Analyst Meeting - Business Plan

Company Participants

- Kengo Sakurada, President
- Koichi Narasaki, CEO of Digital Business
- Masahiro Hamada, Group CFO
- Mikio Okumura, Group Co-CSO
- Osamu Nose, Head of IR and Finance Department
- Unidentified Speaker, Unknown

Other Participants

- Hideyasu Ban, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Anlayst
- Koki Sato, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Unidentified Participant, Analyst
- Wataru Otsuka, Analyst

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

I am Kengo Sakurada, Group CEO of Sompo Holdings. Good morning, ladies and gentlemen. Thank you very much for taking time out of your busy schedule to attend our IR presentation today. The goal of today's presentation is to help you deepen your understanding on our new medium-term management plan, MTMP, that commences from this fiscal year. As Mr. Nose mentioned earlier, we have the owners of each of our businesses present today. Following my part, they will provide presentations by each business on points of your strong interest. We will also have the Q&A session, and you will be able to ask questions on all the businesses.

Please turn to Page 3. Here I have listed three points of the new medium-term management plan. The first one is our purpose, simple purpose and SDG's management. In the midst of calls for a shift from shareholder capitalism to market stakeholder capitalism, I believe it is important to firmly define the values that Sompo provides. Instead of simply advocating those values as taglines, we must properly raise economic value through solving social issues. In other words, we believe it's important to monetize.

Next is steady profit growth and evolving our unique business model. We will build the real data platform as the source of uniqueness, as indicated by the logo of Sompo amplified by RDP. We'd like to deliver new solutions to society through RDP based on the strength of our existing insurance and nursing care businesses. I will provide a more detailed explanation later. But with the real data platform, we would like to provide new solution to solve social issues, and that is the core of our purpose.

The third point is management targets and shareholder returns. First of all, we are targeting adjusted consolidated profit of JPY 300 billion or more and ROE of over 10%. These were set as medium- to long-term targets in the previous MTMP, and we will strive to achieve them over the next three years. With regard to the important shareholder return policy, we have decided to increase the ratio of dividends to total payout while maintaining the basic policy of raising dividends in line with profit growth.

Please turn to Page 4. This is how we view the external environment in formulating the new MTMP. Among the many challenges that society will face in the medium to long term, the most significant ones that Sompo should address now what we have experienced under COVID-19, the new normal that we confront globally. The challenge for Japan, which is aging society.

We then formulated the new MTMP by back casting the plan, while envisaging the social changes that could occur in the decades ahead. By examining what is going to be happening in the next few years. And by back casting we have set up the new business plan. At the bottom of the slide, we've highlighted four key words that management should be aware of. Based on these, we held a series of questions, discussions on what the value creation story for Sompo should be. The following page show the purpose that we agree on. Please turn to Page 5. Sompo's purpose state realize a society where people can enjoy their lives in health and prosperity by building a theme park for security, health and wellbeing. This is our purpose, our rezone trap.

As you have realized, we do not use the word insurance. The values that Sompo will deliver to the society are shown in red in the bottom half of the page. We've identified three values, which reflect keywords such as risk, health, diversity and society, and seven priority issues. I would like each and every one of our employees to be aware of these purposes and value we provide to society and own them and to feel that they are appreciated by customers and are making contribution to the society through their daily work. This will lead to sense of fulfillment for the employees.

This will also lead to the employee's personal values. And customers, which should sample a second turn on. Through this virtual cycle, I believe the value of Sompo to surety will be recognized and in turn, the value of the company will be enhanced. Please turn to Page 6.

Titled Sompo's Challenges illustrate the path we have taken and the path we will pursue in the future. The red area indicated at the very bottom of the diagram is the DNA of Sompo and it represents the social value that we have been delivering since our founding, which is to protect people from risk. Illustrated in green is the nursing care business.

Over the past five years of operation, there are many things that happened. We had more and more opportunities to receive direct feedback from our customers, which has increased our sense of being of service to society, particularly for the employees at the front end. There is also heightened awareness and interest to Sompo, thanks to our business in nursing care. Our new challenge is to build RDP, real data platform. At present, we are exploring what will be possible with RDP in all of our businesses. Some of these ideas are already under consideration for building a commercial case. In the new MTMP, we will steadily implement measures in each of these areas to create the social value that Sompo will deliver and move closer to achieving our purposes step-by-step by showcasing the evidence and also track records.

Please turn to Page 7. The following is the snapshot of what we have done so far in terms of corporate value. The horizontal axis is profitability and the vertical axis is growth expectation. From a financial perspective, the XY axis represent ROE and PER and the products position is priced to book in the middle. Currently, unfortunately, Sompo's positioning is at bottom left, less than 1x in PBR. The great mission of the new MTMP and subsequent business management is how we can shift our position to upper rate, specifically raise price to book. There will be two directions.

The first is the thick blue arrow, which is the approach to steadily increase the profitability of existing businesses, primarily the insurance business and ensure their stability. So the approach will be scale and diversification. The gray line with the steeper slope is to build on the existing business while raising the group's growth expectations with RDP at the core. So this approach is called the creation of new customer value. The important thing here is to convince everyone that this future growth will be achieved with certainty. I would like to explain this in more details later. So there is the enterprise value that creates social value. And at the end of the day it will lead to profit. And as a result, it will lead to greater market cap. So this is the process that we would like to pursue. This is what we will be doing with conviction. The two approaches and the synergetic effective use approaches would dramatically enhance the corporate value, which is a strategy that leverages Sompo's uniqueness in the world that no other company can imitate.

Please turn to Page 9. I will now explain the new MTMP in more details. First, I'd like to reflect the achievements of the previous MTMP in terms of management targets. During the previous MTMP, the business was severely affected by natural disasters in Japan and overseas. However we were able to contain the impact to a certain extent by improving the resilience of the growth business portfolio and implementing appropriate reinsurance strategies. In fiscal 2020, which was the final year under the previous MTMP, our adjusted consolidated profit reached a record high of JPY 202.1 billion, with an ROE of 8%, achieving our management target and largely fulfilling our promise to investors. With regard to shareholder return, we've continued to hike dividends and have steadily increased the total payout to our shareholders responding to their expectations.

Please turn to Page 10. This slide summarizes the major achievements under the previous MTMP. I will not touch on individual measures. But I will say that we have made very strategic moves to improve both the resiliency of our business portfolio and our future growth potential. We've also implemented transformation that would drive the quality of evolution of the group. Now as a group, we feel that we are on the verge of realizing a theme park for security, health and well-being.

The next page gives an overview of the new MTMP. Please turn to Page 12. This slide shows samples purpose in the context of the new MTMP and the overall picture of the new midterm management plan. In order to utilize our purpose, we have formulated the new MTMP to over the next three years. The goal in three years is to realize our concept of the port for security, health and well-being. We will pursue three management strategies to achieve our goal. They are scale and diversification, creating customer value and new work style.

In the following pages, I will explain the management targets, basic strategies and the group's business foundation in order. Please turn to Page 13. Let me start with the management targets for the entire group. The most important KPIs for us, adjusted consolidated profit and adjusted consolidated ROE. And as I mentioned at the outset, they were set as mid- to long-term targets from the previous MTMP. We will be aiming for over JPY 300 billion and for over 10% for fiscal '23. We have also set new targets to improve the resilience of the group's business portfolio, improve the risk diversification ratio compared to fiscal 2020 and aim for a steady overseas business ratio of 30% or more. As these newly set targets. In addition, as RD strategy target, we aim to generate external sales and profit of products and services in at least two businesses by fiscal 2023.

Please turn to Page 14. This page shows a list of KPIs that form the basis for management targets by cascading them into the group targets to individual businesses. So this is the first time that we are communicating our KPI to the investors in this manner. We would like to share our KPI and with high transparency, we would like to manage our business.

Our policy is to thoroughly manage the progress based on these KPIs and take appropriate measures as necessary. As I said earlier, we will continue to share the achievement status of these KPIs so that investors can grasp the progress of the medium-term management plan. I will now go through the three core strategies that I mentioned earlier. The first core strategy of the new MTMP is to achieve further resilience by pursuing scale and diversification.

As I explained at the beginning, the Sompo Group will enter a new stage of challenges, and institute great challenges. It is paramount that we further enhance the profitability and stability of the core insurance business and to firmly underpin the foundation of the group's growth despite the rapidly changing environment. The KPIs for the insurance business are listed here. We will do our best to achieve them with the leadership of Mr. Nishawa, the owner of the domestic P&C business. We will continue to exploit M&A opportunities with discipline as we have been doing so to date, mainly for the overseas insurance businesses. In Ag right, we'll continue to lead the M&A strategies for the group.

Please turn to Page 17. As for domestic P&C business, Mr. Nishisawa will be explaining this directly. So I'm not going into the details. But after FY 2019, we have started to work on the earnings structure reform. We are assuming that the results to appear during the medium-term management plan. Please go to Page 18. Also about the overseas insurance, our CEO of SI, Mr. Okumura will be talking to you from New York. So Sompo International will be focused on the acquisition of the underwriters and the rate increase as well as the Board-owned M&A and to grow the top line and they are growing much higher than the peer groups. So we assume that their efforts will be realized during this medium-term management plan.

Page 19. As a result of those efforts in FY 2023, we would like to achieve more than JPY 300 billion adjusted consolidated profit. We item business portfolio more diversified so that we can improve the profitability and stability. This will lead to the improved resilience of the group as a whole.

Page 20 shows our RDP, that is the second core strategy that is new customer value creation. This is the very core of our RDP's tactics. So what do we want to achieve with RDP. This is something that I'm trying to describe on this slide. Now the basis of the RDP is to take advantage of our strength of Sompo that is the top player of the insurance business and the nursing care business and to utilize the real data that we can gain from our businesses and know-how. Those are not virtual data, but the real data and how to utilize this data. And also to handle the data, and we have the leading partner Palantir Technologies, so we can combine these technologies with real data. And by doing so, we can develop solutions.

If we can improve the profitability with those bots, we would like to provides to external parties as a software solution on the subscription basis, and so that we can generate profits. And ultimately, we'll be working with outside players. So centering around Sompo and affiliated companies. We can be a hub and we can create the ecosystem so that we can make a contribution to resolution of the social issues. And as an operator of the ecosystem, we would like to realize medium- to long-term profit growth. So that is the overall picture of the RDP plan. And right now, the scale of business is expected to exceed JPY 500 billion in the medium to long term. This could complement the insurance business or could replace the insurance business in the future. This could be one of the major pillars for us.

So here, we are describing the five sectors that we are currently studying. It shows the overview as well as the road map and what we'd like to achieve in three years. In the area of the nursing care, as I discussed this previously. In the final year of the medium-term management plan, that is fiscal 2023, we would like to generate external sales and profitability. In the area of the disaster prevention and mitigation, we have a knowledge at Sompo Japan and data and we have a partner, one concern. So by utilizing their know-how, we would also like to generate external sales and profitability in FY 2023. The details will be discussed by Mr. Nagasaki, the CTO.

Now Page 22. This has done with the new work style in order to heighten the sense of accomplishment and satisfaction of our employees. It's not just promoting the remote work or telework. We need to reform the corporate culture and to change the work style and also evaluation system and so forth. And for that, there are three core values that are listed here. And by realizing those each one of the employees will be able to feel the sense of mission and fulfillment and will be highly engaged and take advantage of their expertise autonomously. We will be able to give more power to the employees' diversity. So that this would lead to the new value creation. So this is the last core part of our strategy. This is something that we'll be working on as a management strategy.

Now Page 24. Now let me talk about the group management foundation, which will be supporting the three core strategies. First is to improve the capital efficiency. The goal of medium-term management plan is to achieve ROE of 10% or higher, the adjusted consolidated ROE.

So from the risk and return perspective, we want to accelerate the allocation of the capital and achieve the higher capital efficiency, which goes beyond the capital cost. More specifically, since the beginning of the holding company, we have reduced the strategic holding stocks by JPY 1.2 trillion, and we will continue this reduction. And as for the HUMIRA Life, the interest rate risk we have expanded the purchase of the ultra-long-term bonds to JPY 300 billion per year and this would lead to the lower risk. And also we would utilize the surplus capital for the growth strategy and also improved return to the shareholders.

Next page, this has to do with the allocation plan of the capital. We'll be investing about JPY 600 billion for the growth areas in this management plan. Now in terms of the scale and diversification, we will be considering the overseas M&A, which can contribute to the profitability and stability of the profit in the short term and in the area of the new customer valuation, we'll be looking into capital allocation to the RDP and Healthcare, which can contribute to a medium to long-term group's growth.

On the right-hand side of this slide, we are showing you the ESR target range, which is changed to 200% to 270% during this new medium-term management plan. Now between our risk model and the risk model of the rating agencies, there are different recognition of the distribution effect. So this is in order to avoid any impact on the ratings. Now with this new target range, even after the investment for the growth of JPY 600 billion, we will be able to achieve high capital efficiency as well as financial health. And as for the growth investments, we will be conducting them in a disciplined manner project by project. If the ESR exceeds the upper limit, then we would consider active shareholder return when it exceeds 270 level.

Next is the shareholder return. We are changing the policy so that it will be easier for the investors to understand. More specifically, we are thinking of 50% of the adjusted consolidated profit as a base return. And as the profit and income growth during the medium-term management plan, we will be steadily increasing this base return. In addition, if the ESR level exceeds the upper limit of the target range for the -- all the time.

If there are some time when the profit declines temporarily, we would consider the additional return. And as for the balance between the dividend and share buyback, we'll be more focused on the dividend payment. More specifically, as the profit grows, we would like to increase the dividend payment and increased percentage of the dividend out of the shareholder return. So as we focus on the capital efficiency, we would like to continue to provide attractive return to the shareholders. So please continue to watch us.

Next page shows the SDG management, which is extremely important from the sustainable growth perspective. This is going to be something that we'll be working on in a full-fledged manner. More specifically, in order to realize the purpose, we will be setting up the materialities or KPI vis-a-vis the social challenges and strategies and actions, and they will be incorporated into a management framework. The Sompo's strength is the achievement that we made in terms of the contributions to the SDGs through our major businesses of insurance and nursing care. By taking advantage of those strengths and combining the real data and the network with the stakeholders, we'd like to act as a platform to realize the social transformation and to generate the social value and continuously improve the corporate value. That is to say to generate the social value and that will lead to the profit for us. And as a result, that would lead to the higher market cap for the company.

Page 29. In a sense, the most important thing is governance. Already, we have a BoD, which has a number of the outside directors. We have a governance structure where the BoD supervises execution. I myself in the Nomination Committee and the Remuneration Committee. So the outside director of BoD actually does the supervision. In the area of the execution, as we made the press release, the new CEO of Digital business and the SVP of the Healthcare business were nominated so that we are ready to generate businesses, which can contribute to our growth in the medium to long term. Also, we have the Chief Digital Marketing Officer, now who will be in charge of the overall data marketing across the Board.

Please turn to Page 30. Now in terms of our governance major change is this one. This is the new press release. This is the new CEO of overseas insurance and reinsurance business. As I mentioned at the beginning, from now on the overseas business percentage will be higher in terms of our consolidated profit. So the emission of the overseas insurance will be even more important. So as we made the press release, that currently, we have a CEO, who is a joint Chairman, who will be replaced with Mr. James Shea, as a new CEO of Overseas Insurance and Reinsurance business. Mr. Shea at AIG and Zurich that is the global insurance companies. He has built a very rich career.

The corporate insurance also, he was the CEO of the insurance company. In the six countries, he worked and through those experiences, You learned the importance of the diversity. And also, he has a strong sense of crisis about the digital technologies and also He has a lot of expertise in there, the retail business. So as our new CEO of the overseas insurance and reinsurance business, we believe he is the best choice for us. Now Mr. John Chairman had a very great leadership. So with that, the top line of the overseas business has grown to JPY 1.3 trillion or USD 12 billion, and we have been growing much faster than our peers. So from now, under new CEO, Mr. Shea, who has a global perspective, we would like to evolve our overseas insurance business to the next level. And with that, I'd like to end my part of presentation. Thank you for your attention.

Osamu Nose {BIO 4205216 <GO>}

Thank you, Mr. Sakurada. Next, regarding the domestic P&C business. The presentation will be delivered by Mr. Nishisawa. Over to you.

Unidentified Speaker

My name is Nishisawa. Thank you for having me today. So I'd like to talk about our medium-term management plan for Sompo Japan. I will start from Page 32. First of all, I'd like to look back at the previous midterm plan and the five years of it. Around 2017, in particular, there were tremendous environmental changes that we felt. So we changed the extension of our plans. And for 2019 and 2020, we looked out into the future, and we decided to codify our business foundation and engage in structural reform. Especially for structural reform, we engaged in sales network reform and earnings structure reform.

Moving on to Page 33. First of all, regarding adjusted profit in the previous midterm plan, at the beginning of the medium-term management plan, the numbers that are shown here were what we were upholding. However many things happened then after. There were downward pressures of approximately JPY 69 billion against the downward pressure. From the second half of the midterm plan, we engaged in earnings structure reform and approximately JPY 47 billion of a boost was realized and due to COVID-19, approximately JPY 41 billion of positive impact was seen. And as a result, in fiscal 2020, we were able to reach JPY 130.1 billion.

Moving on to Page 34. Next, here are the specific earnings structure reform measures that were taken. First of all, for all of the prices for pricing and underwriting, we thoroughly did a review. There was some pain at the top line, but we engaged in reform in a dynamic manner. As you can see, for pricing, we were able to see an impact of JPY 11.2 billion and JPY 11.4 billion for underwriting. We also believe that we -- the number of people were reduced by 4,070 people. And JPY 9.4 billion was the impact we saw that's equivalent to 2,480 people. In fiscal 2019, JPY 9.9 billion and JPY 32 billion in 2020 were the numbers where we were able to realize that both exceeded our initial expectations.

Turning to Page 35. Here is the other piece of the structural reform, which is the sales channel structure reform. Looking at the left-hand side chart, depending on the size of the agent, when they are less than JPY 100 million in size, top line has been declining. Of course even if they're small, some are still in the growth phase. There are some of those types of agents to a certain degree. But in order to be chosen by the customer and to continue to grow, we do believe that quality needs to be enhanced from a headcount point of view as well as from a training point of view, and you do need a certain scale for this to happen. For us, from fiscal 2017, we have been in dialogue with our agents from a quality perspective and have been boldly pursuing cancellations and consolidations, and we have also focused on training.

As a result, as you can see in the graph in the middle, the structure changed from approximately 41,000 agents generating JPY 1.9 trillion in sales in fiscal '16 to 27,000 agents generating sales worth JPY 2.1 trillion in fiscal 2020. So we were able to go through a large transformation. And as you can see on the right-hand side, as a result of our efforts to date, the number of agents that are JPY 500 million or more in size increased by about 19%. And for agents that are less than JPY 100 million in size, they went down by 38%. So we have been able to establish a new high-quality agent base.

Turning to Page 36. The structural reform of the sales network has also led to better quality. As you can see, the sales network reform was conducted and we have been engaging and enhancing the quality of our insurance claims service division. And for automotive, satisfaction surveys by J.D. Power, as you can see here, we became number one compared to all companies.

Starting from Page 37, I start my explanation about the new medium-term plan. First of all, the Vision Mission brand slogans are shown here. The three pillars of the new mid-term plan are acceleration of growth strategies, improved resilience and a stronger business base. The key to accelerating the growth strategy will be to leverage marketing and digital transformation in order to build a system to promote sales. While the key to improving resilience will be to achieve a combined ratio of 91.7% by completing the earnings structure reform that we have been working on since the previous midterm plan. For solidifying the business foundation, a stronger business base, all the initiatives here are important. But the update on the core system is something I would like to refer to later on.

Next, please refer to Page 38. First, here's the profit plan under the new medium-term management plan. Excluding the impact of COVID-19, the adjusted profit for fiscal 2020 is -- was approximately JPY 90 billion. Although there was some downward pressure, such as the -- we did engage in earnings structure reform. In fiscal 2023, we are going to aim to achieve JPY 150 billion or more in adjusted profits. And for nat cat loss, in fiscal 2020, we were expecting JPY 67 billion in the initial forecast. However during the new medium-term management plan, we are expecting JPY 84 billion.

Next, please turn to Page 39. So this is the first pillar of the three pillars, which is the acceleration of top line. In the previous five years of the midterm plan, we achieved top line growth and there was some impact for decline in revenue. However CAGR resulted at plus 1.4%. In the new midterm plan, we are anticipating a CAGR of plus 1.5%, which is on par with the previous midterm plan. So with a high profitability, we believe this can be achieved. And turning to Page 40. Therefore, for the top line plan in the new midterm plan, this is something that we believe we must achieve.

We will employ additional growth strategies so that we could add on several tens of billions of yen of top line, so that adjusted profit can be boosted even further. Specifically, the items raised at the top will be addressed whether it be DX, marketing strategy promotions and developing a newly setting agents as well as launching new products with high profitability as well as developing new markets and so forth.

I'd like to particularly talk about marketing and digital transformation today. Please turn to Page 41. So we have been inviting especially from outside from last year. And from this fiscal year, for Marketing division and DX division was newly established. The department was established digital marketing, including CRM and marketing automation. Things like market survey product development, advertising PR branding in collaboration with high-quality, fast-growing sales agent is something that we are going to embrace in order to build a selling mechanism.

We have already started the marketing POC trials for automobile insurance business in Toyama Prefecture and Kochi prefecture. For example, looking at the sales of riders for driving recorders in Toyama Prefecture, it increased by 7x compared to the previous monthly average. In Kochi, it increased by 6x. And also in Toyama prefecture, the near fleet, our new auto policies increased by 22.9%. In Kochi prefecture, it increased by 23.3%. So we were able to see a very good effect. We will have to monitor if this is one-off or sustainable, and we will be analyzing the result of test marketing. And gradually, we will be expanding the geography and also product lineup.

Please go to Page 42. As a mid- to long-term growth strategy, we are already embarking on a new area. Autonomous driving, mobility disaster prevention and mitigation. And for all of these, they have a great affinity with the insurance business. In each of these domains, we would like to establish a business model that generates profit and also strike synergy during the course of this new midterm business plan.

Please turn to Page 43. The second pillar is to raise resilience. This is about the earnings structure reform. We are optimizing the pricing, and we will continue to try to optimize the pricing for all of our product lineups. In particular, with the auto policies where the accident rate is decreasing, we're expecting some price cut. But on the other hand, for fire policies, we are assuming some price hike. And also in terms of underwriting, to date, we have been monitoring a large 400 corporate policies in terms of monitoring as high lose policies. But by using AI and planters analytical technologies, we will be monitoring around 8,000 contracts, including the SMEs. We have already completed the targeting, and we have started this initiative from April. So this monitoring scale will be enhanced.

In terms of product improvement, with DX division, we will continue to utilize IT, and we will be reducing the nonpersonnel expenses and also reducing headcounts by 2,600 people. And regarding the workforce optimization, we believe this will be feasible through natural attrition stemming from the difference of -- between the number of people retiring and also new hiring. As you can see in the middle, compared to 2020, we expect improvement of JPY 57 billion approximately.

Page 44, please. So thanks to the result of earnings structural reform, in the past, compared to the others, our combined ratio was far behind. But around fiscal '20, it has been improved to the level close to the peers. Compared to company A, there is a difference in the reinsurance programs. And also the impact of the natural catastrophe will be different due to this factor. But reconciling for this, the combined ratio is very close to the peers. And also in the new midterm business plan, We would also enhance our combined ratio to achieve 91.7%. And as I mentioned earlier of achieving incremental top line growth, we would like to further lower this 91.7% as an internal target.

Page 45, please. In terms of the earnings structure reform, we have optimized pricing and also optimize underwriting. This is reflected in the improvement in loss ratio. Please refer to this later at your convenient time.

Page 46, please. This is about sophisticating and penetrating the ERM. Now today I want to talk about the management of the top two risks. The first one is the natural catastrophe risk. And going forward, as we grow the top line, we will also sophisticate our ERM so that we can have the optimal reinsurance protection and appropriately control the not yet risk. And also regarding strategic shareholdings, we will continue to reduce other stock holdings, and this policy remains unchanged. However in our case, and the risk amount of tesa stock holdings have been scaled down to a certain level. And also under the current low interest environment, the dividend income from equities is also quite substantial. So from a comprehensive judgment, We are aiming to reduce the stock holdings by JPY 50 billion per year in total JPY 150 billion in three years.

Page 47, please. The third pillar is a stronger business base. We have been renewing the core system. We have already renewed the system base and common base of products to a large extent. In March 2021, we were able to release the first personal accident product. And leading into fiscal '25, we will be releasing a new product in steps. So the new system, as you can see, we are using the open system and also have been building the API linking function. And regarding the size of the new system, it's about 1/5 compared to the previous one, the product development cycle can be reduced by 50%. And also particularly for fiscal '23, in our main product in the auto poses, we will be launching new products. So going forward, our productivity and profitability will be enhanced significantly through this new system.

Page 48, please. This is the last slide. This is the list of the KGIs in the main KPIs. It's self-explanatory. But as I have explained earlier, we have an internal stretch target. We will be aiming for incremental top line growth. We would also like to aim for incremental profit growth. After this internal stretch target, we have mandated the budget to the different divisions and initiatives have been underway. So we would like to achieve this target. So this will be the end of my presentation. Thank you very much for your attention.

Osamu Nose {BIO 4205216 <GO>}

Thank you, Mr. Nishikawa. Next is overseas insurance. Mr. Okumura, the speaker, will be joining us remotely from New York. Mr. Okumura, please.

Mikio Okumura {BIO 15901852 <GO>}

Yes. Thank you for the introduction. I am the CEO of Sompo International. My name is Okumura. Before we start the presentation, our -- Mr. Sakurada, our CEO, said that as for the succession of a joint Chairman, in the past 1.5 years, I have worked with them. So I'd like to make some additional comments. Maybe you know that the John was in the insurance business in the past 50 years. So half a century he was in the underwriting and the management of the insurance company. In comparison to the others, commercial P&C and the reinsurance usually is very much independent on people.

In Western countries, it is often the case that the people follow teams. So the succession plan of John is something that after he joined the Sompo, during the five years of a contract period, the timing of the succession and the skill and experience of the successors. Those are the things that he carefully considered. Wanted to have a very smooth transition, and I was actually looking at what he was doing. And last week, at Atlanta as management members gathered and had to have a management meeting.

In that meeting, Jiang himself talked about the succession plan, and he explained the background behind it. So after joining Endurance, in 2013, the premium tripled. In 2017, he joined the Sompo Group, and the premium doubled. In the commercial area, it exceeded JPY 1 trillion. As for the strategies, SIH the retail companies are now under it and truly integrated overseas platform foundation was built. And Endurance becoming the Sompo family from 2017, John has promised to realize this. So from him, this foundation, and he said that it needs to be enhanced and grown so that goes to the next level. That was the kind of message he sent to the management team. So I myself as a management team member, we'd like to work together with other team members and together with a Jim, the successor, like to work closer with him to drive and lead the overseas insurance business. So with that, I'd like to start the presentation of overseas insurance medium-term management plan. Please go to Page 50. Now on this page, we are looking back at the midterm management -- the previous midterm management plan.

On this slide, one word I can say is the growth at higher scale and the disciplined underwriting. So we are showing those, too. On the left, if you look at the graph, you see that before the acquisition of the Endurance compared to the 2006, gross written premium has doubled. In terms of CAGR, 23% increase was seen. So 23% of our growth was achieved. And at the same time, on the right-hand side, there's another graph. And excluding the cat and COVID, we're showing the combined ratio at the end of 2020, it will -- it has a little less than 90%. Of course we have to talk about the cat and COVID later on.

In addition to the numericals, as you can see at the bottom, we have expanded our underwriting team, and we had the bolt-on M&A strategically. Through those efforts, we have sold the Cs for the future. The expansion of the scale is, together with the strong financial foundation, the underwriting capability, strong underwriting capability was one of the factors to realize this.

Now let me move on to Page 51. Here, we are looking at last year. Due to the COVID-19, there are -- were a series of challenges. And here on this page, as you know, last fiscal year, there was a COVID-19 impact and underwriting and investment lower than our budget forecast. But as you can see on the left-hand side in the graph, despite this -- the headwind, we saw the -- many new written premiums, which also the rate increase was higher than the market, and we achieved 50% growth, as you can see here. As you see on the right-hand side, the COVID-19 and capital risk, we had a very disciplined and good underwriting. The risk management and risk control was done very well. So a strong final foundation. So the impact on the shareholders' equity was relatively small. And until now, we have been continuously worked on the management and clear wording and changing of the portfolio. Those were reflected on those numerical numbers. But if you look at on the left-hand side, in fiscal 2017, starting with the second half, the rate increase or pricing increase cycle started. This cycle we took advantage of it. And after fiscal '17, every year, we realize the price increases. From '17 to 2020, cumulatively, 57% of price increase was realized. The bottom right shows the strategic achievements. First fiscal year, despite the COVID-19, the flow of the people was controlled, but still, we realized the acquisition diversified and the strategic area, that is a crop insurance area, we have grown to the leading scale in the industry.

Now let's move on to the 52. Here, we are looking at the story of the operating income expansion during this medium-term management plan in the waterfall chart. As you can see from fiscal '20 to '23, mainly the underwriting income will increase so that overseas insurance business will grow. As for the investments, due to the expected inflation, there are some changes of the interest rate, but lower interest rate is likely to continue. So we have a conservative (inaudible), as you can see. Now expanding the margin is to achieve our plan and to lower loss ratio and acquisition costs and others. Let's look at the graph on the left-hand side, the bottom, we're showing the pricing improvements driving margin expansion is the overall overseas insurance business. Now as for the key operating income assumptions, please look at the bottom right.

So as assumptions, the price increase is about 11%. But in Q1, the price increase as a -- the market as a whole, the growth has slowed down, but our recent number is actually much higher than 11%, at least more than the increase of the local cost, we can realize the higher pricing. So combined ratio as a result in fiscal '23, it'll be than 90%. That is our expectation.

So here, I'd like to talk about expected cat, if I may. Underwriting and the improving profitability and portfolio management and controlling the limit, we will be controlling the capital risk. In 2021 and onwards, our expectation is the natural disasters and catastrophes will stay at a high level. That is our assumption. The cat load or losses are estimated based on that. 2021 compared to the year before, about JPY 20 billion plus cat load is added. So we have a conservative plan. And also the direct insurance, we have a diversification in terms of the region and the property risk diversification. So brokers and distributor channels will be diversified, and we would diversify regionally. So we will be expanding those regions, and that's what we have been trying to do. In the reinsurance, we use a model for each line or business, and we conduct the pricing based on that. In the claims and the reserves, we will work together so that we can increase the touch point or look at the aggregate limit or lower that aggregate limit.

So to realize a certain level of top line and to replace the portfolio. And as a result, global cat underwriting portfolio or the percentage will coming -- will be coming much lower. Also thus, to work with Sompo Holdings and at the (inaudible) level and the group level and the monthly and the quarterly, we are monitoring (inaudible). And based on that, underwriting, policy and the holding policy and assume -- assumption policy, all of them will be reflected so that we can manage the limit well. So all of those efforts will be considered as a monitoring factor and so that we can stabilize our income. So we like to enhance profitability through underwriting and also manage cat risk appropriately so that we can stabilize our profitability.

Please turn to Page 53. Here on this slide, we talk about our growth prospects for the commercial P&C business. On the left-hand side graph, we show the expectations for gross written premium. We expect that both gross premiums and net premiums are expected to go up by JPY 300 billion. Before, we were expecting 23% growth. But this time around, we are expecting the growth rates to be close to 10%. But in this forecast, inorganic growth is not included. Therefore, to a certain degree, I would say that the nature of this expectation is conservative. Active risk-taking and capital allocation was referred to by our CEO earlier. We would like to ensure that we don't miss any more M&A opportunities.

On the right-hand side chart on Page 53, by taking advantage of the rate cycle, this talks about higher retention. We have been increasing prices that exceed loss cost, and underwriting profitability has been enhancing as a result. By having a disciplined capital policy, we have -- we will proactively increase group retention.

For the bottom part of this slide talks about strategic priorities that support our overseas business strategy. Last year, we acquired a diversified, and we will promote integration with it, and we will also focus on process automation to enhance customer service and also use data and technology to enhance risk management and investing to our employees. That is our largest asset as well as places for them to develop.

Please turn Page 54. On this slide, by reinforcing underwriting, the improvement on loss ratio as well as scale expansion and better expense ratios by managing costs is shown here. On the left-hand side graph, we talk about pricing and portfolio replacement. Excluding cat and COVID impact, the normal loss ratio currently is around 50% plus. And from fiscal '21 onwards, we are expecting even more improvement in the loss ratio.

Then looking at the right-hand side of the expense ratio, acquisition cost as well as G&A cost is included as items. The 2020 level was around 26%. Due to COVID-19, there was one-off cost reduction items. However from fiscal '21 onwards as well, retention is going to steadily increase, and we will go through steady growth, but we will also manage costs appropriately so that we could have industry leading expense ratios, which will be the source of our advantage. So this is the last page of the overseas division.

On Page 55, I would like to explain about the overseas retail businesses. Currently, overseas growth is driven by developed markets, commercial P&C business. However over the medium to long term, we would like to capture growth opportunities in emerging markets and diversify risk as well as profits. For last fiscal year, we were impacted by COVID-19. And looking at relatively large markets, Turkey and Brazil, currencies largely depreciated.

As for Brazil, we saw a onetime deterioration in profitability. However even under COVID-19, during fiscal 2020, we continue to implement initiatives to make improvements and engage in reform. For Brazil, (inaudible), the retail CEO, went to Brazil to ask the CEO and CFO of Brazil to step down, and a corporate executive from SIH has become a Board member of Brazil. And as we speak from the U.S., the person is participating in a management meeting that is taking place in Brazil. Going forward, the corporate members of SIH will ensure that we commit to emerging markets to support our retail companies. We will have and strive to have consistent governance and leadership in place. In the retail platform, from a performance and quality perspective, Turkey is the leader. Its underwriting methods as well as its innovative initiatives is something we would like to roll out.

We have been able to realize skill transfers. In fact, from Turkey to Brazil, there has been a person that was -- that is now stationed in Brazil to transfer the expertise around auto pricing from Turkey. Furthermore, work style reform under COVID-19 is something that Turkey has been working on. Specifically, under the remote working environment, they were striving to improve productivity per capita by utilizing data. This kind of initiative is something we would like to share between the retail companies so that we can realize a new work style. So for the overseas business, whether it be commercial or retail, we would like to pursue organic as well as inorganic growth opportunities so that we could be a core part of the company's growth strategy, which is strengthening resilience. That concludes my remarks. Thank you very much.

Unidentified Speaker

Thank you, Mr. Okumura. Last but not least, we have the presentation on digital and RDP. We will be speaking a few pages. Please turn to Page 69. Mr. Narasaki, please.

Koichi Narasaki {BIO 20083913 <GO>}

I'm the CEO of the digital business and also group CTO. I will be using the next few minutes to do my presentation on RDP and digital strategy. Please turn to Page 69. Group CEO, Mr. Sakurada, mentioned this slide as well. So we are presenting this again. The key point of this slide is that we are going to create new value. So how are we going to create new value for the customers? Looking at the left-hand side, you will see some post trend. With the insurance business and the nursing care business, we are the leading player in the market. We have customers' data, the business process. We are operating this on a daily basis. So we have a data from those operations. And every second, we have a huge amount of data that we can capture, and we will be capitalizing on the Palantir's platform to do analytics and also integration. That is the form of RDP.

In the center, you will see how we are going to improve the profitability by better efficiency and we are going to monetize through external sales of this service. On top of that, we will be using this as a platform to create the ecosystem that can cover the whole industry. So this is a 3-step process to create a huge and new value to the customers. And in creating new value for the customers, on top of that, we have social issues that we are addressing such as new normal and aging population. We would like to solve these issues by using RDP. We believe that this is going to be a true new value for the customers. And by doing this, we'd like to generate a revenue of JPY 500 billion over the medium term.

Please turn to Page 70. We are also showing this slide again. This is simply amplified by RDP. Currently, we have identified five areas of focus. Today I will be presenting mainly about nursing care RDP and as a disaster prevention mitigation RDP.

Please turn to Page 71. This is how we are creating the software business model. To begin with, with the insurance business and the nursing care business, we have real data as leading players in the market. As you can see at the bottom, bottom left, we have these (inaudible). Using this asset base, we have a vertical and horizontal development. And you can see the arrows in both directions. On the vertical side, we will be using Palantir and also other partners within Sompo Group. We will be utilizing their technology and expertise. And at the same time, looking at the horizontal axis, we have the Sompo's power to drive the businesses, the sales and marketing capabilities to our customers.

So this arrow is going to slide up to the upper right-hand side, and this is how to build a new business model. What we are trying to pursue, we indicate software business model, but one way to look at our business, is I think the financial institutions is almost like a software business. In that sense, the insurance business is offering a solution, i.e. protection. This is like selling the protection through the (inaudible) model. So in essence, I think we can see that financial services somewhat like a software business. We have been doing a data shipment business covering the security well-being, and we'd like to build a new business model leveraging on those factors. So this is strongly affiliated with the software business. The reason why we can do this at Sompo is because, as I have been saying, we have the real data -- we own the real data, and we have this proportionate advantage. And also, as you can see, about the top of this diagram, we have global partners who are very powerful and capable. So we will be working together with them to build our strength as a software provider. So this is going to be the horizontal arrow that we are going to pursue. This will be driven by Sompo driving force, accessibility to the market, the branding power and also sales and marketing capabilities. So those will be all compounded to pursue this direction. And also in order to give you an image of our business opportunity and also how we are going to monetize this, I would like to offer you more detailed explanation about RDP. Palantir is a platform, which we are using for RDP. It's called foundry, and this is going to be the foundation of a platform. This is almost like the pizza base.

On top of the pizza, we will be starting toppings, which will be the existing businesses we have and also technology of our partners and so our customer base and also expertise from third parties. So this will be like the sauce or the topping for pizza. And by building that all together, the ecosystem can get larger. So this is the basic business model for growth for RDP.

Please turn to Page 72. So on this page, we are talking about the nursing care multiplied by RDP. Let me briefly explain this. In the industry of the nursing care, as you know, it's a very labor-intensive and it's paper-based. The care managers providing cares, we are very much dependent on their instinct and experiences. So we are the leading number of the facilities, and also custom-made care is realized, and we are using the latest technologies, and we have been challenging all of those. So kind of an analog approach will be shifted to the digital. So the data asset that we can accumulate from this nursing care business is very powerful, and we fully recognize that. So by utilizing such data in the nursing care business, for example, the accidents, incidents, we can get the signs of it, we can improve the productivity and improve the QOL [ph] of the residents. So kind of solution models that we have been generating. Those solution models can contribute to the improved productivity for us, which we are already doing. But for the other peers, we can provide this as a subscription. We can external -- we can monetize through the external sales.

In addition to the nursing care, we can also collaborate with medical sector. So by realizing this overall ecosystem, the scale of it can be expanded. So this is a kind of a scheme that we like to realize. With this, as you can see here, the potential market size is about 100 billion, as you see on the bottom of this page. The aging society and the gap between the supply and demand of the nursing care is a social issue. So we can also contribute to the resolution of those social issues. And eventually, in the long run, we can apply this globally, that is to export this. That is also something that we can expect. So it has a very high potential, and we are currently working on this.

Now turning to Page 73. This is the second page of the nursing care multiplied RDP. So more specifically, what are we creating is shown here. Since last year, within our institutions, we are having the pilot or demonstration. Then by utilizing the data, we are improving the operation, and we can optimize the operation, and we have already proven that. You see the result one and two here. Demonstration result one is improvement of decision accuracy through data integration. What this means is that the voice of the field or front-line [ph] can be collected. So there are a lot of schedules, for example, care schedule. So as the residents and patients become higher in terms of the level of the care. And also, the care plan and the actual are quite different. So the level of the need of the nursing care probably needs to be changed, and it needs to be applied. So this is truly the data-driven nursing care and the improvement of the nursing capital. So this is something that we have already realized. And now this is possible with the foundry of the Palantir and the implementation of the RDP for the data are integrated. The residents and the next action can be seen at one glance.

So for example, the weight loss can be detected. And for example, last week, this patient had one of the teeth removed. And because of that, the -- she or he is eating less. So we can get those two data, and AI would detect it, and they can change the food to something softer from the solid. So the -- we can improve the actual care. This is something that happens on a daily basis. So a very quick and appropriate action can be made possible with nursing care multiplied by RDP. And also the prototype is being completed so that we can provide these to external parties -- to the external players of this industry. So we can create the peers and finding the early adopters who are interested in introducing this, and we have already approached those early adopters.

Page 74. Here, we talk about the disaster prevention and mediation and RDP. As you can see, the strength of Sompo, as I said, is 20 million client data from the domestic P&C. We also have the company's know-how and underwriting and also the accident data. We have decades of data. So this is -- the domestic P&C is the biggest business, and we have a huge asset. And also in terms of the natural disaster, we have a lot of data. So by utilizing this, we can provide, for example, predictive nursing care, and we can also predict the damages from the disasters. Other insurance companies are looking at after the disasters. But in our case, we can take preemptive measures by predicting the damages from the disasters. For example, in the case of earthquakes, since -- within 30 minutes, we can point out the damage of the different areas and how much support that they need.

So AI can calculate that. And as for the flooding, before 72 hours, before the flood occurs, we can predict it so that we can evacuate people and take measures preventively. So this has become possible. So as I mentioned, this is prevention and mitigation. One concern that is a Silicon Valley company is now our partner, and this makes it possible. And by using their technology, we can quickly evacuate people and also support those people who have difficulty evacuating. Right now, with the one concern through the partnership, the prediction model of the flood is being developed. So within three years, we will be able to provide the subscription-based services for the local governments.

Please turn to Page 75. This is my final page. Now to create the new customer value, the software business model is something that I have already explained. In order do this, those are the important factors. Sorry that this slide is very busy. Now the traditional insurance business in Japan is the origin of our company, but we are incorporating digital technologies and working with the partners through RDP, and we have built those experiences. So in order to generate the software business model, we are now seeing the necessary factors. Unfortunately, as you see on this slide, it's not all the factors that we have right now. But through the M&A, we can internalize some of the functions. And also, we can build a close partnership with other companies. Through those, we would like to accelerate and complement some of those factors that we don't have right now. So new model and a new social value and new customer value creation is something that we would like to realize. And with that, I'd like to end my part of the presentation. Thank you for your attention.

Unidentified Speaker

Thank you, Mr. Narasaki. This concludes the presentations from our side.

Questions And Answers

A - Unidentified Speaker

Next, we would like to move on to Q&A. Here's the first question. It's Mr. Muraki [ph] from SMBC Nikko Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

This is Muraki from SMBC Nikko. I have two questions. My first question is in the new midterm plan, rather than shareholder return, it seems that you're looking for and pursuing midterm growth. So from that point of view, my question is on Page 25, which talks about capital management. This time around, the target range for ESR was increased. You were saying because you would like to make growth investments and you would like to maintain your ratings, growth investments, if you were to make JPY 600 billion worth, generally speaking, valuation-wise, how much would ESR go down? What is your assumption? And for -- as a way of funding, for hybrid bonds, how many points would that be equivalent to? And if you were to sell Palantir, how much would that boost up ESR? That is my first question. Second question is, because we have with us Mr. Okumura from overseas, I have a question about the overseas business.

On Page 50, post-acquisition, you were able to grow gross written premiums by double. However for bottom line, the contribution of JPY 40 billion is not happening in a steady manner, unfortunately. In the next midterm plan, including cat, stabilizing bottom line, I believe, is one of the challenges you would like to achieve. You talked cat load as well as the number of spaces you have. When it comes to diversification as well as managing exposure for cat risk, how much progress are you making? And how much progress is going to be made going forward? And for the new owner, (inaudible) -- under the leadership of (inaudible), which regions and areas and functional reinforcements are you going to use the JPY 600 billion for? That's my question.

A - Masahiro Hamada {BIO 20083917 <GO>}

This is the group's CFO, Hamada speaking. Thank you very much for your question. So let me take your first question. For the details of ESR, today I would like to refrain from speaking about the details. But for the investment amount of JPY 600 billion that we set forth this time around, with regards to the scale of investments compared to before, has this increased? When I have the opportunity before to speak, I had always said that we are thinking about acquisitions, if any, which is equivalent to the size of Endurance. We have been able to specify that this time around in the new midterm plan. So the breakdown of the JPY 600 billion.

As in your second question, it might be acquisitions of insurance companies overseas where it might be investment into the digital domain. If it's an insurance company, after goodwill, risk will increase in amount. And hypothetically, like Palantir, if it's a non-insurance company, and if it's an investment into technology, the majority of the acquisition value is typically goodwill. So JPY 600 billion is the budget. But basically, our thinking is that the JPY 600 billion will have an impact on both capital as well as risk. And for hybrid bonds, in order to fund the JPY 600 billion, is that our assumption? Yes, it is one of the assumptions we have in place in order to fund the JPY 600 billion. We were having discussions in February and March. However looking at the share price, the assumptions have somewhat changed, and I can't say how much. But for soft capital, which fluctuates, we don't want to depend on that. Rather, we would like to have surplus capital that we can depend on.

Finally, for Palantir and its impact on ESR from a point basis, I would like to refrain from giving you the details. However as you know, currently, the unrealized gain is about JPY 200 billion at this moment in time. However on the other hand, share prices going up, meaning that risk will also go up as well. But the impact on ESR is not that substantial is the way we view it. For the shares regarding Palantir, in order to collaborate with Palantir going forward as well, we own their shares, and there may be a case where we continue to own their shares. But rather than owning the shares perpetually, leveraging on the unrealized gain will allow us to invest into other fields of digital and RDP, and we believe that is one good option as well. So we are looking into possibilities. So I apologize I haven't given out the details for ESR, but that ends my answer.

A - Unidentified Speaker

So may we go on and answering your question about the overseas business? Yes. Mr. Okumura, please, over to you.

A - Mikio Okumura {BIO 15901852 <GO>}

Thank you for your question, Mr. Muraki. For the overseas business, you asked two questions. One is about how are we going to control earnings volatility and contribute, in turn, to group profitability. The other is under Jim, how is JPY 600 billion going to be allocated to our businesses? So those are the two questions. So for the first part of your question, in the underwriting as well as reinsurance side, we have been promoting and accelerating efforts. The agriculture business and for global cat are areas where cat has a big impact.

So in these areas, completely removing volatility is hard to do. When a large cat occurs, it depends on the industry as well as the state and region. We are constantly hit with a loss of 1.1% to 1.2%. So because we're going to expand in scale, volatility cannot be inverted completely. However from a global cat perspective, in our overall portfolio, we used to be about 14% to 15%, but it went down to 8% in fiscal '20. And by fiscal '23, we would like to reduce that by several points. When we do the reinsurance, we will control it, but we will also reduce volatility in the feeding [ph] side as well. It's all about model calculation. But for profit stability, we would like to reduce the volatility of our profits year after year.

So attritional loss ratios probably can be controlled through pricing. And for cat, like I mentioned earlier, scale expansion and portfolio replacement, by controlling the lines of business, we would like to make our profit base even more steadier. I was fully engaged in the formulation of the business process and reinforcing cat load, and I was looking at the replacement process of the portfolio. I think our current business plan is quite reasonable. So with it, we would like to contribute to the group profit.

For M&As, on the other hand, we are working together with Nigel's team. Like when we acquired diversified, despite COVID-19, SI's management team were able to partner with Nigel's M&A team. So doing that disciplined M&A is important. But not only that, the post-merger integration process is important as well. So bolt-on M&As are a good part of our strategy when we need to diversify.

So in terms of buying time, we believe that bolt-on M&As are good. However if we are talking about a transformational deal, Nigel and his team are scrutinizing opportunities globally. Whatever the case may be, we are looking at both scale as well as profitability and post-merger integration, PMI. If we are able to confirm that can happen, we would like to give out the green light. If we use the entire JPY 600 billion worth of investments, the other businesses will be angry at us, but we would like to ensure that we continue to be drivers of profit and grow in the future. We are very hungry. So even after Jim joins us, I would like to partner well with him in order to identify new opportunities.

Q - Masao Muraki {BIO 3318668 <GO>}

For overseas, I have a follow-up question. Up until now, (inaudible) was very aggressive in his personality. But for the new business owner and his character, we are not familiar with him yet. So what kind of person is see? And what kind of expectations did you have when you hire him?

A - Mikio Okumura {BIO 15901852 <GO>}

Well John created a culture that's not only aggressive, but he put a lot of importance on underwriting. So commercial P&C, I personally felt that our underwriting process is extremely important. So what he created is not just scale and numbers, but I think he created a good team who's committed to results. We talked about new work styles and being mission-driven and results-oriented. Centered around John and his management team, people now uphold that spirit. He was saying that we should constantly work as his team as we transform to the next phase. With Jim, he will be joining from September onwards. So I would like to ensure we have close communication. But as far as I know, he is a good listener as a manager is what I've been hearing. I'm sure that people who lead have different styles. But I'm sure that he will respect our existing management team, but we'll also apply his wealth of experience that he gained internationally in various regions so that he could drive simple international to the next stage. Thank you very much.

A - Unidentified Speaker

Regarding Jim, I have met him several times. And despite COVID-19, we were able to have meals between the phases of the declarations. One year ago, I heard that there was a good person as a candidate. And before we nominated him to the Nomination Committee, I met him in person. I think his personality is somewhat different from John. Whether he is aggressive or not, superficially, when you look at them at a glance, I would say John is clearly more aggressive. However for this gentleman as well, he was originally a banker. Then after, he went to AIG. And during that period of time, he was also living in Tokyo for a while, and he was overseeing Asia retail. Then after, he oversaw the global business and specialty insurance in the commercial field at Zurich.

So the reason why he wanted to join Sompo was we -- because we have a global platform and are poised to roll out the insurance business on top of this one single platform, and he has never heard about any other company doing that. He was saying personally what he has gained as experienced in the past is something he would like to apply by joining us. So from aggressiveness or ambition point of view, maybe he looks more gentle, but I'm sure that what's inside him is ambitious.

Once I met him, the reason why I wanted to recommend him to the Nomination Committee was, of course he has the basic skills, but he is a person who has experience in retail. Secondly, the number of countries he has actually lived in is very high. So he is very cultured and diversified and cultured. And he listens very well. He listens first. And until the other day he was leading the commercial business of Zurich. So when you want to manage a large organization, it seems that he puts priority on listening first. So I am sure that he will be able to grow what John has done even more. The members of the Nomination Committee, I think shared the same view. So I look forward to working with him. Thank you very much.

Next from Mitsubishi UFJ Morgan Stanley, Ms. Tsujino, please.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I have two questions. My first question is regarding Sompo International. For fiscal '21, the projection is already shared, and we can have visibility for fiscal '21. But beyond that, you have to have a profit growth of JPY 20 billion every year overseas to achieve your target, and I think that driving force is going to be Sompo International. And looking at your slides, the net earned premium assumption. So from -- after fiscal '21, you have to have a growth of 27%. So I guess increasing the premium or the rate hike alone will be difficult to achieve this. So are you going to acquire any customers and expand your product line? How much progress are you making on that front? And can we uphold their expectation for those opportunities? Can you give some specific examples? And I understand that it's a favorable environment for increasing the rate. But when companies try to increase the rate too quickly, then that could lead to a deterioration in the loss later. So can you give some additional comments on that concern?

My next question is on Page 26 regarding additional returns. To conduct additional returns, you mentioned that there will be four cases. The first one is when the ESR level exceeds the upper target range on a consistent basis, you will consider additional returns. If that is the case, is it right to assume that for the time being, we should not expect additional returns because that's what it seems to say on the slide. You also have other three points, but I guess the biggest constraint may be the first point.

Also looking at the first point and the other three points, I can explain the relationship of these factors. And also on a related note, you have the investment budget for JPY 600 billion. I think you say this is the investment capacity. And in the current midterm management plan, you are not assuming this investment for achieving our target. But in order to acquire new technology or IT capability, I think you will be looking for opportunities. If that is the case, I guess you will not be exceeding the upper target range of 270% in ESR on a consistent basis. I understand that you are committed to base return, but can you explain how much expectation we can afford for your additional returns? Also regarding overseas, Please, Mr. Okumura, can you answer that question?

A - Mikio Okumura {BIO 15901852 <GO>}

Yes. Thank you, Mr. Dino for your question. Leading up to fiscal '23. I think I was asking about the story for growth. As we said, the rate hike for '21 will be 11%. At this point, it's outperforming that outlook. And for fiscal '22 and fiscal '23, the rate hike will moderate. However having said that, the rate hike is above the loss amount. I believe that we continue to improve the loss ratio gradually. The numbers with the waterfall chart, I think it's Page 52, a JPY 49.1 billion of improvement. As it's the third bar from the right. And loss ratio improvement, it's going to give us JPY 26 billion, this is both commercial and retail. And also by improving the expense ratio, that will be JPY 11 billion. With revenue growth, it will be a little over JPY 10 billion. Together, the improvement is going to be JPY 49 billion. And regarding the different lines of business and products, now we are going to control the exposure to global cat.

But on the direct underwriting, the underwriters are being increased for the strategic lines of business. GRS, we did not have this five years ago, but it's growing and we have the property and casualty business here. For property, as I said earlier, we have a cat risk. Also we will have further diversification in terms of geographical coverage. And for U.S. insurance, we have been increasing the number of underwriters for the casualty lines of the business. So we will be increasing the underwriters for the casualty. With that, we are going to increase the gross written premium. This is one major initiative to change the structure of our portfolio. And also, you mentioned that rate hike alone cannot explain this growth, but we are seeing improvement on the underwriting side, so we are augmenting our retention. And leading up to fiscal '23, we will be increasing the retention by three percentage points. And based on that, we are calculating our ESR and capital efficiency. We will be increasing the retention by a few percentage points so that we can achieve growth and profit, and we have been able to manage the cost. We have the industry-leading expense ratio. And by doing that, in fiscal '23, we would like to achieve a profit of a little over JPY 100 billion.

Q - Unidentified Participant

Thank you for that answer. I think you have 63% as retention. On the graph, it's 65%. So I thought that was going to be the increase in the retention, but are you expecting a further increase? And on Page 57, I think you have all the global business, not just SI and the expense and the loss improvement. Looking at the further improvement apart from SIH from fiscal '22 and beyond, would you be able to expect more contribution coming from other markets other than SIH?

A - Mikio Okumura {BIO 15901852 <GO>}

There are some marginal errors in the graph, but I think we can go up to 70% to a little less than 70%. The main driver for growth will be the SI commercial business and reinsurance. But on the retail side, we are building the platform, and we are making good progress. There is the currency issue, but leading into fiscal '23, we will be able to improve the loss ratio and expense ratio will also be improved. So that would have the impact of three digits.

A - Masahiro Hamada {BIO 20083917 <GO>}

And on your second question about the shareholder return, I will be taking that question. This is Hamada. So going back to Mr. Muraki's question, he mentioned that our focus is on the medium to longer-term growth rather than immediate shareholder return. But I would like to say that, that is actually not our intention. Obviously we have appetite for investment. We have set forth an actual number as budget. But we're not intending to use that all up. We want to make sure that there is discipline in our investment strategy. It may look like we are becoming less generous for shareholder return because previously we were saying that the shareholder return is going to range between 50% to 100%. But this time, we're staying over 50%, so that may have given you some negative implications. But let me explain. So we changed the shareholder return policy versus the previous MTMP on two points. One is that we have shifted our focus more on dividend. Looking at the profit growth to date and also future profit growth, we believe we were behind the curve in terms of dividend hike.

So we decided to focus more on dividend payment. And also the total range of 50% to 100% was to why does the range, as some investors pointed out that this is difficult to understand, so we just rephrase that, meaning that we have the base return which previously have been communicated as at least 50%. This is now rewarded as base return. Then previously we said up to 100%. This is now rephrased as additional base. So to answer your question, Mr. Jin, to do additional return, there are four requirements, and these are all separate and standalone. The first point is not a minimum threshold. Also regarding this additional return, we will be looking at the M&D market each year and also the hybrid funding environment and also financial markets.

So we will be looking at different factors every year to if we should do additional return. Also it's not as if it's going to happen in just special years. The additional returns could happen every year. So basically, our policy remains unchanged from the previous one. And regarding the JPY 600 billion, so we are not thinking of retaining that for the next three years as solid figure. We will be looking at the market environment and opportunity. It's not as if we will have a big opportunity to use this in a lump sum, but we'll be monitoring the market closely at the respective time.

Q - Unidentified Participant

So I guess if there is a big nat cat like in fiscal '19, you may do additional return so that the total payout will not be reduced significantly. Is that an appropriate understanding?

A - Unidentified Speaker

Of course we cannot commit to that. But regarding dividend, the dividend will be hiked in commensurate with the profit growth. And also regarding the return policy, we will make efforts so that the payout will not decrease.

Operator

Next is from Daiwa Securities. Mr. Watanabe, please.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Yes. This is Watanabe from Daiwa Securities. I have two questions. First is on Page 26, the shareholder return. The bottom left, the total return because of the lower profit temporarily and the maintaining. So does this mean that you made a commitment to this? On the right-hand side, the speed of increase of the dividend, it's by JPY 40, and that is the plan for this fiscal year. So JPY 40 will be the unit that you're increasing the dividend by.

On Page 53, overseas business, the retention percentage, 26% in fiscal '20 and 67% in FY '23. So 67% and then is there a room for further increase? And during the medium-term management plan, the cumulative pricing increasing. So what would be the price increase, the cumulative number during the medium-term management plan?

A - Masahiro Hamada {BIO 20083917 <GO>}

Yes. Thank you. First of all, Mr. Hamada will answer to your first question. Well until now, in fiscal '18 and '19, natural catastrophe pushed down the profit. In terms of the return, we try to maintain the previous year's level. That direction has not changed. So of course as for the temporary changes, of course based on the assumption that the overall capital is not damaged. There are several factors, but it doesn't mean that we are committing to it, but we have a very strong intent on keeping this direction.

The JPY 40 dividend increase, when we decided upon this, we are again shifting toward more dividend increase and also the JPY 200 billion to JPY 300 billion, we want to increase the profit level 1.5x in three years. We want to base our dividend increase based on that. So we have conducted the simulation to come up with this JPY 40 dividend increase. So as for the future dividend increase, of course we cannot make a commitment today. But it is possible. So because of that, we decided to pay JPY 40 per share higher dividend this year. So I think there was a question about overseas business. So Okumura-san, please answer that question.

A - Mikio Okumura {BIO 15901852 <GO>}

Yes. Thank you, Mr. Watanabe. I think you had two points about the -- in our business plan, what is the perspective of the price improvements? And is it possible to make higher retention. As for the rate improvement in fiscal '21, as an average based on the internal calculation, about 11%. Then after that, gradually, it will go down to the single digit. That is an assumption. And based on that, our business plan is formulated. And during three years, we believe that the rate would go up, but it will go down to the single digit. Concerning the rate, as you know, there are various natural catastrophes which could happen and the market will change based on that and it is a very dynamic market.

So looking at the situation of the market, we would like to maximize the rate improvements. And as for the retention strategy, the agribusiness, for example, included 67% is the current level. And under profit rate increase and the portfolio replacement, we would like to look at the profitability to decide upon the retention. At the same time, the ESR and the capital and the reinsurance market, we will look at all of those factors. Of course there are assumptions, but we would like to be changed the increase, the reinsurance or retention flexibly. So the profitability and the capital and the market, we look at all of those factors. So based on the numbers that I mentioned, there could be some fluctuations or changes. Mr. Watanabe, does that answer your question? Okay.

Operator

Okay. Next, we would like to move on to Mr. Otsuka from JPMorgan Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

This is Otsuka from JPMorgan. I just have one question. On Page 14, at the bottom of Page 14, you talked about creating new customer values. In the area of RDP, the real data platform, you're talking about external sales and commercializing. There's some details on RDP on Page 20, so just wanted to confirm about this business. For the middle diagram, you're saying to two businesses or more, when it talks -- when you talk about external sales. So progress-wise, would you like to move on to the stage two that you show here, which means subscription solutions will start gradually, and you will be able to externally collaborate in 2023, is that what you are aiming to realize by 2023? I just wanted to have a better image of this.

A - Unidentified Speaker

I, Narasaki, will take your question then. Regarding the assumption and your thoughts, yes, you've rightly said, for the two businesses, we are talking about two businesses where the RDP business model is going to be established in. So in three years' time, what we envision is subscription-based business model that we would like to externally sell outside of the group where we can create value, and we want this to be monetized. So we want to realize this in two businesses or more. Of course for specific KPIs and metrics, in the next three years, it may accelerate. However for today we just explained our thoughts at the high level.

Q - Wataru Otsuka {BIO 16340098 <GO>}

And so additionally, for the size of the business you're anticipating, which is JPY 500 billion or more, is that when you realize the ecosystem creation fees? And this may be a qualitative question. But with respect to the pace of development, Mr. Sakurada or Mr. Narasaki, how do you view the progress you're making so far?

A - Kengo Sakurada {BIO 15149542 <GO>}

Well in short, when you look at the way the digital business was up until now, it may grow exponentially or else we'll need to switch over to different ways of growth. I think we may be able to reach JPY 500 billion in no time. If we don't, we should do something else. So the base way of thinking is we need to think about what's the strength of our digital business at Sompo. One is for the real businesses, I -- you may not have been able to hear me because I was wearing a mask. Apologies. But there are two things. So we have a core business, a real business. We have people out in the field. So for our solutions, it's not just conceptual. We are able to feel and understand whether it works in the field, so it's kind of like a test field, where we can try out the solutions we come up with.

Secondly, as I've said before, it's not virtual data, we're talking about real data. So as long as we are able to cleanse personal data and be compliant to restrictions, we will be able to come up with various types of ideas, I'm sure. So for the digital business, I don't want to preach to the choir, Otsuka-san, but there are many people thinking about a digital business in the world. Some people may feel why is Sompo successful on this front so far. But we have been having a lot of discussions for this past year, and we think it's because, number one, we have a field, so we know the relationship between operations and data. Secondly, there is no fake data. We know who the owners are. We know where the data is coming from. So it's quality data that we're dealing with. So when you integrate the two together, the solutions will become very specific, whether it be health, security, well-being related data, it's not only that, it's about community data. When you want the local governments to make more money, for example, people are talking about smart city. But I think in Japan, they should include nursing care and health aspects so that they could create smart villages. There's about 2,000 around the world -- in Japan, villages in Japan. If we are able to apply this concept, we could see exponential growth. So the source may be taxes where it might be national government funds. But By leveraging our strengths, we would like to identify good partners so that we can become operators of the RDP platform, which I think is going to be key to the monetization of RDP. That's all for myself.

Operator

We are past our given time, but because there are some people who are raising their hands, we would like to continue on. Next is from Mr. Sato of Mizuho Securities.

Q - Koki Sato {BIO 19983862 <GO>}

Hello. My name is Sato. I also have one question regarding RDP. The other question about profit growth in the domestic P&C business that I'd like to confirm. So for RDP, I'm a boring person, so all I want, I want to know about profit contribution. Can you give me an image? Over the course of the medium-term plan by engaging in data, I don't think you have specified how much profit contribution you're anticipating. But when you look at each of the businesses, you are revealing high loss policies. Solution provision and nursing care may be an opportunity that RDP addresses as well. So during the course of the midterm plan, how much of impact are you expecting at the bottom line from RDP, if you have any quantitative targets? In conjunction with that, you're saying that medium to long term, you would like to strive to reach JPY 500 billion in top line that you have indicated. But what is the base of your profit target, assuming that you're able to reach JPY 500 billion in top line? So that is all for my first question.

My second question is, it goes into a little bit detail, but Page 38 of the presentation, I think talks about the domestic business and profit growth -- the profit growth breakdown. So various initiatives is something we will look at progress wise. But when it comes to the improvement of loss ratio and automotive insurance, it says JPY 17 billion improvement. Of course it's a line of business where advisory rates are applied. So structurally speaking, it is quite neutral. So what is the backdrop to including this forecast this time around? And how much is the probability of achieving this?

A - Unidentified Speaker

For the first question, actually, at the Board meeting, we are still having active discussion. I have to take off my mask again excuse me. I don't want to reveal what kind of active discussion we're having, but the reason why we're having active discussion, generally speaking, is for the software or solution business or the platformer business is one that enjoys high profitability. It's typically double digit, and it's not about in the teens, it's in 20-something percent or in some cases, maybe Nagasaki-san, the CDO, knows this better, but there are some cases where you can generate profitability of 30% or more. So that is a fact. And if you multiply that by sales, if sales is JPY 100 billion, it means that you could get JPY 20 billion in profits.

Q - Koki Sato {BIO 19983862 <GO>}

So what is the ratio for each business?

A - Unidentified Speaker

We are not sure at this moment. We have to try it out first. So as we have active discussion, when you look at market penetration, visualization of nursing care and prediction of nursing care, we believe there's about JPY 100 billion of opportunities and half of that will be JPY 50 billion, for example. If you apply the margins to that, that is how you could drive the profits. So you could do that on your own. Because if I specify what kind of calculations we're running, it will turn out to be a commitment, and we don't want to do that at this moment. Same thing for disaster prevention. There may be JPY 100 billion opportunity, and the solution may generate margins of a certain amount. But one thing I would like to say is there are opportunities worth JPY 500 billion in top line. And for profitability, looking at our past digital and solutions business, you're able to estimate how much we're doing. So what we're trying to do going forward, we have one or two prototypes that are already available.

So if you look at how much profitability they are respectively generating, you'll start to get a feel of how much profit contribution is going to come into place, and it should be early. Maybe the first phase will materialize during the course of this fiscal year. So please look forward to it, and we would like to do a good job. So that was a very sharp question. But at the Board, we're still in the middle of discussions. So unfortunately, I would like to refrain for making comments today. Mr. Narasaki, do you have anything to add?

No. I don't.

So for domestic P&C, I will respond to your question. For less accidents leading to better profitability in the automotive line of business, it is an advisory rate line of business. If the loss -- there are cases where the loss ratio deteriorates as well as improve. The revision in advisory rates happen after that phase, so there is a time lag. So that's the premise that we're working on. And where we are right now is the repair cost, unit cost has been due to advanced safety components mechanisms. The repair costs have been increasing by 3%. But due to the penetration of ASV at the same time, the loss ratio accident ratio has been less than before. When you count for COVID, the future forecast will change. So when you exclude the COVID impact, for example, in our case, compared to fiscal '20, we're expecting minus 3.5% in fiscal '21 and minus 4% by fiscal '23. That is our assumption. And rates will start to decline in a time lag. However estimate-wise, we are expecting an improvement in profits by this amount that we specify on this slide.

Q - Koki Sato {BIO 19983862 <GO>}

For RDP, you are already engaging in initiatives. But in the group, as you work on efficiency measures, do you have any numbers that you are accounting for? And how much efficiency gains that you are anticipating? If you don't, you don't have to share it with us.

A - Unidentified Speaker

Are you talking about domestic P&C or overall?

Q - Koki Sato {BIO 19983862 <GO>}

I'm talking about overall with Palantir and data analysis technology by leveraging it, are you -- do you have any quantitative numbers that you are aiming for?

A - Unidentified Speaker

In short, there are no numbers that we can share today. Reason being, as Mr. Sakurada said earlier, it's basically what he said. But for this business model, we are having discussions around the business model still. So I think the volatility of it is still high. And as Mr. Nishizawa mentioned earlier, on Page 43, in the presentation deck, as you've pointed out earlier, the benefits of RDP is that before we sell it externally, we are able to generate impact internally. So benefit wise, we are able to field the benefits in our existing businesses from a profit point of view. And also because it's so good, we would like to offer it through a subscription model by externally selling it. So for internal profits, each of the business owners have a good image of the bottom line and are looking at realistic numbers with the application of RD. But the impact of RDP or the impact from the platform is something we cannot specify and share with you. But for the subscription model, because of the reasons I mentioned earlier, as we are still in discussion, I would like to refrain from going into detail today. So that's where we are.

Operator

Next, from Citigroup, Mr. Niwa.

Q - Koichi Niwa {BIO 5032649 <GO>}

I have two questions. One is on digital. And also, how you see the market over the medium term? This is something that you discussed with Mr. Sato, but regarding the profitability, you mentioned the number 30%. Generally speaking, In the software market, I think you continue a margin of 30%. But in SaaS business, it's about 70%. So my understanding is that rather than platform, this is like a software development. And are you going to have a difficulty in securing engineers going forward in that sense? So my first question is to confirm on that point. And my second question is some holdings fundamental power that you view Mr. Sakurada and the dislocation in the market. I believe for the profit and ROE, you have achieved the previous MTMP. And also, you are envisioning achieving the theme park for security, health and wellbeing. But in the last five years, your share price was moving very flattish. So first, how do you view the gap? And the reason for this gap? And in your new MTMP, if you achieve the target, I think they're setting the cost of capital at 7%. Your ROE is going to be 10% of the cost of capital. So your price to book should be well above 1x. Is that the goal that you're aiming for? Or is that the medium- to long-term direction that you're trying to pursue when trying focus on the short-term stock price?

A - Unidentified Speaker

So I will answer your first question. This is Narasaki speaking. Based on my personal experience, software companies and SaaS companies, I have managed both types of companies. And like you said, the margin is 30% and 70%, respectively, as the industry average. So which type are we going to pursue? We are going to create a platform and also provide solution, so it's going to be closer to the SaaS model. But at this point, if we say that we are looking at 70% profitability, that may not be an appropriate comment. We are using the real data with the SaaS-type business model on a subscription base. I don't think there are any company that is doing this, so this will be the first of its kind in the world. So we cannot just apply the profitability of the existing SaaS service providers. So as Mr. Sakurada mentioned earlier, we're looking at which should be closer to the margin generated by software companies. So we are seeing the most of discussion on this point. But at this point, I think that is a more appropriate level for us to share with the market.

Mr. Niwa, thank you very much for raising that important question. With the external board members, we have been discussing on that point. In one word, Sompo's potential and the value and also the market value, in between the two, there is a big dislocation. We have been discussing that point on a number of times. And at the Global Executive Committee, that is one of the major centers that we are addressing. There are different discussions taking place, but probably our view is that when we say our potential at this point, we have a strong cash flow and profit coming from the insurance business. So people would ask what is your view on your domestic P&C business? And also around the overseas vehicles, what is EBITDA growth rate of the overseas business? What is going to be the strategy? How are you going to grow with M&A? What have by capital? So I think these discussions are important because they're going to be the baseload of our business. But if we just continue that path, as the global insurance companies and also as the Japanese of financial institutions are challenged with the PBR issue, we will not be able to achieve over 1x in price their book.

So the challenge in the issue is that are we going to use that baseload engine from the insurance business to aim for further growth. That story is not communicated. It's easy to say but difficult to act. Our core competence is the insurance business. So we cannot deviate from that by a great degree. We cannot create rocket or we cannot create a better pharmacy cost, so we have to be in the ancillary area, which is why we're discussing about the theme park for security, health and well-being. Also we want to leverage on a real business. And by using digital and software, we want to provide solutions. And by doing so, we want to enhance our profit. That is going to be the path that we should focus on. Then the challenges, the time line is the issue because this is somewhat amid to long-term issue. Because in the future, these challenges can definitely generate growth and profit. But in the next year or two, the contribution may be very marginal. But are we dismissing that business because over the short term, the profit contribution is going to be marginal. That is not the case.

The green story and SDG story that has been the topic in the global market and also investing into those areas is something that we have to pay attention to. The word you're talking about great rates and pursuing a new way of capitalism. New way of capitalism, I think is going to mean a new way of looking at the corporate value. So it's not about the profit generation over the next one or two years. That has been the traditional textbook for finance. But I think going forward, the value is going to be what kind of social value are you going to create? How are you going to deliver that? I think those are going to be topics that we have to think together with the investors. And as business operators, we have to present our value proposition and the customers will have to consider themselves how much they're going to pay for that value. And I think for the next few years, we are both going to be tested. Traditionally, things may have been too costly and the cost benefit may not have justified the opportunity, but there is a new -- like social contribution.

One typical example is a product or service that can address the global warming issue. So it may be very pricey, but customers are choosing that option. So I think that challenge is something that we can address with RDP. So in sum, yes, you're right, but we are going to leverage on the insurance business and also leverage on our nursing care business to offer solutions to social issues. So we're going to continue to offer those solutions. I believe by doing so, there's going to be success cases, which will be appreciated by the customers. So we want the market to be patient and give us some more time because these businesses cannot be quantified in slide number in your spreadsheet for the business model. Sorry for the lengthy answer, but I had to explain in full because this was a very important question.

Operator

From Jefferies Securities, we have Mr. Ban.

Q - Hideyasu Ban {BIO 15250840 <GO>}

Sorry, we're past the given time, but just one question, if I may. This medium-term management plan, I'd like to ask once again the rationale behind it? As for the domestic P&C, in three years, a 92% combined ratio or lower. In the past, other companies had 94%, 95% cycle average, and we saw the convergence. But in the coming three years, you said 92%, that is your target. So surrounding you, how would the business environment change? So we have not seen the other companies. So for example, 94%, 95%. If -- based on that, you are the only one who is targeting 92%. In the waterfall chart. I think that, for example, by focusing on the lower load, you need to differentiate yourselves. So based on that, the assumptions of the environment, the combined ratio, do you assume that the combined ratio will be coming down? And also overseas or in comparison to the domestic P&C, overseas business is dynamic, as it was mentioned, nat cat -- with the nat cat softening and hardening cycle could change. So in coming three years, the target that you are showing, upside and downside, you are looking at the middle of it. Is that the target? Or is it upper side or a favorable or peak level? It's a kind of main question, but domestic P&C performance, in three years, you want to coincide with the peak and you want to achieve the JPY 300 billion. And as for the sustainability there could be some questions emerging. So I'd like to have your thoughts or additional comment on how you set those targets?

A - Unidentified Speaker

Well I think the questions in your question. Now about the combined ratio, 91.7%, I'd like to explain that. Of course other companies trying to reduce the business expenses and loss ratio. I'm sure that they will be making a lot different efforts. But as a basis, the loss ratio is pushed up due to the fire insurance, which is not yet sufficient. Premium is not sufficient. So in the coming years, this percentage will go up and the price would be increased. So the loss ratio of the buyer insurance will be stabilized with that. So in fiscal '24, we believe that would happen, the stabilization. So as a basis, I think that companies in this industry will have a similar situation, a downward trend. So in our case, we are trying to improve our profitability and earnings, the underwriting. We would like to work on this reform even sometimes we have to ignore the top line. So the distributors, 41,000, we reduced it down to 27,000, that is not easy to do in other companies. I'm sure it's quite difficult. So we have completed and we have achieved those, and we have that results. And also we are targeting the 91.7%. So of course that other companies are going to make efforts, but we think that we are positioned favorable compared to the other companies. Okumura-san, could you comment from the overseas business perspective?

A - Mikio Okumura {BIO 15901852 <GO>}

Yes. Thank you. In formulating the business plan, yes, it is slightly conservative, that is my recognition. As you pointed out, in the case of outside of Japan, market average and the peer average doesn't work very well depending on the portfolio and the region and the reinsurance strategy. We compare among the peers, but they are so different from each other. So comparable the core loss ratio, for example, the rate up or distribution, we can see that relatively clearly. So as I mentioned, The rate increase and accident year loss ratio, if you look at those, I think we see the clear improvements and rate improvement is actually happening higher than the loss ratio. So in comparison to the peer companies, through management efforts, we can change, for example, the business expense ratio. Of course there are different backgrounds. But I think our business expense ratio is quite competitive, and we will further make improvements by controlling expenses and to secure the optimum underwriters, which would lead to the lower business cost. The biggest opportunity is the cat and distribution and conservative cap load will be expected. And as a result of the business plan that we have is quite possible or very -- is something that we can rationally explain.

A - Masahiro Hamada {BIO 20083917 <GO>}

Thank you very much. Hamada speaking. Just one word, if I may. On Page 13, the JPY 300 billion number is shown. And at the very bottom, it's very small explanation there. This JPY 300 billion, and of course in the three years, in the future, the business environment, the biggest factor, which could change this is a cat, as Okumura-san said. It is conservatively assumed and we are taking measures, but still, it could happen. For example, something that happened only in one time several decades could happen two years in a row. So it is conservative. But the Japan and overseas, we have the cat number, but it is possible that we have something unexpected. Once every three years how much a big impact do we see will be about JPY 30 billion level. So in the medium-term management plan simulation, this is basically organic base and this JPY 30 billion to fill this gap. We would like to work on the M&As so that we can achieve the higher achievement. So part of the JPY 600 billion will be allocated for that purpose.

Operator

Thank you very much. Thank you, Mr. Ban. We have passed the allocated time. But with that, we'd like to end today's meeting. If you have any additional questions, please send it to the IR team. We did not have a presentation about the domestic life insurance in the nursing care. We plan to have small meetings for different topics. So thank you very much for joining us today. Thank you very much indeed.