S1 2017 Earnings Call

Company Participants

- Yukinori Kuroda, Head of Investor Relations

Other Participants

- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Analyst
- Wataru Otsuka, Analyst

Presentation

Yukinori Kuroda {BIO 19776286 <GO>}

I am Kuroda from Sompo Holdings. Thank you for your participation in our earnings call. I would like to go through the highlights of the first half FY16 results. Please confirm the presentation materials and the Excel data on our homepage as well.

Now please turn to page two. Here you can see the highlights regarding the first half. This fiscal year we've started on our new mid-term business plan and so far we've been able to kick off a good start. We saw growth in ordinary income, as well as the net income attributable to shareholders of the parent, especially due to improvement of underwriting profit from domestic P&C insurance.

If we look into each business, the domestic P&C insurance increased its bottom line due to improvement of E/I loss ratio. The domestic life insurance business, Himawari Life, is trending in line with its plan. And although we saw the yen strengthening, the overseas insurance showed overall good results.

From the perspective of capital allocation, we continued to strengthen our financial soundness. We have steadily reduced the exposure of our strategic-holding stocks, we also issued JPY200 billion of hybrid bonds in August, and in October we've reached the agreement to commence procedures on the acquisition of Endurance, exercising our strategy to improve our capital efficiency. The schedule regarding Endurance is that, if procedures go as planned, the earnings contribution will begin from FY17.

Regarding the full-year forecast, we made some adjustments to reflect the current situation, but the consolidated ordinary profit and net income remained unchanged.

Please turn to page four. This is the overview of the consolidated results. In regards to the top line, it may seem like it has declined, but this is due to a technical reason, a rebound from the rush in demand for new fire insurance policies in the previous fiscal year. But on the other hand, this same technical reason had a positive contribution to the underwriting profit. As a result, the consolidated ordinary profit is up JPY26.5 billion to JPY70 billion and the consolidated net income is up JPY14.8 billion to JPY43.4 billion. The adjusted profit, which is the source of shareholder return is at JPY77 billion, a progress rate of approximately 50% against the plan of JPY150 billion to JPY160 billion.

Please turn to page five. This is regarding the consolidated underwriting profit of Sompo Japan Nipponkoa. Against the backdrop of fewer natural disasters in Japan, the underwriting profit increased by JPY65.2 billion due to drivers such as continuous improvement of the automobile underwriting results and a decrease of foreign currency reserve with a strong yen.

Please turn to page six. The consolidated ordinary profit is up JPY26.5 billion to JPY70 billion and as I mentioned earlier, the driver is the increase in underwriting profit.

Now on the other hand, the investment profit is down due to net losses on foreign exchange caused by the strong yen. If I should add a few words on this point, there is a line of account called the foreign agents balances receivables and when this fluctuates with the currency it actually impacts the investment profit. But then, on the other hand, the foreign currency reserve can make a positive contribution. So, ultimately, when you look at the structure of the currency impact, the impact to our Group's insurance business is basically flat.

Regarding Himawari Life, the business is trending well against the initial forecast, which reflects various factors already. The overseas Group companies experienced impact from the currency, but on a local currency base they are well in line with our plan.

Please turn to page seven. The net income is up JPY14.8 billion to JPY43.4 billion. Please confirm the breakdown on this slide and now please turn to page eight. This is the forecast for the full-year. We made some adjustments to reflect the current situation, but the consolidated ordinary profit and net income remain unchanged.

Please turn to page nine. We have here the breakdown of the ordinary profit forecast. The points adjusted since the beginning of the year are the following. First of all, we forecasted a rather steep rebound in the income from the rush in demand for fire insurance policies, so the burden of the reserve is relatively lighter. Also, in reflection of the stronger yen, we adjusted the investment profit and profits from overseas Group companies.

And also, I'd like to mention that the results from the public company, Sompo Care Message, has also been reflected into these numbers. The numbers regarding Sompo Care Message was already announced on November 7.

Please turn to page 10. This shows the progress rate of the consolidated net income. We've shown this to you once in May already, but we've put it in here again for your reference. Normally, we tend to demonstrate rather slow progress in the first half due to our business seasonality, skewed to more contracts at the beginning of the year, or due to the timing of the sales of strategic-holdings stocks. And relatively main incidence of natural disasters, such as typhoons, happen in the first half. But we see nothing extraordinary in this progress so far, so we believe we can catch up by the fiscal year-end.

Please turn to page 11. For your reference, we have here the numerical management targets and today we have separately announced an upward revision of profit targets in our mid-term business plan. The original profit target for FY18 was JPY180 billion to JPY220 billion, but we increased this range to JPY220 billion to JPY230 billion, mainly due to a reflection of the expected contributions from Endurance. The management of the Company will explain these numerical targets in more detail in our announcements next week.

Please turn to page 13. I would like to take you through the details of each business. For information regarding Sompo Japan Nipponkoa, please refer to this page. For details regarding each item, please refer to the next slides.

So please turn to page 14. The net premiums written have decreased mainly due to fire and allied lines. Again, this is due to the rebound from the rush in demand for new fire insurance policies from the previous fiscal year. On the other hand, our mainstay voluntary automobile business continued to increase its income, mainly due to the effect from raised unit premiums.

Please turn to page 15. This is the loss ratio. The written loss ratio continues to improve with the automobile insurance, but the ratio went up due to impact of decrease of premiums in the fire segment. However, we are well in line with the full-year plan.

Please turn to page 16. The earned/incurred loss ratio improved by 4.7 points to 57.9% due to less incidence of natural disasters. And these figures are also well on track with the full-year plan.

Please turn to page 17. This is the net expense ratio, which is also progressing according to plan. For this fiscal year, as has been already explained, the actual amount of expense is going to be smaller despite the investment for future efficiency increase and growth because of tight control of personnel and non-personnel expenses. But due to the revenue decline in fire and allied, the ratio of net expense will increase somewhat.

Please turn to page 18. Combined ratio is also progressing according to plan. We intend to maintain this profitability level, which has stabilized due to management's efforts and the industry initiative.

Please turn to page 19, investment profit. Interest and dividend income is progressing nicely despite the impact of strong yen. Gains on sales of securities seems to be progressing slowly because of the relationship with sales of strategic-holding stocks, but for the full-year we do not foresee any problems.

As for the strategic-holding stocks, we have sold JPY6.4 billion worth of actuals and we are minimizing exposures using futures, which translates into a reduction of JPY61.6 billion in total. Due to these hedging activities, regardless of the market fluctuations, we believe that we can achieve the full-year target. Other investment income is negative, mostly due to the strong yen.

For interest rate dividend income, gain on sales, and the impairment losses, please refer to the following page. And the business forecast of Sompo Japan Nipponkoa the details is shown on page 21 and the assumptions are shown on page 22. Page 23 shows the indicators related to auto insurance, just for your reference.

Please turn to page 24. Some additional comments about domestic natural disasters. Although each one was not so large, there were several typhoons during this first half and also Kumamoto earthquake, which made us recognize net losses occurred over JPY35 billion. For the full-year forecast, we've been more conservative than the usual estimate of JPY43 billion, which means JPY50 billion including the impact of JPY7 billion of Kumamoto earthquake.

Please turn to page 26. This is the overview of our Himawari Life performance. Annualized new premiums is growing steadily and centering around production-type products, amount of business in force is expanding, which is a positive momentum. Despite the low interest rate, impact on investment profit was minimum, so against the full-year forecast of JPY6.5 billion we have achieved net income of JPY4.5 billion which is stronger -- good progress.

Please turn to page 27, base profit and net income. Good progress against plan and profit is expected to go down because of investment for further growth, but we have already started introducing new products and services such as Linkxcoin [ph] to accelerate the growth.

Please turn to page 28. Himawari Life management index adjusted profits and adjusted net assets can be seen on this page. In terms of adjusted profit, the progress rate is 62% which is very sound.

Please turn to page 30. Nursing care and healthcare business. As planned, while spending some costs, we have been focusing on strengthening internal management and enhancing profitability for the nursing care business. Because of these costs, we have posted minus JPY1.4 billion for the nursing care and healthcare together. For the full-year, the forecast is minus JPY2 billion.

We will continue to strengthen internal management and rebuild the brand and now we are able to focus on the sales side. Now we are beginning to see the inflow of resident increasing in specified facilities, which is a good sign.

Please turn to page 31. This is the inflow and outflow of residents in nursing care specified facilities. Sompo Care Next, which is a 100% subsidiary, saw inflow exceed outflow in February and this trend is still continuing. Sompo Care Message has followed this same trend starting from September.

Please turn to page 33. This is the overseas insurance status. Top line grew by JPY3.4 billion despite the recognition of a minus JPY30 billion due to strong yen, which is due to forecast [ph] ForEx fluctuation. And the net income forecast was already conservative based on the assumption of softer market, but the general progress is more or less according to plan.

The impact of strong yen affected the bottom line, which means that for the first half it was minus JPY1.5 billion.

Please look at page 35. Net premiums written and the net income for Group companies. Top line-wise underwriting was strong in automotive insurance in Turkey. Brazil lost some revenue because of the strengthened underwriting, but we believe that this is going to contribute a profit going forward.

Bottom line-wise, Canopius' progress seems to be slow, but this is due to some large losses caused by June. We believe that some recovery can be made for the full-year. It was also partially due to less natural disasters.

Please turn to page 37. Internal solvency ratio of end of September was 163%. Our financial health continues to be sound. Various drivers can be shown -- can be seen on this slide and on the next page, page 38, you can see the adjusted capital and breakdown of risks. And the market sensitivity is shown on page 39 for your reference later.

Please look at page 40. Group-wide asset portfolio. No major change has been made to the asset allocation. Investment policy remains the same; continue to reduce Japanese equity and a secure return from global fixed income, while paying attention to potential risks. Just as we explained in the beginning of the term.

Page 41 is SJNK and page 42 is Himawari Life portfolio, just for your reference. And that's all from me. Thank you.

Questions And Answers

Operator

The first question has been submitted from Mr. Muraki with Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

Yes, I have two questions. I'd like to ask about your forecast regarding the overall loss ratio for the automobile insurance, please.

I'm looking into your data book and I see that for the first half automobile insurance, the E/I loss ratio is up by 0.4 points. And also when I look at the loss ratio for the full-year, your plan seems to be going up a little bit, like 60.0 to 60.1 and I'd like to know the reason why that it seems like the loss ratio has gone up. I mean, I want to see how this will develop throughout the fiscal year.

And also in relation to this question, I'm looking at page 16. On this page, the loss ratio includes the non-automobile businesses as well. And the trend is opposite here because if you look at the number, excluding the natural disasters, it's 55.9% so that's a downward revision from the 56.7% that you announced at the beginning of the fiscal year. So, what are the areas of improvement, other than automobile?

And my second question is regarding the strategic-holdings of shares. When I look at the trend of last fiscal year it seems like you sold a lot in the second half, there was a big skew to the latter half. So, this year are you also planning to catch up in the second half? And in terms of the profit and loss from -- profit and loss or the gain in the losses from the hedges of the futures that you are doing before the strategic-holding share sales, what is going on in the third quarter against the backdrop of -- in rising share prices?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, first of all, thank you for your question. The loss ratio of the auto insurance will worsen in the second half, that's our forecast. And to let you know the basic trend here for the automobile insurance, the premium income is supposed to go up with the effect of rising unit premiums. And we will take steady steps to strengthen our sales activities with measures such as attaching options or increasing the amount of benefits to increase our premium income slightly.

In terms of the claims paid, the trend that the numbers decline for both vehicle and property is continuing even today. But on the other hand, the unit premium for automobile is increasing because cars are becoming more sophisticated. So with both of these we basically see that the trend will be flat. But for the second half, usually the daylight hours are shorter and usually it is the case that the second half has worsened loss ratio compared to the first half. So that's why we are a bit conservative with the claims reserve and that's why, as a result, you see the numbers that you mentioned so correctly.

And for the other items, we are expecting improvements with new type insurance or personal accident type of insurance. So, the level of large-scale losses are different between the first half and the second half.

Okay. So, to your second question regarding the sales of strategic shares. As you point out, yes, you are correct; we are planning to sell approximately JPY100 billion of strategic shares in the second half and we are confident that we can achieve this level. So, therefore, what we are going to do with the futures is that, we will continue to let go of them in line with the progress of the sales of the strategic shares.

Now the pace of the sales of the strategic shares will differ in the third quarter against the second quarter will go faster in the third quarter. But in terms of the futures that we have accumulated up to second quarter, which is the amount of JPY60 billion, we have to look at the market and the situations to decide if we will sell all JPY60 billion at the end of December. And if we don't and if we still have some position of derivatives at the end of December, then that means that we will have a negative impact to the derivative gains and losses. There is a possibility that that may happen.

Q - Masao Muraki {BIO 3318668 <GO>}

So I have an additional question regarding the automobile insurance. I'd like to know the actual result of the loss ratio. When you compare the first halves of this year and last year, it seems like the E/I loss ratio is up by 0.4 points. Is this due to the unit premium?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, as I mentioned earlier, for the factors such as premiums or claims paid, the net is basically flat. There is no special deterioration here. But in terms of the reserve that we reflected into the forecast, we are still maintaining that level, so that is causing the impact.

And also, up to the first half we actually strengthened our sales of an option for the road assist in October 2015 and we have been soliciting this to the customers quite strongly. So there is an effect of the increased unit premium from here, but now we are in the round of claim payments, so that's why you see an increase of the claims -- the loss ratio in the first half compared to last year's first half.

Q - Masao Muraki {BIO 3318668 <GO>}

Understood. Thank you.

Operator

Thank you. So the next question has been submitted by Ms. Tsujino, J.P. Morgan.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you. So, I'd like to look -- I was looking at the details of the underwriting profit and for the domestic natural disasters, I see a number, JPY35 billion for the FY16 first half results and then you said that for the full-year you are forecasting JPY50 billion. So with this amount, I want to confirm, with the six months incurred losses YTD is this what it is representing? Is this the amount?

And also, if you can note on the past development of the incurred losses, is there some kind of a reversal from this that is impacting this fiscal year's numbers? If there is an impact, I'd also like to know if that was reflected in the forecast at the beginning of the year or not?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. Thank you, Ms. Tsujino, I'd like to answer the part about the natural disaster. Let's confirm the facts, first of all.

So, first of all, the amount of incurred loss up to the first half of this fiscal year YTD is JPY35 billion, but at the beginning of the fiscal year we had forecasted JPY43 billion. Having said that, we'll keep the number as we go through the second half and also add JPY7 billion from the Kumamoto earthquake that happened in the first half. And ultimately, that's included in the JPY50 billion for the full-year.

I'd also like to note regarding this JPY50 billion, it includes, first of all, the typhoon number 18 that happened in October and then later the Tottori earthquake, which independently individually are not that great in scale, but we do need to account that. And we also have the normal snow damages at a scale of a few billions of yen, which we don't know how it will develop in actual. So, because of these uncertainties we have a bit of a buffer in our forecast; it's a little bit conservative.

Regarding the past developments of incurred losses, we again have a few billions of yen here. This is basically regarding the typhoons that happened basically in the first half. But when we look at the fire insurance, the normal loss ratio, the loss ratio is actually improving, so we can absorb it into with our -- we can absorb it with our normal level of loss ratios. And that's why there is basically no impact to the earnings results.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So you are saying that this was not reflected in the plan at the beginning of the fiscal year, but you can absorb it into the JPY50 billion that you are announcing? And so, that's why you are saying there is basically no impact to the earnings results?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, exactly.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you.

Operator

Thank you. Now we'd like to hear from Mr. Otsuka from Nomura Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Hello? I am Otsuka from Nomura Securities and I have two questions. The first one is regarding page 18, the combined ratio. It seems like you are trending better than your expectations here, but maybe it is a fact that not just you, but the other players in this industry, aim at a target of somewhere around 95%. So, even compared to that it seems like you are showing a lot of profit exceeding your targets. Does this mean that we should be cautious of the reduction in the premium rates, mainly the automobile industry?

My second question is regarding the impact of the negative interest rate policy. On page 20 you have the business of the domestic P&C and you show a graph that says domestic bonds down JPY200 million. So, is there any impact to the interest and dividend income for the domestic P&C business?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you, Mr. Otsuka. So, first of all, regarding the combined ratio, the business plan is to bring it to the level of 95% or less and actually we already achieved this in the previous mid-term plan. So in this new mid-term plan that we have announced and have commenced from this fiscal year, we are saying roughly 92% to 93% or 94%. Maintain this level is the plan. So, of course, we need to achieve our plan at least.

But when you look at the current situation today, we are improving more than this. So, I guess, the question is, what is the definition of 95% or less? Is it 91% or 92%? Regardless of the definition, we know that we need to maintain the current level.

In terms of the rate revisions going forward, one that we have already penciled in into our plans is the revision of the automobile rate from January 2017. And when we do this we will look at the conditions and make detailed adjustments, increase the rate, reduce the rate; we will make all these adjustments, but make sure that overall the rate is flat.

And beyond that we don't have any specific plans for rate revisions, but as you see in the papers, we are seeing a penetration of advanced safety vehicles. And if this actually leads to less car accidents and if we see that reflected into the statistics, then there is a possibility that we may reflect that phenomenon to our rates.

To your second question regarding the impact of the negative interest rate policy, the impact to our domestic bonds is -- will be at the level that you described, Mr. Otsuka. If we actually look at our calculation at the beginning of this fiscal year, we showed you the data. And when you look into it, for the P&C business, because of this decline, the impact to the interest and dividend income will be around JPY1 billion. And for Himawari Life, again the impact to the interest and dividend income will be around JPY400 million to JPY500 million. So, for first half, theoretically, you will see JPY500 million for the P&C and somewhere around JPY200 million for life insurance. That's the calculation.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Well, understood. Thank you.

Operator

Thank you very much. The next question comes from Mr. Watanabe, Daiwa Securities.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

This is Watanabe, Daiwa Securities. I have two questions. First of all, on page 22, you talk about the catastrophic loss reserve reversal. JPY34.5 billion was the assumption, but it's revised downward to JPY17.8 billion. I know that CSI has increased, but other than that, is there another reason why this reversal has increased? That's my first question.

The second question is about your policy of shareholder return for this fiscal year. The total payout ratio was set at 50%, but this year you are conducting major M&A, so the lower limit would be 30%. But during the teleconference of M&A you told us that the previous year's number will be used as a reference, so the adjusted profit even if it fluctuates a little bit, which is the foundation of the shareholder return, can we expect that the shareholder returns will not be impacted that much?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you very much for your question. Regarding catastrophic loss reserve, how it's included in the full-year forecast? The biggest impact is coming from the fire and allied line. As far as fire and allied is concerned, for net premium written, the impact of a front-loaded demand was much higher than expected. So, we included a higher number, which means that provision had to come down to some extent and also the reversal had to be applied more widely. That explains most of the changes.

And your second question about shareholder return. First of all, I would like to say that the general framework of our policy remains unchanged. So the total payout ratio during this plan period is still at 50%. And we will be looking at a dividend yield. We will focus on stable dividend. We will also look at the market and the stock prices and conduct stock buybacks, so the basic policy remains unchanged.

Impact of M&A is basically the same as what we had explained on the 5th of October during the teleconference. One thing that I can add is that, since the teleconference, we have not received any information from the rating agencies about any possible rating or outlook changes, so that means that we are maintaining our financial soundness.

We will be entering the closing period and we will continue the review and also look at the performance landing. And on the 5th of October, we did say that we will be aware of the total return from the previous year, so we will base our final decision on these factors.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

It's very clear to me. Thank you very much for your answer. Thank you.

Operator

Thank you very much. Next question comes from Mr. Niwa, SMBC Nikko Securities.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you. Net premiums written of domestic P&C and the mid-term plan, these are the two questions.

Regarding domestic P&C, page 14 shows information about others and liability insurance. And it seems that the number is weak or the expansion rate has slowed down during the first half. I thought new type insurance was a growth area or growth business, so how do we interpret this number or these numbers?

As far as the review of the mid-term plan is concerned, I saw the press release. I want to confirm your thinking behind this. The upside is a JPY40 billion to JPY50 billion. Now, this is a combination of Endurance and just over JPY10 billion of consumption tax I think. Based on this understanding, I think the upside should be larger than this. So, in terms of positive drivers and negative drivers, can you maybe explain these numbers in greater detail?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you very much, Mr. Niwa. Net premiums written for new type insurance, that's your first question. As you can see, for the new type insurance in general there is an increase of JPY1.7 billion, but for liability insurance there is a negative number, JPY1.3 billion. For liability insurance, the contract or the policy is growing very nicely, but for this term there was an impact during the first quarter.

The Japan Obstetric Compensation System had good loss ratio last year, which means that we have a good result return this year, which has a negative impact. But this is actually good for profitability. So please consider this a positive phenomenon.

And for new type insurance, it's JPY1.7 billion, so which means it's growing by several percentage points, JPY3 billion. And this can be explained by the fact that we have a package product such as Business Master Plus for small and medium enterprises, which is growing very nicely.

As you may know, among large enterprises and small and medium enterprises, the penetration rate seems to be still small although. So we believe that there is still room for growth. And after the completion of the M&A procedures as a next step we will be leveraging the strength of Endurance.

Next question about the mid-term plan, the numbers that were disclosed today. Let me try to respond to your question. You mentioned numbers JPY40 billion for Endurance and also consumption tax about just over JPY10 billion. You understanding is correct as far as these numbers are concerned.

Originally, we had the range of JPY180 billion to JPY220 billion and in the previous IR meeting, the management said that JPY180 billion is a must-achieve target. So, if everything goes according to plan, our plan should achieve JPY230 billion. So where does this range come from? Well, during the planning period, yen was not as weak as it is now. So this is due to the uncertainty of the market and also, although we have not reached any conclusions yet, over the next several years we don't know how the natural disasters would develop. There are certain uncertainties which have to be reflected, so JPY220 billion is a must-achieve target and JPY230 billion should be achievable if everything goes according to plan.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you. I have one question about liability insurance. In Kyushu prefecture, there was a construction incident and I wonder it will have a significant impact on your Company or not? Could you please provide me with the guidance?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you. We do not talk about specific issues as such, but regarding the event that you have just mentioned, we do not believe that it will have a significant impact on our forecast. I will not talk about specific incidents, but please look at the name of the company and if you think they are closely related to us, maybe the impact is not zero. That's my answer.

Q - Koichi Niwa {BIO 5032649 <GO>}

It's very clear. Thank you very much.

Operator

Thank you very much. Next we have Mr. Majima, Tokai Tokyo Research Center.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you. I have two questions. First is about catastrophic loss reserve reversal. It had positive contribution from fire and allied, but the reserve is actually lower with automotive business which has a negative contribution. So, why is this reserve decreasing? It doesn't make sense. Net premiums written is increasing, loss rate is worsening; and why is this happening? What is the factor behind this?

Second question, you mentioned that Endurance M&A will be completed by the end of this fiscal year and it will be consolidated. FSA for the new fiscal year says that they will be focusing on monitoring -- strengthening monitoring for overseas M&A of domestic P&C business. This is post-merger monitoring, so I don't think it involves the approval this time, but I'm just wondering whether anything is happening in terms of approval at FSA, or other than FSA, are there any hindrances or barriers that you have identified in the last month or so? Thank you.

A - Yukinori Kuroda {BIO 19776286 <GO>}

With regard to your first question about automobile insurance catastrophic loss reserve, for this first half we are looking at the return loss ratio. And for automobile insurance, this number has actually improved by 1 point from 59.2 to 58.2 and that is why the reversal is decreasing.

With regard to your second question about M&A procedure of Endurance, since the procedure is currently ongoing I'm unable to disclose any details. But since we reported to you on the 5th of October up until today, we have not identified anything that we feel we need to report to you. So that means that it's going smoothly and at the latest [ph] by February, or at the latest by the end of fiscal year, we should be able to complete this procedure.

You have mentioned that FSA is moving, but they are looking at pre-merger, as well as post-merger situations and let me just say that we are responding to both situations appropriately.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you very much.