Y 2020 Earnings Call

Company Participants

- Taizou Ishiguro, Group Leader of Corporate Communications & IR Group

Presentation

Taizou Ishiguro {BIO 20620398 <GO>}

Thank you very much for your attendance today. I am Ishiguro from IR group.

Let us now begin the Conference Call on Tokio Marine Holdings' FY 2019 Financial Results that we Announced Today. Now with that, I would like to walk you through the highlights of our financial results. Please turn to Page 3.

Let me start with the top line result in FY '19. After deducting the impact of the sales of TMR reinsurance business, our underlying net premiums written increased by 4.1% year-on-year.

To break this down: The domestic non-life business grew across all the lines of business, especially in the fire line of business. And the top line grew by 3.7% over the year outside Japan. Despite a decline caused by the underwriting practice focused on profitability, each business offset the decline through underwriting expansion and rate increases. And because Safety in Thailand was newly consolidated to our book, international top line grew by 4.8%. As for life insurance, due to the impacts of sales suspension of some corporate products at TMNL as well as tighter underwriting discipline in the medical loss business at TMHCC, the premiums declined by 6.8% from a year ago.

Next, statutory bottom line or consolidated net income. In FY '19, mainly due to the decline in profit in the domestic non-life business, our consolidated net income declined by JPY14.8 billion from a year ago to JPY259.7 billion.

Let me now share with you the highlight of the performance by the three core business segments. In the domestic non-life business, while the top line continued to grow, we were affected by large-scale natural catastrophes two years in a row. Compared to the previous year, the nat cat losses were smaller, but in the meantime, provisioning to cat loss reserve increased. Also, claim payment related to COVID-19 and valuation losses of securities were also booked. As a result, the profit declined by JPY28.3 billion year-on-year.

Next, in the Domestic life insurance business, mainly due to the decline of provision to the policy reserves in conjunction with the sales suspension of some corporate products, net income increased by JPY7 billion over the year.

In the international insurance business, while reserve provision was increased, where social inflation at Philadelphia and for crop and medical stop-loss business at TMHCC, respectively -- the impact was offset by a decrease in nat cat as well as favorable investment performance in North America. As a result, net income increased by JPY2.2 billion over the year.

As for adjusted net income, which is the source of our shareholder return, after deducting the impact of cat loss reserves as well as goodwill from the statutory net income, net income increased by JPY5.7 billion year-on-year.

Now turning to Page 4. As we announced already, FY '20 financial results were not available at this point. It is uncertain as to when COVID-19 situation is going to settle down, through what avenue economic activities will recover and how significant the impacts could be. Furthermore, in terms of regulatory and political development in Western countries, there is so much uncertainty and lack of clarity at this point. Under these circumstances, we judge that it is difficult for us to make a reasonable calculation on the impact of COVID-19 to our company's performance, so we will promptly disclose our reasonable estimate once it becomes available.

So for now, I would like to share with you underlying performance that we are now expecting without factoring in the impact of COVID-19 and our view from on the impact of the virus.

First, without taking into account the impact of coronavirus, we project our statutory consolidated net income to grow by JPY30 billion year-on-year to approximately JPY290 billion. To break this down by three core business segment: In domestic non-life business, in addition to the continued top line growth and measures to improve loss ratio, we also expect the nat cat losses to be on a normal level. And because valuation losses and securities in the previous fiscal year is not expected to be repeated, we expect the profit to grow significantly.

In the domestic life business, due to the absence of the increase in debt benefit in the previous year as well as decline in the non-personnel costs, the profit is expected to increase.

Now internationally, amortization of intangible fixed asset of Pure is heavy in the year 1. Because of this special factor, the profit is expected to decline, but underlying trends are expected to be positive in terms of underwriting in North America and profitability improvement in the Lloyd's business on top of the new consolidation of Pure Group.

As for adjusted net income, which shows our underlying performance, deducting the impact of cat loss reserves and amortization of intangible fixed asset of Pure Group, again without factoring in the impact of the virus, we are expecting a positive growth by JPY120 billion year-on-year to approximately JPY410 billion.

Toward the adjusted net income target of approximately JPY400 billion and JPY450 billion under our midterm plan, we believe we are steadily enhancing our capability as it has been planned.

On Page 5, we've included nat cat budget for FY '20 for your later reference.

Please turn to Page 6, impacts of COVID-19. We are already seeing JPY37 billion in our international business and JPY24 billion in Japan in the January-to-March quarter this year.

The breakdown is as follows. Impact in underwriting in overseas business consists primarily of payments for event cancellation. In investment, valuation losses and impairment of stocks are incurred in the United States. This is due to fluctuations in mark-to-market [ph] prices of trading securities. Therefore, this will fluctuate up and down in the future as well. This will -- these impacts will be reflected in our fiscal year 2020 first quarter results.

In domestic business, impact in underwriting were mainly payments for special products, and stock impairments led to investments impact. As a whole, total negative impact of JPY24 billion is incurred in fiscal year 2019 fourth quarter results.

Impacts of COVID-19 on the company and our responses and policies are shown on Page 7. For underwriting in Japan, limited mobility of people and goods is expected to lead to decline in travelers, distribution volume and new car sales, which will impact our top line. Drop in car accidents due to decrease in traffic and claims paid for business bankruptcy will impact our bottom line.

In overseas business, impact is primarily expected in event cancellation. Apart from that, business interruption, credit and/or surety are expected to see increase in losses.

Estimating the impact of COVID-19 is, as I said, very difficult. If, however, we are to surmise based on a scenario such as, for example, if the current situation continues until the end of June, with economic activities recovering in a phased manner towards the end of the year, we expect the impact in underwriting to be about JPY30 billion to JPY40 billion, mainly around event cancellation overseas.

Having said that, however, the impacts of COVID-19 are uncertain and unclear. These numbers can go up or down, and the scenario itself may be completely different.

COVID-19 will impact our investment, in particular credit risk investment. Our investment entity is Delphi, investing 16% or approximately JPY4 trillion of our total assets. Delphi conducts long-term and stable investments backed by insurance liabilities with high cash flow predictability without being affected by short-term market fluctuations, this, I am sure, you're all aware of. Delphi has been generating stable income during normal times at around 5% every year.

Returns dropped to around 2% after the global financial crisis or Lehman shock. How does the impact of COVID-19 compare with Lehman shock? Is it greater? There are references that we can look at such as central bank's responses and the credit spread levels. The investment-grade credit spread after Lehman shock was about 600 basis points, as opposed to 200 basis points now, 1/3 that of the global financial crisis, but these are references and the way of looking at the situation differ by person.

As I explained, estimating the impacts of COVID-19 is difficult. Therefore, we have not made our forecasts for fiscal 2020 available. What I can say based on that is, since we are an insurance company with global footprint, we will unmistakably be affected by the virus. Even so, it is not an event that will impact our capital.

Lastly, before closing, let me take you through shareholder return and ESR.

First of all, regarding ordinary dividends, as announced today, fiscal 2019 dividend will be JPY119 (sic) (JPY190) per share as planned. Fiscal 2020 dividend will be increased by JPY10 to JPY200 per share, achieving increase in dividend for 9 years in a row.

As explained, fiscal 2020 forecasts are not available. At present, our business performance excluding the impact of COVID-19 is, however, improving steadily. Our shareholder return policy is to achieve sustainable profit growth and increased total dividend. Our decision to increase dividend by JPY10 is in line with this policy.

Next is ESR. Please jump to Page 29 of the handout. ESR as of end of March 2020 was 153%, with the deterioration in market environment due to the spread of COVID-19. As this level is within our target range, our capital return policy remains unchanged.

However, as the market environment outlook remains unclear due to COVID-19 and in order to secure capital for future investments for growth, we have decided to have a pass on capital level adjustment for now. Shareholder return will be explained in detail at our first half IR briefing next week.

Lastly, I'd like to end my remarks by saying that, while the current business environment is challenging with major natural catastrophes 2 years in a row and social inflation in North America and now COVID-19, what we must do in spite of all this is to increase the capability of the group to earn in a stable manner.

We intend to squarely address these challenges and not only find our way out of the impact of COVID-19 but also seek sustainable profit growth. This is how we will respond to your expectations.

This is all from me.