIO 16340098 <GO>}

So my first question is about Page 23. I'm looking at Page 23. On the right-hand side of the slide, you compare profits and market cap and you show PE and the dotted line in the middle is the industrial average PE ratio, I believe. The higher you go, PE valuation is higher. If you go below the line, it means that relatively speaking, the PE valuation is lower. As you have indicated here, currently, you are below the line. I'm sure you understand that situation. But in the previous pages, for example, on Page 13, against your peers, from a capital efficiency and volatility point of view, you were making improvements. However the valuations on Page 23 is still relatively lower. I was wondering why you feel that way? Why do you think this is the case? Can Mr. Komiya share your view? Or can you talk about what kind of discussions are happening at the Board meeting with their Independent Directors?

A - Satoru Komiya {BIO 17943039 <GO>}

Let me take your question. This is Komiya. First of all, with respect to the dotted line and how that was drawn, but we are not completely satisfied with where we stand right now, as I spoke to in the presentation. In the world, the world is changing dramatically right now. With regards to us, we would like to ensure that the market understands our growth potential. I think it's most important that we are able to well communicate what we are doing. But Mr. Yuasa, the CFO, may have something to add.

A - Takayuki Yuasa {BIO 17941516 <GO>}

Yes, let me add some comments. Looking at Page 13, we have been reducing volatility whilst we enhanced our ROE. But in this -- but we are still on the bottom left, meaning that we still have much more improvement from an ROE point of view that we should make. Then going on to Page 23. When it comes to peers, their profit levels are steady at a high level, although they might be seeing some volatility. But wherever you look at, they are at higher levels than us. So we feel that we want to exceed the JPY 500 billion mark as soon as possible and ensure that we generate this level steadily. Then we believe the valuations can become better. So we hope that we can continue to grow in a disciplined manner, whilst we also focus on diversification. That's all for me.

A - Satoru Komiya {BIO 17943039 <GO>}

This is Komiya again. I'd like to add that on the other hand, we are focused on our stakeholders, as we say in this presentation as well. Various stakeholders have different interests, and they all support our business. So although it may not be easy, we would like all of our stakeholders to be satisfied. I'm sure there is an optimal answer available, whether it be the market or shareholders, we will ensure that we strengthen our dialogue with you. I think that is also another important thing we need to do to enhance your satisfaction.

Q - Wataru Otsuka {BIO 16340098 <GO>}

My second question is about Page 18. It may be a qualitative question, but this time around, you disclosed medium to long-term targets of JPY 500 billion, and this is a milestone. Over the long term, you were saying that this is going to be a passing point. I did fully understand that. So after that passing point, you have indicated on Page 18, and what comes beyond that. But amongst the management, I'm sure that you have a clear idea about where you stated our vision. But what I want you to share with us is specifically -- so once you've realized this vision you state here, how would you be differentiated as an insurance company? For example, relative to peers, how will you be? Or you could compare -- or you could answer this question in a qualitative way but in realizing your vision, how is Tokio Marine going to be different from others? That's my second question.

A - Satoru Komiya {BIO 17943039 <GO>}

We were founded back in 1879. We have been resolving social issues by offering a sense of security as well as safety. That is how we have been growing our business. As was the case in the past, through our core business, we would like to continue to be of help to society and contribute to society and this thinking is unchanged. So in other words, in the transition of society going forward or in resolving social issues, we would like to update and upgrade our management and grow and strengthen our businesses and ensure that we solve issues in society. So this all comes hand-in-hand. So we also need to strengthen and evolve our governance. So from our point of view, we would like to be highly conscious about running ESG management in the company. This is what we would like to realize by taking steady steps along the way. In its extension, we talk about globally integrated management. I think we are making a good development around that area. We would like to leverage that as our utmost strength.

Operator

Sato-san from Mizuho Securities.

Q - Koki Sato {BIO 19983862 <GO>}

I am Sato from Mizuho Securities. Allow me to ask 2 questions. My first question is Page 49 in the handout, business profit during this period and the midterm plan is shown, especially bottom right, for international business, the business unit profit. Just looking at the numbers, fiscal 2020 reversal of past reserves and also a nat cat budget compared to a normal year may be slightly high for 2021. So you're expecting a dip in 2021, but then JPY 60 billion or so will be increased in two years according to your projections. So let's say is 2021 being sort of the starting point and towards 2023, in two years, increase of JPY 60 billion. What are the factors that makes you believe that this is possible, if you could please give me a breakdown. If you do an adjustment of apple-to-apple, is it going to really grow in a linear fashion or growth rate in '22 to '23 is expected to accelerate? That is also something that I want to understand. So I would like you to respond to my question one at a time.

A - Satoru Komiya {BIO 17943039 <GO>}

I see. Thank you very much. So let me ask Harashima-san, responsible for international business to take that question.

A - Akira Harashima {BIO 18946450 <GO>}

This is Harashima speaking, and thank you very much for your question. So the figure for 2021, it looks like it's a dip. Let me start by talking to that point. As Yuasa-san mentioned briefly, 2021 is still under the pressure from COVID-19 because it hasn't subsided yet, specifically in life insurance business, death rate is still increasing. Mortality is increasing. And for life insurance, loss claims is expected to increase still in fiscal 2021. It's a onetime factor, but if we eliminate that onetime factor, the situation is quite similar in 2020 -- similar level in 2021 compared to 2020. And if we compare 2020 and '21, in 2020, due to COVID-19, there was a decrease in investment gains. That has been reversed. In plan for 2021, low interest rate situation continuing over the long term, decrease in investment income and also sluggish economic performance leading to a negative impact of loss from investment. So those factors are taken into account for fiscal 2021. So for '21, in substance, there's basically an increasing in profit. So for '20 to '23, '21 is also on an increasing trend, especially '22 and '23, we'll be expecting bigger growth. Now how did we come up with the estimate for 2021. It consists of underwriting profit and investment profit.

The biggest growth will come from increase in underwriting profit. Investment profit will also increase, but the low interest rate environment will have an impact, and therefore, not much growth as we've seen in the past. Now how are we going to achieve this plan? In the previous midterm plan, for the next profit growth, we sort of prepared ourselves. That's the first point.

Page 5, as I explained earlier, it talks about improvement in portfolio in and out or acquisition and divestment. New -- building a new portfolio, that's what we mean by in-strategy or the acquisition strategy. The group companies are also working to improve their portfolio. For example, Philly, Philadelphia, the low profitability portfolio has been reduced.

The third point is that we've been addressing social inflation. This is also from Philadelphia. In 2019 they have increased significantly their reserves and other countermeasures in order to improve profitability have been implemented. So a portfolio that is resistant to social inflation is being developed. In each of the group companies, foundation is being strengthened in order for further growth. A specific example comes from TSMR in Brazil, digitalization is being promoted and building foundation for retail business is also being promoted. So preparation for next stage of growth is being addressed, and that is combined with a favorable wind of hardening of the market. So '21, '22 and '23, we expect to see growth. And more specifically, in advanced nations, on Page 33 and Page 34. This already was explained.

But underwriting profit to expand and pure growth and bolt-on M&A, these are already implemented. We want to capture the growth from these initiatives from Pure and also bolt-on M&As.

And Page 35, in the emerging markets, Brazil, which is a large market; India, also a large market; and also in the Thai market, we intend to seek organic growth in these markets. And also, as we've explained earlier, we will be active on the M&A front as well. So all combined CAGR of 9% is, I believe, possible, sufficiently possible. It is definitely a figure that we must achieve.

Q - Koki Sato {BIO 19983862 <GO>}

And my second question is the capital-level adjustment. What is it? I want to ask that question. Once again from the perspective of improving visibility, sometime this year, you will be implementing JPY 100 billion in budget for capital-level adjustment. That has been presented. But based on the current level of ESR, JPY 100 billion is adjustable. If that's where you're coming from, maybe now is the right timing to mobilize and more flexibly implement. Setting this budget for the fiscal year sounds like capital-level adjustment is done on a flow base within the company or maybe, as I asked earlier, why are you not executing this capital-level adjustment now? I would like to ask for your explanation.

A - Satoru Komiya {BIO 17943039 <GO>}

Yes, let me ask Yuasa-san to please take this question.

A - Takayuki Yuasa {BIO 17941516 <GO>}

Allow me to respond to your question. Well as we've done in the past, end of March, 127% in ESR. This is -- whether this is within the target range or not. If it's within the target range, we will call it an appropriate level. If it's at an appropriate level, we will look at how much profit is accumulated in dividend and also, prospects for M&A will be taken into account. In May and in November, twice a year, shareholder return will be made. We will consider ways of doing it. So those are some things that had been taken into account in the past. So there is stock and flow, both were taken into account in making the final decision. And from the market's perspective, whether we're going to do it or not, how much is it going to be, where there is a discrepancy between the 2 and someone also pointed out that the volatility of our shares is increasing. That is why we've decided to adopt a more flexible approach in light of the situation that we're facing. But in May we did not implement.

Therefore, some of the investors must -- might have seen it that we have decided to forego for May. But it's not that we did not implement or execute in May but instead, what we could have done in May could actually take place in the following months like June, July or August. Instead of implementing in May in just one go, we will be implementing in a more flexible manner from May to October. The budget is JPY 100 billion. And economic conditions, unless there is no big change in the economic environment, we want to be flexible in executing this for the second half of the year. It's not to say that we're not going to do it or if we are going to make the capital-level adjustment. If there is an M&A, then we will not be insisting on the JPY 100 billion. The total amount could exceed the JPY 100 billion in budget.

Q - Koki Sato {BIO 19983862 <GO>}

I see. Well for the nonlife insurance sector overall, ever since COVID-19, share prices were not necessarily that good. And unfortunately, in the case of your company, you had the Greensill incident. So I think when you consider the level of your share prices, you could have done the capital-level adjustment. So in the time you do the capital level adjustments, how would your account for the share price level at that point in time?

Q - Takayuki Yuasaz

Yes. This is Yuasa again. I will take your question. For our share price, of course when we buy back our shares -- if we were to buy back our shares, of course if the share prices are lower, we will look at. We will conduct the buyback. So it is a very important piece of information that we will look at.

A - Satoru Komiya {BIO 17943039 <GO>}

This is Komiya. Yes. In managing the company, we are being conscious of where our share prices are. And for capital level adjustments, we will continue to conduct them. But when the ESR comes out biannually, that was a timing when we considered the capital-level adjustments. We looked at nat cat as well as claims and all kinds of aspects, and we made decisions in a comprehensive manner by having dialogue with the market. So we have been doing capital-level adjustments in the past to a certain degree. But like Mr. Yuasa mentioned earlier, when we talk with you all, we heard feedback that it is hard to predict, and it's like a prediction game. Therefore, in that case, we thought about what kind of things we considered when we went ahead with capital-level adjustments to enhance the predictability of our policy. And like I mentioned, we are trying to find an optimal answer to respond to all stakeholders, and we believe shareholder returns is one of the important aspects of it.

From that point of view, we would like to achieve our long-term targets in a steady manner and ensure that we maintain that level. However that's not hard to do -- that's not easy to do. We would like to continue to diversify our risk and reduce our volatility. And for that purpose, we will need to invest. Of course acquisitions require the counterparty, but what's most important is that if we don't come across good opportunities, we will return it back to our shareholders, but the size of the returns are some questions that will probably be raised.

So in that case, we wanted to give out our thoughts about how we view the year as well as our thinking over the medium to long term. And for the short term, on a fiscal year basis, I wanted to share our thought process that we will look at profit accumulation, and we will pay out half of it as ordinary dividends and many other things may happen. But for fiscal '21, we will start off with a budget of, like, JPY 100 billion, which we believe is feasible. And of course over the medium term, we'll need to prepare for large-scale M&As as well. So we probably won't be able to account for everything with the reserves we have in place, and we will need to prepare for the future. So we won't give back the entire amount of profits generated for that given year. However for fiscal '19 as well as 2020, when you apply the scheme to the past years, I don't think the numbers are that bad. But I'm not saying that the same thing is going to apply for fiscal 2022. We will be reviewing our policies along the way. And for our small- to medium-sized investments, we don't know when we're going to come across the deals, and we don't want to miss the opportunities. So in some cases, we might exceed the JPY 100 billion budget. And for large-scale M&As, it's not the ultimate target. Of course there's a counterparty, and we need to do it in a disciplined manner. So for the time being, maybe we won't be able to close any deals. In that case, we would like to offer it back in some kind of form. If we have something that we've accumulated for large M&A purposes, we would like to offer it in the form of shareholder returns, if we don't come across good opportunities. But whatever the case may be, over the short term, meaning every year, as well as over the medium term, we are going to offer shareholder returns. Our intent was to communicate our policies in an easier to understand way. We will do capital-level adjustments in a -- with flexibility, and it won't have to be necessarily at fiscal year-end.

A - Taizou Ishiguro {BIO 20620398 <GO>}

We're past our given time so we would like to take our last question.

Operator

Mr. Niwa from Citigroup.

Q - Koichi Niwa {BIO 5032649 <GO>}

My name is Niwa. I have 2 questions. It's about group synergies and investment management. So Page 11 is the page I'm on. For last fiscal year and this fiscal year, approximately USD 300 million were the synergies you were able to generate, are you going to expect more synergies to materialize, especially for top line synergies, I was wondering whether we can expect more? And in which areas we can expect synergies? Next is investment management. For Pages 67 and 70 for investment management in a low rate environment for income yields, I guess the downward pressure is strong. So I was thinking that you could do something else. So do you have any intentions to make any large changes? And can you also tell me how many basis points of an increase you are expecting? And it seems that you are considering additional measures. So if you can comment on that as well, that would be helpful.

A - Satoru Komiya {BIO 17943039 <GO>}

So I would like to first say that group synergies are going to expand even more, but I would like the question to be answered by Mr. Harashima. Then for investment management, the person in charge, Mr. Endo, will take your question. So Mr. Harashima first.

A - Akira Harashima {BIO 18946450 <GO>}

Thank you for your question, for group synergies, I'd like to talk about the overseas business part. For top line, to your point, Niwa-san, we still believe there is space for expansion, especially on Page 34, on the left-hand side, we show our expectations for Pure. At the bottom, further expansion of synergies is what we show. Welcoming Pure into our group. What we're currently doing is we're discussing synergy opportunities between our group companies. So we think that this will be one key aspect. Also, this is something we also announced. But in Canada, we are going to be establishing a local subsidiary. Through this subsidiary, various companies will strive to grow their businesses in Canada. So it's not just these two examples, but there are other ways we would like to grow top line. Apart from that, post COVID-19, as Mr. Komiya explained, globally, we are having meetings, and we have considered various opportunities. And looking out beyond COVID-19, globally, cost synergies are expected to be enhanced more than before. So we would like to pursue synergies in the future, and we expect by doing so, we'll be able to expand the synergies compared to where we are now.

A - Satoru Komiya {BIO 17943039 <GO>}

This is Komiya. In the U.S., Kiln from the U.K. is joining a meeting once every three months to have a CEO meeting. The heads of each group company are very proactive and TMNL is organizing this meeting, but as you can see in the presentation, we are coming up with various types of synergy ideas. So there's a wealth of ideas on the table and we are having active communication around this. So I'm sure that new types of synergies can be generated in the future. And as Mr. Harashima explained earlier, since summer last year, we have been having a COVID-19-related meeting, engaging people from both Japan and abroad. So we're not just communicating about COVID-19, but now we're communicating more about our daily operations increasingly. So I'm sure that we will be able to generate synergies on that front as well. So next for investment management. Mr. Endo will explain.

A - Yoshinari Endo {BIO 21589121 <GO>}

Thank you very much for your question. This is Endo. So the direction of investment management overall, first of all, we are engaging in ALM, being mindful of the liabilities of our insurance business. So this large principle will be intact. On top of that, there are 2 points, the market environment is expected to be volatile going forward as well. So we would like to be flexible in our approach. Secondly, is we would like to be mindful about risk and return when we make investments and invest into areas where we can generate high ROR. So it is accepted that low rates will continue and the investment management environment is going to be tough.

So for credit risk, we will prefer credit risk but we would like to also control credit risk at the same time. Currently, relatively speaking, allocation into high ROR asset is what we're doing, but we are also reducing high-risk assets. RMBS or mortgage loans or high-rated CLOs are areas to which we are shifting our investments into. By taking credit risk, we are pursuing excess return.

So looking at Page 36, right-hand side, we compare against the index. This is a comparison with Barclays U.S. aggregate. This difference is basically the excess return we are able to gain by taking on the credit risk. So for the risk or volatility, it's pretty much the same. But by taking credit risk, we are able to generate higher ROR.

A - Taizou Ishiguro {BIO 20620398 <GO>}

Thank you. Thank you very much. Thank you. We would like to take one more question because there is a question from overseas in the chat box. It's from Robert Weidenbach [ph] from Wellington. About bolt-on M&A, how much would you be spending on bolt-ons in a normal year? For example, in the most recent two years, how much was it?

A - Satoru Komiya {BIO 17943039 <GO>}

This is a question from Mr. Wydenbach [ph] from Wellington. Thank you very much for your question. Mr. Yuasa, Group CFO, who will take your question.

A - Takayuki Yuasa {BIO 17941516 <GO>}

Yes. Bolt-ons, basically $100 million or less per deal. This is normal. There are maybe 200 million to 300 million scale once every maybe 2 to three years. But as a track record, 2019, JPY 50 billion or less. For 2020, JPY 20 billion to JPY 30 billion. So that, I hope, will give you a sense of scale. Looking at a track record in the past, there are certain years in which there were none, some much bigger. But as Komiya-san explained earlier, if we look at how we did in the past few years, there is not much discrepancy in numbers or what I mean by that is return, in terms of the returns that we've made, there is not much of a discrepancy.

A - Satoru Komiya {BIO 17943039 <GO>}

Thank you very much. So I apologize for not being able to sufficiently respond to your questions, but we would like to contact you after the meeting.

Sorry for running over time, but I would like to conclude the meeting. Once again thank you very much for joining us today and I apologize for running over time. As was mentioned in some of the questions. We are at a very critical moment as Tokio Marine Group, the biggest trend for us, which I believe is to strengthen the integrated management of the company global -- and synergy, global and synergy. This is the kind of mindset that we want to implement, global and local at the same time and strengthen the business of all group companies, and the holdings and the group companies to be engaging in strong communication to maximize the group synergy. That is why group purpose and core identity needs to be instilled across the entire group and connect all the dots. The collaboration system, communication system will be sophisticated and enhanced going forward. We will have the Chief Officer system and the co-head system.

We also have Global Task Force Committees, global training sessions and management systems, and is ahead of -- beyond that, that the benefits, the strength of the European and American management system and the management system typical to Japan, we want to learn from one another to be able to build a unique sort of a medium. Should I say a unique management style for the company. This is what we want to explore going forward. We will make sure to achieve tangible results. The management strategy that was shared with you today will be steadily implemented. The business strategy will be steadily implemented to achieve our milestones and be able to respond to you in the capital market. I want to once again extend my appreciation to you. I want to pass the microphone over back to our moderator.

A - Taizou Ishiguro {BIO 20620398 <GO>}

Thank you for that. With this, we would like to conclude the IR briefing for the first half 2021. Thank you, all very much for joining us in spite of your busy schedules.