FINAL

Bloomberg Transcript

Y 2014 Earnings Call

Company Participants

- Hirokazu Fujita, In charge of Financial Planning Department and Corporate Accounting Department
- Shiro Sasaki, Group Leader, Corporate Communications and Investor Relations Group
- Unidentified Speaker

Other Participants

- Jun Shiota, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Taichi Noda, Analyst
- Wataru Otsuka, Analyst

Presentation

Operator

Ladies and gentlemen, thank you very much for your patience and thank you very much for attending the conference call to announce these actual results of the Fiscal Year 2013 for Tokio Marine Holdings. And please note that during the presentations all the lines, other than the speakers' lines will be put under mute mode. And please also be reminded that this conference is being recorded.

And before we start the conference call, let me inform you that the presentation may include forward-looking statements, based on current assumptions which may entail risks as well as uncertainties and actual results may differ from the current projections.

And with that we would now like to start the conference call. Mr. Sasaki (technical difficulty).

Shiro Sasaki {BIO 19269575 <GO>}

My name is Sasaki; I come from the Corporate Planning of Tokio Marine Holdings. Let me explain the overview of fiscal 2013 results as well as the full year projections of fiscal 2014 of Tokio Marine Holdings. We are providing the following four documents for this meeting, financial [ph] report; information about major subsidiaries business results for the year ended March 31, 2014; PowerPoint document entitled overview of 2013 result and 2014 projections; supplemental material for conference call; and financial settlement data.

I would like you to access our website from the home page under topics to access the page where we disclose these materials and get your own copy via download. I like to make an apology and also make a correction. Today, we are providing the data spreadsheet material what we are distributing today there was an error on the data spreadsheet, so we have revised it and please refer to the updated copy of this material as you attend this meeting. Also, in this meeting today, we will mainly be using the PowerPoint document as well as the supplemental material for the conference call to explain to you about the financial results for 2013, for about the first 30 minutes. Please turn to page 3, of the PowerPoint document.

First I'll explain about the consolidated ordinary income. Ordinary income was JPY4,166.1 billion, year-on-year 8%, increased by JPY308.3 billion. I will explain the reasons behind the increase one by one. Net premiums written for domestic and international non-life insurance business was JPY2870.7 billion, year-on-year 12.2%, up by JPY312.7 billion. This is mainly because of increase in our domestic P&C business centering around auto insurance, expansion of underwriting of international insurance business as well as full year consolidation of Delphi in the United States and positive impact brought by the progression of yen depreciation.

Next life premiums of domestic and international life business was JPY378 billion year-on-year, minus 5.5% or declined by JPY21.8 billion. Tokio Marine & Nichido Life Insurance Company increased its enforced policy steadily, new product sales in Asia was favorable and contribution from Delphi's consolidation pushed up income. However, there was increase in surrender and benefits and other refund at financial life, which lead to decrease in life premiums overall on consolidated basis.

Next I will explain the consolidated ordinary profit. Please turn to page 4. Ordinary profit was JPY274.3 billion plus 32.3% or up by JPY66.9 billion. I will now explain the reasons for increase and decrease one by one for each domain on the slide.

Our TMNF combined ratio improved, on the other hand, there was increase in provision for catastrophe loss reserve which led to the ordinary income decline by JPY9.5 billion. As a result, domestic non-life business overall had a decline in ordinary profit by JPY9.4 billion. I will explain the details later. In domestic life business, TMNL ordinary profit decreased because of increase in provision for underwriting reserve owing to decrease in standard interest rate and increase in agency commissions associated with revenue growth. On the other hand, our financial life, there was increase in income from insurance related expenses in accordance with the recovery of domestic stock market and increase in reversal of additional provision for underwriting reserves which led to increase of ordinary profit. For domestic life overall, ordinary profit increased by JPY6.8 billion year-on-year.

In overseas subsidiaries there was an expansion of underwriting, why we remain highly disciplined in underwriting. Contribution from Delphi's full year consolidation, reduction in natural catastrophe related to loss and positive impact of yen depreciation led to year-on-year increase in profit by JPY63 billion. For ordinary profit and net income of overseas subsidiaries we used to show the gross figure including dividend payment from subsidiaries paid to overseas interm holding company and adjusted at the time of the consolidation adjustment. However, from this time we are showing the net figure excluding such dividend payment as earnings of overseas subsidiaries.

In financial and general business, ordinary profit increased due to the rebounds from the loss provisions in fiscal 2012 relating to guarantee obligation at the security subsidiary. On consolidation adjustment negative adjustment increased by JPY17 billion compared to last year. This is because of increase in dividend payment from overseas subsidiaries of TMNF and also increase in amount of auto amortization of goodwill owing to the full-year consolidation of Delphi which lead to increase in consolidated elimination.

Now let me explain about net income. Please turn to page 5. Net profit of fiscal 2013 was JPY184.1 billion, year-on-year 42.1% or up by JPY54.5 billion, mainly it's for increase and decrease is same as what I have explained earlier for ordinary profit. To add as additional factors, at TMNF there are the reaction from impairment of losses on investment in securities subsidiary in fiscal 2012. At Tokio Marine Financial Life, there was a reduction from booking extraordinary losses from extra retirement payment last year.

Similar to consolidated ordinary profit, we are showing the net profit of the overseas subsidiaries excluding dividend payment, the paid and received in between the overseas subsidiaries. For consolidation adjustment on top of the factors I explained for ordinary profit, negative adjustment increased mainly due to the reversal effect of the positive adjustment relating to the impairment of losses on investment in a security subsidiary in fiscal 2012 at TMNF. That was the overview of consolidated financial results.

I will continue on to explain about the overview of each company. Please turn to page 6. First, I will explain about the overview of 2013 earnings for Tokio Marine & Nichido Fire Insurance Company. On the page, you will see upward arrows and downward arrows. Upward arrow means positive factor for P&L, downward arrow means negative factor of P&L.

First, I will explain about different factors for underwriting profit and loss. My explanation will be mainly about product lines of insurance. Therefore, please look at private insurance line on the left chart. For net premiums written, all lines of insurance increased their top-line centering around auto insurance. Net premiums written for private insurance increased 4.7% or up by JPY76.7 billion.

Earned premiums increased by JPY61.8 billion pushing up the earnings. Line by line situation is explained on page 8. Please look at page 8 later. Net incurred loss at the private insurance overall declined by JPY12.2 billion and I will explain about each factor. Net incurred loss from natural catastrophes for this term totaled to JPY81 billion, which is an increase by JPY17.6 billion year-on-year. This includes JPY53 billion impact of the snow storm in February of 2014.

Due to more moderate progression of yen depreciation compared to last year, there was a decrease in provision for reserve for foreign currency denominated outstanding claims by JPY77 billion. As for net incurred loss excluding natural catastrophes, there was increase in net incurred loss due to revenue growth. However, it decreased mainly in fire and auto insurance lines, which led to the net incurred loss to be almost flat from last year, but increase of merely JPY2.3 billion.

Business expenses increased by JPY14.8 billion due to increase in agency commissions associated with the revenue growth. Now, I will explain about catastrophe loss reserves. Last fiscal year, owing to natural catastrophes, such as massive low pressure, we had a net reversal of reserves. This year, owing to a decrease in claims paid related to natural catastrophes, there was a net transfer to reserve.

This led to an increase in provisioning by JPY42.5 billion.

As a result, underwriting profit for the term decreased by JPY20.6 billion and had a underwriting loss of JPY13.2 billion. Next, I will talk about investment income and others. Due to the increase in interest and dividend income due to increase in dividend payment from overseas subsidiaries and decrease in impairment losses on securities associated with the recovery of the domestic stock market. Net investment income increased by JPY9.7 billion to be JPY156.5 billion. The business related equities sold in fiscal 2013 was approximately JPY109 billion.

In investment income and others guarantee fee associated with guarantee obligation transfer from security subsidiary booked last year led to decline in investment income and others by JPY22.1 billion this year. However, the same amount was booked as provision for losses last year, which created a rebound this year to make this neutral for ordinary profit and loss.

Most of the dividend income from overseas subsidiaries are eliminated on consolidated basis. On top of the factors I explained for increase and decrease in net profit, there was a rebound effect of impairment losses in investment in securities subsidiaries last year, which led to the net income increase by JPY32.1 billion or JPY90.8 billion.

Next I'll explain about the combined ratio, please turn to page 7. First, let me explain about the written to paid basis loss ratio. Compared to last year there was decrease in paid claims relating to natural catastrophes, as well as the paid claims excluding natural catastrophes in fire and auto leading to decrease in total paid claims including loss adjustment expenses by JPY45.3 billion. As a result, private insurance written to paid loss ratio improved by 5.6 points to 59%.

Now, I will explain about the expense ratio on written to paid basis. Due to increase in net premiums written as well as decrease in non-personnel expenses mainly in IT-related costs, expense ratio improved by 0.6% to be 32.3%. Therefore, the written to paid basis combined ratio improved by 6.2% versus last year. Here I'd like to also touch upon the earned to incurred loss ratio. Earned to incurred loss ratio for 2013 improved by 1.8% to 65%, while net incurred loss associated with natural catastrophes increased, underwriting result in auto insurance improved.

Earned to incurred loss ratio of auto was 65.8%, improvement by 4.1% year-on-year. Reasons for the improvement was that unit claims cost went up in vehicle damage and property damage liability insurance. Reported claims declined and unit premium hike helped. As a result, auto insurance earned incurred loss ratio, combined ratio improved by 2.4% to 97.2%. On page 8, we are showing the line by line premium and loss ratio situation. On page 9, we are showing the details of asset management results.

Please, refer to them later. Now I'll explain about Nisshin Fire Insurance Company. Please turn to page 10. Nisshin Fire, experienced negative factors for its underwriting profit such as decrease in net premium written due to increase in reinsurance costs and decreasing reversal of catastrophe loss reserve. However, net incurred loss for auto insurance declined, business expenses also declined leading to increase in underwriting profit by JPY2.7 billion to be JPY1.6 billion. As for net investment income and other, mainly due to reduction in gain on sales of securities, net investment income decreased by JPY2.7 billion year-on-year to the JPY3.2 billion.

Net income improved by JPY0.7 billion, year-on-year to be JPY3.3 billion, due to the factors explained earlier. Now, I will explain about Tokio Marine & Nichido Life Insurance Company. Please turn to page 11. First, as an overview of Tokio Marine & Nichido Life Insurance Company, let me explain about the annualized premiums or ANP. The upper graph shows the trend of ANP, which you can see that we maintain the trend of high growth.

Regarding ANP of new policies, third-sector products, mainly Medical Kit R sold well leading to 17.8% growth year-on-year. As for ANP of in-force policies, there was steady accumulation of in-force policies leading to increase by 13.4% year-on-year.

Next, I will explain about the statutory accounting. Insurance premiums and others increased by JPY78.9 billion to JPY645.5 billion, due to favorable increase in new policies and in-force policies, just as explained for ANP.

As for net income, although insurance premium increased, net income decreased by JPY3.1 billion to JPY10.7 billion, due to increase in provision for underwriting reserve and others owing to decrease in standard interest rate and increase in agency commissions associated with the favorable sales. Next, I'll explain about the international insurance business financial results for fiscal year 2013. Please turn to page 12.

Next international insurance business to be consistent with our traditional IR and other communication materials, the numbers shown here are the total sum of our international insurance business including overseas branch offices of Tokio Marine & Nichido Fire, equity method companies as well as non-consolidated companies. Net premiums written increased by 46% year-on-year to JPY1,074.5 billion. In addition to the progress being made under various growth strategies, thanks to the further depreciation of yen as well as full-year contribution of Delphi, top line of our international insurance business exceeded JPY1 trillion for the very first time.

Let me next break this down by business domain. Philadelphia grew their new business while continuing to successfully revise renewal rates upwardly. As a result, their top line grew by 35%. Delphi was consolidated to our group in the third quarter of FY 2012 and they made a full-year contribution in FY '13. Furthermore, in their core excess workers' compensation business they worked actively to acquire new business and increased rates. As a result their contribution to the top line grew by JPY122.4 billion from a year ago.

Kiln controlled their underwriting to secure profitability under the soft market cycle and their top line remained almost flat on a local currency basis. Top line in South and Central America grew by 34% year-on-year, primarily because we grew automotive insurance business faster than the market average in Brazil. Top line in Asia grew by 26% year-on-year thanks to the steady expansion of automotive insurance in Thailand, Malaysia, and India. Top line of reinsurance business grew by 37% over the year based on the growth of our European business as well as increased underwriting of specialty products.

Next, I will explain adjusted earnings of international insurance business on page 13. Adjusted earnings of international insurance business grew by JPY67.7 billion from a year ago to JPY136.9 billion. In addition to the progress we made under various growth initiatives and full-year contribution of Delphi, depreciation of yen and decrease in natural cat losses helped us set a new record. Adjusted earnings of international business exceeded JPY100 billion for the very first time. To explain this in more detail by business domain, Philadelphia grew their adjusted earnings by JPY11.4 billion, thanks to the steady growth of top line as well as decrease in natural cat losses from a year ago.

Contribution of Delphi to adjusted earnings increased by JPY21.1 billion year-on-year. In addition to the effect of full-year contribution and increase in premiums written, their investment income grew. Contribution from Kiln increased by JPY16.7 billion primarily due to the decline in natural cat losses from a year ago. And adjusted earnings from Asia grew by JPY21.5 billion due to the increased premiums written in the automotive business and decrease in claims incurred related to Thai floods.

Adjusted earnings of reinsurance business increased by JPY4.7 billion mainly due to decline in natural cat losses as well as major accidents. Next, I will discuss the actual adjusted earnings of our entire group on page 14. On the group-wide basis, adjusted earnings grew by JPY69 billion to JPY278.1 billion, driven by the earnings growth of our international insurance business and adjusted ROE was 7.6%. Major factors behind this year-on-year change are as follows.

Adjusted earnings is an indicator of profit and loss generated from business activities during the term under review. So for non-life business, adjusted earnings are based on statutory net income and impact of various reserves unique to non-life business such as cat loss reserves and sales gains and losses as well as valuation losses of assets such as equities and real estate are deducted.

At Tokio Marine & Nichido Fire, statutory net income increased by JPY32.1 billion year-on-year. However, adjusted earnings declined by JPY19.6 billion. The difference between the two numbers is mainly explained by adjustments around sales gains of business related equities as well as dividend income from overseas subsidiaries.

Next, in the life insurance business, adjusted earnings is defined as year-on-year growth of the embedded value. Tokio Marine & Nichido Life successfully grew their adjusted earnings. Increase in value of new business, backed by the steady acquisition of new business as well as positive impact of changes in assumptions used for the EV calculation more than offset the negative impact of revision of risk discount rate. Please also note that we are now changing risk discount rate, not by 1% increment, but by 0.01% increment at a time. And as of the end of the last fiscal year, the risk discount rate is 7.53%. As for the changes of assumptions behind the EV calculation, assumptions of morbidity rates and in particular mortality rates are changed.

EV of Tokio Marine & Financial Life increased in absolute terms due to the improvement of investment environment. But the multitude of increase was smaller compared to a year ago. And I have covered the drivers behind the growth of international business already. So far, I have explained to you the highlight of financial results of FY '13. Next, I will discuss projections of FY '14, starting from page 16. Net premiums written in FY '14 is projected to increase by 3.8%, or JPY109.2 billion year-on-year to JPY2.980 trillion. And life insurance premiums are expected to increase by 40.2% or JPY151.9 billion to JPY530 billion.

Next, ordinary profit in FY '13 is projected to increase by 22.1% or JPY60.6 billion year-on-year to JPY335 billion. Profit in the domestic non-life business is expected to increase by JPY126.5 billion year-on-year primarily driven by the growth of Tokio Marine & Nichido Fire. Underwriting profit of Tokio Marine & Nichido Fire is expected to grow significantly pushing up the ordinary profit by JPY123.4 billion over the year to JPY270 billion. I will discuss this in more detail later on.

Next domestic life insurance business, ordinary profit of Tokio Marine & Nichido Financial Life is expected to decline by JPY10.3 billion as a reversal effect of the profit increase in FY '13 associated with the improvement of investment environment. And contribution from international insurance business is expected to decline by JPY25.6 billion to JPY120.4 billion mainly because we are assuming an average level of natural cat losses which was slow during FY '13.

Please note that same as actual result as FY '13 the numbers shown here are exclusive of dividend income in between overseas subsidiaries, although they will be included in their statutory ordinary profit as well as income. As for consolidation adjustments, we expect a negative adjustment to increase mainly due to an increase in dividend from subsidiaries at TMNF. Next please refer to page 17 to discuss consolidated net income (technical difficulty) FY '14. We project our consolidated net income to grow by 24.9% or JPY45.8 billion to JPY230 billion in FY '14.

Next, I will discuss projections for FY '14 by business, please refer to page 18. Tokio Marine & Nichido Fire. While reorganization of their US branch into an overseas subsidiary will cause a negative impact, net premiums written are expected to grow by 2.2% or JPY37.4 billion year-on-year mainly driven by growth in auto business.

That is a private business and next net incurred losses of all the private insurance business is expected to decline by JPY24.7 billion. Consumption tax hike is expected to push up incurred losses. Losses incurred by natural cat are expected to decline and there will be a pullback effect of the provision for reserves for foreign currency denominated outstanding claims due to weaker yen in FY '13 and losses incurred by natural cats are expected to be JPY40 billion this year.

Business expenses are expected to increase by JPY13.9 billion due to top line growth as well as increase in agency commissions associated with consumption tax hike. Provisioning for cat loss reserves is expected to decline by JPY46.3 billion year-on-year. As we pay down more claims related to snowfall in February 2013, we expect reversal from the cat loss reserves to also increase.

All in all, underwriting profit is expected to increase by JPY126.2 billion to JPY113 billion. For all the private lines of business, loss ratio on an earned to incurred basis is projected to improve by 3.8% year-on-year to 61.2% in FY '14 mainly due to decline in net incurred losses as well as increase in earned premiums as I mentioned earlier.

Next, net investment income and others is expected to be JPY156.5 billion [ph], almost flat year-on-year. Our sales gains of securities such as bonds and business related equities are expected to decline dividend income from overseas subsidiaries is projected to increase. As for business related equities, we're planning to sell approximately JPY100 billion worth in FY '13 -- '14. Based on these projections on underwriting profit, net investment income and others, ordinary profit is expected to grow by JPY123.4 billion to JPY270 billion. Due to the same reasons, net income is projected to increase by JPY114.1 billion to JPY205 billion.

This is a projection for TMNF. And please refer to pages 19 and 20 for the assumptions of the combined ratio on written paid basis as for factors behind the year-on-year changes of net income later. Next, let us review the projections of Nisshin Fire on page 21. Underwriting profit of Nisshin Fire is expected to increase by JPY4.7 billion to JPY6.3 billion. While their business expenses are projected to increase due to the consumption tax hike.

Net incurred losses are expected to decline since we are assuming an average levels of natural cat losses and reversal from cat loss reserves should increase mainly due to claim payment related to the snow event in February 2013. Net investment income and others, is expected to decline by JPY1.5 billion to JPY1.6 billion mainly due to decline in sales gains of securities. As a result, net income is projected to increase by JPY1.4 billion year-on-year to JPY4.8 billion.

Next, please go to page 22 to discuss Tokio Marine & Nichido Life or TMNL. In the domestic life insurance business, as we have announced already, TMNL and Tokio Marine & Nichido Financial Life are scheduled to be merged into one company as of October 1st, 2014. In view of the scheduled merger, projections of TMNL for FY '14 are inclusive of the projections of Financial Life during the second half of the year. And FY '14 projections of Financial Life are the projected performance only during the first half of FY '14.

Now to review the FY '14 projections of TMNL, please go to page 23. In terms of the ANP of new business, rate of growth is expected to slow down from a year ago, since we will increase the proportion of the third sector products from the profitability perspective. However, we expect to see strong sales of new business continuously. ANP of in-force policies is expected to increase by 46.7% from the end of the previous year. In addition to the steady growth of in-force policies, in-force policies of Financial Life will be incorporated in the policy base of TMNL upon the merger. And even excluding the impact from the merger, ANP of in-force policies are projected to increase by 9.6%, from the end of the previous year.

Insurance premiums and others on the statutory note are projected to increase by JPY61.5 billion to JPY707 billion, thanks to the increase of new business and in-force policies as well as merger with Financial Life. Merger cost is expected to be marginal. And we are expecting a JPY12.5 billion [ph]. And as for the merger costs that is expected to be marginal. Please refer to page 24 for international business. Net premiums written in the overall international insurance business is projected to increase by 3% year-on-year to JPY1,109 billion in FY '14, under the softening market.

However, on the local currency basis, we're expecting 5% positive growth based on various growth initiatives that we will steadily implement. Factors behind the year-on-year changes for a major business segments are as listed for your reference.

Next, I will explain adjusted earnings projection of international insurance business on page 25.

Adjusted earnings in FY '14 are projected to decline by JPY31.9 billion to JPY105 billion. This is a reversal effect of low level of natural cat losses incurred in FY '13, as well as decline in losses incurred related to Thai floods from the past year. Excluding these special factors, we believe the underlying trend will continue to be positive and substantially we expect earnings to exceed JPY100 billion level again this year.

For factors behind the year-on-year changes for different business segments, please refer to this material. In view of the reorganization of our business structure through the establishment of interim holding companies in major regions, starting from this year we are showing projections by region. For more detailed projections on Philadelphia, Delphi and Kiln, please refer to page 26.

Last but not least, I will discuss FY '14 projection of adjusted earnings on a group wide basis on page 27. For the entire group, adjusted earnings are projected to increase by JPY12.9 billion year-on-year to JPY291 billion with the adjusted ROE of 7.4%. Major factors behind this growth is as follows. Adjusted earnings of TMNF is expected to increase by JPY72 billion to JPY107 billion, while there will be an adverse impact from consumption tax hike, we expect to grow underwriting and improve profitability. There will be positive reversal effects from the frequent occurrence of natural disasters as well as negative impact of weaker Japanese yen during the previous year.

Contribution from TMNF is expected to decline while their EV is expected to increase based on the continuously steady growth of their in-force policies, there will be a reversal effect related to change in assumptions behind the EV calculation made during the previous year. Contribution from financial life is also expected to decline due to the reversal effect of the increased profit in FY '13 associated with the improvement of investment environment.

Please also note that FY '14 projections of adjusted earnings for TMNL and financial life are shown for the respective companies without reflecting the impact of merger different from ANP and statutory numbers that I explained earlier. And I have touched upon the projection for international insurance (technical difficulty).

This concludes my presentation, and I am now happy to entertain questions that you may have during the rest of our time. Thank you very much.

Operator

Thank you very much, Mr. Sasaki. Now we would like to start the Q&A session. The operator is not explaining how to ask a question to the Japanese audience. I apologize for the overseas participants, but I ask you to wait a while until she finishes the explanation. Thank you.

Questions And Answers

Operator

Thank you very much Mr. Sasaki. Now, we will like to start the Q&A session. The operator is now explaining how to ask a question to the Japanese audience. I apologize for the overseas participants but I ask you to wait a while until she finishes the explanation. Thank you. The first question is from JPMorgan, Ms. Tsujino. Please ask your question.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you for this opportunity. For 2013 to 2014 your company guidance, there is some gap, the underwriting profit had some fluctuation and due to that as well as due to the occurrence of the natural catastrophes declined from 81 to 40 (inaudible) including snowstorm and also the provision for underwriting reserve for the foreign currency denominated policies and also the net transfer for the catastrophe loss reserve in 2014 will decline due to the snowstorm et cetera. So, on those points, the underwriting profit, if you just include those factors alone, will be an improvement by JPY40 billion according to my calculation due to the consumption tax hike and also lack of large accidents. I'm sure there are technical factors such as the regular underwriting reserve et cetera.

I want to know what those other factors are. So the -- what is the impact of the tax increase and also what is the impact of other factors and other technical factors such as lack of large accidents, et cetera. That's my first question. The second question is very detailed.

If you go to page 9, this is the Tokio Marine and Nichido Fire Insurance Company, the details of P&L is there.

However, you look at other ordinary profits which is a positive JPY22.4 billion last year, it was a little over 8.3, this time 22.4. It's 26.5 up to the third quarter. So that means the most of it occurred in the fourth quarter. And as you mentioned, the financial products, the provision for loss et cetera, I'm sure that is a part of the ordinary expense. So, what is booked hear as a ordinary gain?

A - Hirokazu Fujita {BIO 17671014 <GO>}

My name is Kazu. I come from the Accounting Department of Corporate Accounting. So, the company projections for 2014, foreign exchange, natural catastrophe, catastrophe loss et cetera, excluding those factors, what are the other factors contributing to the numbers.

The one of the biggest factors that we are considering, as you mentioned, is the consumption tax hike. And that alone on private bank of insurance is an impact by JPY29 billion. And for claims payment for 2013, in other lines, we had some relatively large accidents and there is a rebound this year expected which is going to lead to an improvement. So that's the factor, those are the factors. The rebound isn't that big. On estimation basis for (inaudible) loss, excluding FX and not cat 5.5 percentage point improvement is the company forecast.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

And most of that is the lack of the large accidents you are saying.

A - Hirokazu Fujita {BIO 17671014 <GO>}

Not all, but that is a major factor. About 5.5 percentage points, if you just look at the percentage point, we also need to look at the revenue growth. So there is going to be some revenue growth as well as, which alone is going to be a positive factor. Yes, that is correct.

For the transfer to the policy reserve, for this year, the first initial year underwriting balance for cargo insurance, last year we had Hurricane Sandy with it. The claims paid occurred last year and there is going to be a rebound and also there is revenue growth expected for this year, so that is why there was increase in the initial year underwriting balance and we are expecting some rebounds from that in terms of like several tens of a billion yen like JPY10 billion, yes.

Going to your second question, if you go to page 9, and if you look at other ordinary income and expenses, so what is included in the ordinary expense that is your question. This is basically due to the reversal of the transfer to provision for a potential loss.

So on net basis, this is a positive number. Last year this -- on investment income and loss there was plus and minus. But this year, regarding the financial product securities, yes, as you mentioned last year from our subsidiary, when we took over those credit, in exchange for the credit, we booked that number as other investment income and loss. However the transfer to the provision for potential loss is booked as other ordinary expenses. Last year we had other investment income and loss and other ordinary income and expenses which netted out each other last year. For this year there was some cancellation or churn and there was some sales of the securities when we sell them the loss are to be booked on sale is booked as other ordinary expense. And the same amount is going to be reversed from the provision for loss, which is going to be from a positive factor for the ordinary income.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So on net basis is that zero after all?

A - Shiro Sasaki {BIO 19269575 <GO>}

This year it's not really, there is some loss. So it's not a positive number, but there is loss impact for fiscal 2013. The profit and loss is zero.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

And one additional question, for overseas subsidiaries the net count loss for 2013 and 2014 projections, can you tell me both the numbers?

A - Unidentified Speaker

My name is (inaudible) I come for the international insurance business department. For 2013 it was JPY16.6 billion, for 2014 on annualized basis it's JPY40 billion, that's all.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So that means the nat cat loss assumption comparing 2013 versus 2014 for overseas and in domestic you increased it by JPY10 billion, is that correct?

A - Unidentified Speaker

Yes, that is correct. For the overseas portion yen depreciation progression is the main reason.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you.

Operator

The next question is from Mr. Otsuka from Nomura Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Yes, thank you very much. I would like to ask you two questions concisely. Number one, with regards to the dividend payout ratio as well as the return to shareholders. Of course, you have announced the dividend payout. However, you always talk about average adjusted earnings excluding EV for the fiscal year 2013 as well as 2014 what is actual as well as the projection? And also on page 19 you have shown this is full year Tokio Marine's earned incurred basis loss ratio for automotive. And it seems that the ratio is expected to increase slightly this year, what is the reason behind it?

A - Shiro Sasaki {BIO 19269575 <GO>}

On your first question, let me give you the answer. For this fiscal year 2013, the average adjusted earnings excluding EV was JPY110 billion and the payout ratio against that was approximately 49%. And for fiscal year '14, is that part of your question?

Q - Wataru Otsuka {BIO 16340098 <GO>}

Yes.

A - Shiro Sasaki {BIO 19269575 <GO>}

For fiscal year '14, we expect the average adjusted earnings to the JPY140 billion, that is our projection excluding AV. And based on this, we project the payout ratio to be approximately, I guess you can do the calculation, but approximately a little more than 40%.

I guess, I answered your question.

Q - Wataru Otsuka {BIO 16340098 <GO>}

So you're saying that 40% to 50% payout ratio, that you have been aiming to achieve you are saying essentially that you are achieving the payout ratio that you're targeting.

A - Shiro Sasaki {BIO 19269575 <GO>}

Yes, that's right.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay, understood.

A - Unidentified Speaker

My name is Hamada [ph] from Personal Lines Underwriting department. Let me talk about the excessive 0.5% aggravation of the loss ratio of the automotive business. We have been increasing rates and therefore there will be some positive impact based on that. However, there will be a negative impact of the consumption tax hike as well as the continuous rise in repair cost, and therefore the claim cost is expected to increase, and therefore, we expect the loss ratio to also go up by 0.5 point.

Q - Wataru Otsuka {BIO 16340098 <GO>}

So, you have increased rates and the positive impact of that will be canceled off is that were you saying?

A - Unidentified Speaker

Yes. There are several minor factors. However, more than the improvement expected based on the rate increase, we believe that there will be a bigger negative impact.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay, thank you very much.

Operator

Next question will be from Deutsche Securities Mr. Muraki. Please ask your question.

Q - Masao Muraki {BIO 3318668 <GO>}

For the term that ended, despite the snowstorm you have achieved your company target and when thinking about the reasons for that in various segments, there was a reversal in the reserve that I expect. At the Tokio Marine & Nichido Fire, for fire and other lines IBNR was reversed and I wonder how that had occurred?

And also at Financial Life, in the fourth quarter in three months alone, the net income was over JPY110 billion. However, there was a similar amount of the reversal being made from the reserve, so what are the reasons, why this had occurred? And also, this is something that had occurred before in the international insurance business there was a reversal of the reserve, that must have taken place. And for the overall insurance -- overseas insurance business, how much of a factor was this in pushing up the income. So, what are the upward factors that you had for the term that ended vis-a-vis the (technical difficulty)?

A - Unidentified Speaker

My name is Tazoe [ph]. I come from the Corporate Accounting. For the reversal of the reserve for fire line of insurance. The IBNR, the difference in the estimation of the insurance loss is the reason. In other words, the estimation for the snowstorm damage and also associated with Thai flood are the two factors making up the difference. And that is the reason, why it worked out the positive factor for fiscal 2013.

For other lines, it's not really any big factors, but in the US branch, there was a reversal last year and then there is a rebound from that this year. Did that explain your question?

Q - Masao Muraki {BIO 3318668 <GO>}

Yes.

Operator

Next question is from Mr. Shiota from Daiwa Securities.

Q - Jun Shiota {BIO 4127431 <GO>}

Yes, with regards to Kiln, on page 26, you have shown the projections for this fiscal year. And the profit, the top line will grow, while profit is expected to decline. In the past fiscal year, they controlled underwriting in order to -- because of the softening of the market. And what about the projections for this fiscal year outside Japan in particular, for Kiln, what is your projection of their business or business outside Japan?

A - Unidentified Speaker

Yes. My name is Moriama [ph] from International Business Planning, our Development division. The market is now softening and with the impact of that for our reinsurance business and also for Kiln, we have factored in certain negative impact to the projections for fiscal year 2014. And, with regards to in particular Kiln, that you asked about, because of various factors that are mixed together, we are not quite able to share with you a specific number. However, in terms of top line in order of some 100 million, there will be a negative impact, negative decline.

So, there will be a negative impact to the top line over the premiums written. Did that answer your question?

Q - Jun Shiota {BIO 4127431 <GO>}

Well, the projections for this fiscal year, I saw that top line expected to grow, while the profit is expected to decline. And in fiscal year 2013, I understand because of softening of the market, the revenue declined, but what about this fiscal year. Are you talking about FY '14?

A - Unidentified Speaker

Yes. Yes. Please hold on for a second. With regards to Kiln, in FY '13 as it was explained earlier, natural cat losses were small and therefore there will be a pullback effect because we are expecting a normal -- 2014 to be the normal year in terms of the occurrence of natural cat losses and that is the assumption behind the expected decline in profit.

Q - Jun Shiota {BIO 4127431 <GO>}

Okay. With guards to page 16, with regards to the dividends in subsidiaries. TMNF dividend income, was touched upon earlier, in fiscal year 2013 as well as 2014, what is the actual, as well as the projected dividend income to TMNF?

A - Unidentified Speaker

Yes. What we are showing here is the dividend from overseas subsidiaries to TMNF. In FY '13, they received JPY29.3 billion, and in 2014, we expect the dividend income to be approximately JPY53 billion.

My name is Tazoe [ph] from Corporate Planning department. Just coming back to the question on the outstanding balance of the reserves by Mr. Muraki. He was asking us whether we have actually taken down more reserves or not. Let me make a restatement of what I mentioned. With regards to the outstanding balance of the reserve for fire line of business, that has been declining primarily because as of the end of December last year, our subsidiary, our branch office in the US was transformed into a subsidiary company and that must be the major reason behind a decline in outstanding balance of the fire line of business.

Operator

Next question will be from Mr. Noda of Goldman Sachs.

Q - Taichi Noda {BIO 16478436 <GO>}

I have two questions. The consolidation of the North American business. Turning your branch into a local subsidiary. What is the impact to the foreign exchange fluctuation, because this year if the yen depreciates, then I believe that becomes a positive factor overall on group basis, is that the correct understanding? That's my first question. The second question is regarding the Financial Life and the Tokio Marine & Nichido Life integration, what is the impact to the EV when the two entities are combined?

A - Unidentified Speaker

My name is Hamada. I like to talk about the FX factor. Your understanding is correct. So, Tokio Marine & Nichido Fire Insurance Company, the foreign currency denominated policies reserve will decline. So that means there will be a less negative factor to its P&L. However, as an overseas subsidiary, it has to book its own underwriting reserve. So, it becomes part of the adjustment factor for foreign exchange. The impact to its net asset will not be any different.

As to your second question, about the integration of Financial Life and Anshin Life, what is the impact to EV for fiscal 2014, the EV increased estimation on adjusted earnings basis is announced. For each entity, we are showing the separate numbers. Therefore, by the integration of the two, we don't expect any extra impact coming from the integration of the two entities to EV.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you. So that means when the adjusted earnings of the Financial Life is called as liberal, so it's not going to increase nor decrease is that the correct understanding?

A - Unidentified Speaker

We announced this at the end of the term. So, I apologize. As for Financial Life, basically, we don't expect the EV growth for Financial Life business, that is the answer.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you very much.

Operator

There seems to be no question and -- at this point in time. So the operator is explaining how to place questions to Japanese audience. There seems to be no question at this point in time. So, I will give the microphone over to Ms. Sasaki again.

A - Shiro Sasaki {BIO 19269575 <GO>}

Once again, everyone thank you very much for attending the conference call for our 2013 financial results. With this, we would now like to conclude Tokio Marine Holdings' conference call announcing the actual financial results of FY '13. Thank you very much for your attendance. And this concludes the conference call. Thank you very much.