FY 2017 Earnings Call

Company Participants

- Kiyoshi Wada, IR Group
- Unidentified Speaker, Analyst

Other Participants

- Futoshi Sasaki, Research Analyst
- Kazuki Watanabe, Research Analyst
- Koichi Niwa, Director & Analyst, Research Division
- Masao Muraki, Director & Senior Analyst, Research Division
- Natsumu Tsujino, Research Analyst
- Tatsuo Majima, Senior Analyst

Presentation

Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings FY '16 Full Year Financial Results Conference Call. (Operator Instructions) And this conference call is being recorded.

Before we begin, let me remind you that the presentation may contain forward-looking statements based on the current projections. And they entail risks as well as uncertainties. Actual results, therefore, may differ from current projections.

With that, let us start the conference call. Mr. Wada, please.

Kiyoshi Wada {BIO 19963983 <GO>}

My name is Wada from IR group of Tokio Marine Holdings. Let me explain the overview of fiscal 2016 results and 2017 projections of Tokio Marine Holdings, which was announced today. In this conference call, I would like to use the PowerPoint material available on our website under News Release & Topics to give you a presentation for the first 25 minutes or so. Then, we will be taking questions afterwards.

Now I will start with the overview of fiscal 2016 consolidated results. Please turn to Page three of the PowerPoint material. First is the consolidated results overview. Net premiums written and life premiums are shown on the slide. Consolidated ordinary profit increased year-on-year by 0.5% or by JPY 1.8 billion to JPY 387.6 billion. Net income attributable to owners of the parent increased by 7.6% or by JPY 19.3 billion to JPY 273.8 billion. Adjusted net income, which is a group profit KPI, was JPY 406.7 billion, which is a major increase year-on-year.

Next, I will explain the factors related to consolidated ordinary profit. Please turn to Page 4. In the domestic non-life business, underwriting profit increased at Tokyo Marine & Nichido Fire. Net investment income decreased due to reaction from last year's increase in dividend income from overseas subsidiaries related to acquisition of HCC. As a result, ordinary profit declined by JPY 65.5 billion year-on-year.

Domestic life business saw decline in ordinary profit due to increase in their business expenses and rebound from reversal of contingency reserve for variable annuities last year. Overseas subsidiaries saw increase in profit due to profit contribution from newly consolidated TMHCC. For consolidation adjustments, negative adjustment decreased due to decrease in dividend payment from consolidated subsidiaries at TMNF, which led to decrease in consolidation adjustment by JPY 54.1 billion year-on-year.

Now let me explain about adjusted net income. Please turn to Page 5. Adjusted net income is a group profit KPI based on consolidated net income then excluding factors unique to non-life business such as impact of reserve provisioning as well as gains and losses on sales and valuation of fixed assets in order to understand the underlying profit of the term coming from business activities. Adjusted net income increased by JPY 54.8 billion to JPY 406.7 billion. And adjusted ROE rose by 1.8 points to 11%. Year-on-year changes along the profits of reconciliation from statutory accounting net income to adjusted net income are explained on the slide.

Now I will turn to domestic non-life business. Please turn to Page 6. For net premiums written for private lines of insurance, auto insurance increased their top line. But there was an impact coming from fire line of insurance due to shortening of insurance periods, which led to net premiums written of minus 0.7% year-on-year or declined by JPY 12.1 billion. Line-by-line situation is explained on Page 8.

Net incurred losses of private insurance decreased by JPY 21 billion due to factors such as decrease in net incurred losses relating to natural catastrophes occurring during the term and reaction from large losses which happened in previous year. Business expenses for private lines of insurance decreased by JPY 1.3 billion year-on-year due to decrease in agency commissions payment coming from net premiums written decline. As for catastrophe loss reserves, mainly due to lowering of the provision rate of auto group, there was decrease in net provision by JPY 50.6 billion year-on-year. As a result, underwriting profit increased by JPY 102.2 billion to be JPY 116.1 billion.

Next, I'd like to explain about the investment income. Details on this will be on Page 9. Net investment income decreased by JPY 164.4 billion (sic) JPY 164.6 billion [ph] to be JPY 197.4 billion due to decrease in dividend income from subsidiaries, decrease in gains and losses of derivatives and gains and losses on sales of securities. Dividend payment from subsidiaries will be almost eliminated by consolidation adjustments. Therefore, there isn't any impact of this to group's consolidated earnings. Business-related equity sold in fiscal 2016 was approximately JPY 117 billion. And gain from the sales was JPY 85 billion. Due to those above-mentioned reasons, net income decreased by JPY 52.9 billion to be JPY 248.6 billion.

Next, I will explain about the combined ratio. Please turn to Page 7. In this term, the private insurance lines' E/I loss ratio decreased to 57.7%, decreased by 2.4 points year-on-year, due to decrease in natural catastrophe-related net incurred losses. As for expense ratio, business expenses decreased. However, due to declines in net premiums written, expense ratio went up by 0.1 point to 32.7%. As a result, E/I-based combined ratio lowered by 2.2 points year-on-year to be 90.4%.

Now I will explain about Nisshin Fire insurance company. Please turn to Page 10. As for the underwriting profits of Nisshin Fire, although there is an impact as a reaction to catastrophe loss reserves which was reversed last year, net premiums written increased and net incurred losses related to natural catastrophes decreased. As a result, underwriting profit increased by JPY 0.2 billion year-on-year to JPY 8.1 billion.

As for net investment income and other, mainly due to decline in interest and dividend income, it declined by JPY 0.7 billion year-on-year to be JPY 1.2 billion. As for net income after reflecting corporate tax payment, net income increased by JPY 0.4 billion year-on-year to be JPY 6.5 billion.

Next, I would like to talk about Tokio Marine & Nichido Life Insurance, Co. Please turn to Page 11. New policies ANP was flat year-on-year while, excluding long-term savings products, we saw favorable sales with household income term product and increase in policies due to last-minute demand before the revision of the standard interest rate. New policies ANP increased by 13%. For in-force policies ANP, due to steady increase in new policy sales, it grew by 4.4% year-on-year.

Now I'll explain about financial accounting. Net income decreased by JPY 5.9 billion year-on-year to JPY 8.7 billion. This is due to increase in business expenses for systems investment expense and reaction to reversal of contingency reserve associated with surrender in variable annuities last year in addition to decreasing gains on sales of securities. As for core operating profit, which excludes reaction from reversal of contingency reserve and decreasing gains on sales of securities, it decreased by JPY 2.7 billion year-on-year to JPY 22.3 billion.

Now I'd like to explain about International insurance business. Please turn to Page 12. In the International insurance business, net premiums written increased by 27% year-on-year due to the contribution of TMHCC and steady progress of various growth initiatives. On local currency terms, excluding the impact of the appreciation of Japanese yen, the business grew by 32% year-on-year.

To break this down by region: North America achieved positive growth, thanks to the contribution of TMHCC. Philadelphia and Delphi also grew their top lines due to rate increases in renewal book as well as growth of new business. Europe also grew on a local-currency basis due to the expansion of business in Tokio Marine Kiln. However, due to the appreciation of Japanese yen, net premiums written decreased in yen terms. South and

Central America as well as Asia grew, driven by the growth of auto business. Reinsurance declined primarily because of the rebound effect of increased sales of multiyear policies booked in FY '15. Life insurance business grew thanks to sales growth, particularly in Singapore and Thailand.

Next, let me discuss business unit profit of International insurance business. Please turn to Page 13. Business unit profit grew by 29% or JPY 37.6 billion over the year, also due to the contribution of TMHCC and steady progress of growth initiatives. On the local-currency basis, excluding the impact of the appreciation of Japanese yen, profit grew by 34% year-on-year.

By region, the business profit of North America increased thanks to the contribution of TMHCC. Europe and reinsurance also grew positively, mainly due to the absence of impact of large losses and foreign exchange gains recorded in FY '15. Meanwhile, in South and Central America and in Asia, the business unit profit declined due to large losses. For more details about 3 group companies in North America, please refer to Page 14 at your convenience.

Next, I will explain business unit profit for the entire group on Page 15. Business unit profit is a KPI that we use in order to understand corporate value of the respective businesses. Different from adjusted net income, business unit profit does not include dividend from group companies and sales gains of business-related equities. Also, to reflect the contribution of life insurance business, we take into account the growth of EV [ph] in the calculation.

Business unit profit of domestic non-life business increased by JPY 41.6 billion year-on-year to JPY 167.6 billion due to the factors listed on the slide. Domestic life grew by JPY 561.6 billion from a year ago to JPY 373.5 billion, primarily due to the changes of definitions in the measurement method of MCEV in addition to the impact of rise in interest rates. And International insurance business grew by JPY 37.6 billion to JPY 169.5 billion, as I just discussed. This concludes the overview of FY '16 financial results.

Let me now discuss projections for FY '17. Please turn to Page 18. This is the overview of our consolidated projections for FY '17. Based on the net premiums written and life insurance premiums described on the slide, we project our consolidated ordinary profit to increase by JPY 17.3 billion over the year to JPY 405 billion. And net income attributable to owners of the parent is expected to grow by JPY 6.1 billion year-on-year to JPY 280 billion. Adjusted net income is projected to decline by JPY 24.7 billion to JPY 382 billion due to the expected decrease in sales gains of business-related equities and dividend income in the domestic non-life business as well as currency impact in the International insurance business.

Next, to review how the consolidated ordinary profit is expected to move, please refer to Page 19. Profit in the domestic non-life business is expected to grow by JPY 24 billion over the year to JPY 345.5 billion due to the expected increase in underwriting profit and net investment income and other at TMNF.

Domestic life business is projected to grow its profit by JPY 21.2 billion over the year to JPY 34.5 billion. And International insurance business is also expected to grow by JPY 4.1 billion to 100 -- or expected to decline by JPY 4.1 billion to JPY 170 billion. In the consolidated adjustments, negative adjustment is expected to increase by JPY 23.2 billion due to the projected increase in TMNF dividend income received from consolidated subsidiaries, while goodwill amortization is expected to decline due to appreciation of Japanese yen.

Next, to review our guidance on adjusted net profit, please turn to Page 20. Adjusted net income is projected to decline by JPY 24.7 billion from a year ago to JPY 382 billion, with the adjusted ROE of 9.8% down by 1.2 points year-on-year. For more details about reconciliation from net income under JGAAP to adjusted net income and major differences from the previous year, please refer to the table on the slide.

Next, to review domestic non-life business, please refer to Page 21. Net premiums written of private lines of business are projected to increase, mainly driven by auto insurance business. Net incurred losses are expected to go up by JPY 14.1 billion due to the expected increase in top line as well as the rebound effect of few large losses recorded in FY '16. Provision for cat loss reserves is expected to decrease by JPY 9.3 billion year-on-year, mainly due to the expected increase in takedown from the reserve in the auto business associated with the rise of loss ratio on written paid basis.

All in all, underwriting profit is expected to increase by JPY 13.8 billion year-on-year to JPY 130 billion. Net investment income and other is projected to increase by JPY 10.7 billion to JPY 208.2 billion due to the expected increase in dividend income from subsidiaries. Based on these factors as well as expected decrease in extraordinary gains and losses, net income is projected to grow by JPY 21.3 billion to JPY 270 billion.

Next, for Nisshin Fire, please refer to Page 24. At Nisshin Fire, net income is projected to decline by JPY 2 billion to JPY 4.5 billion due to the expected increase in net incurred losses associated with the rise of unit repair cost in the auto business as well as an average level of nat cat losses that we're assuming for a normal year.

Next, for TMNL, please go to Page 25. ANP of new policies is projected to decline by 24.2% year-on-year due to the suspended sales of long-term saving-type products as well as product revisions in conjunction with the revision of the standard interest rate despite our efforts to promote the sales of living benefit products. In the meantime, on the JGAAP basis, net income is expected to increase by JPY 15.1 billion year-on-year to JPY 23.9 billion. And core operating profit is projected to grow by JPY 12.1 billion to JPY 34.5 billion due to the product revisions associated with the revised standard discount rate as well as expected decrease in provision for policy reserves based on suspended sales of long-term saving-type products.

Next, to review International insurance business, please turn to Page 26. In the International insurance business, net premiums written is projected to decline by JPY 12.4 billion to JPY 1,642,000,000,000 because of the expected impact of stronger Japanese yen, while we are expecting growth on a local-currency basis based on the advancement of various growth initiatives that we are promoting.

Next, for business unit profit of International insurance business, please go to Page 27. Business unit profit is expected to decline by JPY 16.5 billion year-on-year because of stronger Japanese yen, average level of nat cats in a normal year that we are assuming as well as the rebound effect of foreign currency gains recorded in FY '16. However, after normalizing these factors, the profit is expected to grow by 4% positively against the actual FY '16 as the underlying profit trend is favorable, primarily in Asia, Europe and reinsurance. Detailed projections for 3 group companies in North America and business unit profits for the entire group are described on Page 28 and 29, respectively, for your reference.

Last but not least, let us share with you our ESR. Please go to Page 31. In calculating ESR, Tokio Marine measures risk based on 99.95% VaR for AA calibration and exclude restricted capital while we refer to the method of Solvency II in Europe.

To review where our ESR stands at the moment, please refer to Page 32. This slide shows how our ESR changed from the end of September 2016 to the end of March 2017. As of the end of March 2017, our ESR increased by -- increased to 139% due to the increase in net asset value and decrease in risk capital. Net asset value became JPY 3.5 trillion due to the increase in unrealized gains of business-related equities in addition to the contribution of adjusted net income in the second half. Meanwhile, risk capital decreased to JPY 2.5 trillion, mainly due to the decrease in interest rate risk associated with the rise in interest rates as well as sales of business-related equities. Please also note that we are newly disclosing the impact of market changes on our ESR at this particular timing of the year.

This concludes my presentation. And we would now like to open the floor to entertain your questions.

Questions And Answers

Operator

(Operator Instructions) The first question is from Mr. Muraki of Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

My first question has to do with the International business, U.S. business. On Page 14, you are showing us for the 3 companies' performance excluding the FX impact. The Philadelphia is 7%. Delphi is 6%. For HCC, well, last fiscal year, it was not consolidated. But I wanted to know how much of a benefit they got from the foreign exchange factor. And also, if you go to Page 28 for this fiscal year, excluding FX, the increase in top line is found to be 3%. And why are you expecting some slowdown in these U.S. businesses? And my second question is on 25, about the life insurance business. Their net income was JPY 8.7 billion. In the first half, the profit was JPY 10.6 billion. And when you did the first half earnings announcement, you made an upward revision, up to 16.9%. But why are you undershooting now? And I believe you had new policies in the second half. And I wonder if there was last-minute rush in demand in the second year. Why is this undershooting your plan? And is that expected to recover in the new fiscal year?

A - Unidentified Speaker

My name is Hattori [ph] from the International business department. On your question about the top line growth for the U.S. business (inaudible) and Delphi, as written, the rate increased. And also, there will be more renewed policies. And we expect the top line growth. And for the TMHCC factor, last year's numbers were not disclosed. But compared to last year, we expect steady expansion of their top line throughout the year this year. And specifically, we cannot disclose their numbers for the previous fiscal year.

From the corporate planning of Tokio Marine & Nichido Life Insurance Co, my name is Kono [ph]. Your question about for 2016 versus -- the performance for the first half versus the decline in profit for the full year. For the term insurance, in the Fourth Quarter, before the rate revision, there was increase in new policy pickup. And that is why in the second half, the result was undershooting the plan. And any increase in the profit increase for this fiscal year, due to the revision of the standard interest rates, products are being revised. And due to that, due to those product revisions, there will be less burden for policy reserving. And that will be the main factor with which we plan to see increase in profit.

Q - Masao Muraki {BIO 3318668 <GO>}

And on the first part, on Page 28, for the new fiscal year increase in top line, it is going to be 3% -- or it's only going to be 3%. Why is it only 3% for the U.S. subsidiaries?

A - Unidentified Speaker

My name is Hattori [ph] from the International business division. The 3% increase in net premiums written for the U.S. subsidiaries, due to the tougher market environment, we have factored that into the forecast. And we have seen some slowdown in business. However, we are making steady progress and good growth of the business versus the market average.

Operator

The next question is from Ms. Tsujino of JPMorgan.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

On Page 21, at TMNF, looking at the projections for the year. Cat loss reserve, on a written paid basis, because our loss ratio is increasing, you're expecting more takedown, which is a somewhat surprising assumption. And certainly, looking at the actual, I think net-net, I think the provision for auto was JPY 10.5 billion compared to what you expected at the initial stage. I agree that the amount is now declining. However, in actuality, how much takedown are you expecting to increase? How much incremental takedown are you expecting for this new year? And how much deterioration are you expecting in actuality? And if you can share with me, furthermore, from the underwriting profit, excluding the net provision for cat loss reserves. So taking out the noises, if you will, on year-on-year basis, how much change are you expecting this new fiscal year? That is my first question. And my second question is on Page 16 related to TMNL MCEV. You talked about changes to definitions of MCEV. What do you specifically mean by that?

A - Unidentified Speaker

My name is Watanabe [ph]. On your first question on the expected cat loss reserve, as you heard previously [ph], this is related [ph] to auto business. More specifically in speaking, in FY '16, the loss ratio on a written paid basis was low. And therefore, we are expecting further reversal. And that is expected increase in the provision. And as you have correctly pointed out, we have assumed that there would not be further takedown in new fiscal year. And let me also share with you how we look at the underlying underwriting profit. In terms of the underlying balance, we think that it is going to increase. On earned incurred basis, looking at the earned premium and incurred losses and the actual business expenses, if I look at the trends across these factors, first of all, there are 2 points to be mentioned, as written on the PowerPoint slide as well, in terms of net incurred losses. First, I'll review. So nat cat losses for FY '16 for TMNF, 30 -- JPY 53.5 billion was actual against a budget of JPY 42 billion. So that is the reversal effect from FY '16. And looking at large losses and also other factors that we assumed, in FY '16, we actually had a big number that we recognized for other losses. So including large losses for marine and also fire lines of business, we expect losses for the new fiscal year to be rather normalized. And these 2 factors will essentially cancel off each other. And therefore, net-net, we think that the underwriting balance is going to be pretty much flat or is going to increase just marginally. And if we are to take out that cat loss reserve from the underwriting loss, if you look at the currency losses, it was about negative JPY 3 billion in FY '16. However, in FY '17, we're expecting the currency assumptions to essentially stay flat. And therefore, this portion is going to be canceled out and, therefore, pushing up projected profit in FY '17.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So that means that for the automotive line of business, essentially, you are expecting no major impact, even excluding the cat loss reserve provision. So in your explanation, on earned/incurred basis, underlying -- underwriting balance would be pretty much flat and loss ratio for the auto is expected to increase. However, it is not expected to cause a material impact. Is that correct?

A - Unidentified Speaker

For the automotive line of business, we don't think that the loss ratio is going to aggravate enough to impact the underwriting balance. And overall, comparing FY '16 to FY '17, we expect the business to essentially trend flat. So meaning that some of the payment of claims are somewhat delayed for the automotive line of business. Looking at the numbers on a written paid basis, no, I think it's the other way around. I think the claims is expected to increase.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

No. I think it's strange. On a written paid basis, the takedown is going to increase. And therefore, the payment is going to increase. However, on earned/incurred basis, auto is pretty much flat, meaning that timing of the claim payment is somewhat delayed. Is that the right way to put it in terms of difference between written paid basis and earned/incurred basis?

A - Unidentified Speaker

Yes. There is some time lag in terms of the claim payment timing. And in FY '16, the written paid basis number is low because we had relatively small outstanding claim balance at the end of the year. However, the loss ratio on earned/incurred basis is more reflective of what's really happening in the actual market.

My name is Nihoda [ph] from Anshin Life corporate accounting and financial planning department. To answer your second question on the measurement of the MCEV, as we explained back in November last year through our IR material as well, we revised the surrender risk as well as canceled payment risks in our definitions used in the calculation of MCEV. As a result of that, there was a positive [ph] by JPY 223 billion to our MCEV. So there's essentially no further change from what we explained in November last year.

Operator

The next question is from Mr. Watanabe of Daiwa Securities.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

My name is Watanabe. I have 2 questions. So the first has to do with the natural catastrophes overseas, the actual last year versus the assumption this year. And the second is the adjusted net income for your forecast for this fiscal year, which is JPY 382 billion. And your target for the midterm plan is JPY 400 billion, which is below the midterm plan. And looking at your FX impact end of '15 -- end of '16, it's JPY 112 billion. So FX hasn't changed so much. So what are the reasons why you are undershooting the target for the adjusted net income for the midterm plan?

A - Unidentified Speaker

My name is Hattori [ph] from the corporate planning. For the natural catastrophes for the International business for fiscal 2016, for the actual nat cat loss, pretax basis, it was JPY 35.4 billion. This was below the assumption. And for fiscal 2017, according to our plan for the International business overall, we are expecting JPY 47 billion of natural catastrophe budget.

A - Kiyoshi Wada {BIO 19963983 <GO>}

From the Holdings IR group, my name is Wada. The JPY 382 billion versus JPY 400 billion and why is this short of JPY 400 billion for this year, the major factors -- I believe there are 2 factors. That first is that the exchange rate hasn't changed much. However, there is a difference by about JPY 4. And last year, $1 versus British pound, the FX rate played as one factor. And for the business-related equities, the actual sell-down of the business-related equities for this term was JPY 120 billion. But for the new fiscal year, we are still targeting JPY 100 billion. So these are the differences that played as factors to the difference in the 2 numbers.

Operator

The next question is from Mr. Sasaki of Merrill Lynch Japan.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I'm Sasaki from Merrill Lynch Japan. I have one question pertaining to U.S. business. On Page 14 of the PowerPoint slide, excluding the currency impact, the year-on-year growth in terms of -- compared to top line, the profit is trending essentially flat or declining. I believe that is because the investment income actually weren't that well. However, on the underwriting side, is there anything that was deteriorating in terms of nat cat? I believe that actual was actually lower -- smaller than what you initially budgeted. However, in Philadelphia and also in Delphi in North America, what was actually deteriorating in their underwriting business? And also, what's the background behind it?

A - Unidentified Speaker

My name is Hattori [ph] from International business development department of the holdings. First, on Philadelphia, the business unit profit of Philadelphia was somewhat lower compared to top line growth. And the reason behind this is that compared to FY '15 and FY '16, the nat cat losses incurred -- sorry, please hold on for a second. Sorry about that. So compared to FY '15 and FY '16, nat cat losses increased. So that's the major reason behind it.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

What about Delphi though?

A - Unidentified Speaker

For Delphi, investment income and realized losses of the investment was recorded in the First Quarter. And so there was a negative factor related to their investment. And on top of that, loss ratio did increase. Because of these factors, on a year-on-year basis, the profit did decline.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

On Page 13, it says that due to increased investment income, the profit increased. So maybe you enjoyed some incurring [ph] gains. However, was there some capital losses (inaudible)? And to begin with, why is the loss ratio increasing now?

A - Unidentified Speaker

With regards to realized losses of investment, in order to reduce risk in the First Quarter, Delphi sold some risk assets. And with regards to rise in net loss ratio, for the life insurance business, for medical stop loss and also disability insurance, due to the intensified market -- intensifying competitive situation in the market, the performance did deteriorate. And currently, the company is working to improve the profitability by improving the underwriting discipline.

Operator

Next question is from Tokai Tokyo Research Center, Mr. Majima.

Q - Tatsuo Majima {BIO 15338044 <GO>}

My name is Majima. So first question is on Page 19, about this year's forecast, as it was asked. So the non-life insurance business is expected to increase by JPY 21.2 billion. And this is going to be the growth driver. And all the factors involved are due to the increase in the interest rate and also additional provisioning that was done last year. So increase due to the product revision and also the increase in provision for underwriting reserve. So how much of these out of JPY 21.2 billion? And also, lowering of the rate decline for auto insurance, is that a factor that was calculated into this year's projections?

A - Unidentified Speaker

From corporate planning of Tokio Marine & Nichido Life. I'd like to answer your first question. And so for 2017, the expected increase in the net income for 2017 and different factors playing into it, top line for 2017, we are expecting decline by 20% to the top line. And this is due to the revision of the standard interest rate and due to the revision of the products accordingly. Due to those factors, the top line is going to decline. However, that plays as an increase to profit on statutory accounting basis. And I cannot tell you exactly by how much. But I would say 20% to 30% of that impact is playing here. And also, as we accumulate more in-force policies, after one year, those in-force policies contribute to the profit. And so that's another positive factor. And also, for the protection-oriented products, we want to increase sales of the protection products, which we have as a business plan. And that is also part of the forecast.

Q - Tatsuo Majima {BIO 15338044 <GO>}

And so the negative factors last year, how much of -- the negative factor last year, how much was that? And that is playing as a positive factor this year. And so there is additional provision that was done due to the last-minute rush in demand for the life policies, right?

A - Unidentified Speaker

I'd like to answer your question. So last year, in the Fourth Quarter, the term insurance sales increased. And impact of this, plus, in 2017, the expected top line forecast, those were the 2 factors that play into the overall projections for 2017.

My name is Tanaka [ph] from the personal insurance department. About the 2017 profitability of auto insurance, right now, in January of 2018, we are expecting ASV discount to be introduced. And those are the factors that is on the assumptions for this forecast. However, for the executions of those business lines, nothing has been decided finally. So I'd like to not disclose any details beyond this.

Operator

Next question is from Citigroup, Mr. Niwa.

Q - Koichi Niwa {BIO 5032649 <GO>}

Yes. I have a question related to shareholder return as well as your capital position. More specifically speaking, where does this JPY 25 billion capital coming from? And also, you are at 139% in terms of ESR, which is above your target level. So how shall I make sense of where your target currently stands vis-Ã -vis the target range?

A - Unidentified Speaker

My name is Hojo [ph] from corporate planning department of the holdings. With regards to the decision of the size of the share repurchase, we decided to repurchase our shares up to JPY 25 billion this time around. And on this particular program, as we have communicated before as well, we look at the market environment, capital position as well as availability of business investment opportunities comprehensively and then decide on the share repurchase on a flexible manner. And so 139% is the ESR that we currently are at, which is above the 130% ceiling level that we have set as a target level. So based on this ESR position as well as our considerations of market environment as well as business investment opportunities, we decided on JPY 25 billion as the size of the share repurchase this time around. So 130 -- 100% to 130% is the reference target range that we have set. And yes, our ESR exceeds 130%. Even if the ESR does exceed 130%, we do not automatically use the surplus capital to repurchase our own shares. We would like to optimize our share repurchase program in terms of size as well as the timing. So given our comprehensive considerations, we decided on JPY 25 billion this time around.

A - Kiyoshi Wada {BIO 19963983 <GO>}

I am Wada from the IR group of the holdings. With regards to an earlier question raised by Mr. Sasaki, let us provide some additional comments.

A - Unidentified Speaker

My name is Hattori [ph] from International business development department of holdings. There was a question with regards to the Delphi's profit decline vis-Ã -vis the top line growth. Due to the income gains which is increasing, investment income is actually increasing, even including capital gains and losses. And so the underwriting performance is the main contributor to the fact that the profit did decline.

Any more questions from the floor?

Operator

(Operator Instructions) There's no more questions from the audience. So Mr. Wada, I will return the microphone to you.

A - Kiyoshi Wada {BIO 19963983 <GO>}

Ladies and gentlemen, thank you very much for attending the telephone conference for the overview of the 2016 results and 2017 projections. If you have any further questions or need more clarification on any of the points, please do not hesitate to contact us. And once again, thank you for your participation. This is the end of the conference call.

Operator

This concludes the conference call for the earnings of 2016 and as well as projections for 2017. And thank you for your patience. And please terminate each of your telephone lines.