Y 2015 Earnings Call

Company Participants

- Shiro Sasaki, Group Leader

Presentation

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From the Corporate Planning of Tokio Marine Holdings from the IR Group my name is Sasaki. Let me now explain the overview of fiscal 2014 results and fiscal year 2015 projections of Tokio Marine Holdings, which was announced today.

We are providing the following six documents for this meeting. One, function [ph] report; two, information about major subsidiaries' business results full year ended March 31, 2015; three, PowerPoint document entitled overview of Fiscal '14 results and fiscal '15 projections; four, supplemental material for conference call; five, financial supplemental data and six, Tokio Marine & Nichido Life introduction of Market Consistent Embedded Value.

I ask you to access the website, then and from the home page under topic, access the page where we disclosed these materials and get your own copy via download. In this conference call, we will be using mainly the PowerPoint documents for the overview and projections as well as the introduction of MCEV to give you a presentation for about 35 minutes first.

Now please turn to page three of the overview and projections PowerPoint document. First, I will explain about the consolidated results overview. Net premiums written was JPY3,127.6 billion year-on-year, plus 8.9% increased by JPY256.9 billion. This is mainly because of increase in premium income and domestic P&C business centering around auto insurance, expansion of underwriting of international insurance business as well as positive impact brought by the progression of yen depreciation.

Next, life premiums of domestic and international life business was JPY220.4 billion year-on-year, minus 41.7%, or a decrease by JPY157.6 billion year-on-year. Life premium decreased because of increase in surrender of variable annuities, formally sold by Financial Life associated with the recovery of the market environment.

On the other hand, revenue growth in Asia was favorable and we are seeing growth both with new policies and policies in-force by TMNL, excluding the factor of surrender with variable annuities, life premium achieved growth.

Ordinary profit was year-on-year, plus 30.5% increased by JPY83.7 billion of JPY358.1 billion. Net income was year-on-year, plus 34.4% increased by JPY63.3 billion to JPY247.4 billion, which are both the highest in corporate history. The impact of the reduction of deferred tax asset owing to the decrease in corporate tax rate is JPY30.1 billion, which is a one-off profit reduction factor.

On the other hand, we also had one-off factor for pushing up the profit such as less tax burden with the liquidation of securities subsidiary and booking of DTA at TMNL, which was not formally done by Tokio Marine Financial Life. The plus and the minus factors offset each other.

Next, I will explain the consolidated ordinary profit. Please turn to page four. Of the domestic P&C business at Tokio Marine & Nichido Fire, there was increase in net provisions for catastrophe loss reserve. On the other hand, there was increase in earned premium mainly for auto and saw less natural catastrophes as well as increase in dividend payment from overseas subsidiaries. As a result, ordinary profit increased by JPY117.5 billion.

At Nisshin Fire, there was less natural catastrophes and decrease in net incurred losses for major lines of business. As a result, ordinary profit increased by JPY12.9 billion. Due to the above mentioned reasons, domestic P&C business overall had increased in ordinary profit by JPY130.4 billion. I will explain the details later.

In domestic life business, we saw a rebound effect of the reversal of additional provisions for underwriting reserve at former financial life in fiscal 2013, which was a factor pushing a profit. As a result, ordinary profits decreased by JPY8 billion. In overseas subsidiaries, we saw the rebound effect of reduction in Thai flood related payment, which we had previous year and though -- although we had less than usual level of natural catastrophes in fiscal 2014, it was more than we had in 2013.

On the other hand, we saw progress in various measures implemented towards growth and enjoyed positive effect of the yen depreciation. As a result ordinary profit for the overseas business grew by JPY9.1 billion. For consolidation adjustment amount of negative adjustment increased by JPY48.3 billion year-on-year. This is because of increase in dividend payment from consolidated subsidiaries of TMNF, which led to increase in consolidation elimination. This is all for consolidated results overview.

Now let me explain about the overview of each company. Please turn to page five. First, I will explain about the overview of fiscal 2014 earnings Tokio Marine & Nichido Fire Insurance Company. First, I will explain about different factors for underwriting profit and loss. Starting with underwriting profit, for net premiums written, all lines of insurance increased their top-line, centering around auto line of insurance. NPW for private insurance increased 3.8%, or up by JPY63.7 billion. Excluding the impact of the reorganization of the U.S. branch as an overseas subsidiary, the increase was 5.1%.

Earned premiums increased by JPY48.8 billion, pushing up the earnings. Line by line situation is explained on page seven. Please refer to the page later. Net incurred loss of private insurance decreased by JPY79.8 billion and I will explain about each factor.

Net incurred loss relating to natural catastrophes occurred during the year decreased a lot by JPY54.1 billion year-on-year compared to previous year, when there was a major impact when the snow damage in February of 2014. Due to the reorganization of the U.S. branch as an overseas subsidiary, amounts of provision for reserve for foreign currency denominated outstanding claims decreased and thus making as less FX sensitive. Therefore, although there are a progression of yen depreciation required provisioning for foreign currency denominated outstanding claims reduced by JPY3.1 billion.

As for net incurred loss other than natural catastrophes, there was decrease in net incurred loss for the other lines of insurance by JPY22.5 billion. Business expenses increased by JPY20.2 billion due to increase in agency commissions associated with revenue growth and consumption tax hike.

Next I'll explain about the catastrophe loss reserve. In fiscal 2014, there was progress in claims payment related to the February 2014 snowstorm. For the fire group line of insurance claims payment, which is the basis for reverse of catastrophe loss reserve, there was drop in those ratio for Fire line of insurance, which led to lack of reversal of catastrophe loss reserve, but rather an increase in provision to the reserve.

In auto insurance, there was less reversal due to the improvement in auto loss ratio. As a result net provision to reserve increased by JPY25.8 billion. As a result underwriting profit for the term increased by JPY73.1 billion to the JPY59.9 billion. Underwriting profit excluding the impact of catastrophe loss reserve was JPY124.8 billion year-on-year or plus JPY99 billion.

Next I will talk about net investment income and others. Mainly due to the increase in dividend payment from overseas subsidiaries, net investment income increased by JPY45.9 billion to the JPY202.5 billion. The business-related equities sold in fiscal 2014 was approximately JPY112 billion. Most of the dividend income from overseas subsidiaries are eliminated on consolidated basis.

On top of the above mentioned increase in underwriting profit and investment income, there was reversal of deferred tax asset due to corporate tax rate reduction and decrease in tax associated with liquidation of securities subsidiary. As a result, net income increased by JPY94.4 billion to the JPY185.3 billion.

Next I will explain about the combined ratio. Please turn to page six. I will now explain about the E/I private line of insurance basis loss ratio. In fiscal 2014, natural catastrophe related claims payment, auto insurance profitability and net incurred loss for other lines of insurance, other than those related to natural catastrophe all improved. Making net incurred loss including loss adjustment expenses decreased by JPY79.8 billion. As a result, private insurance, earned-to-incurred loss ratio improved by 6.6 points to 58.5%.

Now I will explain about the expense ratio. Despite the impact of consumption tax hike due to increase in net premiums written and reduction in non-personnel expenses centering around IT cost, expense ratio remained flat from previous year to the 32.2%. As a result earned-to-incurred basis combined ratio improved by 6.6 points year-on-year to 90.6%.

On page seven, we are showing the line by line premium and loss ratio situation. On page eight, we are showing the details of asset management results. Please refer to those pages later. Now, I will explain about Nisshin Fire Insurance Company. Please turn to page nine. Nisshin Fire's underwriting profit increased by JPY13.1 billion year-on-year to JPY14.7 billion due to decrease in net incurred losses related to natural catastrophes and auto insurance.

As for net investment income and other mainly due to reduction in gain on sales of securities, net investment income decreased by JPY0.5 billion year-on-year to JPY2.6 billion. For the above mentioned reasons, net income improved by JPY9.2 billion year-on-year to the JPY12.5 billion.

Next, I will explain about Tokio Marine & Nichido Life Insurance Company, please turn to page 10. First, I will explain about annualized premiums. For new policies ANP due to favorable sales growth in the first-sector line of individual annuity -- first-sector line and individual annuity, new policy ANP increased by 20.1% and continue to secure high growth. For in-force policies ANP, it increased by 43.3% from the end of fiscal 2013 due to a steady increase in new policies in addition to incorporating Financial Life's policies through the merger with Financial Life.

Now I'll explain about financial accounting; net income increased by JPY17.2 billion year-on-year to JPY27.9 billion, mainly due to the recording of deferred tax assets of Financial Life, which was not formally done. As for core operating profit, it increased by JPY1.8 billion year-on-year to JPY23.1 billion mainly due to incorporating profit of fiscal 2014 second half associated with Financial Life policies through the merger.

Now I will explain about International insurance business. Please turn to page 11. Following the traditional disclosure standards used for IR materials, I will explain the performance of International insurance business based on the growth numbers inclusive of overseas expenses on TMNF, equity method companies and non-consolidated companies. Net premiums written increased by 21% year-on-year to JPY1,302.6 billion due to the progress of growth measures in each segment and depreciation of Japanese yen.

To break this down by region, first top-line in North America increased by 21% due to high retention rate as well as rate increases on the renewal book at Philadelphia and Delphi. In Europe, net premiums written declined by 2% primarily because Tokio Marine Kiln maintained underwriting discipline in the softening market. In South and Central America, the business grew by 23% mainly due to strong sales of auto insurance in Brazil. In Asia, thanks to the strong sales of auto insurance in Taiwan, Malaysia and India top-line grew by 16%.

In the reinsurance business, despite the softening of the market, net premiums written increased by 39% mainly due to expansion of non-cat business and an increase in multi-year policies.

For Life Insurance business driven by the sales growth in Singapore and Malaysia, top-line increased by 46%. Next please turn to page 12 to review adjusted earnings of international insurance business.

Adjusted earnings of international insurance business increased by JPY8.5 billion year-on-year to JPY145.5 billion. The decrease in reserves in FY'13 related to Thai floods is a negative factor for the year-on-year comparison and natural cat losses increased from a year ago, although the losses were still smaller than a normal year and yet various growth measures worked well and along with depreciation of Japanese yen pushed up adjusted earnings.

By region, in North America, adjusted earnings increased by JPY13.7 billion. Philadelphia expanded its underwriting and grew earnings despite an increase in natural cat losses, also investment income increased at Delphi.

In Europe, the earnings declined by JPY3.6 billion due to several large losses and cost increase for the integration of Tokio Marine Kiln in South and Central America, thanks to the strong sales of auto-insurance as well as improvement of expense ratio in Brazil, earnings increased by JPY4 billion. In Asia, earnings declined by JPY6.4 billion year-on-year, mainly due to the decrease in reserves in FY'13 related to Thai floods.

As for re-insurance, earnings decreased by JPY5.3 billion, due to the impact of natural cat losses and foreign exchange losses associated with stronger US dollar against euro. For life, earnings increased by JPY7.2 billion supported by an increase in new business in Singapore and change in market environment. For more details in Philadelphia, Delphi and Tokio Marine Kiln Lloyd's business, please refer to page 13.

Next, I will discuss the adjusted earnings on the group-wide basis. Please turn to page 14.

The group total adjusted earnings increased by JPY133.9 billion year-on-year to JPY412 billion, thanks to the significant profit growth in domestic non-life and life insurance business; adjusted ROE was 9.3%.

To explain major reasons behind this growth, first at TMNF, while on JGAAP net income increased by JPY94.4 billion over the year, adjusted earnings increased by JPY78.7 billion. The gap between these two is mainly attributable to dividend income from overseas subsidiaries, which is a positive factor on JGAAP, but deducted from adjusted earnings. For more details on the reconsideration of the numbers here, please refer to the table on page 32 later.

For our life insurance business, adjusted earnings are defined as the growth of EV over the term under review. At TMNL, EV growth due to the change in assumptions in FY '13 is negative on a year-on-year basis and yet in FY '14 risk discount rates was changed due to the change in interest rate and deferred tax assets was posted in conjunction with the merger with Financial Life. Reduction of corporate tax rate also helped to increase the adjusted earnings overall by JPY35.5 billion over the year. And adjusted earnings of international insurance business increased as I discussed before. This is the highlight of FY '14 actual results.

Now I will discuss the projection for FY '15. Please turn to page 16. In FY '15 consolidated net premiums written is projected to increase by 1.4% or JPY42.3 billion year on year to JPY3,170 billion. In the international insurance business, top-line is expected to decrease by 3.0% year on year, as there was a one-time benefit of increase in multi-year policies in the reinsurance business last year in addition to the impact of foreign currency such as Brazilian real and UK pound. However, on the domestic front, driven by the expected growth of TMNF by 3.1%, top-line of non-life business is projected to increase mainly in the auto business, so net premiums written for the group should grow.

Life insurance premium is expected to increase by 67.8% or JPY149.5 billion over the year to JPY370 billion. While internationally last year's top-line growth in Asian subsidiaries works negatively on year-on-year basis since surrender of variable annuities of former Financial Life is expected to decrease domestically, premium is expected to increase this year.

Consolidated ordinary profit is projected to decline by 2.3% or JPY8.1 billion year-on-year to JPY350 billion and net income is expected to go down by 3.0% or JPY7.4 billion to JPY240 billion, since we are assuming an average level of natural cat losses this year against the benign last year, both home and abroad.

And as I explained earlier in FY '14 reduction of DTAs due to decrease in the corporate tax rate was negative to our profit. On the other hand, liquidation and merger of our subsidiaries led to tax reduction and worked positively to our profit and these factors almost canceled off each other.

Next, let me explain major factors expected behind the consolidated (Technical Difficulty) please go to page 17. In the domestic P&C business, ordinary profit is expected to decrease by JPY21.8 billion year-on-year, since we are assuming an average level of natural cat losses against smaller losses last year and net provision for cat loss reserve is expected to increase in both TMNF and Nisshin Fire. In domestic life, due to the increase in new business expenses at TMNL, ordinary profit is expected to decline by JPY2.3 billion to JPY18.3 billion.

For international insurance business, ordinary profit is projected to go down by JPY3.7 billion to JPY151.4 billion since we are budgeting for a normal year natural cat against the benign year last year. As for consideration adjustment, negative adjustment is projected to become smaller mainly due to a decrease in dividend from subsidiaries at TMNF. FY '14 projections for the respected companies are shown in page 21 onward for your reference.

Please go to page 18 next. We will announce strategies, targets, and shareholder return policy under our new mid-term business plan in our IR meeting to be held on May 29. But in order to explain profit projections for FY '15, let me share with you new KPIs that we're going to use starting from this fiscal year.

To measure group-wide total profit, we will use adjusted net income, which is based on JGAAP net income, but with some adjustment to enhance comparability. We will also use adjusted ROE as a group-wide KPI. We calculate this ROE based on adjusted net income or it by making some adjustment to the consolidated net asset as a denominator.

In the meantime, for each business domain, we will use business unit profit to properly track progresses made in each business. To ensure consistency, profit of domestic life business will continue to be measured in terms of growth of EV during the term under review, but reflect its economic value more accurately, we will move from the conventional -- traditional EV to MCEV.

As this slide shows, as we move to adjusted net income and business unit profits treatment of sales gains of business-related equities and profit from domestic life will be changed. For detailed definition, please refer to pages 34 and 35 of this material.

So with that, let me explain the adjusted net income projected for FY '15 a group-wide profit indicator. Please refer to page 19. Adjusted net income in FY '15 is projected to increase by JPY3.7 billion year-on-year to JPY327 billion and adjusted ROE is expected to reach 7.8%. If we are to make a correction to last year's natural cat losses, which were smaller than a normal year last year and assume it was rather an average year just for the comparative purpose, then adjusted net income would increase by JPY28.9 billion this year.

Further as adjusted net income of previous fiscal years are to be also restated based on the actual stock price and exchange rates as of the end of March 2015, then adjusted ROE would increase by 0.2 points year-on-year this year.

Next, I will explain projections of business unit profits on page 20. Here I will explain major factors behind the projected business unit profit. TMNF, while we are assuming an average level of natural cat, net premiums earned are expected to increase mainly in auto and fire business. On top of that, the impact of DTA reduction due to the decrease in corporate tax rate as well as negative effect of weaker Japanese Yen will disappear this year. So, business unit profit is expected to increase by JPY16.3 billion year-on-year to JPY130 billion.

At TMNL, since we have moved from MCEV from FY '15, actual results for FY '14 is also shown based on MCEV on the slide. As I will discuss in more detail in FY '14, first DTAs at Financial Life was newly posted based on the merger; and second, assumptions changed due to decrease in corporate tax rate; and third, economic assumptions also changed due to rally in equity market and weaker Japanese yen.

As a result, MCEV increased significantly in FY '14. For FY '15, since the one off positive factors last year are expected to disappear and value of new business expected to decrease with lower interest rate, MCEV is expected to decline by JPY99.7 billion year-on-year to JPY70 billion.

As for international insurance, business unit profit is expected to go down by JPY18.5 billion to JPY127 billion, mainly because natural cat losses were small last year. However, excluding the effects of special factors such as natural cat and also foreign currencies, profit is expected to grow at an underlying trend.

Before I conclude my presentation, I would like to briefly talk about MCEV. Please refer to another material or PowerPoint material entitled Tokio Marine & Nichido Life, introduction of Market Consistent Embedded Value. Please refer to the other material.

As I just mentioned, we will move from TEV to MCEV to more accurately reflect the economic value of our domestic life business. This material is the summary as to why we are introducing MCEV as far as the results of our calculations. Final version of this disclosure with more details is scheduled to be released on May 26 with an independent third-party's review. In the interest of time, I would like to just give you a highlight here today.

Please refer to page one. Let me briefly explain to you as to why we are introducing MCEV. As stated in the second paragraph of this slide, MCEV reflects risk and option embedded in the products more accurately than TEV that applies same risk discount rate to all the products.

And MCEV is more compatible with our ALM, based on market value than TEV. So based on our view that MCEV is a more effective approach for our ERM, we decided to introduce this methodology this fiscal year.

Let us next review the results of MCEV calculation on page five. As of the end of the fiscal year 2014, MCEV was JPY1037.3 billion, out of that adjusted net worth was JPY693.7 billion and value of in-force business was JPY343.6 billion and value of new business was JPY68.6 billion. Comparison with TEV is also shown on the slide for your reference later.

Next please move on to page nine. Here we are showing MCEV from March 2015 to -- March 2014 to March 2015. After adjustment MCEV increased from JPY867.6 billion as of end of March, 2014 to JPY1037.3 billion in March 2015 by JPY169.7 billion. This increase is mainly due to one-off positive factors. As shown from 10 through 12 on this table, MCEV increased by JPY43.6 billion due to economic variances and JPY21.9 billion due to lower effective tax rate in conjunction with the corporate tax rate reduction and by JPY16.5 billion based on the impact of merger with former Financial Life. This concludes my presentation.