FY 2014 Earnings Call

Company Participants

- Kengo Sakurada, President & CEO
- Nobuhiro Kojima, Executive Officer, General Manager, Corporate Planning
- Unidentified Speaker, Unknown

Other Participants

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

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

Good afternoon, ladies and gentlemen. Thank you very much for coming.

Based on this PowerPoint presentation I'd like to start the explanation. During the discussion with (inaudible) and also in the prior meeting we have completed some of the parts in the PowerPoint presentation. So I'd like to skip the parts.

Please turn to page 1. These are the key points today.

In FY13 we didn't really expect natural disasters to expect good result. However, there was a great impact of snow damage in February. Because of that the adjusted consolidated profit declined. However, the profitability has stably increased, especially with the steady growth of automobile insurance. And we expect it to grow going forward as well.

So probability to achieve the targets for the final year of the mid-term plan FY15 is high. But we have to be more conservative. The probability is getting higher.

In domestic P&C the adjusted combined ratio has drastically improved in FY13 and we already achieved its target for FY15. Our performance has been greatly improving and that is what we strongly feel.

Meanwhile, in FY14 and onwards, the hike of consumption tax and the effects of the revision of driver-rating system will have some negative impact on the premium income, which should be taken into consideration by the management.

We, however, continue to commit to achievement of FY15 goal and measures for that are already taken and in the market the direct channel is getting more and more important now and the impetus, it's continuing.

Saison Automobile and Fire Insurance Company in our Group and its market share is 12% [ph]. In the previous year it was 5.9%. So year on year it's almost doubled. This is a success too.

Domestic life insurance business has increased the performance stably as well. Focusing on the unique sales methods to make use of P&C channel and our strategy to focus on protection-type products, it's going to increase as well.

FY13 was a transitional period in the product revisions. Because of that, new business did not grow much. However, new medical insurance products were launched in FY14. That would contribute to making the brand Himawari Life a pioneer of medical insurance.

As for the overseas business, as was announced, Canopius, whose acquisition was completed on May 1, is going to contribute greatly to our profit and expansion of the segment. Canopius is going to be the platform of the overseas business for us to establish more global foothold.

ERM, the advanced strategic risk management, will be fully established to be utilized in management decision making from this fiscal year.

And the other day we announced share buyback at a return based on FY13 performance.

I would like to elaborate on our capital policy and the status of ensuring also the NC [ph] margin ratio, reduction of strategically holding stocks as well as return to shareholders policies.

Next page, please.

This is the history of NKSJ Holdings since the business integration of April 2011. In each area we stably implemented integration, M&A investment and the cultivation of new businesses.

On September 1 this year, with the permission of the authority, Sompo Japan and Nipponkoa will be merged to become Sompo Japan Nipponkoa. The Group's brand name will Sompo Japan Nipponkoa Group and the corporate name of NKSJ Holdings will be changed to Sompo Japan Nipponkoa Holdings Incorporated.

Some people say this is a long name but the most important thing for us is to have this highly recognized brand name. Please understand the situation.

Next page, please. This is the progress of the management plan.

In FY13, although the progress was good in terms of profitability but, as I mentioned before, the profit declined year on year, mainly due to snow damage in February.

However, our main products, such as automobile insurance, have stably increased their profitability and I would like to emphasize that the progress will be prominent in FY14.

FY15, the final year of the plan, is just around the corner. The management believes that the probability of us achieving the target is favorably increasing. In our premise, the market situation is going to be better.

Please turn to the next page. This is the performance based on J-GAAP.

For FY14 we expect the ordinary profit to go up by approximately JPY40 billion, driven by a significant increase in underwriting profit. On the other hand, we have extraordinary losses from the merger one-time costs, including the release of the integrated system. So the net income will be reduced temporarily, as I have explained earlier.

As for the merger one-time cost, please regard this as an essential upfront investment for the future to not only gain cost competitiveness but also to become comprehensively competitive.

I would like to jump some pages and go to page 14. Now we'd like to explain some points by businesses in the Group. First of all, the adjusted combined ratio for the domestic P&C business.

The current plan to achieve the adjusted combined ratio target is to reduce 6.7 points in the four years up to FY15 to achieve the 95% level. However, we have been able to achieve this plan earlier due to the current improvement in earnings and also expense control due to the merger synergy.

As a result, the adjusted combined ratio was down to 93.9% in FY13, which was the second year in the plan. Having said that, we cannot be too optimistic.

Although we expect some negative factors in FY14 and on, such as increase in repair costs and impact of the consumption tax hike, we would like to make it a minimal target to achieve the FY15 plan through continued product and premium rate revisions and merger synergies.

Next page, please. Next is page 15. This shows the combined ratio for the mainstay automobile insurance business.

The loss ratio is clearly improving due to continued revisions of product and premium rates. The combined ratio in FY13 was 96.3%.

Although we have mentioned earlier that we have some negative factors in FY14 and beyond, still Sompo Japan will start revising its product and premium rates from July this year and Nipponkoa will do the same from September, revising its product and premium rates. So in this way we will continue to take necessary measures in the future.

Please turn to page 16. This is regarding the merger of the two P&C companies.

In a nutshell, merger preparations are progressing smoothly to start Sompo Japan Nipponkoa on September 1.

Regarding the organization, we have unified all the organizations this April and completed the 1 will program. The legal merger will follow in September this year. 1 will program is about having one person to make the decisions.

The achievement rate for personnel reduction is at 67% in the two years against the three-year reduction plan. This combines natural attrition, personnel assignments and early voluntary retirement programs held twice with approximately 800 employees.

The system integration is going smoothly as well. The newly integrated products are the same as we have announced before. Thus we are fully prepared and we look forward to the seamless transition on the day of the merger.

Please turn to page 17. This shows the merger synergies and one-time costs.

There have been some slight changes but basically it is in line with the plan. The synergy will be less in FY14 due to general system costs. But we will achieve JPY56 billion in FY15, as we have planned. This includes labor costs and other expenses. And the synergy will increase further in FY16 and on, due to total reduction of system costs and, etc.

This fiscal year we will book a significant number for one-time costs and most of them will be posted in the first-half results because the merger is to be completed on September 1, which is the first half.

Please refer to the slide to get more details about the costs for First Quarter and Second Quarter respectively.

Next I'd like to explain the domestic life insurance business. And please turn to page 32.

Himawari Life, the domestic life insurance business in the Group, is growing continuously and profitably, leveraging the sales channel and product portfolio.

In short, they make good use of our network of P&C insurance agencies to expand the sales and focus on the highly profitable projection-type products, such as medical insurance and income compensation, to expand the profitability.

Next page, page 33.

Based on the strategy, as you can see, utilization of P&C channels and the focus on protection-type products have been increasing steadily.

Going forward we will continue to strengthen P&C channels and a profitable product strategy. We see some environmental changes but I'm sure we can address that.

The next page is page 34.

As I have mentioned before in May, for the first time in six years, since 2008, we launched a new medical insurance product. The point is fullness of protection and price competitiveness. The balance is very difficult but, in reality, the response with the market is very positive. So we have good expectation.

In the medical field average period of hospitalization tends to be shorter now, while when hospitalized with major three diseases, such as cerebral infarction and cardiovascular diseases, the period tends to be longer in some cases. Taking the actual situation and the needs from the customers into consideration, we offer options for customers who prefer substantial protection while maintaining price competitiveness.

We intend to grow new business greatly this fiscal year and onwards, leveraging the new products.

Please open page 35. This is the image of the growth in domestic life insurance business.

This is different from P&C business. As for the life insurance business, the effect is going to be realized later. So after launching new products we increase the sales. And after that we experience the plateau. And after that we can step up by introducing new products.

And as for the channel, we have life insurance professionals and also bancassurance business as well. They have different characteristics compared to insurance professionals. And we have to take that into consideration as well for further competitive products and prices.

All in all, we have to take into consideration the structural changes of the market and also we have to address the real needs of the customers. That is the stage for us right now. And this is the beginning of our evolution.

And we'd like to skip the pages to page 42. From here I'd like to explain the overseas business.

Of course, we would like to increase the overseas insurance business as well to enhance the business and corporate value.

Since the integration in 2010 we have implemented selective and disciplined investments, focusing on the targeted investment markets to fulfill our management plan.

As a result, we had M&A activities in Turkey and Brazil and also we have acquired equities of Canopius as planned, while increasing the presence in overseas markets.

Please turn to page 43.

In terms of our Group's investment in M&A, Canopius was the largest scale ever. And regarding Canopius, we've already explained to you that they have a very high track record in the specialty area. We can call it a core competence in that sense.

So because of that, between Canopius and us there is little duplication in the fields that we operate in and the geographies too. So it's an ideal complementary relationship.

They, from the Lloyd's Group, have very high ERM knowhow so we can gain that from Canopius as a synergy effect. We can provide various elements to Canopius too. They can provide resources to us too. And in this kind of a complementary relationship, we can accelerate our globalization.

In any sense, the biggest point is that we're going to use this vehicle as a platform.

Moving on to page 44, we're looking at the performance transition of Canopius.

Well we had less natural disasters last fiscal year but let me just add some points about FY13.

The gross premium rate was GBP866 million. It is close to JPY150 billion in Japanese yen. Combined ratio, 84.5%. ROE is 25%, very high; so much that maybe I should say we're jealous of this number. Looking at the past history they have had two digits very steadily in the past as well.

Next page.

Due to the contribution from Canopius our overseas insurance business is expecting a significant increase in profit. Canopius will start to contribute to the consolidated numbers from FY14 but we accounted JPY6.2 billion for the nine months' profit from April to December. The full-year profit contribution will start from FY15.

So with increased contribution from Canopius, we now have a higher chance of achieving the profit target for the overseas insurance operations.

Page 46. This is the overseas assumed reinsurance business.

In accordance with the directions we have explained so far, we are progressing well in line with the plan. But with the merger of Canopius, we have started to study how to optimize the Group's strategy for assumed reinsurance business and also how to utilize the resources from Canopius.

We would like to skip a few pages and go to page 50. The next topic that I'd like to touch upon is ERM.

As I have mentioned in the very beginning, from this fiscal year we have decided to call the ERM a strategic risk management, which is a mixture of business strategy and risk management. And we have started to use this in our management decision making.

As shown in the conceptual diagram in the middle, we aim to maximize our corporate value by controlling the balance between capital, return and risk. We hope that this leads to better management of the Company.

Please turn to page 51.

I'm sure I'm preaching the preacher here now. But the ERM is a material for management decision making. And already we have started to calculate the ROR and ROE by businesses and insurance type and we are using them in our management activities already.

Other practical examples of use would be, for example, investment on growth businesses, such as overseas M&A, or underwriting and ceding policy for natural disasters and plans to reduce strategic holding of stocks.

By using these quantitative indices, we believe we can deepen our management discussions. And we have already started utilizing this.

Please turn to page 52. This is about the internal solvency ratio.

We recorded 157% at the end of March. From this time, we have started to disclose the target capital level of the internal solvency ratio. Our target is 120% to 170% for this internal solvency ratio and so we can say that the March-end level is obviously within this range.

This target has been considered comprehensively from viewpoints, such as achieving the ROE target and financial soundness. And we will verify the appropriate range going forward by looking at other companies in the market as well. And we will continue to try to set the right target, as we move forward.

This is the market sensitivity internal solvency ratio. Here are the numbers. The impact of the share prices is still large. So we'd like to control the sensitivity to the volatility.

Please open page 56. This is the asset portfolio of Sompo Japan Nipponkoa.

The general account is managed with diversified investments, while the savings-type account utilizes portfolio management based on ALM. 32% of the general account is domestic stocks. That is approximately JPY1.5 trillion. Still accounts for a large portion. But the duration gap between assets and liabilities of the savings account is small. That means the risk associated with interest rate volatility is limited.

The next page is about Himawari Life.

Here we are maintaining a conservative asset portfolio based on ALM. The asset liability duration gap will be reduced gradually and steadily.

And the next page shows the status of the reduction of strategic stockholding.

We were able to reduce JPY206.1 billion in FY13, which was the highest level of reduction ever. This means we promptly achieved our plan to reduce stocks earlier than planned, until FY15. The amount reduced in FY14 is expected to be a little less than one-half of the reduction in FY13. But this is in line with the current mid-term plan.

Going forward, we will review the holding level of strategic holding stocks, from viewpoints, such as strategic risk management and, etc. We like to have plenty of discussions internally and we will reflect the FY15 amounts to be reduced into our future plans.

Finally, I'd like to comment on the important topic of shareholder return.

Last week we disclosed information regarding share buybacks as a way of returning to shareholders from the FY13 earnings. With the higher certainty of achieving our management plans and to respond to the expectations from the market, we have increased the amount of buyback from JPY8.3 billion last year to JPY10 billion this year.

In accordance with our policy of paying a stable dividend, we will maintain JPY60 per share, for FY14. Furthermore, we will consider flexible share buybacks, according to capital conditions, adjusted profit, balance with investment for growth and, etc.

This concludes my presentation. Thank you very much for your kind attention.

Questions And Answers

A - Unidentified Speaker

Now we'd like to receive your questions. Please give us your name and the company name. Could you please raise your hand?

Q - Jun Shiota {BIO 4127431 <GO>}

Shiota, Daiwa Securities Company. I have two questions. The first one is about life insurance business. In page 35 you have this table as shown in here. Going forward, there will be a changing trend and DIY Life was sold and the prices will decline. And how are you going to utilize the cross-selling channels and also shops to sell your products in this situation? Could you please explain that?

The second question is about page 4. The forecast for FY15 is presented. And these three years the P&C business was not very profitable. But in these three years, it's going to sustain the business.

And when you think about year 2020 P&C domestic and also life insurance and overseas business, how are they going to grow? Or are you going to have any new businesses? So I'd like you to talk about the situation in the long term.

A - Kengo Sakurada {BIO 15149542 <GO>}

Both of the questions are very important and, at the same time, very difficult to answer. So I'd like to present to you my own opinion about the life insurance business, the first one. This is what I think.

Compared to P&C and life insurance business, in P&C, especially the mainstay automobile insurance, in these five to eight years the profitability was negative. And also in most of the main P&C companies, the performance was not very good. So stable and also profitable products on the market cannot be delivered.

And as we discussed with organization for the insurance companies, we started to improve. So as for P&C business and P&C products, now we are entering the stable phase, where we don't compete such intensely. And as for life insurance, we have the third-sector business.

When one of the companies in the industry is getting highly competitive in terms of prices because of the premium rate change. We have to increase the prices. But they are decreasing the price. And also, because of the bancassurance and also cross-selling channels, they are expanding the business. For Himawari Life this is a negative situation as well.

Or we can turn the situation into a positive situation. But the competition just started for the third-sector business.

In the third sector, how are we going to compete in terms of prices? Our recognition in the management is that GDP per capita in life insurance and GDP per capita including protection type -- including savings time, the portion is pretty high amongst advanced countries. So the next stage is the third sector for us.

So what should be the trigger? Right now in many different senses in the life insurance channel and also in the cross-selling channels we compare many products to offer the best products to our customers. And at this timing we have to explain to the customers why we recommend these products.

So that means we need transparency. As a result customers would reconfirm their needs when they are going to be, I'm sorry to say, more enlightened.

So it's not gradual. But drastically the business is going to grow. And how Himawari is going to survive in this market might be your question.

P&C and life, we don't really need to distinguish our customers between them. P&C agency channel is the strength for our life insurance business and they know what kinds of products are suitable for the customers. They might have drastic recommendations too.

So we need to sell a lot, not only cross selling but also we have to increase the number of customers in that regard, even though we cannot really make big profits.

So in a real sense, we need to have consulting type sales. We shouldn't push our products. But in a real sense we have to have consultancy type of services. It might take time. But we need to address the needs of the customers and, as the customers start to recognize, they would highly evaluate us.

For all the insurance, we need to say this is the appropriate level of the insurance. So this time we have developed a new medical insurance and we need to make it evolve.

And also we have income compensation as well. And based on our strategic concept, we really need to address the customer's needs for this protection. For example, I'd like to say customers are really recognizing importance of each product.

So that's how we market our products.

The second question is about 2020 -- that's the year we are going to host the Olympic Games -- in the insurance industry. The trend is going to continue. So if the combined ratio of the P&C business continues to be about 95%, well, we have to separate retail from consumer business.

For retail business toward 2020 we are going to enhance profitability. In the earlier stage of 90% it's going to be held. And then we might have another stage for price competition. The mechanism of price competition is already built into the market by direct insurance. They are the cherry picker.

So it's something like department store business, Sompo Japan Nipponkoa business. And that's something they can do compared to mega insurance companies.

So mid-term and long term 90% to 95% of the profitability can be maintained. However we might have new risk associated. As you have pointed out, autonomous cars. The emergence of that would give us a great impact. And also in the ageing society, super ageing society, medical insurance would have a great impact.

As for P&C business, as for autonomous cars, in our research institute we have a lot of analysis. We can reduce the loss ratio and also the premium income might decline. But those are not the risks we have to think about.

The risk itself is going to change. The liability insurance to product liability, that might be the shift.

And also the laws themselves might change because the liability of the drivers depending on the liability relies on drivers, or if the liability relies on the Company side, depending on that, the laws and the regulations might be different.

This is my individual opinion. I don't think every car in Japan is going to be autonomous. I would say 20%, 30% only. So there would be a mixture of cars on the road. So we are not really sure if the ratio of the accidents is going to decline such drastically.

Well I'm not opposed to autonomous cars. I'm for autonomous cars. But I don't think the situation is disastrous for our insurance business.

And as was announced, nurse population and also nursing care is going to increase in terms of proportion. We might have nursing robots and also nursing careers and we might have more importance in nursing insurance.

Natural disaster is our concern. New normal is the trend right now in the world. The situation right now might be really normal when you consider that we have to control risks stably.

Autonomous cars and nursing robots; compared to that natural disaster would be a bigger concern. So when you consider only life insurance business, we might have limitation domestically. And also going forward we are a service industry, both domestic, P&C and life insurance. So we need to develop new businesses.

In holdings we have exclusive teams for that, to address health, nursing care, safety, security of the public. We are going to focus on that.

Still, that's the seeds for profitability and your question fortunately was for 2020. We have some time. We will be prepared.

I'm not really sure, this was a difficult question.

Q - Jun Shiota {BIO 4127431 <GO>}

As for the first question, in the other group, for example, as for low prices you might make a decision about establishing a new company. But in your Group you have Himawari Life to address low-priced products as well.

A - Kengo Sakurada {BIO 15149542 <GO>}

Yes. Already Himawari Life we have direct insurance channel in the business. And we are watching the market and we have the experience with the DIY Life.

If we can hold on only with direct life insurance? Not really. People are very important. If we can do it with only pure direct insurance I think Himawari Life can do it. The brand name doesn't have to be the same. But it's possible. There will be no channel conflict. We do have the experience in P&C so we can manage the situation.

Q - Jun Shiota {BIO 4127431 <GO>}

Thank you very much.

Q - Masao Muraki {BIO 3318668 <GO>}

Muraki, Deutsche Securities. Reinsurance and internal solvency are my two questions. On page 45 and 46, in the overseas insurance business you talked about Canopius, its profit contribution.

I understand that you are a company that is not doing just reinsurance. But you're underwriting in a market that is quite similar to reinsurance. And pre acquisition of Canopius, you had also the reinsurance business, which you elaborated on page 46. Compared to your original plan, it seems like the underwriting is progressing very quickly in your plan for FY14.

So can you talk about the underwriting environment today? And what is your stance in doing this underwriting as the prices go down?

Second question is related to page 52 about the internal solvency ratio. Since the past, you've been revising the calculation method multiple times. This time have you reflected any of these revisions of the calculation on to these numbers today?

In terms of risk, you have natural disaster risk and also to your point, the long-term, well, risks, which includes natural disasters well. So you talked about the diversifying of risk effect. Has that effect been reflected, or not?

On the capital side, you have the future profit, which is growing. So how have you dealt with that currently in these numbers? There's the international solvency regulation. The first proposal will be submitted in 2016. So currently we don't see a clear outline of the regulations yet. And in this situation, you're talking about a range of 120% to 170%. So I'd like to ask you the grounds of these numbers.

A - Nobuhiro Kojima {BIO 18839538 <GO>}

I'd like to talk to page 45 and 46 regarding the reinsurance business. Regarding page 46, already we have the Canopius numbers, which we have been disclosing before Canopius acquisition.

On the reinsurance business, things are very good and steady and one of the biggest factors of that is foreign currency. So if we take out that foreign currency impact, then we are, overall, doing well; not significantly great. But overall good. But on top of that, we have our future possibilities because we now have Canopius in our Group.

To that point, we have, on page 43, the acquisition of Canopius domains and geographies that we relate to. And the point of this slide on page 43 is that there are a lot of supplementary or complementary businesses to each other.

Based on that, we go to page 46. Asia, America, Europe, we were going to take all these disasters. But now, there's this complementary business from Canopius that can help us.

So my overall comment here would be, in terms of the existing plan, it had progressed very steadily, although there was foreign exchange impact. And for the Canopius impact, we have already started discussing how much it is and the contribution will accelerate going forward.

Now, I'd like to move on to your next question about solvency, which is related to page 52.

We have set the target capital level in a range from 120% to 170% and this is the first time we have disclosed such a range. The risk model has been revised and also various items that we have not accounted for have been reflected, to a certain level.

And today just so happens to be the day where we have the hybrid remuneration. There's one that we procured last year. And there's one that we procured five years ago. There was a duplication between the two. But already that duplication has been reflected into this calculation.

So for the number 170%, in our current business plans we have ROE 7%. So if we are to secure that level, then 170% should be the limit, the ceiling. That's the rationale. And for 120%, we looked at our ratings and also our financial positions and made sure that we can secure that minimum level and determine this number.

So maybe in reverse we can say that these numbers, 120% to 170%, is exceeded or undershot, then we would like to take countermeasures so that we can prevent that undershooting from happening. And so what should we do specifically? We have listed up those items.

So if we are going beyond 170%, then we would be discussing how much risk we are going to take more. Are we going to return to shareholders? Those were the discussions if we exceed.

And if we start going down closer to 120%, then the discussion would be about mitigating risk even further, which would lead to the strategic stockholding topics and various other items.

And my point is that, in this way, we are listing up the items relevant to higher than 170% or lower than 120%.

In terms of the regulation that you mentioned, the law and regulations are still very fluid and nothing is really quite fixed. As soon as we see an outline of this, we would like to take another deep consideration in this matter.

So at this point, we can say, as I mentioned earlier, that ROE 7% is the target and also the necessary capital that we need to secure in this current environment that we foresee is the basis of our numbers that we have shown here.

I hope this answers your question.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. I have two follow-up questions. Your first one, you said that the specialty is in the center and you're saying that, even in the current environment, these are many projects that you can secure. So please let me know if this is correct or not.

And to the second one, you have a certain level of long-term risk reflected to this. But it doesn't look like the ratio had been impacted to this. Maybe there were some positive impact and negative impact and the net became something close to zero. Maybe that's why the numbers aren't changed.

A - Nobuhiro Kojima {BIO 18839538 <GO>}

To the first follow-up question, the point that we need to focus on is how to manage. We would like to look at the global points we have been focusing on, the Thai flood. And we need to focus on the other disasters that may happen. There was one in the United States. And having those in our perspective, yes, we believe that we can fully continue to underwrite at this level.

To the second point, we are reviewing various types of risks; for example, the high skyscraper risks, etc. These have led to some negative factors as well. So that's why yes, to your point, we have the positives and negatives and the numbers did not change much.

A - Kengo Sakurada {BIO 15149542 <GO>}

To your first question, maybe you're asking about the specialty risk? Are we going to expand more into this specialty risk? Should we be so optimistic? Maybe that's your question.

Now the current situation regarding specialty market is that it's really a specialty, special properties, special occupations. And so this is more about developed countries. So America and then Europe, in this order, is the market that is relevant and this is where we have a mixture of various items. It's very diverse, in one word.

So out of this diverse pool of various items, sometimes we might reach out and grab something that we shouldn't have. We may grab something that we should secure. It's a mix of various things and so the underwriting capability becomes a key underwriting capability. In other words, quality needs to be maintained.

If we take the analogy of driving a car, we don't want to step on the accelerator so much that the quality is sacrificed, especially long term. That's one the items that you don't want to grab from the market.

Anyway, we need to do this well. If we do this well, we can definitely grow this business. In other words, we need to be very prudent and not just blindly try to expand our numbers.

Thank you very much.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Tsujino, JPMorgan. Page 52 shows the asset portfolio. The breakdown of the risk, if possible could you please give us last year and this year?

Diversification has taken effect and you have Canopius but still you have the situation. So what kind of risk is increasing and what kind of risks is declining? If you can identify those, it would be clearer.

And also international solvency margin, you were talking about rules to take into consideration. I might be very optimistic but economic value-based approach is not employed. We are talking about risk-weighted approach and 99.95% is what you have written here. And also, as I calculate the risk weight for the equities, I assume is utilized.

Well I don't really think those factors are constraints to your Company but, because you have these methodologies you used for consistency, probably you can consider using the other methodologies. So please explain that so that we can avoid misunderstanding. Thank you very much.

A - Nobuhiro Kojima {BIO 18839538 <GO>}

I think you have two questions. The first one, as written in page 52, this is a breakdown of the risk. Overall, it's not really changed, as you have pointed out.

First of all, the risk for P&C has declined and the risks we are taking here, life insurance is taking more risks. Accordingly, we have some diversification effect between different businesses.

And as for the P&C business, we have sold a lot of strategically holding stocks; so Sompo Japan Nipponkoa domestic insurance business. For that, the overseas business is taking more risks. That's the rough situation compared to the last year.

The second question. 99.95%, as you say, is a more solid risk control and ERM for our strategic management is almost fully established already so that we can explain to the public. And we don't really think that this is going to give us any constraint. And those are the regulations going forward will be clearer. And of course, we have to address these as necessary. But we are not thinking about revising how to calculate those risks.

A - Unidentified Speaker

As for risks, for example strategically holding stocks, about JPY200 billion or so was sold and the risk buffer is about plus JPY50 billion. FY14 includes Canopius already for the calculation. Because of the acquisition of Canopius, the risk associated after selling JPY200 billion, we have the buffer of JPY50 billion and that addresses the situation.

The breakdown was explained by Kojima and that's the situation so far.

And value-at-risk methodology is utilized for us too but, of course, only value at risk is not sufficient. We conduct stress tests thoroughly and we talk about 120% to 170%. The lower limit, the 120%, is because of the stress test we have calculated to come up with 120% as the lowest limit. That's our assumption.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

As for life insurance, the impact. Using the sales channels, will you have the P&C channels? How much of the sales channels are P&C agents and how much are cross-selling channels? What's the breakdown?

And you talked about the launch of new medical insurance and you said the response from the market was good. Since it's May, I'm not really sure if you have certain figures. Could you please elaborate on that part too?

A - Nobuhiro Kojima {BIO 18839538 <GO>}

In Himawari Life, this is the situation of the life insurance sales. First of all, P&C channel, the agencies, about 63%. And including future professionals, including trainees, we have P&C professionals, the portion is 45% and lower as of FY13. That's the breakdown.

A - Unidentified Speaker

And also the new medical insurance product, as was announced already, the product is simpler and the price is lower and we launched this product in May. Today is May 27. We are right now confirming if we have the right number here.

And as for the medical insurance, about 160,000 for FY12 and about 300,000 cases is our target. And also the number of medical insurance policies is going to increase in our plan.

As for the new sales channels, since we have such new products compared to last year, we are increasing the number of new channels. We actually are going to double it in our plan. And we are promoting the plan.

A - Nobuhiro Kojima {BIO 18839538 <GO>}

And as for the sales of the new medical insurance, the other day we announced more than 10,000 policies. That means for nine days about 1,100 per day. So compared to the past, we are selling very well. In the past, it was 600 to 700. And as of now, a little bit less than 20,000 policies. And we do have the effect of the new product.

And since the previous announcement, it's been about 10 days and so far the sales is not really declining. So about 300,000 per annum can be achieved. The start has been quite good.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Otsuka, Nomura Securities. Two questions, please. Number one, it's on page 16 and 17. It's about the two P&C companies merging together. Earlier the CEO, Mr. Sakurada, talked about further synergy from this merger. But practically. And the practical items are here on the slide. But what is the top line synergy for retail? And do you have any synergy there, actually, is the question.

MSAD doesn't have it, Tokio Marine doesn't have it. No one has such a large-scale merger with such large synergy. So I cannot help but having very high expectations to this. Can I hear some very good synergies from this?

Number two, a quantitative question for the overseas business. In the current mid-term plan that we're running in right now, it seems like you have a very good lap in the adjusted profit. But how about beyond that? How are you going to weight this? How are you going to place the weight? Or where will your focuses be?

Now, if I should just mention what I think, looking at the Company from outside, is that these two domestic P&C companies merging together would be -- was an item that many of your domestic staff members were spending their time on. So now that this is completed, would you be shifting your time to other things?

And in that sense, would you be shifting that to overseas business expansion or M&A? Are you going to allocate your labor in different areas?

A - Nobuhiro Kojima {BIO 18839538 <GO>}

Yes. To your question, synergy, after the merger and the merger one-time costs. In terms of the synergy, we are looking at the ones that are very secure labor costs and also real estate costs, property costs, etc. But other than that, there's another big piece.

When we merge this in September the system will be integrated as well. But there is a run-off period for a while for NKSJ. So when that is completely integrated and unified, we will have more synergy. And also more efficient use of labor will be pursued.

And you asked specifically about the top line synergies. To that point, Sompo Japan Nipponkoa have been working together already since last year in their operations. So the sales result of last fiscal year has been improved already.

That's all that I can say for quantitative and specific items.

A - Unidentified Speaker

If I may add, regarding the merger synergy, basically, it's the expense countermeasure, really. Controlling expense, really, is the key to our decision of doing this merger. And this fixed cost is really about labor cost, system cost and store operation cost. It's really these three major fixed costs that we have at our operations.

As already explained in the IR document, these three major expense items are the ones that will dramatically decline after the merger. And that's why I'm talking about JPY56 billion in the next fiscal year for the top line.

P&C also has their sales channels. The product will basically be Sompo Japan products after the merger. And the back-office processing, the system, will be based on the Sompo Japan specifications, of the system, I mean. So when we look at Sompo Japan and Nipponkoa, we have more burden on the Nipponkoa channels. So over time, Nipponkoa sales channels will also be able to provide the Sompo Japan products to their existing customers. That's P&C.

And for life insurance, Nipponkoa, Sompo's sales channel, conventionally, was not in the third field. They didn't have the medical type of insurance products so much. So sales of this will be one of the expansion items. This is, of course, in the life insurance category. But this is what will be conducive to the sales expansion top line synergies.

A - Kengo Sakurada {BIO 15149542 <GO>}

There's nothing for me to add regarding your first question. But still I'd like to mention that it's the operational costs that we want to rationalize, really.

I will not name the other company. But if we benchmark that competitor, we will definitely improve the operational costs. And I guess your point is that you expect more than that. But as a general discussion, we can say that the Nipponkoa pro agencies will be selling the Himawari products for their first time.

It's just 12 months, right, or maybe 18 months that they've been selling Himawari products. So there's much more room for this to penetrate and that will lead to top line synergies.

Also there's the financial institution channel. Nipponkoa was the one relatively stronger in this area. So for the financial industry channels, Sompo Japan will be the one that will be entering it in a newer way. So there's synergy on that side as well.

Furthermore, I will not name this. But there is a corporate property. Sompo Japan had no trade here but, through Nipponkoa, there are a few big names where they're very important trade partners. So there's a possibility that we will see some synergy there as well.

And also, maybe you're pointing out that we will lose a sense of target after we merge. Once we merge, everything's done and we lose a sense of goal. But that is not true because we would like to nurture a business that allows us to capture customers.

Of course, ultimately, we need to capture profit but we like to invest in getting customers first of all. Because in the life insurance, in P&C insurance, I know there's existing customers but there's more new customers that we should be going after in the third field.

We have very high interest in this other area. When it comes to cross-sales channel in Sompo Japan, it's the 20 million customers that Sompo Japan has and we can cross sell the life insurance to them. The level is only 6% now but we can increase that to 10%, 15%. But Sompo Japan Nipponkoa's customers are not what we're talking about. Himawari's customers are not what we're talking about. There are other customers. But they're still within our Group.

For example, there's the metabolic syndrome health checkup that our subsidiary is doing. And I think they have a share of 45% in the market. And their annual counseling items or guidance is 100,000 patients or customers. And we don't have the data of these patients. I shouldn't say we don't have. But it's unknown to us. How many of them are Sompo Japan customers? We will find out going forward.

Then, after we find out, they will become Sompo Japan customers, Himawari customers. Then this visiting health consultation company will contribute for a higher business rate.

So this is not just about the existing business expansion but it's more about circulating our customers within the Group. I think we need to set a KPI regarding how well we circulate the customers within our Group. And if that circulation and our expansion of business is not enough, then we should take into consideration M&A as well.

For overseas business, it's a very good question but, really, recently, I think, the textbook approach is not really good. Okay, M&A, emerging market, let's go overseas. This is very textbook and we don't think it fits to us anymore because, in emerging countries, there are actually conglomerates.

So there's the banks and there's the conglomerates who have already secured the business. So it would be great if we can buy from them at a good price. But if we can't then it would be a joint venture. And if it's a joint venture the key issue is whether we can get the majority or not. Even if there is no capital regulation, we don't know if it would work or not.

But having said that, the market is expanding, for sure. So we definitely need to keep our radars very keen. It's not just about the premium income, it's not about the business numbers. It's more about how many people, key people, we know in the market. So we are actually already talking to these key people in the market.

Your next question, whether we have life insurance in our prospective or not. Yes. We do, of course. There are various life insurance companies and we'd like to do this as well. So we're taking various cases into consideration but, as you know well, it is not protection type; it is savings type.

So the truth of the matter is that it's an investment trust. So we have to think whether that kind of a business fits us and the answer is still a question mark.

And when I say this, everyone says: Oh you're pessimistic. And I don't mean to be pessimistic at all but I still think that we need to do this well. So the conclusion is that service industry overseas is something that we would like to focus on going forward.

For the existing business we will continue to have more top line, steady top line. So we need to work on cutting the operational expenses so that we can get a good bottom line. That's all from me.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you.

Q - Taichi Noda {BIO 16478436 <GO>}

Noda, Goldman Sachs. I have two questions. The first one is about reduction of the strategically holding stocks. You talked about risks and also associated assets to reduce equities. And as you have reduced equities, what -- did you have any negative impact on the top line? Or, in the past you had some concerns but right now you don't have any for reduction of equities and also the relationship with the top line, could you please specify that?

And based on that, how much more can you reduce equities going forward? Could you please add that point too?

And the second point is about Himawari Life return to shareholders policy. It's not included in adjusted profit. But in Japan GAAP are you maintaining good profit? And in the next mid-term plan Himawari Life, how are they going to contribute to return to shareholders policy in the next mid-term plan?

A - Nobuhiro Kojima {BIO 18839538 <GO>}

As for the reduction of strategically holding stocks, honestly, we are trying hard so that we don't have any impact from that. If you sell too much, of course that would impact the top line.

We do have the plan that's specified in page 58. Starting from 2012 we review the plan and also we would like to sell 60% to 70% in the earlier stage. So we exchange opinions and also we have discussions with the insurers so that we don't have any impact on the top line right now. This is the answer to you.

And going forward, as planned in FY14, we would like to do it and also for ERM and also what we are going to invest in to. And based on that, we'd like to consider FY15 so that we don't have any negative impact on the top line by front loading the reduction.

And as for Himawari Life return to shareholders policy, the contribution to the bottom line started to be observed. That's what the other many shareholders are saying and how the impact would be. That's your question, too.

Going forward we would like to maintain our policy but contribution to the bottom line by the life insurance business is very unique. When the sales is growing it's really hard for us and when it declines that has a positive contribution to the bottom line.

And because of that, it's difficult but we have to take into consideration the future growth and also the next strategy. Based on that, we would like to consider the return to shareholders from the life insurance business.

A - Unidentified Speaker

As was answered by Kojima, page 58 shows the reduction of the strategically holding stocks. There are bar charts. We have the first three years and the next three years. The balance is about the same in the plan.

As was in the presentation, the balance as of the end of March is about JPY1.5 trillion. And also the net asset adjusted for P&C business is about JPY1.7 trillion, about the same amount. And since we have the reduction the net asset -- compared to the net asset the balance of the strategically holding stocks is lower.

We always discuss what the appropriate level is. But about 70% or so of the adjusted net asset and that should be the target.

And after the six-year plan, especially in FY14, as in page 58, compared to this year it's going to be a lot smaller because, as we have mentioned before, we are trying very hard not to have a negative situation on the top line and we take time to discuss with the insurers that's why.

So after establishing ERM officially and fully, if we have specific targets probably we would come up with a new plan but FY15 target would be as specified in this presentation.

As we move forward, of course, there might be some insurers that would give us some concerns about the top line. So we have to take that into consideration to address.

And also, Himawari Life. I mentioned this before, MCEV is what we are using. This is the most advanced EV for the profitability for our plan. But, since we don't have so much cash, that's not included in the return to shareholders.

But according to the Japanese standard, JPY8 billion, JPY10 billion are going to be realized and also we consider the reinsurance business to make more cash from EV. But Himawari Life is in the progress of growing right now. So we would like to use EV further to calculate the profitability so that's not included, Himawari Life is not included in the return to shareholders policy.

After 2015 we have to come up with a new mid-term plan but during FY15, during the current period, Himawari Life's profit is not going to be included in return to shareholders policy but overall, of course, our policy is to continue stable payment of dividend and also return to shareholders based on our profit and also share buyback policy.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Sasaki, Mitsubishi UFJ. I have two questions. Number one, is there a possibility for you to increase dividend and when?

Second question. We talked about autonomous cars. You have a new product for Nissan LEAF, I think. Can you talk about the driver's distance? I think that's what you are reflecting into your products. So how are you going to calculate this going forward, the driving distance, how many times you stepped on the brakes and what are some of your directions going forward?

A - Unidentified Speaker

Regarding increase in dividend, in our capital policy the target rating is AA for profitability, ROE 7% and total return yield, excluding life insurance EV, 50%. This is what we would like to return over the midterm. That is what it says in the mid-term plan capital policy for shareholder returns.

Currently JPY60 is the stable amount that we like to pay per share per year and if we have more profit that exceeds this level, we would like to do share buybacks. Therefore, up until FY15 the profit guidance that we have we believe will be achieved, basically in line with the plan.

We have a growing certainty for this as we speak today. So JPY60 per year is one policy and, on top of that, share buybacks if more. This is the policy that we have no plans to change, as of today. I hope this answers your question regarding the dividend.

A - Nobuhiro Kojima {BIO 18839538 <GO>}

And to your second question about the data, how do we reflect the data to our policies. Currently big data really is something that we need to work on. How do we acquire data from big data to reflect some of the fruits of that onto our products or our operations?

The Nissan LEAF product has a few stages. One of the stages is, how do we collect the data? And the next stage is, how do we analyze the collected data? And the third stage is, how are we going to reflect it onto what? These are the items that we are considering right now.

So for Nissan LEAF we're -- Nissan LEAF is one method to collect data and there's still a limit to the amount of data that we can get from Nissan LEAF alone. So we would like to consider various other methods that will allow us to gather more data through various other channels. So we're trying to expand the channels for data inflow.

Also there's the premium payment. How do we pay when you have what kind of damage, when? We call this an algorithm analysis that determines the amount of benefits that we pay out.

Where and how do we reflect it into our operational numbers is really the specific discussions that we're having. We cannot tell you what we're going to do after Nissan LEAF, what we're going to use and where we're going to reflect those numbers. It's not like we have those answers right now.

But this is -- the idea is that we have to start off on this endeavor related to the autonomous cars that you talked about, how we should reflect that into that area as well, is another part of our considerations.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Majima, Tokai-Tokyo. In the short term Q1/Q2 allocation of the temporary expenditure that was explained and after the hike of consumption tax 5% at the end of March and 8% June. So there should be a great impact on Q1. Or it might not have any impact. So how much is the impact of the hike of consumption tax per quarter? And could you please present that if you have any impact?

And the first one is Canopius. They have insurance policies for sports cars and so on in the UK and they have floods in situation in that country. And can you achieve the target even though they have this flooding situation in UK?

A - Nobuhiro Kojima {BIO 18839538 <GO>}

As for the hike of the consumption tax. First of all in FY13 in the end of the fiscal year we have to allocate our reserves, taking into consideration the consumption hike of 5% to 8%. So we include the impact.

And your question was about every quarter. Actually the timing of half a year is the timing for the revision for us. And after April we already included the impact of the hike. The new consumption tax rate is already included. So if the revision does not have a drastic change, the impact would not be so big.

The management of the Company is very solid and the underwriting capability is very high. That's one of the reasons why we have acquired this company. And when we consider the previous year's settlement we have to, of course, take into consideration the flooding situation to review the situation. So our forecast already includes the flooding situation. Thank you very much.

A - Unidentified Speaker

As for the consumption tax, 1% makes about JPY11 billion before tax and after tax about JPY8 billion. You ask for every quarter. Well on this we have the mid-term accounting -- well, because Q1 and Q3 we have abbreviated method. So after tax that's about JPY8 billion and before tax it's JPY11 billion. And that should be an impact roughly.

So after the midyear, of course we are going to calculate officially. We have this abbreviated method for the benefit calculation. So that might be unofficial number.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you very much.

A - Unidentified Speaker

And now it's time to close. With this, we would like to close the meeting. Thank you very much.