

Q3 2017 Earnings Call

Company Participants

- Kiyoshi Wada, Group Leader, Corporate Communications & Investor Relations Group

Other Participants

- Kazuki Watanabe, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings FY 2017 Third Quarter Financial Results Conference Call. Please be advised that during the presentation, all the lines other than the speakers' line are put on mute. Also, this conference call is being recorded.

Before we begin, let me remind you that the presentation contains forward-looking statements based on current projections, and they entail risks as well as uncertainties. Actual results may differ from current projections.

With that, I would now like to hand over to Mr. Wada.

Kiyoshi Wada {BIO 19963983 <GO>}

My name is Wada from the IR group of Tokio Marine Holdings. Let me explain about Tokio Marine Holdings overview of fiscal 2017 third quarter results and full-year projections, which was announced today. I would like to use the materials available at the website from the home page under Topics. I would like to first give you a presentation for about 15 minutes, then welcome questions afterwards.

Now, I will explain about the outline of consolidated financial results. Please turn to page 3. As for net premiums written, due to the expansion of underwriting at both domestic and overseas markets as well as progression of yen, it grew 7% year-on-year or plus ¥176.8 billion to ¥2,715.7 billion. Life insurance premiums increased due to increase of in-force policies at Tokio Marine & Nichido Life Insurance Company and depreciation of yen at overseas, et cetera, and grew 6.8% year-on-year or increased by ¥43.3 billion to ¥676.4 billion.

Profit declined due to increase in net incurred losses relating to natural catastrophes at domestic and overseas markets, and impact of large losses at Tokio Marine & Nichido Fire. Consolidated ordinary profit declined by ¥78.5 billion to ¥237.2 billion, and net income was ¥159.3 billion. As a result, adjusted net income which excludes the effect or provision for catastrophe loss reserve, amortization of goodwill and other intangible fixed asset decreased by ¥81.5 billion.

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Next, let me explain about the overview of ordinary profit. Please turn to page 4. In the domestic non-life insurance business, underwriting profit worsened due to increase in net incurred loss relating to natural catastrophes, as well as the impact of large losses at TMNF. However, net investment income such as dividend income from overseas subsidiaries to TMNF increased, which made ordinary profit increase year-on-year by ¥4.4 billion.

At overseas subsidiaries, though we feel (00:03:57) progression of yen depreciation, there were large natural catastrophe losses relating to hurricanes in North America and deterioration of foreign exchange gains, and saw a decrease in profit by ¥29.4 billion. As for consolidation adjustment, due to increase in dividend income from overseas subsidiaries at TMNF, negative adjustment increased by ¥53.9 billion year-on-year.

Let's now turn to adjusted net income. Please turn to page 5. Adjusted net income decreased by ¥81.5 billion to ¥238.4 billion. Reconciliation from statutory accounting basis net income to adjusted net income as well as movements from last year, are as described on the slide.

Next, let's look at domestic non-life business. Please turn to page 6. Net premiums written was year-on-year plus 1.8% or increased by ¥24.2 billion due to increase in premium with auto insurance as well as other lines of business. Please refer to page 8 for line by line details. Net incurred losses increased due to natural catastrophes as well as due to large losses, and increased by ¥83.5 billion year-on-year.

Business expenses increased by ¥4.8 billion due to increase in agency commission associated with increase in net premiums written. Catastrophe loss reserve provision was reduced by ¥8.1 billion to increase in reversal associated with hike in loss ratio of auto and fire lines of insurance. As a result, underwriting profits decreased by ¥58.8 billion to the ¥40.8 billion.

Please refer to the details on net investment income on page 9. Investment income increased by ¥62.7 billion year-on-year to ¥209.2 billion, mainly due to increase in dividend income from overseas subsidiaries. Dividend from subsidiaries is eliminated along the consolidation adjustment and its impact is net neutral to group's consolidated financial earnings. Total amount of business-related equities sold during the term was ¥93 billion and gains from sales of equities was ¥72 billion. As a result, net income of the term increased by ¥8.5 billion year-on-year to be ¥201.5 billion.

Next, I will explain about the combined ratio. Please turn to page 7. E/I combined ratio for private lines of insurance rose by 4.7 points to be 62.5%. This is due to increase in net

incurred losses relating to natural catastrophes and impact of large losses. Expense ratio declined by 0.2% to 32.0%, mainly due to an increase in net premiums written. As a result, E/I combined ratio in private lines of insurance rose by 4.5 points to the 94.4%.

Next, I will explain about Nisshin Fire. Please turn to page 10. Underwriting profit of Nisshin Fire declined by ¥2.4 billion over the year to ¥2.7 billion. This is mainly because, while net premiums written in the fire and specialty line of business increased, net losses incurred related to natural catastrophes increased. Net investment income and other increased by ¥0.8 billion year-on-year to ¥1.5 billion due to increase in gains on sales and redemption of securities. Accordingly, net income became ¥2.6 billion, down by ¥1.1 billion year-on-year.

Next, let us review the performance of TMNL. Please turn to page 11. New policy ANP declined by 8.7% year-on-year due to the sales suspension of long-term saving products. However, excluding long-term saving products, new business grew by 0.8% year-on-year. ANP of in-force policies increased by 3.8% over the year due to an increase in new policies.

Under JGAAP, net income decreased by ¥0.3 billion over the year to ¥11.4 billion, while net provision for underwriting reserves decreased due to the revision of standard interest rate. Provision for contingency reserves increased and sales gains of securities that we recorded last year were not repeated this time around. And core operating profit was ¥23.8 billion, down by ¥0.2 billion year-on-year.

Next, I will discuss international insurance business. Please turn to page 12. Net premiums written in the international insurance business grew by 18% year-on-year due to progress of growth measures implemented in each business as well as depreciation of Japanese yen. If we break this down by region, three group companies in North America grew their top line by 16% in total due to rate increases in renewal book and business expansion. Europe also grew their top line, driven by business expansion at Tokio Marine Kiln.

Growth in South and Central America is mainly attributable to expansion of auto business in Brazil. And Asia also achieved growth based on increased stakes in an Indian operation and growth measures pursued in each business. Reinsurance declined mainly due to the absence of increase in multiyear policies recorded last year. Life insurance grew their top line, driven by depreciation of Japanese yen.

Next, I will explain business unit profit of international insurance business on page 13. Business unit profit declined by 34% year-on-year to ¥41 billion, mainly due to the large nat cat losses related to hurricanes in North America and foreign exchange losses, despite the progress of growth measures in each business and weaker Japanese yen. Please also note that the impact of large nat cat events such as hurricanes in North America, are reflected on the actual performance of each region.

To give you the breakdown by region, North America grew by ¥2.3 billion. While there were negative factors such as large nat cat events in the Philadelphia and TMHCC, investment income increased at Delphi in addition to the absence of investment losses realized last year and (00:13:17) in Japanese yen was also a positive factor.

Europe and Reinsurance declined significantly mainly due to large nat cat events and deterioration of currency translation gains and losses. However, Asia grew its profit based on profitability improvement in each group company in addition to the increasing stakes in the Indian operation and reserve release. Actual performance of three companies in North America is included on page 14 for your later reference.

I will now explain full-year projection of FY 2017 on page 16. As U.S. tax reform bill passed the Congress late December last year, its impact will be reflected in our FY 2017 numbers. This tax reform impact was not factored in our revised projections that we announced in November last year, and its impact on FY 2017 numbers is material. We decided to revise our projections just to reflect the effect of this tax reform.

The impact includes: takedown of deferred tax assets or liabilities in conjunction with lower corporate tax rates as well as one-time repatriation toll tax on retained earnings of foreign subsidiaries. But it is that former element that is more relevant to our company's numbers. Our DTL is bigger than DTA. And mainly because of the takedown of the DTL, we revised upwardly the projection of net income attributable to owners of the parent by ¥50 billion to ¥280 billion.

We did not revise our full-year projection on adjusted net income, but the impact of the U.S. tax reform on adjusted net income is estimated to be approximately ¥10 billion. The magnitude of impact here is smaller compared to JGAAP-based number, because takedown of the DTL related to intangible fixed assets is excluded from adjusted net income in its calculation. This concludes my explanation today.

We would now like to open the floor for Q&A session. Thank you very much for your kind attention.

Q&A

A - Operator

Thank you, Mr. Wada. Now, we would like to start the Q&A session. Now, the operator will be explaining how to ask a question among the Japanese participants.

The first question will be from Mr. Muraki of Deutsche Securities. Please start your question.

Q - Masao Muraki {BIO 3318668 <GO>}

My first question is regarding page 12, regarding the top line of the overseas subsidiary. As of the January 1 Reinsurance renewals, the numbers are shown. And in your Reinsurance business as well as in North America and European businesses, what is the implication for the premium for fiscal 2018? What is your outlook based on the reviewed rate? So, that is my first question regarding the insurance.

The second question is about next fiscal year. The reduction of the corporate tax to be imposed on the three U.S. subsidiaries, I'm trying to magnify its impact. The initial profit plan was ¥124 billion. And if the tax rate is (00:18:02) then that means the consolidated profit is going to be pushed up by ¥27 billion.

However, there are some municipality bonds which you invest (00:18:17) tax exempt. And also, what you call as REIT or BEIT - if BEIT (00:18:24) is introduced, then I'm sure there will be some impact to the Reinsurance business coming from the BEIT (00:18:31). And so, on a net-net basis, what will be the profit impact - positive impact to the profit coming from those tax reforms?

A - Operator

My name is (00:18:53) from International Business Development. I would like to answer your first question. In our international insurance business and as for the refreshed rates, right now we are still in the process of collecting information and we - how much the market has hardened depends on the loss - impacted contracts as well as no impacted contracts and other contracts. And so, we have not been able to grasp the comprehensive situation about the rate changes.

But regarding the Reinsurance business which was under your question, I believe the impact is a change. It was rate increase in the first half of the single-digit in the Reinsurance business. And as for the primary underwriting business in North America, it is still the same range; the first half of the single-digit. Because of the overcapacity situation versus our expectation, the market hadn't hardened as much as we expected. That concludes my answer to your first question.

My name is (00:20:01) from Corporate Accounting of Tokio Marine Holdings. I like to answer your second question. In fiscal 2018 and after, after the corporate tax rate is reduced in North America, the tax burden is going to be less by about ¥18 billion and also due to BEIT (00:20:24) impact, as you mentioned, in our case from the U.S. subsidiaries. And there are some Reinsurance being seized through the overseas companies. However, due to the arrangement of each of those contracts, there is not expected to be any impact coming from the BEIT (00:20:43)

Regarding the second point, if I do the - no, it's not doing a simple calculation and coming to the answer. The municipality bond investment you have done before, it was not fully taxed and is not part of the reason, because my assumption was ¥27 billion, you say it's ¥18 billion. So there is a difference by about ¥9 billion, and that difference comes from those tax treatments on bonds.

Q - Masao Muraki {BIO 3318668 <GO>}

And also in the primary underwriting business, the rate increase is single digit, but that's a wide range. And so, in the Reinsurance, it is in the first half of the single-digit. But versus Reinsurance, what is the rate situation regarding the primary underwriting? Can you narrow down the range of the percentage that hardened for the primary underwriting business?

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A - Operator

My name is (00:21:39) again. As for the impact of the lesser tax burden, yes, the municipality bonds and also there were other bonds which were tax exempt, and that is where the difference is coming from. And also, this ¥18 billion of impact I mentioned, this is based on the taxable income of 2016. That concludes my answer.

Regarding the second point about the primary underwriting business, especially surrounding property business - centering around properties, I would say, the rate increase was in the midpoint in the single-digit range. Thank you.

Next questions are from Tsujino of JPMorgan. Over to you.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Yes. Now, domestically, at TMNF, there is A4-sized material, the big material on Excel sheet. When I look at earnings, there is loss ratio, excluding nat cat. On a cumulative basis, on the third quarter, if I make a year-on-year comparison by line, it has actually increased quite a bit. Up until the end of the second quarter, the loss ratio actually did increase. So I believe that the impact is lingering from the end of the second quarter and from a different perspective.

From underwriting profit, if I actually exclude nat cat events and also takedown of the cat loss reserve, as of the end of the first half, I believe that there was a deterioration by about ¥40 billion. And also, on a cumulative basis as of the end of the third quarter, I believe that there was a deterioration of about ¥47 billion. So on the underwriting side, is it fair to say that deterioration trend up until the end of the first half is still lingering into the third quarter? Is my understanding correct?

A - Operator

My name is (00:24:04) from Corporate Accounting Department of TMNF. Your question is with regards to loss ratio - first off, with regards to loss ratio on an incurred basis on year-on-year basis. Because of the large loss events and also net scale (00:24:22) events, there has been some negative impact which were primarily recorded in the first half of the year primarily already.

And looking at this October through December period, to some extent there has been some losses. However, the majority of the losses which has resulted into the deterioration of loss ratios were due to the losses we incurred by the end of the first half of the year.

Yes. I believe that ¥10 billion (00:24:53) worth of deterioration was certainly witnessed in the third quarter, however.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Is it because some unique insurance were offered and results of those unique insurance products were deteriorating? So, should we expect that this negative situation would

actually continue, or is it primarily because of some unlucky events perhaps because of fire events?

A - Operator

So, it is in the magnitude of some dozens of billions of yen. And of course, it would have been great if we could actually see the improvement on a year-on-year basis; however, that wasn't the case. So this is a little bit concerning (00:25:46). So, how shall I actually make sense of this deterioration that we witnessed in the third quarter this year?

Once again, (00:25:53) from Corporate Accounting Department of TMNF. To your question, of course, if I look at the year-on-year comparison, of course you probably get the impression that the performance is deteriorating quite significantly. However, last year the loss ratio was actually quite benign and also good even based on a historical standard, and that probably is the reason why you believe that the loss ratio this year seems to be deteriorating. Certainly, some small losses have been incurred. However, there is no strong correlation amongst these events. So, these are rather one-off events.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Now, looking at the underwriting profit which is also deteriorating, of course the provisioning of the unearned premium policy reserve - depending on how you actually do that provisioning, the numbers would actually look quite differently. However, these are actually now the noise (00:26:56) factors that are affecting the (00:26:58). Is my understanding correct?

A - Operator

Now, up until the end of the third quarter, the trend that we have observed is - in particular, looking at the outstanding balance of the policy reserve, based on the recent trend we have actually used the simplified approach in doing the provisioning calculation. And therefore, I don't think that we have actually observed a material change or changing trend in the third quarter.

However, as we go towards the end of the year, because of loss ratio last year was rather benign and also good, I believe that there was actually - and also because the loss ratio is actually increasing this year, I believe that the provisioning amount should actually decrease this year.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I understand. We believe that you'll be able to do some catch up toward the end of the fiscal year.

A - Operator

Yes, that's our assumption.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Okay. Understood. Thank you.

Operator

Next question is from Mr. Watanabe of Daiwa Securities.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

My name is Watanabe from Daiwa. I have two questions. My first question has to do with the adjusted net income for the fiscal year. Due to the tax reform in the United States, I believe there will be a positive impact by about ¥10 billion, but the original target was ¥315 billion and now is it that ¥325 billion that you can revise (00:28:35) And also what is the timing of booking this? Would you be doing this at the end of the fourth quarter?

And also the second question is about the natural catastrophes overseas. If you have the actual numbers as of the end of the third quarter, please let me know?

A - Operator

My name is (00:29:00) from Corporate Planning of Tokio Marine Holdings. First, I'd like to answer the question regarding the tax reform, and adjusted net income is going to have an upside by about ¥10 billion. And due to the tax reform, we are expecting about ¥10 billion increase in profit. And as for the plan, as Mr. Wada just explained, compared to the statutory accounting basis profit, the impact to the adjusted net income is going to be less. And so, we have not made any changes to the annual fund for the adjusted net income.

My name is (00:29:42) from Corporate Accounting of Tokio Marine Holdings. To your second question about the natural catastrophe or current situation overseas, the impact to the statutory accounting profit on pre-tax basis is about ¥62 billion. So, this means year-on-year increase by ¥42.5 billion.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Okay. Thank you very much. About the timing for boosting the impact of the tax reform and the refreshed profit, when would that be?

A - Operator

This is (00:30:12) again from Corporate Planning. Yes, your understanding is correct, at the end of the fourth quarter. Thank you.

There seems to be no questions at the moment. The next question is from Ms. Tsujino of JPMorgan. Over to you.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Sorry. Well, the numbers that you have announced today include nat cat losses incurred overseas from January through September. However, when it comes to bushfire in

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California, how much is the impact? If you have the number, please share that with me.

A - Operator

My name is (00:31:42) from International Business Development Department. With regards to bushfire in California which actually occurred in and after (00:31:52) October, which is essentially the results to be announced as part of the Q4 results. Of course, there were two bushfires in north and south, and the impact is expected to be some billion yen respectively. So in total, it's just a little more than (00:32:14). Is that right?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Well, thank you.

Operator

There seems to be no questions. So Mr. Wada, over to you.

A - Kiyoshi Wada {BIO 19963983 <GO>}

Once again, thank you very much for participating in Tokio Marine Holdings FY 2017 Q3 earnings call today. If you have any further questions or if you need further clarification, please do contact us. Thank you once again for your participation.

Operator

With this, we would now like to conclude Tokio Marine Holdings' FY 2017 third quarter earnings call. We thank you for your participation. This is the end of the call. Thank you.

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