SOMPO Holdings Inc Medium-Term Management Plan Progress Meeting

Company Participants

- Kengo Sakurada, Group CEO, President, Executive Officer & Representative Director
- Shinji Tsuji, Group CFO, Deputy President, Senior Managing Executive Officer & Representative Director
- Unidentified Speaker, Unknown

Other Participants

- Futoshi Sasaki, Research Analyst
- Kazuki Watanabe, Research Analyst
- Koki Sato, Senior Analyst
- Masao Muraki, Director and Senior Analyst
- Natsumu Tsujino, Research Analyst
- Tatsuo Majima, Senior Analyst
- Unidentified Participant, Analyst
- Wataru Otsuka, Insurance Industry Analyst

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

So given the interest of time, I will make my presentation quick. My name is Sakurada. Thank you for the introduction. And thank you for your attendance, despite your busy schedule.

The first half results and the applicable performance has already been disclosed recently. So today, I want to focus about reviewing our mid; to long-term business plan and also talk about the progress against our midterm management plan.

Please turn to Page 2. So I'd like to review the midterm management plan. Let me talk about just our midterm business plan for Sompo Holdings. In reviewing the strategy, there is no change to the group's vision. In order to become one of the global top 10 insurance groups, we have steadily improved both the adjusted consolidated profit and adjusted consolidated ROE. The FY '18 targets, which were a profit over -- of over JPY 220 billion and 8% plus ROE would be attainable in our view. And after reaching these targets, we would like to communicate the numerical targets for fiscal '20, which will be the last year under the current midterm management plan in 18 month, at the latest, in May of 2019.

The recent business was impacted by the hurricanes in the North America. However, the biggest engine of the group, the domestic P&C, mainly draw back the business, enabling the group to achieve a certain level of profit. In addition, we are leveraging on the robust financial position to implement the transformation, focusing on the group businesses. And we will be executing these plans. And needless to say, we will continue shareholder return, which will be attractive in the eyes of the market participants. We will continue to be abreast with environmental changes, such as the evolution of digital technology. We are executing a strategy. So that the whole group can achieve a dynamic evolution.

Please turn to Page 4. On this, you'll see the progress of midterm management plan for the whole group. Given the impact of the hurricanes, among others, in North America, the adjusted consolidated profit for this fiscal year is projected to fall slightly short of the initial plan at JPY 195 billion. But it will be growing by more than JPY 100 billion on a year-on-year basis. And as for the target for next fiscal year, the adjusted profit of over JPY 220 billion, we believe that this is well within the achievable range.

For the adjusted consolidated ROE, reflecting the most updated earnings expectations, this fiscal year is expected to be flat over last year at 7.6%. However, for next fiscal year, we believe that over 8% ROE target is within the horizon. And further improvement is expected. And as the group management, we would like to monitor the per-share KPIs closely. For instance, for EPS, we have been gradually and steadily growing the level. Based on the big premise that we will continue to grow the profit, we will appropriately monitor other interests, such as a number of outstanding shares and adjusted capital. Together with the CFO, who is right beside me.

Please turn to Page 5. This slide displays the progress by businesses. If you look at the adjusted profit, the progress varies by businesses. But if we consult for one-off items, each of the businesses are making solid progress to realize our medium; and long-term vision. Obviously, we are observing the KPIs for respective businesses on a daily basis to detect any sense of deviation and will implement the measures for improvements. Having said that, the main KPIs will demonstrate from underlying trend for all the businesses.

Page six illustrates the shareholder return policy. And there is no change to this policy. Last fiscal year, while executing a relatively large M&A, we still maintained financial soundness and sustained the total payout of 50%, which showcased the management's joint commitment to shareholder return. We plan to have the dividend again this fiscal year. We will keep our eyes on the share price going forward and relative level of dividend yield over the peers. MPVR and around spring next year, we'd like to reach a management decision in regards to the balance between dividend and share buybacks.

This year, I am fully aware that the market participants are paying a closer attention to this point. So I will be listening to the feedback of the markets in an earnest way.

Please turn to page 7. I don't mean to preach to the professionals. But we prepared a slide as another referential points showing the share price trend. Our management team is extremely cautious of the company's stock price. In a way, stock price mirrors the company performance and the management of the businesses. So I, myself, am watching the movement every day with strong interest. As I mentioned earlier, by improving the per-share indices, we'd like to enhance the share price itself. But we also would like to realize the market cap, which is equivalent to the aggregate to the enterprise value to be comparable to the -- over global peers. By firm execution of the strategies, we hope to be able to show you solid results.

The next page, Page 8, shows you the key issues in executing the midterm management plan. So let me talk about Sompo International, which was formerly Endurance. And let me talk about the progress of the PMI and offer any further details. I would like to answer your questions later.

So first and foremost, I would like to say that we took off of the very solid start for PMI process. It's been six months since then. And we have been enjoying some achievements of those efforts. One of that is the reorganization of Sompo International. But we (inaudible) shift this into the group's global platform when we acquired Endurance, we have our existing companies in the U.S. and Europe, which will be integrated. And eventually, the whole organization will be reorganized by lines of businesses, such as direct underwriting and reinsurance business. So that we can leverage on the expertise in each capabilities and improve the existing resources into the new organization.

One of the major step in achieving that is the announcement of the sales of Canopius. For the underwriting process, we have introduced a common system called the global clearance system to be used as the consistent global underwriting criteria. So we have unified part of the underwriting criteria into this system. We have also started to capitalize on the expertise on crop insurance and started the new business under the new brand called Agri Sompo. The benefits of these are, of course, are specified on the slide. We started to offer the specialty insurance to our Japanese clients. And financial synergies have resulted in cost savings.

It will require some more time to complete the global platform. And I'm not sure if there is a point of completion because we will be carrying out an unwavering effort in order to continue to improve. But in that sense, we will take various efforts to complete this project of establishing a global platform.

Next page, please. This is the business around the nursing care business, which we entered in 2015. I have always been mentioning a concept of a theme park for the security, health and well-being of customers. And in order to realize this concept, the most important lines of business is the nursing care business. The nursing care business is our unique strategy. We will work to improve the profitably of the business on a standalone basis. But we'll carry out collaboration to create synergy with other existing businesses. For instance, Himawari Life started the sales of policies with long-term care rider from April. And we can create such synergies using the strongest expertise of the group, which is developing insurance product. And in September this year, we started a joint research with the National Center for Geriatrics and Gerontology on the subject of enhancing the well-being of elderlies. Using the nursing care business as a springboard, we can accelerate collaborations between business and academia. And with the optimal interaction between insurance, nursing care business and academia, we can enhance the value proposition of each business to grow the whole group. And this is one of our biggest intentions. But in the future, we would like to challenge ourselves to address social issues, such as increasing patient suffering from dementia and we hope to endeavor to offer solutions of this increasing social issues. In any event, we will make effort to elevate our value proposition to the clients as a group. And we'd like to realize the concept of the theme park for the security, health and well-being of customers.

Next page shows our digital strategy. We have been talking about this topic every time we hold these meetings. And as you can see on the slide, through proof of concept, there are increasing number of cases where digital technology have been adopted to the actual businesses. It's starting mostly with initiatives for better efficiency in the domestic P&C business. But we are going beyond that boundary. And in other businesses, we are increasing our cases (inaudible) the projects in digital technologies are adopted. But we changed the customer interface. Now these initiatives are in the research and trial phase. And we are also considering to expound on activities in new businesses diverging on digital capabilities. And we cannot offer you the details of many of these initiatives at this point. But just to show you some color to what we're doing, we have 33 cases in the research stage and 26 in the trial phase. Sompo Holdings group is spearheading the digital era and will capture the development of digital technology as their opportunity to become a disruptor. And through that, we would like to envision a greater transformation in the future.

Now Page 11 shows the financial base and the ERM. As you see here in a nutshell, we are very healthy and sound. Furthermore, ERM structure, which supports our healthy financial position is evolving. And the ROR is fully utilized at all fronts, including M&A activities and product developments.

And also for the past M&As and investment, we've been making adjustment on whether that was correct or not. And also, including ourselves, the system is incorporated in the compensation structure for officers and other remuneration systems in that our group EMR culture or risk-taking culture is also advancing and will be advanced more. Based on this kind of base, as CEO, I shall appropriately allocate resources.

And please turn to Page 12 for asset management strategy. In one word, there is no change in the strategy. And I think one of your concerns is about our strategic holding stocks. This is still considered relatively significant. So our policy is still to keep reducing it constantly. By the first half ending, we have reduced JPY 33.7 billion by cash transaction or JPY 81 billion when including hedged against the annual plan to reduce around JPY 100 billion. So this is considered achievable.

Page 14 -- please turn to Page 14. This is our ESG initiatives. Well we have been active in the areas, such as environment, as you know. And our magnitude of engagement in governance is increasing, as recognized in the nomination and compensation committee, which is mainly led by outside directors. In addition, we are willing to contribute to solving Japanese social challenges through our businesses, including nursing care. So that we'll be able to become a nation to solve the problems. And we want to be a contributor to become such a country to be able to contribute to solving those social issues. By looking at the socially responsible investment indices that we have been included, we have been considered as highly regarded company to take those initiatives from outside as well.

So please move on to Page 16. Let me briefly explain each business, starting from domestic P&C insurance. FY '17 has the impact of natural disasters, both home and abroad. But we recognized the steady progress towards the targets of FY '18, though the next page explains it's important factor combined ratio. The voluntary auto insurance rate revision is planned in January 2018. However, through initiatives to push up its premium rates by utilizing fund and to improve earnings in fire and allied lines, as well as other lines, loss ratio is assumed to stay flat. Expense ratio, on the other hand, projects to decrease slightly as we seek further efficiency through company expense control in the systems. As a result, combined ratio in midterm shall be maintained below 95% level.

And Page 18 shows the steady business performance of direct market vehicles for your information. But as you see, it's going quite well.

Page 19 is our life insurance business, Himawari. Though this business is constant -- consistently growing its policies enforced, mainly with high-margin medicals, while implementing upfront investment for further growth, Himawari is making progresses planned as a whole. And we are sure that we can keep on growing steadily.

And Page 20 is about its products and the service strategy. As you may remember, just recently, Himawari has launched new product, such as onetime benefits to cover long-term care with the keyword of health enhancing and services, which connects us to our customers at a fast pace. So connectivity to have a link with the customers as a new service with the product has been launched in a timely manner. In FY '18 also, there are planned product launches. However, unfortunately, I cannot make it an open information.

And Page 22 is about nursing care and health care business. As was planned in the beginning of the year, this business is likely to deliver profits. Internal management systems are in place. But those systems need to be continuously maintained and enhanced in pursuit of stability and sophistication. The progress in the management systems have enabled us to stay focused on sales, which resulted in better occupancy rate and also profit delivery. So we are very happy to recognize it. And we feel relieved.

Page 22 -- 23 is our vision of nursing care business after midterm management plan. When we entered this business, it's not all about the last 2 to three years. But we have entered this business to tackle with the social issues that the entire country as Japan has. So we have been very keen to this vision after the midterm management plan. So something that goes beyond the current midterm management plan is also going to carry the same kind of philosophy and the thinking process. And as was already mentioned, there will be more cooperation and link to make with other segments. And the nursing care business in itself shall aim to improve profitability and stability. For example, we are trying to enhance productivity and stability by deploying urination sensor and other digital know-hows of the group, including the usage of devices and so on. Well at the same time, we are going to also tackle with some initiatives in peripheral nursing care business. So that we do not become wholly dependent on nursing care compensations, which has high dependency on the national budget. So more specifics of what to do will be discussed in details further and then announced later.

Let's move on to Page 25. This is about overseas insurance business. With the consolidation of Sompo International, the size of overseas insurance business largely expounded from 10% to 30% in our business portfolio. The combination of FY '18 plan is currently at its final phase. And at this point of time, we aim at outperforming the numerical targets, mainly attributable to the contribution from Sompo International. Market is expected to harden due to the impact of hurricanes and so on. The strength of Sompo International and its entity is found to fuel a sense such trend in the global market. So that we'll be able to gain more profit.

Lastly, let me touch upon M&A strategy, a frequently asked question by investors. For this fiscal year, as was mentioned in May, our focus is anchored in PMI to some extent, while I should also say that we have a very steady and healthy financial base. So there's much room for us to utilize. for the entire group ROE improvement, our appetite for M&A still remains high. This slide illustrates mainly the image of the advanced markets targeting corporate customers and the emerging markets, targeting the retail business. We shall consider deeply together with Nigel Frudd, our Director in charge of M&A and John Charman, CEO of Sompo International. At any rate, hurdle rate and other quantitative criteria remain unchanged. And the B2B global platform should be also considered as feasible ready to deliver. And all other elements should be taken into consideration upon seizing any kind of opportunities.

Page 27 is for your information. So please take a look at that later at your convenience. That's all from me. Thank you very much.

Unidentified Speaker

So now we'd like to take the questions from the floor. And please raise your hand when you have a question. We will deliver the microphone to you. Please state your name and affiliation before addressing your question.

Questions And Answers

Q - Natsumu Tsujino {BIO 2234779 <GO>}

My name is Tsujino from JPMorgan. My first question is that at this time, you reorganized the structure to Sompo International and you changed the brand overseas to Sompo Agri. And it was such a dramatic change. Will there be advance implication to the sales activities? And my second question is for each of the 3 P&C companies, the -- yes, some are disclosing the ESR with different calculations and if you try to reconcile for this adjustment, I think everyone will be comparable to your level. But what's different is the size of the strategically held holdings, vis-Ã -vis the stock holdings that will be sufficient capital. But if you solve the strategically held holdings, you can release the risk and you can get the cash proceeds, you will mitigate the risk and you will get the expanded capacities. So I think there are those we can achieve that and those we cannot. And you have been selling down your stocks. So there will be JPY 1 trillion of difference, vis-Ã -vis the company who has the largest stock portfolio. So the capacity that can be created going forward maybe different. And I think there are many who are engaged in M&A's, sometimes paying a high price. But I think, in your case, you are very much disciplined. And given those background that I just explain, I think that's the way to go. But as CEO, how much attention are you paying on those points?

A - Kengo Sakurada {BIO 15149542 <GO>}

Thank you for the questions. My explanation may have been misleading. But the Sompo Agri is not a newly rebranded company name for Sompo International. That's one of the service brand under Sompo International. So we have the Sompo Agri brand under Sompo International. Agri comes from agriculture. So globally, we want to be the top 3 agri insurance players. So apologies for the misleading comment. And second point is a very important topic. We don't know the detailed calculation of the other company's ESR. But maybe for us, the capacity for us to create additional capital buffer maybe smaller than the others. But looking at the capital buffer, we have over JPY 1 trillion, in my view. And to date, we have maintained discipline in our M&A activities. So the question is, can we maintain that? And I think it's fair for us to say and ourselves, Nigel or John, are committed not to overpay for the transactions. So that's a strong belief shared among our M&A teams. Also I don't mean to preach. But M&A starts after making the acquisition. So you start on a huge step on day 1 and with PMI, there's lot of frictions and there could be unexpected costs incurred. And the profit may not reach the expectations and that could happen frequently. So the first discipline for us is to make sure that we do not overpay. And secondly, regarding this discipline, we are carrying a strategy, which requires this discipline. So it's not as if we buy something cheap and try to enjoy future profit for the group. That's not our policy. We want to use Sompo International as a platform. And we want to be buying new businesses, which can be put on this platform for the developed market. So regardless of the high or lower price level in the context of discipline, we are looking for candidates where we can create the synergy in the PMI process. So we have 2 disciplines over our M&A decisions. And in terms of interested business, basically, we are looking at P&C opportunities. But this does not mean that we are limiting our scope. Nigel Frudd is leading the M&A team. They are also looking at opportunity of life business with the discipline that I just explained. I hope that this was sufficient to answer your question. But this is our quantitative view in looking at our M&A strategy. Thank you.

A - Shinji Tsuji {BIO 16148256 <GO>}

If I may make some additional comments, this is Mr. Tsuji. The comment for M&A as part of our capital strategy, we have issued a hybrid bond this fiscal year as well as last fiscal year. And the total debt is roughly JPY 650 billion. And our leverage ratio is 17% and we are happy to increase this to 20%. That will still be our comfort level, which means that we have a capacity of roughly JPY 150 billion of debt that can be put into our capital base. So that kind of financing is something that we need to consider.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

When you say you can count that into capital under the current solvency rule, is that right?

A - Shinji Tsuji {BIO 16148256 <GO>}

When we finance, we communicate with the rating agencies. And at this point, we have a capacity that I just mentioned, which can be approved. Thank you.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

This is Watanabe from Daiwa Securities. I have 2 questions. first one is the FY '18 for the domestic P&C. On the Page 17 of the material, you were talking about the expense ratio, which was 30.9% is remaining flat. But around 32%. So are there any changes in the investment plan? And at the same time, the adjusted profits that is remained high. So there must be some positive factor to push up the profit itself. That's my first question. The second is return to shareholders. On Page 6, I think the phrases or the communication and the message that you were saying about the dividend policy or the shareholder return is changing, like you are talking about the DPS increase was also considered. So if that is taken into consideration, it seems that you are placing more emphasis on the dividend over other elements. That's my second question.

A - Shinji Tsuji {BIO 16148256 <GO>}

Okay. First of all, for the domestic P&C, combined ratio and the expense ratio, I think the communication was being done since long time that by the Olympic year of 2020, the -- we hope that the market would not change dramatically. And we've been preparing under that scenario. The upfront investment that we have been talking about for the domestic P&C business is the big changes in the mainframe and, as Sakurada mentioned, the digital strategy investment. Those are considered as the upfront investments. About two years ago, we have started to spend at the size of tens of billions. As a result, just recently, this expense ratio is on the right little bit. However, it is projected to go down, down the road. Then moving on to the second question about the shareholder return, well, regarding the plan, as you see on Page 6. And also as we have explained before, when we buy back the shares, as you can see on the right-hand side of the graph, we always do that in conjunction with the dividend rates. That's what we have done historically. Well the Nikkei average is hiking today. And in addition to that, our profit level is up so much. So that the buyback size is also enlarging. And the stock price, based upon the fact that the stock price is going up, the dividend yield must be considered. Since last time to the current year, we are expecting the dividend increase by JPY 20. That's the forecast that we've been announcing. But even with the dividend increase, the dividend yield is pointed out as relatively low that we should hike it more. At the same time, however, our big shareholders are based in North America and according to the current stock price, their opinion is that we should go for more buyback. So towards the end of the fiscal year, as Sakurada-san said earlier, well, after the financial closing time came, we will think about how we'll be able to return back because according to the current plan of the profit of JPY 195 billion, there will be a -- 50% of that will be JPY 97.5 billion. So we will need to think further of how to think the level is going to be.

Q - Masao Muraki {BIO 3318668 <GO>}

My name is Muraki from Deutsche Securities. I have 2 questions. The first one is regarding the overseas business. On Page 8, regarding Sompo International, for property and conventional (inaudible) the loss ratio seems to be increasing. But what are the areas of concern for you in regards to the increasing loss ratio? And you also mentioned revenue growth of 10% to 15%. You mentioned the agri crop insurance as one opportunity. But where are the other lines of businesses where you can expect premium growth? And my second question is in your comments about M&A opportunities, this year you will be focusing on the PMI. So I guess, from next fiscal year, you will be looking out for a relatively large-scale M&A as a potential. That was my understanding listening to your comments.

But at this point, do you have any investment opportunities in the pipeline, which can reach your hurdle line? And with the hurricanes, there's been impact on the RPM market and there's been pressure on the profitability. However, the prices of the insurance companies have been increasing, which means that the return rate of investment into insurance businesses may have been lowered. But given that background, the -- would you still be able to find opportunities that can achieve your hurdle rate?

A - Shinji Tsuji {BIO 16148256 <GO>}

First, let me answer your first question. As you mentioned, in addition to the hurricane in North America for fiscal '17, the Sompo International loss ratio has been increasing versus original expectation. For instance, the results for the policies covering the general contracts have been worsening. But generally speaking, the softening of the market was greater than expected. So that had a negative impact on the top line. So what about fiscal '18? We are now analyzing the situation at this point. And aside from the hurricane implications, we have the new leader for the direct underwriting team. And for the unprofitable contracts, we are reviewing the details. What kind of (inaudible) improvement on the loss ratio can be achieve through different efforts? And for Sompo International, to begin with, we wanted to minimize the Cat portfolio as much as possible to increase the underwriting business, particularly for the casualty coverage. Net Cat when it's incurred will have a big implication. But when there's an absent of net Cat, the loss ratio will be very benign. So as the course of our initiative takes place, maybe we can smooth out the loss ratio. And as for the top line growth potential, we have mentioned 10% to 15% growth. And we have to see if the market will actually hurdle going forward. But as Mr. Sakurada mentioned earlier, the team has a very strong capability in sensing that opportunity. That's one of the reasons why we acquired other business. As the market hardens, I think the team is probably thinking of a strategy to capture that opportunity. And we will consider all those opportunities and which we'll focus on the casualty business to grow.

A - Kengo Sakurada {BIO 15149542 <GO>}

So let me answer the third question. Looking back at the historical trend, over the last of 5, six years or so, the B2B business, including cat also particularly looking at the cat market in the last 5, seven years, on average, the premium has gone down by 65%. So when the previous level was JPY 100, right now, the premium is JPY 35. Also naturally, it should be recovering. But as Mr. Muraki mentioned, there was sufficient capital coming from outside of the industry, it has not stopped yet. However, based on a rough image of what the current hurricane implications, the capital of JPY 100 billion was depleted. Also I believe that the market will start to harden. The market has come down to -- by 65%. And if there's a depletion of JPY 100 billion of capital, I think the market should normalize. And in that course, we would expect the market and the premium to go up by 10%. And I think this will be a reasonable projection over the next couple of years. And answering your third question. So this year, we are focusing our PMI in the creation of platform that we are trying to pursue. If we are not wrong, it's just different from the platform strategy of alliance and others. On top of the platform, we want to put the businesses in that we'd like to create synergy and decentralize so that the business can be delegated to local management as much as possible. This is not just in terms of capital or system. But one of the most important element is to show the group culture. Now, we want to make it consistence -- consistent as quickly as possible. This will be a labor-intensive effort. Myself or the Sompo management must go to the offices and have thorough communication. So that we can communicate the vision of how we want to carry out the core overseas businesses. While we have some plans in place, reorganize the communication approaches and the rules in that we want to make English as a common language for the whole group. But we have the Turkish language and the Indonesian language. But we believe the integration of the intangible assets is going to be crucial. And no, I don't believe that we can complete the whole process within the fiscal year. It should take another 2, three years. But obviously, we will not just sit back to focus on PMI in the next 2, three years because we want to -- we do not want to miss any opportunities. And as some (inaudible) warrant, we will not make an unwise decision to buy something expensive. Right now, I have been told that there are some opportunities in the pipeline. But it has not been cascaded up to me. But we believe that we are not considering something with the (inaudible) multiple.

Q - Wataru Otsuka {BIO 16340098 <GO>}

This is Otsuka of Nomura Securities. I have 2 questions. First one is about overseas M&A plan. The second is about next year. Well as much as you can disclose is okay. The first question about overseas M&A. Well about the Canopius, you need to sell off, though this was already completed. I'm not going to talk about whether this was good or bad. But again, when you just look back, I just wanted to know the general comments from Sakurada-san or what was that learning lesson that you have learned from that case of Canopius. Well as you show on page 8, the global platform structure and also the future plan for the M&A. My simple question is, that anything that goes onto this global platform, I think there will be a variety in the pipeline. Are there many in the platform? And when you look at the margin itself, in aggregate, if that goes onto this Sompo International global platform, some of the company, which have the high margin might not really go together well in chemistry. That's what I wanted to say -- that I wanted to know. The second one is about -- well, I think that you have not changed any forecasted numbers for the next fiscal year. But when you think about the softwares in the Sompo International platform, reconstructions and so on, there should be some things that have -- that changed. So the achievement of the feasibility of about JPY 220 billion to JPY 230 billion, I just wanted to know how feasible that is.

A - Kengo Sakurada {BIO 15149542 <GO>}

Well the general comment about the Canopius case, first of all, to be very honest, for quite a long time, Sompo Holdings, when purchasing or searching for the overseas vehicles, have been looking for the potential company, which can be utilized as vehicles. Because we are industrial investor, not the financial investor. So after the acquisition, the acquisition should make us stronger. So that we cannot just buy. And the purchase cannot be the end point of the acquisition itself. We have to use it. Well that was of course the purpose of the purchase of Canopius. But the aim that we have had from the very beginning, their strengths was, of course, lie in the hurricane market. But we have found the company, which has the strengths in U.S. which was rather on our focus. Then when we talk about the possibility of whether we should have both, having the Canopius, which is quite strong in the Lloyd's business and the U.S. business. And there are, of course, some overlapping domains. When there are some overlaps, then we have to decide which one is going to be dominant. And when we decide which is going to take the lead, then we'll have to look at the size and the scope and the strength of each business. Then we saw Endurance should be the option. So the Canopius' top management and the Endurance top management were in discussion together with me. And we thought how we'll be able to integrate. But then, we do not want to go through the failure scenario where we will have 1 plus 1 equals to 2. We do not want to end up with something like that. So normally, what happens is that, if we are not going to be eliminating one out of which, then we might just finish up with having some kind of redundancy cut back. For example, the saving in the investment or the redundancy cut back in terms of the headcounts. Then if that's not the case, then if we'll be able to have a good connection with the Lloyd's business to continuous, we were just looking for the cases of whether there will be a potential of selling out and the good condition. Then we have found that there will be a case of the fund who might be a potential buyer. Then there was a fund. Well we had a very hard negotiation. But as a result, we came to the end and the conclusion and there cannot be a CEO and the buyers side, the fund. I came to the amicable conclusion. So for the profit that they have made a contribution to the holdings, we, of course, will get that and enjoy. Of course, there will be some losses that we have to have for the sell off of it. However, eventually, on the accumulative basis, we were able to enjoy the gain out of that as a result. So for the platform structure to be set, it should also follow the philosophy of what we have pursued. And we think we came to the good end by selling off the Canopius business.

A - Unidentified Speaker

Moving on to the second question. For the FY '18, the adjusted profit forecast was your question. On page 13, we have the numerical management targets. Well to say simply, for the domestic P&C insurance for FY '16, it was JPY 134 billion or JPY 135 billion. And for the domestic life, they were some down around JPY 20 billion and because of the natural disasters that was down by around JPY 35 billion. And there are some natural increase that would happen in the following years. But this JPY 120 billion on FY 2018 does include some uncertainties. For example, the possible increase of the rate itself and the premiums. So that there are some uncertainties that we needed to factor in. For the life insurance, if nothing happens, this is a stock business. So every year, there will be an addition of JPY 4 billion to JPY 5 billion annually. The Nursing Care and the health care business, if the occupancy would stay at the current level, then it would swing around this level. So the volatility remains in the overseas insurance. For the overseas business for this year, we have had a little one-off extraordinary factors. So we are trying to come up with some numbers on the fair basis. But for the FY '18, we have come up with this number. But we think there will be some numbers that we'll be able to have around this area of JPY 220 billion to JPY 230 billion as was mentioned.

Q - Koki Sato {BIO 19983862 <GO>}

My name is Sato from Mizuho Securities. I have 2 questions. Also regarding the reorganization of Sompo International. You have some tax benefit from tax effective accounting. And was that have been included in the acquisition price? I think with Canopius, you had a similar case. And with Canopius, effectively, there was some tax benefit with tax effective accounting. So the consolidation was not that long in terms of period. But I guess you enjoyed from that tax benefit. And the JPY 70 billion is a big figure. And if this was included in the acquisition price, the assessment on the price may differ. So let me confirm on that point. And on the second point, regarding the treasury stocks. What are your views on how to treat the treasury stocks?

A - Shinji Tsuji {BIO 16148256 <GO>}

Yes. Thank you for those questions. On your first question, Sompo International, or former Endurance Specialty Holdings, with the liquidation of that, we have this profit. And this was not included in the acquisition price at all. After the acquisition was decided, as we have been explaining in our pursuit to create a global platform, we were considering what will be the best way to reorganize the structure and through looking at different options, we came up with the idea of Sompo International, a new brand and a new organization. And the former Endurance Special Holdings, it will be liquidated. That, it was the decision that we made. And through that process, there's a tax gain. And also with the currency hedged, we have the hedge gain. And as a result of completing this process, we were able to achieve these benefits. So these were not reflected in the acquisition price at all. And on your second point regarding treasury stocks. We have been repurchasing our stocks. And those stocks have been held as treasury stocks without any cancellation. We have done various studies. But the European and American companies repurchase stocks and there's only a handful of companies who have canceled out those stocks immediately. Obviously, we have no intention to offer those treasury stocks in the market again. And there's no costs associated with holding these treasury stocks. And we have been discussing if there's a benefit in canceling those treasury stocks. In the future, we may cancel them. But for the time being, we will maintain and hold those treasury stocks without any intention of offering this in the market.

Q - Koki Sato {BIO 19983862 <GO>}

And I have a follow-up question on the second point. If you look at the other Japanese companies, they will cancel the stocks that they repurchased immediately after making that purchase looking at most of the P&C companies. And I think there could be some announcement implications. But would you be considering those? You do not see those benefit?

A - Unidentified Speaker

Yes. That is our view.

Please raise your hand should you want to ask your question. Majima-san?

Q - Tatsuo Majima {BIO 15338044 <GO>}

This is Majima of Tokai Tokyo. Look, you have referred to cat. Well the cat rate is expected to go up. Now the cat coverage has been exhausted. And that has been reinstated. This reinstated insurance premium is going to be delivered the current year, I assume. This premium, the reinstated insurance premium, what's the size of it? And is it going to be coming in the current year or not? That's my first question. The second on data, on Sompo International gross premium breakdown, well, for the next year and onwards, there would be the rate increase and for the cat, it will be an increase. For the others, the crops will probably going to have the hike. But for the next year and onwards, what kind of an effect do we -- you think is going to be a benefit? And what kind of a business or what kind of product category is going to have what kind of benefit?

A - Unidentified Speaker

Well thank you for your question. For your first question, we are expecting about JPY 3.6 billion. Well including cat, what would be the impact of the market hardening? Well I think there are many ways to look at that. And we're still examining. But in cat, for example, there will be more than 20%. The underwriting property is somewhere like 10% or casualty, 5%. So there will be a lot of interpretations and the number collection at the SI side at this moment. So as a whole, around 20% of the top line expansion is expected. That's the rough figure that we have today.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Well then, my further question is, what would be the timing of that?

A - Unidentified Speaker

For anything that will be coming in new, that will be posted even within the current year. I think that also varies. First of all, I think cat is going to have the rise, followed by property and then casualty. So that will be in that order, I think. So it's not going to be coming in one time.

Mr. Sasaki?

Q - Futoshi Sasaki {BIO 17564798 <GO>}

My name is Sasaki from Merrill Lynch. Regarding cat, I have one question. The retro session in Bermuda. I know that the premium has gone up by 20%, 30%. And it has a positive implication for the reinsurance business in the U.S. Are you also experiencing similar trend? And also for next fiscal year onward, this will have a big implication on the pricing for cat. That's my first question. And regarding the Agro insurance in the U.S., the public fund is becoming smaller so that the private insurance can take bigger risk. Will that have a positive implication for your agro business in the U.S?

A - Unidentified Speaker

Yes. Regarding the retro session for cat. We don't have a clear picture yet. But at Sompo International, they are thinking that it could -- that the premium could go up of -- by a substantial amount. And that's how they are calculating the premium on the direct underwriting. And for the Agro insurance, the U.S. coverage system, I think that kind of topic emerges every year. So there will be more risk retained by the private-sector. And if that is truly the case, there might be some adverse implications. But this topic is raised every year. So at this point, we will not be able to make an official comment on that. Thank you.

Any questions?

Q - Unidentified Participant

(inaudible) is my name. Only one question from me. You were talking about the chart of the stock price with the market cap that you are going to focus on the market cap as well. Well that market cap that you've referred to, according to the calculation is excluding the treasury stock itself, I think. But in that regard, if you are -- stay focused on the market cap, then rather than the buyback, you shall probably focus on the dividend for the shareholder return. Is that correct interpretation?

A - Kengo Sakurada {BIO 15149542 <GO>}

Well I'm sorry. I was just referring to the market itself. But I was just also thinking about the same of whether the treasury is included or not. But when we think about the market cap, the global peers or the competitors or the players anyway, well, the market cap of a fraction of them is not really good enough. So that we wanted to go for JPY 2.1 trillion. And to do so, whether the treasury is included or not was not really considered and that was not really thought. But the size of the market cap does have a certain meaning is what I meant.

Q - Unidentified Participant

So in that sense, rather than the number of stocks, I think you just want to double or triple that level of the stock price itself. Is that correct?

A - Kengo Sakurada {BIO 15149542 <GO>}

Yes.

A - Unidentified Speaker

We still have a little more time. Are there any questions from the floor? If not, I think we have received all the questions from the floor. So we'd like to close today's meeting. Thank you very much for your attendance despite your busy schedule.