Sompo Japan Nipponkoa Holdings Inc Business Strategy Meeting

Company Participants

- Kengo Sakurada, President & CEO
- Mikio Okumura, General Manager, Corporate Planning Department
- Shinji Tsuji, Deputy President & Senior Managing Executive Officer
- Unidentified Speaker, Unknown

Other Participants

- Futoshi Sasaki, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Taichi Noda, Analyst
- Tatsuo Majima, Tokyo Securities
- Wataru Otsuka, Analyst

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

Hello, everyone. Thank you for attending the IR meeting of Sompo Holdings today. I would like to start the presentation. So please turn to page 1. These are the key points for today.

FY15, which is this year, is the final year of current management plan. I will be explaining the figures later but I myself believe that we have made a steady progress, including profit and ROE, within this management plan. I hope you stay tuned and pay attention to this progress.

Especially noticeable is the improvement of domestic P&C business. This is an industry-wide situation.

Last year in September we have merged two P&C entities and we have concluded this measure in success by exerting all our efforts Company-wide and realized profitability improvement in automobile insurance. As a result, combined ratio improved more so than we had imagined a few years back.

Emphasizing the business environment changes in the future, sales of direct automobile insurance is steadily increasing its new policy market share and we can expect a further growth in this field.

Capturing the opportunity for technological innovation represented by (auto) driving costs, we are proactively working on the field of telematics and big data and application of data science. In any case, there is no change to our policy but we will work to increase customer base on Group-wide basis by any means possible.

In our domestic life business sales of medical insurance products is favorable due to new product introduction. In order to capture new customer demand we are taking swift steps, such as the launch of simple underwriting medical insurance in April. And we'll continue to work on expanding scale and profit.

As for overseas insurance business, it has already achieved the target of the management plan one year in advance. On top of the organic growth, M&A, exemplified by Canopius, succeeded.

For further profit growth and in order to get into the life reinsurance business, which was quite difficult for us to do by ourselves, we have invested in SCOR and, in this manner, we are marching away relentlessly, including such investments.

As for capital release by means of reduction of strategic holding stocks to secure a source of funding for M&A, we have reduced almost JPY500 billion of strategic holding stocks in the past three years. We will continue to work on the enhancement of capital and improvement of ROE.

And as for shareholder return, which I will refer to later, as we have announced last week, we have decided to raise the dividend per share and conduct share buyback.

Please turn to page 2.

Since the establishment of the holding company in April of 2010, we have steadily realized the business integration. Undoubtedly, the biggest milestone was the merger of Sompo Japan and Nipponkoa, which created the biggest P&C insurance company in Japan.

At the same time, I would also like to emphasize that we have been strengthening overseas strategy and services business. That is the point that I would like to emphasize regarding our Group.

Now that we are complete with the merger and the holding company structure is firmly in place with strong governance, we have entered into the stage to accelerate further growth of the Group.

Please turn to page 3. I'm going to touch upon the Group's key indicators of adjusted consolidated ROE and adjusted EPS.

One of the key indicators, adjusted consolidated ROE, is steadily improving and in FY15 we plan to achieve 7.6%, which is going to exceed the initial target of over 7%. The management will not satisfy at this point but is conscious of even higher target as we study the next management plan.

Adjusted EPS is also on an increasing trend.

With this backdrop we review the shareholder return policy and, being well conscious of the expectations from the market, we made a decision to raise dividend and conduct share repurchase expansion. We will do our best in order to meet your expectations and manage this Company well.

I would like to move on to page 6. I will talk about how we plan to finish off the final year of the current management plan.

The original Group target for the adjusted profit was JPY180 billion to JPY210 billion and adjusted ROE of over 7%. That was the original plan. As of now, FY15 forecast for both indicators are JPY228 billion and 7.6%; both exceeding the original targets.

Looking at each business, overall each will also be achieving their plan, not only by numerical terms but also in process. There was progress to be felt along the management plan. I would say that the Group has changed in its quality as well.

EV increase in domestic life business will be short of the plan by about 10%. Reason for this shortfall is, because of Abenomics in macro economy, there is a difference in interest rate in between the time of setting the plan versus now. Therefore, there is no need to worry about the business itself.

Please look at the progress of the adjusted profit on page 7.

Please move on to page 8.

Adjusted profit might not be very clear. So I'd like to use the J-GAAP base consolidated profit. The ordinary profit has become over JPY200 billion and for this term we expect the ordinary profit to be further increased. The improvement in core underwriting profit is the main factor behind this.

Without the temporary factors, such as merger costs and reduced corporate income tax, the net income for FY15 is expected to be tripled to become JPY160 billion.

I'd like to make a comment on each business. Please turn to page 19. This is the profitability of domestic P&C insurance business.

The adjusted combined ratio, which we are watching in our mid-term plan, has already improved last fiscal year to the 92.6% because of the improvement in the automobile insurance business and the synergy effect from the merger. And for this fiscal year we are expecting it to be just 92%. So we are expecting a further reduction.

The situation has drastically changed compared to previous time. However, in order for us to maintain this level, we would like to make further efforts to pursue efficiency and also we would like to continue necessary investment, otherwise we might go back to the previous level. So we cannot be really optimistic.

Please turn to page 20. This is about the merger of the P&C (business). There is no major confusion.

As for the synergy, compared to FY11, as was shown before, we have additional JPY50 billion of cost-reduction effect. Except for the impact of consumption tax increase that would increase non-personnel expenses, we would expect to enjoy a good synergy effect as planned.

As for one-time cost, from FY12 cumulatively we have JPY120 billion level. This is in line with the plan too.

Next page, please. This is the automobile insurance business. This is the combined ratio, which is really crucial for the domestic P&C business.

We had multiple rate changes and the changes in drivers' rating systems. Because of that, the combined ratio has improved to be the lowest level in the past 10 years. For FY15 we are expecting to have 92.3% of the combined ratio.

Consumption tax and repair costs. Taking them into consideration we still have to carefully watch the situation. However, still we have to watch the market and also the situation surrounding the customers. That means, in terms of the structure, we are not really saying that we have to offer discounts.

The next page, please. The next page talks about the direct insurance business.

As we mentioned before, direct automobile insurance, Otona no Jidosha Hoken, sold by Saison automobile, continues to sell good. The market share of new premiums by Saison Automobile and Fire, responsible for the sales of above-mentioned products, is 13.7%, keeping the third position in this market.

Some people say that there isn't much expansion with the business but, with the change of the times and change of the business environment and as we can learn from the overseas market, I believe that the direct insurance business is going to continue to grow. And therefore, we would like to enhance our efforts to capture larger customer base on Group-wide basis going forward for this direct insurance business.

Please turn to page 23.

As I have mentioned briefly earlier, big-data analysis and autonomous car technology. So what serves as the basis for these technologies is the basic technological innovation.

The most specific example is the use of telematics where, by taking the real-time data, auto insurance will change from pay as you drive to pay how you drive. This is how the auto insurance is going to change and that trend will not be diverted. And we are proactively working on R&D in this field.

For commercial fleet contract, we began to offer a new type of service called Smiling Road, through which we have started to collect the data on various risk factors.

Smiling Road collects driving data from drive recorder with communication function. And this is an exclusive driving recorder for our use. And by big-data analysis, it will support safe driving. And from the corporate customers' point of view, it will lead to reduction in accident frequency, which will then lead to reduced premiums. So this is a mechanism that would bring us a win-win relationship.

The speed of technological advancement is taking place very quickly. And going forward, we will utilize advanced technology, such as ICT and big-data analysis, in order to provide highest quality service and products that contribute to customers' security, safety and wellbeing. We hope to become the first company to offer any products related to this field in this industry.

Please jump to page 39. I will talk about the domestic life business.

There is no change to our strategy, which is to utilize the P&C insurance agency network; the foundation of Himawari Life. And focus on high-margin production type products in order to grow the in-force policy still has no change.

As for the business development into the future, we think it's important to value contact points and needs of customers, then to reflect those through products in channel strategy.

For example, we could build a new business model using ICT. Or, by regularly launching new products or upgrading products that reflect customer needs, we could be valued highly in the market and could become a life insurer with presence.

This may be very abstract but the agencies will be selling and we will be providing further services. Our maintaining policies with ICT is not what we want to do.

We think the opposite order is also possible because, in life business, it is unlike P&C in that, including maintenance, there will not be a breakthrough if you try to work on the whole process from beginning to the end simply relying on ICT. So it will not be a hybrid.

But this is an omni-channel idea, where we want to build a new business model for the life business. So we would like to be innovative. And we would like people to regard us as an innovative company in its brand. And that's how we want to become other life insurer.

And we hope Himawari Life will evolve itself in order to lead Group's growth in terms of profit. And additionally, we hope to achieve expansion of number of customers using Himawari brand. So this is not simply including the P&C customers under Himawari brand. But we hope Himawari brand will contribute in expanding the customer base for the entire Group.

We need to be destructing the existing business model in order to do what we want to do. It's almost impossible without that destruction. So we would like to continue to challenge the new business model.

Page 40 it talks about our in-force A&P and MCEV. So this is the trend.

So whether EV type of management is good or bad is another discussion. But, fundamentally, it is a reflection of our corporate value. By bringing such strategies to execution specifically, management would like to realize this continuous corporate value expansion because market is so saturated. So in order for the value of Himawari Life to leapfrog and jump, we need to be doing something new.

The next page is the result of the medical insurance products.

After a long time we had a new launch last year. Because of the effect the number of policies sold was a record high of 274,000. As of April 13, we achieved our aim of 300,000 applications. And in April we already launched a simple underwriting medical insurance that is already launched. So continuously we would like to maintain the level of 300,000 policies per year.

Please turn to page 47. This is our global expansion.

In November last year we have already presented this. The overseas business in our portfolio has been gradually expanding. So we have distributed operations globally. And going forward, we would like to pursue organic growth in the regions, of course. And also, at the same time, we would like to have disciplined investment so that we can aim at further expansion in the overseas operation in the portfolio.

By keeping disciplined investments, we would like to expand our overseas business. However, the target year for the next medium plan we haven't decided officially. However, 2020 is our candidate year when we look at five years in the future. The P&C business wouldn't increase by 10% compared to the current level of JPY200 trillion. That wouldn't be the situation in five years.

Allianz asked McKinsey day to investigate the future. According to the survey, the market in 2020 over all P&C business is going to be (JPY200.04 trillion). According to the Forex situation it might change. But roughly that's the figure.

And also in mature market Asia, for example, Japan, Korea and Taiwan, JPY22 trillion in those countries. In North America, JPY68 trillion. Europe, East and West included, JPY58 trillion. And also developing countries, such as emerging countries, included (in one word). Well each one's business depends on the population.

China, one country, would be equivalent to overall Asian country that should be a little bit less than JPY20 trillion. Right now for China it's about JPY10 trillion. So it's going to be doubled. It's going to drastically increase.

However, in terms of profitability, still developed countries have higher ROE.

My message here is that, in terms of the next mid-term plan, even if we invest mainly into Asian countries, the growth rate is good. However, in terms of ROE, the contribution of Asia toward the whole Group might not be that significant.

So according to our research, we'd like to focus more on M&A opportunities in developed countries as well. That might be one of our conclusions. This still is my own personal opinion. Going forward we would like to make solid decisions after discussing.

The next page is the current status, based on what I have described before.

In March this year we decided on investing into SCOR, the French company. As planned, we invested into their shares. And also, as planned, we can use the equity method for consolidation. I'm sure we can. And if it's realized next fiscal year we can have the contribution of about JPY10 billion.

This SCOR is one of the big five life reinsurance companies. Of course, they are not specialized in only that.

However, in terms of strategy, we can go into the oligopolic market with stable profit. That is something we can have high expectations toward the future.

We would like to pursue M&A opportunities going forward as well, with clear aims and goals. We are not going to waste our capital on just a simple expansion. We would like to focus more on our opportunities.

The next page is the business field mapping. I'm not going into the details but, by investing into Canopius and SCOR, we have established our presence in almost all the areas in developed countries, except for retail area. If it's really necessary we would invest into the retail area as well.

And the important thing here is not only M&As but post-merger integration is very important.

Including investment into Canopius, what I'm feeling is that governance, hard capital governance, is achievable by laws and regulations. More important thing would be soft governance that we have to cover every aspect of the post-merger integration in terms of governance.

We cannot be too tight in control because we have to increase the performance of the Company, within the holdings and also within the regions.

How we can prepare for sufficient number of human resources to establish good governance is very important. Of course, ERM is very important too.

From the viewpoint of ERM we have been developing the overseas reinsurance business according to the plan. And the fact that overseas assumed reinsurance business was one of the factors which contributed to the achievement of management plan, we would like to use the excellence or resources of Canopius. And we will optimize the Group strategy for assumed reinsurance business, including the possibility of good structure realignment. And soon we will have a good plan coming out for this decision to be made.

Please jump to page 55.

Talking about the growth scenario, as I have mentioned, overseas insurance is one of such growth scenarios. But not in the advanced nations. In terms of the market growth, we must focus on Asia. And as for Asia, in absolute value the contribution to be expected, even in 2020, is still premature.

However, going after the growth market in the domestic market, the insurance business itself again is a coefficient of population. So both P&C and life we will all be competing against market share and there will never be an end to it. And so, in order to do something else, we have to expand into the financial and other services business.

A few years ago this was just an abstract idea expanding into the services and providing security, safety and wellbeing, etc.. But now we can talk more about the specific aspects of this field of business.

Recently we have invested in Fresh House, which has become our subsidiary, which is a house-remodeling business. About 9,000 companies are in this industry and they are about the 20th company.

The characteristic of this company is the repeat ratio. In this industry the repeat ratio for the remodeling business is about 30%. For Fresh House they have 60% repeat ratio. And there is good affinity with fire insurance and that has been verified already.

Another company that we have invested in is, I would say, the only company towards 2025 I believe the value is going to be exceed JPY20 trillion as market size. And this is the nursing care business. So tax premium and some will be co-paid; all put together will be about JPY20 trillion

In this nursing care business we have invested in a company called Message which is the biggest company in terms of the facilities they own.

We have sent in good talent, such as section managers, to Message so that we can together build a new business in between the two companies. And we would like to thicken the pipe that connects us so that Message, as our family company, will contribute to the Group business.

Other than that, including ALSOK, etc., forming ties with top players in each industry will accelerate the speed of expansion into a new services business.

So we have been seeding various business and I believe that soon we will see the seeds flower and we'll be enjoying the fruit of the business. So we wait to see when their contribution will actually surface in terms of Group earnings.

So next five, 10, 15 or even 20 years, we must have such a long-term perspective in expanding into this field. So we will not simply and solely concentrate on P&C and life business. But we will also be expanding into such new field.

Please turn to page 57. This is about ERM. Please refer to the chart.

I'd like to stress here that we have the management meeting and also Board meeting in the Group. ROE and ROR are common indicators in those meetings. It is like which one is more nutritious, a banana or a carrot. Well as such, we have ROE and ROR as indicators and this is your making tool and this is a very important framework for the next mid-term plan as well.

Page 58 is about financial soundness.

The internal solvency ratio has improved steadily; 170% we have reached. For stable operation of the insurance business, we would maintain certain level of the capital while increasing ROA. And for that purpose, we would like to inject our capital into the growth business, such as overseas business and life business. And also, we'd like to invest into our systems as well for our growth as well.

We'd like to make the best use of our capital and we'd like to make a good balance between the capital injection and the return to shareholders' policy.

Page 65, please. This is the reduction of strategic-holding stocks.

In the past three years the exposure was reduced and now we have reached JPY490 billion.

Newspapers and the media focus on corporate governance (quote) right now. That encourages our effort. That is our external environment and, by reducing strategic-holding stocks, we can free up the capital to invest into our growth.

The reduction of the strategic-holding stocks would be the biggest source for the investment into our growth. So going forward we'd like to constantly make an effort for that too.

As for the reduction in FY16 and onwards, right now we are working on the plan and we would like to present the plan with the next mid-term plan. And we cannot ignore our discussions with the issuers. So in the end, we'd like to present our policy with the next mid-term plan.

The next one is page 66. Last. But not least, I'd like to explain the shareholder return.

I'm sorry I have to be abstract right now but, going forward, we would like to improve the adjusted consolidated profit and also, based on your expectation and the market expectation, we would like to make an effort.

For FY14 the dividend per share is going to be JPY70 and for FY15 it's going to be increased by JPY10 to become JPY80 per share. This is an increase for two consecutive terms.

The basis is the domestic P&C business, the improvement of the profitability and also the forecast of the future should be that basis. And also the dividend yield is important too.

The share buyback is planned to be JPY17 billion, based on the performance of FY14. This is plus 70% year on year. The total payout ratio is going to be 50% and the shareholder return policy in FY16 and onwards is going to be presented with the mid-term business plan.

We would like to further enhance ROE and also we would like to focus on the shareholder return and also share buyback, based on the voice from the market. The balance between growth and a return should be achieved by our effort.

This is my message right now. Thank you very much. With this, I'd like to complete my explanation. Thank you.

Questions And Answers

A - Unidentified Speaker

Now we would like to take questions from the floor. When you ask your question, please say your company name and your personal name. If you have a question, please raise your hand.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Tsujino, JPMorgan. This term Sompo Japan Nipponkoa alone as an entity, the underwriting profit forecast was revised and catastrophe loss reserve, the net provision as well as the occurrence of the natural catastrophe, etc. If I remove them, then I come up to about the JPY60 billion of improvement.

For auto insurance, the impact coming from the auto premium hike in the past will still be around this year, which is going to be worth, I assume, JPY20 billion or so.

And cost cut, according to last year's plan for 2015, was supposed to be JPY26 billion. But perhaps that changed. So maybe you have spent part of that in an accelerated manner but, as you mentioned in the previous slide, there could be some cost-increasing factor to incur this year.

But still, I would think that you should take about JPY10 billion of improvement. But that will still be short of JPY60 billion. So what is making up the difference?

As far as I can see, in a different direction, looking at E/I loss ratio for the term we ended for other lines, it's increasing for natural catastrophes. So perhaps we will have luck of that this year and that's probably why you're expecting some improvements. So what kind of improvement are you expecting this year?

My second question is on page 66, the very last point you mentioned: your share repurchase program. How much is that going to be this year?

Last year, at the beginning of the year 2014 we still had integration issues and there were many issues or many initiatives that you were working on through the merger. Therefore, you didn't really want to change much and you didn't think things were going to improve this much.

And now you have your total payout set at 50% but, according to your forecast, excluding life EV, the adjusted profit should be JPY138 billion, which is going to be a significant improvement. And are you really going to be paying out 50% of that? Or, because it's the final year of the management plan, you would think that's an over-expectation from the market. What do you think?

A - Shinji Tsuji {BIO 16148256 <GO>}

I'd like to answer your question. If you look at page 66, you can see the track record from 2010, which is the year when Sompo Japan and Nipponkoa integrated. So we are into the sixth year since the integration.

So as I have explained before, on managerial accounting basis it takes 24 months for the earnings to completely refresh with the new policies. So Sompo Japan and Nipponkoa both increased their rates last year and we will still be impacted by that this year.

And looking at the auto alone, underwriting balance is going to improve by about JPY30 billion this year as an underwriting balance for the auto line exclusively.

And your analysis catastrophe loss reserve, the nat cat occurrence, excluding the noise, etc., as you pointed out, for the other lines of business, for some specific large policies and the loss which those policies booked, we will see some improvement in those areas this year compared to last year. So that is the reason for the underwriting profit situation for this year for Sompo Japan Nipponkoa.

The cost synergy related to the merger, of course, we will see that this year and that is going to be in accordance with the plan, as Mr. Sakurada commented. From 2014 to 2015 the cost improvement is going to be about JPY18 billion and, in totality, for 2015 we will see the synergy effect by JPY50 billion. In 2014 it was about JPY32 billion. So the cost effect to be enjoyed this year is going to be about JPY18 billion.

On your second point about shareholder return, for shareholder return, as you pointed out, our shareholder return policy, which we have announced, is a total payout of 50%. And if you just do the calculation mechanically, the share repurchase amount should be JPY36.7 billion.

On the other hand, this is a question that was asked in the shareholders' meeting and I have answered it. But we have a medium-term point of view. So it's not a single year by single year but over the medium term, on average, we would like the payout to be about 50%.

So if you look at page 66, from 2010 this is Sompo Japan Nipponkoa who merged in 2010. So we are into the sixth year. And you can see the total payout ratio on the bottom.

In the early days after the merger we had natural catastrophes and also the loss ratio for auto was still staying high. On top of that, asset impairment with the stock holdings, which is now part of the adjusted profit. But there was still some impairment taking place.

So while we did not see the growth of the profit, our policy was to execute stable payout of dividend. And therefore, the payout ratio was extremely high because, even in the loss making years, we still paid out a dividend.

So that's our past history, in the past six years.

Including the JPY80 per share of dividend payment for this year, we will be paying out JPY212.1 billion of shareholder return for the three years. And profit is going to be JPY170.6 billion. And so total payout ratio should calculate to be 124%, if you just do the calculation mechanically.

Therefore, for FY15, JPY80 per share of dividend payment. This is a forecast. But this is something that we have already announced to the market and let's do this.

Then the share repurchase, what we do on that part. So based on our thinking as I have explained, even if we don't do it is 124%. If we try to do it then it becomes JPY36.7 billion. So there is a range from zero to JPY36.7 billion of spending.

Next month we will have the shareholders' meeting. And, as we move to the new Board structure, we will look at the financial condition for 2015 and we'll make the final decision about the shareholder return.

Timing wise, at the time of the mid-term plan, which we plan to announce in November, the typhoon season should be over.

And Sompo Japan Nipponkoa was created on September 1 last year. So it will be one full year since the merger and we will look at the earnings situation, we will look at the financial soundness and, based on those data, we will be revisiting the forecast for this year, then think about the shareholder return.

(At least) we should be able to tell you the direction for the shareholder return for this year at that timing.

There are various things that we have to think about, as Mr. Sakurada mentioned. So what is the balance of the growth versus shareholder return for FY14?

The shareholder return was JPY45.5 billion, because it was JPY28.5 billion of dividend plus JPY17 billion of share repurchase. So we paid JPY45.5 billion. So we have to also be conscious of how much we paid out in value last year.

I'm sorry to give you a long answer. But we do have various multiple perspectives to decide on the shareholder return. We would also listen to the comments from the outside Board members on this topic and would like to make the final decision. Thank you very much.

Q - Masao Muraki {BIO 3318668 <GO>}

Muraki, Deutsche Securities. I have two questions, 27 and 28 pages domestic P&C and also E/I loss ratio. And as for loss ratio in the new fiscal year, 60% -- it's going to be lowered to 60%. So even though you have three companies, compared to the level you can maintain I think the level is lower.

Meanwhile, the expense ratio you can expect 33%. And the next mid-term plan I don't think the ROE of 7% would be satisfactory for the next fiscal mid-term plan.

Of course, you already started initiatives for the mid-term plan. And what is your plan to reduce expense ratio including the one, the initiatives you have already taken? Could you please explain?

My second point is related to overseas M&A opportunities. If I'm wrong please tell me. But, according to your presentation, going forward in the next mid-term plan you would include major M&As. So this is not in the current mid-term plan but is it going to be in the mid-term plan next time?

And in terms of region Asia with less profitability and with higher valuation, rather you would focus on the underwriting business in the Western countries. Would that be your indication? Is that your priority? If I'm wrong, please tell me.

A - Kengo Sakurada {BIO 15149542 <GO>}

Well your recognition is not really wrong. The first point. In terms of already visible part, in terms of non-personnel expenses FY16 and onwards, what is clear is former Nipponkoa policies, the maintenance cost. Well because of the transfer of the system, the reduction is probably about JPY5 billion. That should be the effect of the reduction.

And also running costs, because of the consolidated system, would increase gradually and 2020 is going to be completed, probably.

And also, associated with the merger, we have idle real estate we have to sell. So still we have the running cost. But it's going to be declined about JPY1 billion to JPY1.5 billion.

So that is about non-personnel expenses. And as for personnel expenses, that depends on how many personnel. And in the insurance business, as for continuous employment, according to the global standard the number of employees right now would be inefficient. So we need to consider restructuring in the Group.

But we'd like to have a concrete plan that still we can achieve more efficiency.

And one more thing. As for investment, investment into ICT is a major one. We have agency model and also we have double structures for it. And also by having ICT approach we can reduce the cost to face customers. But the customers would want to talk to agencies in P&C and life insurance businesses. So we have double structure. That means sales representatives.

How much we can use that by ICT investment is important. So we might have to continue investment to some extent too. And in the mid-term plan it's going to be realized. Right now we do not have any concrete numbers and figures we can present right now.

And as for M&A opportunities, well, I'm sorry that I didn't really indicate anything about M&A opportunities. But what is clear is that by 2020 the insurance market is not going to grow globally. As we see some growth area in terms of growth rate, including Asia, emerging markets are growing. However, as for the value of the market, it's slightly more than 10% increase. So it's not really different from right now.

So even though you actively invest into that area, our bottom-line target for the mid-term plan, next mid-term plan, in order for us to catch up with the plan, investment only in Asia would not be sufficient.

Your impression might be different from what you had before. But we learned from negotiation with SCOR and also investment into Canopius how to enter advanced market is something we have to be very prudent. And more than ever, we have to focus on those markets too.

Well I'm not really indicating anything we are going to do by the end of this year. We do have pipeline already for the future.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you very much. About the expenses reduction? The fees and commissions for the agencies, which should be limited if you make an effort by yourselves so you might not be able to comment right now. Well you have your direct agencies. I think you are making good use of them.

By having a double structure approach and also in terms of fees and commissions of agencies that is eliminated by the whole Group accounting, I think you can focus more on this. And do you think you can have room to improve the point?

A - Kengo Sakurada {BIO 15149542 <GO>}

I'm sorry I didn't touch up on that, thank you very much for pointing it out.

As you have pointed out, in terms of cost that can be offset. So we can utilize our cost. And also the double structure we'd like to leverage the free up capital for the double structure. That should be very important, more than ever, in concreting our agencies.

However, they should have the function of our sales outlets and if they can be successful, depending on the region, we can reduce the number of sales outlets by utilizing such agencies. So the agencies by our subsidiaries can expand but we can reduce a number of sales outlets.

If we can do it, as you have pointed out, we can reduce the expense ratio so we can catch up with the global standard.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you very much.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Otsuka, Nomura Securities. I have two questions. The first question is about life insurance. The second question is about overseas insurance.

In life insurance business, as you show on page 39 and 40, is, as for the future development of your life business agencies, ICT was already there. But specifically, I cannot really conceptualize what you are thinking of in terms of using ICT, etc. So how would you like to change Himawari, based on what you said in the presentation?

On page 40 you are showing MCEV and you mentioned this continuous growth. I guess you were trying to say jumping up. But including M&A, how would you emphasize the discontinuous expansion of MCEV? That's my first question.

My second question about overseas business. As you can see on page 49, you talked about soft governance. So I believe that it boils down to the utilization of human resources. Looking at your human resources, in terms of the headcount and quality of resources, do you have adequate resources?

In other words, going forward, as you globalize the business more, including M&A, wouldn't that, the resources, become your bottleneck?

A - Kengo Sakurada {BIO 15149542 <GO>}

So first the question about life business. Let me answer your question.

Last year we launched the new medical product the new Kenko no Omamori medical insurance. For about six years we could not launch a new product and so it was a new product long awaited.

We merged the life insurance business. As for the systems infrastructure, it had to be renovated, etc. So while we were doing that we could not launch a new product but we finally did and this is a very popular product in the market.

It's valued very highly by financial planners, etc. It looks like the protection and the premium balance is good and also the surgery benefit paid out. Depending on what kind of surgery you receive, there are 40 multiples for the insurance money to be paid out for the protection over surgery and also a good protection over the gynecology field of illness.

So for 2016 and after, for the new mid-term plan, I believe life and the overseas businesses will be the growth driver of the Group.

On April 1 Himawari Life has appointed a new president, which is Mr. Takahashi. It's only been less than two months since he was appointed but he has his vision as of management, which he has communicated already.

The profit level, according to J-GAAP, is about JPY10 billion but in five years he would like to double that. Or, for the in-force policy amount, he would like to achieve 7 million polices for in-force. Then that makes Himawari top 10. And so, to do that, what do they need to do is going to be factored into the new management plan to start from next fiscal year.

So using ICT and doing direct insurance for female product, for feminine, is going to start from this year. And also, the new Kenko no Omamori, the amulet of health, there is a simplified lenient underwriting type of this amulet product, which was launched recently.

So we always look at the product, we always look at the channel and we need to be revising our strategies and preparing such strategies for a reignited growth into the future.

Mr. Takahashi has just been appointed as the President but, from the latter half of this year to the beginning of next fiscal year, as we introduce the new management plan, he shall have opportunities to explain more about the new management plan in its details.

For life business, as the entire Group, as we move towards IFRS, we are in preparation. From 2018 it looks like we can officially introduce the accounting based on IFRS and we are in the preparation phase towards that.

So in the mid-term plan the life profit is shown in terms of increase in EV and that's what we announced. But as Otsuka-san mentioned earlier, the increase in EV perhaps will not be used but we will look more of IFRS convergence type of profit or might set the new target by these measures.

The increase of MCEV for this year was short of the plan for the term we concluded. This had to do with the lowering of the interest rate. So this is one reason for the shortfall of the EV growth.

Another one is that the new product, the new Kenko no Omamori product, which was launched and was a new product. So there was a lot of switch over by the customers from the existing product to the new product. Perhaps 20% to 30% of the customer base might switch. And indeed, that really became the case. And therefore, its MCEV. So surrender and lapse and mortality rate, must be admitted by the third party in order to change those numbers.

So for 2014, the increase in MCEV is short of the original plan for all those reasons I mentioned. That is the situation for our life business.

As to your second question about human resources, soft governance. This is a word which I coined. So I don't know if you understand this. But simply buying the company with money wouldn't mobilize the company because what mobilizes company is people. Therefore, in terms of the human resources skills. And in terms of their integrity, in totality we must be able to communicate and there has to be a clear chain of command for us to transmit instructions.

So do we have enough resources to do that? No. We lack resources. I don't think there are many companies who have ample resources who can do that, especially in the financial industry. (inaudible) they acquire, all of the technologies were imported. So there is no Japan original technology that we can use in the financial services.

And therefore, the importance of soft governance in terms of the speed of decision making, the methodology, the way we think, is very important in mobilizing companies.

For example, there is an appointment and remuneration committee, which is made up by the external Board members, as well as me and Mr. (Huta Mia). And the Chairman is somebody from the outside. And every time we hold a committee, the comment just mentioned is too monotone.

And so, although we want to evolve to become a services company, they say that all we know is about insurance business, such as P&C and life. And they also say that we only appoint people from the internal recruitment. Then I need to have my accountability in explaining why we appoint such people. And they understand, to some extent.

But looking at us versus other companies, we have to be able to explain that better and for the appointment committee members to, of course, agree. But we have to search for the true soft governance to be executed.

For example, two years ago we acquired Canopius. And CEO, there is a succession plan in process. There is a selection panel, including third party.

And on local basis, we are doing the selection and then we made a short list and I interviewed the shortlisted people. And after doing the interviews, as I was satisfied with certain people, we brought that to the appointment committee, to the holdings. Then we had a discussion and made a final decision. And so the person was approved in the committee finally and this candidate is somebody from the outside. So we are doing this.

And also domestically, how we appoint people in the domestic market and how do we secure the compatibility between the two sides? There are some non-Japanese people in the appointment committee. We are not simply trying to westernize but we have to have the right balance.

And also, in terms of skills, insurance policy sales perspective, especially in this domestic market, there are loads of people who hold that skill in our Company. However, who can do business in the Lloyd's market? Can we do specialty underwriting in the Lloyd's market? We only have a few people who can do that. And so, through the M&A, we are trying to augment the talents we lack.

So do we have enough talent? No. We don't have enough but we will have trouble if we try to do everything by Japanese. So I am trying to avoid that scenario. And that's the scenario that I'd like to promote.

Specifically, there is a center of excellence concept, where the center of ERM is not going to be based in Tokyo.

And as for M&A, M&A initiative team was set up and the top of this team is a non-Japanese person. Of course, including Japanese members.

And for reinsurance business, we are trying to take in Canopius knowhow and our knowhow and I'm trying to blend the two. And we will also be considering reorganization to do the business.

So these are the things we are doing in order to have a stronger organization in terms of human resources deployment. Because, if the pipeline is full and the price is reasonable and we buy the company but if nothing changes, then it is simply shopping something that was JPY100 but we paid JPY150 for it and nothing happens. I hope that answered your question.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I understood your answer well. Thank you.

Q - Taichi Noda {BIO 16478436 <GO>}

Goldman Sachs, Noda. Domestic P&C and also strategic holding stocks. I have two points.

The first one is P&C, as for the rate changes. According to the media, the average rate is going to decline. That was reported in mid-term. Right now we have disciplined increase and also the margin situation. But to what extent is it going to continue in the mid-term plan, according to the President's plan?

And also I think you are a pioneer to reduce the rate. How would we interpret that? That's my first point.

And the second point is about the strategic holding stocks. ROR was presented by you. And this strategic holding stock, according to ROR perspective, is it high or low right now? Considering your share price, it might be high. But what is your judgment and how do you interpret this?

A - Mikio Okumura {BIO 15901852 <GO>}

As for the first question, I'd like to answer. According to the media by the current rate change, it might be a decline that was reported and based on the revision of the advisory rate that was decided. And overall, it's very close to flat. However, depending on the condition, of course, it might be different.

Q - Taichi Noda {BIO 16478436 <GO>}

And the combined ratio. How are you going to view the combined ratio?

A - Mikio Okumura {BIO 15901852 <GO>}

It depends on the expense and also depends on the competition in the market. It should vary. However, mid-term and long term, 95% of the combined ratio would be our aim for the rate changes and also structural reforms.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you.

A - Kengo Sakurada {BIO 15149542 <GO>}

About the second point, strategic holding stocks. I'd like to make a comment. As for strategic holding stocks, after 2010 and by the end of 2015, during this period totally, about JPY700 billion equivalent of a reduction is our aim.

And as for overseas M&A opportunities, starting from 2010 and also up to SCOR, about JPY300 billion equivalent of M&As outside of Japan. So reducing strategically holding stocks and also pursuing our M&A opportunities.

And you talked about ROR. Right now, corporate governance code we are trying to address and we are under preparation. And as for all those 73 principles, we'd like to comply with. And next month we are going to disclose the report for the corporate governance report.

And as for the strategic holding return, based on risk and return, we'd like to verify the rationale of why we are holding those stocks. We have to explain and disclose.

And the reduction plan. As I mentioned before, it is settled for a certain period. And as for risk asset, we achieved certain reduction. However, for each individual issue, we need to evaluate the economic rationale. So economic rationale and for each issue.

In terms of risk return, it was not fully evaluated. So including insurance deals, we would like to establish risk-return indicators to evaluate qualitatively. So that we can maintain or reduce strategic holding stocks. And we are going to disclose what's going to happen and we are preparing for that. Thank you.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you very much.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Majima, Tokai-Tokyo Securities. I have two questions. The first question is about autonomous cars. How much study are you doing internally? Because for auto-driving cars, the public road test will start and, not in the far future but in the sooner future, the actual utilization will begin.

However, for those people who have bought such a car, if they come and ask: What kind of policy should I buy? You can only say there is no policy that we can offer to you so we cannot really insure you. But for auto driving, how much studying have you been doing or have you not been doing any studies on this?

The second question is about the Himawari Life. So MCEV is large but periodic profit to be low. That has always been the issue. So after you move onto IFRS, I guess you might have a different type of profit to be disclosed.

Another aspect of this is SCOR that they have decided to invest. There is life reinsurance business. If you utilize their financial establishment plan, then you might be able to equally distribute the acquisition cost of Himawari across the two entities and where the periodic profit, which is now about JPY10 billion, could become about JPY30 billion.

And so do you have any plans to effectively utilize SCOR as an entity within the Group that expands the bottom line for Himawari?

A - Kengo Sakurada {BIO 15149542 <GO>}

Both very difficult questions to answer but, nevertheless, important questions so I'd like to answer them.

And so for the autonomous cars, or self-driving cars, the automobiles, definition-wise they are not automobiles so they cannot be insured with auto insurance. So if somebody is always on the car and can always control the vehicle, then it becomes a car. So according to the Geneva Convention, this is the definition of a car.

So there is a road traffic law, which has to be revised accordingly. And the Ministry of Land, Infrastructure & Transport is, of course, considering that.

So from the insurer's point of view, in Davos meeting this was a theme that was proactively debated. And recently in Singapore there is a Geneva Association meeting. This was also a theme.

So to get to the conclusion, first, for self-driving cars, a world where we see 100% of the vehicles as self-driving cars on the road will not come. So self-driving car exclusive insurance, there are cars already available with safety driving assistance system, which receives some discount premium and we would probably have to apply something similar to that.

And also in one village, let's say, there are 100 cars and it's only elderlies who live in that village and they all self-driving cars. And specific to that village and if they are staying within the village, the rate of accidents should go down then the premium rate should go down. But realistically, we cannot really imagine such a world.

So self-driving cars plus cars driven by people and totally manual cars. So three types of cars will co-mingle on the road and this co-mingle situation will continue for 10, 20 years.

And will that change the risk profile? Probably not much. Even if the risk profile changes, quality is going to change. So (PL) risk is going to go up. And also the road infrastructure and for the IDS-type of self-driving cars, if it becomes target of cyber terrorism, then it becomes a major accident.

Then when I said that in the Davos meeting it was very unpopular. People asked: Are you against this technology? And I said: No. I am for it but we need to support such technology from our perspective. So that's how we look at it as of today.

So we are studying it but, as an insurance product, we will not be able to launch such a product in the near future. Rather than that, pay how you drive, which is telematic space technology, would probably be realized first.

To answer your second question about the MCEV. So SCOR, which is our life reinsurance business. And perhaps we could use SCOR to improve the situation. In the adjusted profit excluding life EV, that is the source of shareholder return for us because there is no cash associated with the life EV growth. So the issue is how we realize MCEV in form of cash.

For a different company, other than SCOR, there was a proposal made to turn MCEV into cash by using that entity. And we did a lot of studies on that and there was no economic rationale for us to do so. So we did not accept their proposal.

And with SCOR, do we do something like that in the future? As of today, nothing has been decided. So that's where we stand today.

Up to 2015 the adjusted profit for life business was the growth of MCEV. From 2015 and after we are expecting about JPY90 billion of increase. And for this amount of JPY90 billion, the switchover into medical insurance is going to be complete and it's going to stabilize.

And also the system's infrastructure took place in the previous years. But we will have luck of that. And we have also done a stress testing and, looking at the results, we have a conservative stance on that.

So JPY90 billion of increase of MCEV for 2015 is probably going to be realized. For 2016 and after, as a part of the mid-term plan, life profit might become IFRS-based.

And how do we factor in the life profit to serve us the source of shareholder return? Nothing has been decided so far. But because the business is growing and it is making profit. So somehow we need to reflect life profit to the shareholder return scenario and I believe it is necessary for us to do that. That's all for my answer.

Q - Koichi Niwa {BIO 5032649 <GO>}

SMBC Nikko, Niwa. I have two points. The first one, page 57; the criteria to select risk accrued to contribute to the global situation. And as for overseas business you are talking about this? Or for the total Group companies are you explaining this? What kind of indicators are you using and based on which are going to be accrued to contribute to the global society? Could you please elaborate on that?

And also your mid-term plan, the next mid-term plan 2020, you mentioned, it might be premature, 7% and over of the adjusted profit. What is your target? Also the composition of the profit, how is it going to be changed? So could you share with us some ideas about that?

A - Kengo Sakurada {BIO 15149542 <GO>}

I'm not going to be exaggerating here we would like to contribute to the world. We need to define our idea, otherwise you cannot really establish the mid-term plan, as you have pointed out.

Well this is not based on only one indicator. However, from the perspective of the Group itself, at least, you need to compare. So this is our own indicator and that we cannot really say we are winning or we are losing.

So in that sense, the bottom line should be a very important indicator, adjusted or not. This is a straightforward IFRS-based bottom line and there should be one important criteria.

As for the range, for example, service provision, not only financial services but also service a delivery for new businesses. Should they be included or not?

Well if we were to include that, that shouldn't be apple-to-apple comparison. At least in P&C we would do it and to what extent we are going to include the new businesses for the future.

Other than that, as for our business motto we need to have uniqueness and that can be comparable too. Like Allianz, if your business model is like that or starting from P&C and life insurance and, in the end, (PEMCO) included, that's one of the business mottos for a global operation. And like AXA, you start from life insurance and you have uniform to platform.

And what is interesting is, for example, MAPFRE, Spain. Well they started from (load) services and then they went into the insurance. And also theme-park type business, which we are pursuing, can be included and then we can be a unique group that contributes to the world.

So we can have indicators based on our business motto and also based on numerical targets in combination. We would like to achieve a position to contribute to the global society so Okumura I'd like to explain the second point.

A - Mikio Okumura {BIO 15901852 <GO>}

As the CEO said, we would like to contribute to the global society. That is our image and we are going to accelerate our preparation for the next mid-term plan.

And what is our positioning to contribute to the world? If we pursue the preparation we would know. And also, as for the profitability, that should be included in the perspective. For example, in the modern markets the interest rates are different so it shouldn't be a comparable on the same ground.

However, one thing we can say is that the sales in the overseas business and also profitability if you can take a look at that. The sales from overseas operation was less than 5% but right now it's more than 15%. As for the profit it's more than 10%.

So since we are going to accelerate our investment into growth area, we can contribute really to the global society from the overseas operation. We would like to present details in the mid-term plan. Thank you.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Merrill Lynch, Sasaki. I have one question about the strategic holding stocks. You said that in the corporate governance report you will mention the risk and return. And what is expected of this report is the presence or absence of verification and I don't think there'll be many companies who will disclose the ROR. But are you going to go in depth to talk about ROR? And if so, is that because, by continuing to sell down the stocks, you are trying to show the commitment to such activity by the President?

A - Kengo Sakurada {BIO 15149542 <GO>}

As it was mentioned in the presentation we need to respond to corporate governance code and this is a following in order for us to reduce the strategic holding stocks.

This year, this is the additional year of the introduction. So we will be issuing the report in June but the content is going to be revised towards the end of the year in December. So how much do we disclose in that report? Including external Board members, we need to decide on the scope of disclosure and that is something that we can't do before mid-June.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I understand well. Thank you.

A - Kengo Sakurada {BIO 15149542 <GO>}

In the appointment committee we discuss this issue. It's not that we take the corporate governance code or -- so we will not just do the box-ticking type of reaction to the corporate governance code. We have made some advancement in this area so it is better for us to be disclosing more on the areas that we advance if it improves the understanding by the market.

So we will probably not be disclosing about each stock and their risk on return. And this is a fixed point of your views or I would not like to simply disclose all the numbers doing that but we need to have our accountability and be able to explain. So we do need to disclose the fact that we are ready to explain, if needed.

So whether if it's my commitment one point that I'd like to mention is why are we selling strategic holding stocks? If you go back to the original motivation it was to improve profitability so that we compete better and it was to release capital, because we needed the capital to be released to be deployed somewhere else.

So it was demand driven. And if we are not demand driven in terms of structure and people but if we are simply selling stocks and creating profit that is meaningless.

And as I speak to overseas shareholders, they tell us not to simply and blindly keep on selling because demand driving means we have to have the purpose of using the capital that was released. And obviously, the re-deployed areas should have higher ROR compared to holding it in form of stocks. And that has to be clarified in the next management plan. And we need to be able to explain this is why we need the money and that is why we need to be releasing this capital and to do that we will be selling stocks. So such explanation will come.

Is that good for everyone? And I'd like to conclude the meeting today. I thank you once again for gathering here today, despite your busy schedules. Thank you very much.