

S1 2020 Earnings Call

Company Participants

- Osamu Nose, Head of IR and Finance Department
- Unidentified Speaker

Other Participants

- Futoshi Sasaki, Analyst
- Kazuki Watanabe, Analyst
- Koki Sato, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Analyst
- Wataru Otsuka, Analyst

Presentation

Unidentified Speaker

Here is Nose of Sampo Holdings.

Osamu Nose {BIO 4205216 <GO>}

Thank you very much for joining us today for the conference call of Sampo Holdings. I'd like to explain about the fiscal year 2019 first half results as well as the full-year forecast for the fiscal year. As to the management strategies for the later half of the current MTP, our CEO and other management members will explain about it next week at analyst meeting.

Please go to page two. These are highlights of the first half of fiscal year 2019. Mainly driven by the rebound from the domestic natural disaster impact of the previous year, consolidated ordinary profit was JPY63.7 billion, or up JPY35.9 billion, and consolidated net income was JPY43.9 billion, or up JPY21.7 billion.

As to the full-year results, we have reflected the status of domestic natural disaster, which occurred in October in our numbers. Full-year forecast of consolidated ordinary profit was JPY185 billion and consolidated net income of JPY118 billion. As I'm going to cover later on, domestic natural disasters impact and the adjusted forecast of large incidents are the major drivers. Excluding those impacts, baseline profitability remains robust.

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As to shareholder return for the fiscal year, assuming there is no big fluctuation in profit, our policy is to make this year's total shareholders' return greater than that of the previous year.

Please go to page four. Here is the list of numerical results of the first half. I'd like to explain about the factors behind those numbers on page five and onwards. Page five, please. Underwriting profit of Sompo Japan Nipponkoa. While reversed amount of catastrophic loss reserve decreased with good loss ratio, with rebound from the impact of domestic natural disasters such as Typhoon 21, underwriting profit increased by JPY37.3 billion year-on-year. Excluding domestic natural disaster impact in addition to consumption tax hike, large incidents increased by JPY6.8 billion year-on-year. Excluding these factors, baseline earned incurred loss ratio improved by 0.4 points year-on-year, remaining robust. With claims payment to be in progress going forward, on a full-year basis, reversal gain of catastrophic loss reserve will give positive impact.

Please look at page six. Investment profit. Despite negative impact due to stronger yen, reduction in strategically held shares as well as portfolio replacement leveraging the change in interest rates produced JPY62.1 billion of investment profit.

Page seven, please. Consolidated ordinary profit. Underwriting profit and investment profit, as I have covered, as well as SI's organic growth and nursing care business steady growth in profit. Consolidated ordinary profit was JPY63.7 billion, or up JPY35.9 billion year-on-year. As to overseas group companies, let me add that SI's local accounting is having some noise such as changes in hidden gains on assets being booked as profit.

Consolidated net income is on page eight for your reference. Page nine, please. Numerical list of full-year business forecast. As I mentioned earlier, we have revised it from that of the beginning of the year. Major points are on the next page. Page 10, please. Consolidated net income forecast has been revised down by JPY50 billion from the previous expectation. There are three major forecasts.

First factor -- three major factors. The first factor is domestic natural disasters such as Typhoon 19. Expected loss amount incurred, reinstated premium for reinsurance, reversal of cat loss reserve and temporary addition to underwriting reserves led to minus JPY35 billion from the previous forecast. By the way, temporary addition to underwriting reserve is to be deducted from adjusted profit.

Second factor is large incidents. Based on the status of the occurrence of large incidents in Japan recognized in October, Sompo in October, Sompo Japan Nipponkoa's large incidents for the year forecast was revised from JPY19 billion to JPY26 billion.

Lastly, business results -- business forecast revision of Sompo International. The plan is expected to expand, as originally expected, but the other large incidents impact made the revision of bottom-line by about JPY11 billion.

Page 11 has the ordinary profit level breakdown of business forecast. Page 12, results progress rate; and page 13, numerical management targets.

So much for consolidated results. Moving on to domestic P&C business on page 15. From here off, I will go over Sampo Japan Nipponkoa overview of first half. As for each items, I would like to go a little more into detail on the following pages.

So let's turn to page 16, net premiums written. This increased in almost all product lines. For example, the retail side increased. Automobile insurance has performed well through product revision in 2019 January. And also, we saw good performance in fire and allied lines through increase in new policies centered on long-term policies as well as unit premium increase through the increased coverage. And we also saw increase in lines for corporate through rate optimization and progressing in all products in common, driven by new other products.

Next will be earned incurred base loss ratio. Mainly due to a decrease in net losses incurred from domestic natural disasters, for the -- at the end of first half, we saw this improvement to 63.0%, an increase by -- improvement by 10.4 percentage points vis-a-vis last year. For the full year, we look conservatively at domestic natural disasters and large loss. Well, that -- well, with that, we are going to expect 64.8%, an improvement by 2.4 percentage points vis-a-vis last year.

Turning to page 19. Here, we have the expense ratio. At the end of first half, we ended at 33.1%, which is a decline by 0.4 percentage points vis-a-vis last year. We have been able to keep good control for personnel as well as property expenses.

On page 20, we have combined ratio, which is the sum of loss ratio and expense ratio. We will now turn to page 21. Here, we have investment profit. As for first half, I've already explained earlier. But then, if I may supplement about our reduction of strategic holding stocks, the amount of actual stocks sold stands at JPY35.5 billion at the end of first half. But then, we feel no problem in achieving approximately JPY100 billion at the end -- for the full year.

Now for the full year forecast, we are going to go through exchange parts of portfolio -- we are going to exchange parts of portfolio, looking at the market environment, thus, revising upward gains of sales of security. And this will be the main reason for the investment profit to be revised up by JPY6.8 billion to JPY150 billion. Interest and dividend income, gains on sales of securities, appraisal profit or loss would be on next page.

Let's turn to page 23 now. Here we have business forecast for Sampo Japan Nipponkoa. The assumption of the business forecast is on the following page 24. And also, on page 25, we have the usual data around automobile insurance. So please refer to them later.

We will now turn to page 26. Let me supplement a bit on domestic natural disasters. The group's incurred loss at the point of first half stands at JPY144.5 billion and net incurred loss, JPY43.1 billion. For the full year, we are going to take in some buffer, for example, the net claims for the Typhoon No. 19 in October as well as damages from snow in winter. We forecast the full year's net incurred loss from domestic natural disasters to be JPY96 billion.

And so therefore, this means that we are going to increase the budget for these natural disasters by JPY43 billion from the previous JPY53 billion we had at the beginning of the year. On fund and reserve, we have the reference data on the next page. This concludes domestic P&C insurance.

Next, I'll move on to overseas insurance. Please turn to page 29. This is the overseas insurance. Adjusted profit for first half have achieved JPY27.7 billion, which is an increase by JPY500 million vis-a-vis last year through organic growth mainly by SI.

For the full year, we have revised down the number to JPY47 billion from the initial JPY59 billion. This mainly comes from large incident or large loss in SI, causing its performance to be revised down by JPY11.3 billion. On page 30, we have business results by region, and on page 31, we have highlights for each group companies. Please refer to them later.

We will now turn to page 32. Allow me to supplement more about SI performance. I would also like to note that the figures here are shown in US dollars. At the end of first half, we had an increase in provision of loss reserve related to natural disasters, but this was offset by top-line growth outperforming the market and better expense ratio. And so therefore, we have been able to see an increase vis-a-vis last year.

For the full year, we are going to -- we have adjusted the bottom-line for multiple large losses as well as this increase in provision of loss reserve related to natural disasters. Also, on the following page, we have figures for Sompo International. This concludes overseas insurance. Next, we will move on to domestic life insurance.

Please turn to page 35. Here, we have the overview for Himawari Life. We saw a steady increase in policy as well as steady reduction of expense.

In other words, we are progressing in line with the plan. There is no major change to our full year's outlook compared to what we announced at the beginning of the year. The change factors of net income for Himawari Life is shown on next page as well as adjusted profit on page 37. Please refer to them later. This concludes domestic life insurance. Next, let me move on to nursing care and healthcare.

Please turn to page 39. Nursing care and healthcare business. The main indicator for nursing care would be occupancy rate. This continues to improve. And so therefore, the net income at the end of first half stood at JPY2.5 billion, which is an increase by JPY300 million. There is no major change to our full year's outlook. The trend of occupancy rate is shown on page 40 as your reference material. This concludes nursing care and health care business. Last part is ERM and asset management.

Please turn to page 42. First, we show our ESR. We did see an impact from the interest rate decline. But then, our ESR is at the same level as with the level at the end of 2018 through reduction in strategic holding stocks. Therefore, we still find our ESR financially sound. On page 43, we have a breakdown of adjusted capital and risk. Please refer to them later.

We will now turn to page 44. My final part of the presentation is about the group-wide asset portfolio. But then on the following pages, we have portfolios for Sampo Japan Nipponkoa, SI as well as Himawari Life. I hope you will be able to refer to them later, but there is no major change.

This concludes my presentation. Thank you very much.

Questions And Answers

Operator

Thank you very much. Now we will move on to Q&A. First, from SMBC Nikko, Mr. Muraki, please.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. My first question is about the fire insurance and additional reserves. How much is it? And also, as to the provisioning part, ordinary underwriting reserves for natural disasters is deducted from the adjusted profit. And why is that?

A - Osamu Nose {BIO 4205216 <GO>}

Muraki-san, thank you for your question. So your question is about fire insurance and ordinary underwriting reserves for natural disasters, and actual provisioning amount, and as to deduction from the adjusted profit and why is that.

So first of all, as to the additional provisioning, extraordinary provisioning after tax, JPY17.5 billion is the scheduled. This is after tax. And as to the deduction from the adjusted profit, the catastrophic loss reserve, as is the case for these results, there are regulatory reserves. So we have applied the same approach to it, namely, deduction from the adjusted profit.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. My second question is about overseas business. Page 33, as to SI. So this time, loss ratio compared to the previous forecast is aggravated, while expense ratio has improved. Could you please elaborate on that? What is different from the forecast at the beginning of the year? And also, as to liability line, I think there are big losses.

As to -- this increasing trend of the lawsuit cost is impacting the results of SI?

A - Osamu Nose {BIO 4205216 <GO>}

Muraki-san, thank you. As to your second question, it's about the overseas business, insurance business. Also aggravation of the loss ratio and also the improved expense ratio, how is it different from the original forecast? And also, your question is about the increasing trend of the loss related to the CALI.

As to Sompo International loss ratio aggravation. In the previous year, there are the natural disasters and the loss reserves for that. But for the second half and for the full year basis, there are large loss incidents, and there's impact from that. In addition, for crop insurance, results are aggravating, and that is also reflected. And all in all, loss ratio went up. And as to Sompo International, we have been reducing expenses and the fees and the commissions, and the net expense ratio are improving.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. I'm sorry. Yes, please.

A - Osamu Nose {BIO 4205216 <GO>}

As to your second question, in other words, losses related to the liability line. The SI's large incidents and its impacts exist, and the liability loss aggravation is existent. And talking with Sompo International people in the US, for example, social inflation is one of the buzz words, and such inflation is actually giving some negative impact on results for this fiscal year. That said, social inflation is emerging, is becoming more visible. So Sompo International is taking some preemptive approach -- has been taking preemptive approach. Thank you.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. As to SI, additional question. You have released about Sompo International's CEO change from Nigel Frudd to Okumura-san. And from January 1, Sompo International is going to be a controlling company of all the overseas operation. Sompo International Overseas owner, John Charman, and Sompo International Holdings CEO. What is the job allocations between the two?

A - Osamu Nose {BIO 4205216 <GO>}

Thank you. Today, we have released that news about the personnel rotation. As you pointed out, as of January 1, SIH CEO, Nigel Frudd, will be replaced by Holdings CFO, namely Mr. Okumura. As our release mentioned, SIH is going to be the controlling company of the overseas operation to have more the linkage with the group strategies, and that's why we will put Mr. Okumura in that position, while Nigel Frudd, he has completed his role in the context of transformation, and now he would like to focus more on M&As.

As to John Charman, the CEO of overseas insurance and reinsurance business, and Mr. Okumura's relationship, basically, John Charman will continue to be owner of overseas, the business. And he will supervise the overseas business, which includes SIH managed by Mr. Okumura. But when it comes to SIH, which will cover all the overseas entities, and Mr. Charman will continue to work on how to grow overseas business. And so he will think more about strategies. So that is how they are going to coordinate their work.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you very much.

Operator

Thank you very much. Next question comes from Ms. Tsujino from Mitsubishi UFJ Morgan Stanley Securities.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you. I'd like to think -- ask about the underwriting profit for domestic. And every time, I always hear about some of the -- you always exclude provisions for cat loss or provisions for reserve for price fluctuation. But then you saw JPY30 billion or more decline this time. But then on the full year, you are in line with the initial -- you are more closer to what you had initially. In other words, the difference is just JPY16 billion. And of course, for example, there was this reserve before the tax hike or there was this large incidents that you had to prepare for. And so, I'd like for you to explain a little more about what kind of difference you have now. But then again, I would also like to highlight the full year. You have gone down by JPY16 billion.

And that would mean this provision in your underwriting reserve related to natural disaster. This is something that you probably had not been expecting initially. And if you try to include that, that you may come with JPY17.5 billion, and then also the reinstated insurance, which is going to be more than JPY10 billion. So you have all of that. But still, for the full year, the adjusted underwriting profit, it, of course, has been revised down.

But still, it is JPY16 billion. So, there must have been something that offset it -- that offset some of the declines that you saw. So can you explain to me the details?

A - Osamu Nose {BIO 4205216 <GO>}

Ms. Tsujino, thank you. So your question is, again, for the domestic business, the adjusted underwriting profit. If we exclude any, for example, provisioning and underwriting reserve for natural disasters or for a cat loss, what is the full year's impact and also some details around some of the impacts or change factors to the full year's, so some of the factors that pulled down the figure for the first half.

So for example, commission and other elements, we can point out to the long-term policies for the fire insurance, which accounts for JPY6 billion amount. And also, reinsurance cost has deteriorated by several billion yen. And also, tax hike, that's another JPY4 billion of decline. And again, the loss ratio deterioration for fire and allied insurance, that's another JPY6 billion. And in 2018 January, there was the price reduction of the automobile insurance.

And so, there's still JPY2 billion impact from -- the negative impact coming from there. And also, large incident loss. This has increased more, which accounts for approximately JPY7 billion and, again, excluding anything around natural disasters. But then, there is still like JPY1 billion or JPY2 billion. So that, all in all, I can say it totals to JPY30 billion amount of deteriorating factor.

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Now why do we -- why are we not seeing all of that for the full year's? There are some positive factors, of course. So for example, some of the new other areas are marine insurance, the loss ratio has improved there. So, these are some of the factors that offset some of the decline.

Thank you. Another question?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So for SI, you mentioned about the changes in the top member. So, it is now going to be led by Mr. Okumura. So in SI, I'm sure you'll be thinking of managerial areas, administrative areas as well. But then, the North America portfolio, that Sampo Holdings would have is now going to be really interested to SI. And so, for example, areas like pricing, you would have to look at the pricing and rate. But then, with the new top personnel coming from Japan, do you think you would be able to now start looking into areas, even to the pricing, as you try to look into new ways to run SI?

A - Osamu Nose {BIO 4205216 <GO>}

Thank you for your question. So your question -- your second question is around some of the personnel changes in SI. So now our Japanese product policy, in other words, some of the pricing methods, would this also be applied for what is going to be offered from SI? Now Sampo International already looks into what we offer in, for example, North America and as well as Europe. Some of the portfolio we would have with Japanese companies is something that is already being looked together with SI and also from Japan.

This is something that we already had been putting into practice. But now, we have a stronger framework. SIH is now going to be led by Mr. Okumura. But then, that doesn't mean that we are going to be changing drastically what SI had been practicing. There still is going to be the collaboration that we've had from before.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you.

Operator

Thank you. Next, from Daiwa Securities, Mr. Watanabe, please.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Here is Watanabe of Daiwa Securities. I have two questions. First, page 26, on the domestic natural disasters. On a primary basis, gross basis, how much the claims payment is expected? And what is the impact coming from Typhoon 19? And as to the nat cat -- the catastrophic loss reserve, are you going to have some extraordinary provisioning to it as was the case for the previous year?

A - Osamu Nose {BIO 4205216 <GO>}

Mr. Watanabe, thank you. So the question is about the domestic business. And first of all, natural disasters, the overall -- the gross -- the claims, the payment and the impact coming from Typhoon 19 and the extraordinary provisioning of the cat loss reserves. Starting with natural disasters, so the gross, the incurred loss is JPY322 billion, in which JPY140 billion [ph] for Typhoon 19. As of the end of the year, extraordinary provisioning depends on the reinsurance structure of the coming year. So at this moment, we will just look closely at the actual -- or the claims payment, and we will continue to discuss as to the potential additional provisioning.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Next, my second question is page 33, about SI overseas business. Compared to the other previous forecast, gross premium is raised, while net premium is revised down. This means that the retention will go down. Why is that? And as to the sale -- the gains of the other securities did more than JPY20 billion. Could you please elaborate the breakdown of this number?

A - Osamu Nose {BIO 4205216 <GO>}

Mr. Watanabe, thank you. As to your second question, it's about Sompo International. The first question is about gross premium is increasing, but compared to that, net premium increase is coming down. Maybe retention is coming down, and why is that? And the second question is about the full-year 2019 fiscal year adjusted profit has minus JPY27 billion, and why -- the background of this number.

As to your first question, as to gross premium and net premium comparison, the retention coming down, yes, that's right. That said, for Sompo International, it is revisiting the strategy very actively. So if there are any policies that they believe the deal [ph] was retaining, of course, they would do so. And for other cases, they will just see the business to reinsurers.

So at this moment, these are the numbers that we are looking at. But going forward, when the market is hardened and when they think that it's better for them to retain more of the other businesses, and then they will retain more business we believe.

As to your second question, minus JPY28 billion on a full year basis. Because of the changes in the other hidden gains on the sale of the securities, they have this JPY28 billion assumed. In other words, the securities held by SI, hidden -- the gains increased by JPY28 billion, and that will be reflected in the other net profit. And when it is converted to the adjusted profit, that will be deducted. So that is why minus JPY28 billion.

The additional question about -- the second question. So the \$3 million -- \$300 million, that is included in the original forecast according to the assumed gains of securities. Well, it is basically the interest and the dividend payment. So, it is rather visible as a schedule, and such numbers are booked.

And as to minus JPY28 billion, it's not about the coupon. It fluctuates according to the market price. Interest rate is coming down, and the hidden gains are increasing. And you

can leave it as it is. But from this year, the SI, because of the IFRS applied, the increase in the hidden gains is inflected in the other net income, and that should be adjusted for the adjusted profit.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you.

Operator

Thank you very much. Our next question comes from Mr. Otsuka from JPMorgan Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I am Otsuka from JPMorgan Securities. Thank you. My first question is on page 26. Mr. Nose, you mentioned about the gross incurred loss from Typhoon 19. It was JPY144.5 billion. But then, there was Typhoon 21 last year. I think that was JPY290 billion. Compared to that, how do you see Typhoon 19? And also, like overseas modeling company, they also had some numbers. Compared to that, I feel like this number is quite small. What are the reasons behind that? For example, it was more about the local areas that was damaged instead of metropolitan areas, or perhaps it was because it wasn't the three mega companies that did the underwriting, or it was other program -- insurance programs, and so -- like mutual aids, and so there was this difference there. Or how do you analyze the difference?

A - Osamu Nose {BIO 4205216 <GO>}

Thank you, Mr. Otsuka, for your question. So your question is about domestic natural disasters. I mentioned earlier about the impacts of Typhoon 19. I mentioned the gross incurred loss is JPY144.5 billion. And so if we compare this number to Typhoon 21 last year, and for example, compare it to other modeling companies, it seems like the number is smaller. Why is that? That is your question.

So I would say there are probably several elements but one major reason. Typhoon 21, the damage was caused by strong wind, compared to the Typhoon 19, the damage was caused by heavy rain. In other words, the damaged area was very large. The flood damaged very wide parts of areas, many parts of areas. So the number of incidents would differ depending on where the damage comes from, whether it comes from wind or rain. For example, Typhoon 19, it's not that the damage was smaller. But then when it comes to the amount of the claims itself, on the unit cost itself, it would rather be more because there were flood, but then there'll be less number of claims.

Now what -- how would the overseas companies do the modeling? That is something we'll not be able to say. But then I would think that they came with the worst-case scenario. Model companies, they probably would not want to undermine any impact, so that is why they decided to look at the more higher part of the numbers.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you. I understood well. My second question goes to page two. It's about the shareholder return. Can you give us a little more flavor or color? I'm sorry to just look at your wordings. But then you mentioned that you are trying to make sure you'll be able to at least surpass the total payout of previous year. But then I think you showed 60% of total payout ratio and adjusted profit. If you look at the base adjusted profit, that would be like JPY110 billion.

That will be the amount of total payout amount, the payout amount. So was there any change here? You're now saying this in a different way. You're saying that you will at least try to go above the number that you have for last year, which means you must be talking about something a little over JPY82 billion. So was there any change to, for example, the shareholder return policy?

A - Osamu Nose {BIO 4205216 <GO>}

Thank you for your question. For the shareholder return, what is our policy behind that? That is your question I took. As you know, we had a downward revision. And so based on this, the total payout ratio that you are assuming would be 50% to 60%. And so that would mean like 50% of JPY128 billion, which means the amount of payout would be close to JPY60 billion.

But then what we are looking at, at the moment will be a little different. In other words, we want to base ourselves to the previous JPY82 billion. This is the floor line. This is the baseline regardless of the downward revision that we announced. That is what I wanted to express here.

Q - Wataru Otsuka {BIO 16340098 <GO>}

In other words, at the beginning of this year, you said that your target rate for a total payout ratio will be 50% to 60%. And you changed this, I guess. But this adjusted profit itself has changed from your initial assumption. So people like us, we should now sort of change our mindset and focus first on the JPY82 billion. Is that what you're saying?

A - Osamu Nose {BIO 4205216 <GO>}

What we are just trying to say here is at least achieve JPY82 billion or more. And of course, there is still an upside possibility for full year's performance. And of course, there is still a chance that we will be offering more. But then, I'll remind you, this is just an interim point. There still are uncertainties as we look down the road. For example, some of the capital needs or some of the performance, that is going to be what we'd be looking at before we'd be able to determine the year-end payout.

And so at the moment, we're saying that the baseline or the floor line is going to be JPY82 billion.

Q - Wataru Otsuka {BIO 16340098 <GO>}

If I may ask once again, in the large meeting you had in May, P&C -- you said that you are really going to aim for the highest payout ratio among the P&C companies. But is there any change to that word that you had?

A - Osamu Nose {BIO 4205216 <GO>}

That was what our CFO said. The total payout ratio, I guess this is something that may have caused unnecessary confusion here. But then as we try to think of the ultimate payout, we do pay attention to what the peers are doing. It's not about that payout ratio itself. We're not trying to change that -- the idea behind our total payout ratio.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you very much.

Operator

Thank you. Next, Mr. Sato from Mizuho Securities.

Q - Koki Sato {BIO 19983862 <GO>}

Sato from Mizuho Securities. I have two questions. First, I'm sorry to stick to this point, the domestic natural disasters. And overseas modeling companies or insurance companies are having very conservative forecast probably because of the Typhoon 21 and the unit -- the cost rise, which happened last year. Going forward, the gross incurred loss due to the Typhoon 19, if it increased, what will be the impact on net incurred loss, ELC or aggregate coverage you have, but more of the aggregate coverage from this year? So if you are at the threshold, do you think you will be just well covered?

And as to overseas natural disasters, so you revised your plan. And is there any change in the assumption? And also, the Durham and the wildfires in California and how to reflect -- how are you reflecting these disasters in the forecast?

A - Osamu Nose {BIO 4205216 <GO>}

Mr. Sato, thank you for your questions. Your first question was about domestic natural disasters. So the creep in the unit cost increase due to Typhoon 21, made you think that the same thing could happen to Typhoon 19, then what happened -- what happens? And as to the second question, it's about overseas natural disasters.

As to your first question, domestic natural disasters, the modeling companies, for the loss creep -- they're concerned about loss creeps, which we observed last year. I agree. As to the gross incurred loss of JPY140 billion of Typhoon 19, that's the current estimation. Even if this number increases, ELC has a cap. So there's no impact on net incurred loss.

As to your second question about overseas natural disasters. As to wildfires in California, are you talking about the wildfires which are currently happening in California?

Q - Koki Sato {BIO 19983862 <GO>}

Maybe in October?

A - Osamu Nose {BIO 4205216 <GO>}

So you're talking about wildfires this year, okay. Basically, Sompo International natural disasters, as we covered at the beginning of the presentation, we had some impact coming from last year, but when you smooth that out, it will be slightly over the original forecast. But it is in line with the forecast, more or less. As to this year's -- the wildfires in California, at this moment, Sompo International has not reported to us that the risks are rising.

Of course, we have exposure to wildfires, and I do not deny the possibility of hearing some report of aggravated risks there. But at this moment, that's not the case. It is not giving any big negative impact on Sompo International's results.

Q - Koki Sato {BIO 19983862 <GO>}

Second question -- the second question, for my reference, could you please compare to the budget for the overseas natural disaster and that after the revision? And the loss creep impact, how much is it in the case of the overseas business?

A - Osamu Nose {BIO 4205216 <GO>}

Okay. So the comparison of the budget for the natural disasters this year and last year, JPY23 billion [ph] is the full year, and the current trend is lower than that trend. And the development from the past year exists and nat cat impact of this year combined together, about JPY2 billion or so negative impact on the results.

Q - Koki Sato {BIO 19983862 <GO>}

Thank you.

Operator

Thank you very much. Next question comes from Mr. Majima from Tokai Tokyo Research Center.

Q - Tatsuo Majima {BIO 15338044 <GO>}

This is Majima. Thank you. My first question is about large incidents in Japan. So, I'm sure this has been experienced by other companies as well. But you have raised it as one last reason or the reason why your profit is declining. So, was there a large incident that only you were engaged in? Or was it that it was covered by several other companies, but then you just have to see a large impact and this large incident? Can it happen again? So, that's my first question.

My second question is about SI. At the beginning of the year, I think it was a large meeting or, perhaps, a conference call. There was a person from SI who said that this reinsurance

is something that SI is going to be really aggressive from here on. But then, it seems like the retention is dropping at the moment. So the plan at this Holdings side versus what the SI is trying to do, I'm sure there would always be some certain gap. So, this is something that we would have to accept. Is this the way we're supposed to look at this?

A - Osamu Nose {BIO 4205216 <GO>}

Thank you, Mr. Majima. So, you raised two questions. Your first question was about the large incident loss that we had in Japan. Was it something that we were the only company engaged? Or were there -- was this something that we're engaged with others? And also, for Sampo International, the thought of Holdings versus thought in SI. Would there be any difference or gap between the business indexes? So your first question about large incident. So it is like a buildup of each specific items, so allow me to refrain from going into details.

So going to the second question about the business strategy of Sampo International, Sampo International would be delegated of the right to decide, for example, how they're going to run their business, the business strategy. This is something that, of course, Holdings side would, first of all, give an approval to the plan.

But then, if there are some good logics, Sampo International do have the right to make some changes. But then, it's not that we have a difference in how we look at the strategy or the direction forward. It's not that we have difference between Holdings and SI. It's just that SI would have a more agile hand in putting these strategies into practice.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you. Can I go back to the first question? So you may not be able to go into details, but is this something like a one-off event?

A - Osamu Nose {BIO 4205216 <GO>}

Yes. You are right.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you. Thank you very much.

Operator

So, the time is running up. The last question is from Mr. Sasaki of Merrill Lynch.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Here is Sasaki, Merrill Lynch. I have just one question. So as to the underwriting the reserves or additional reserves for natural disasters, so you have provision with the small - amount, it's small, and you did not disclose it? Or this time, you have decided to add more the provision for natural disasters for some reason or other?

FINAL

A - Osamu Nose {BIO 4205216 <GO>}

Mr. Sasaki, thank you for that question. So your question is about the underwriting reserves for natural disasters. The question is whether we have had that reserve or not. We -- actually, we haven't. So this is the first time that we have that provisioning for the reserves for natural disasters.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I'm looking at the bylaw here. So the earned premium and the fund for large natural disasters and you look at these two and the ratio between the two and you -- the provision for the natural disasters, so are you saying that the fund size is now larger than before? Thank you.

A - Osamu Nose {BIO 4205216 <GO>}

Getting to the rules, there are some elements there. As to natural disaster fund, there's a reinsurance structure giving impact. So, now we have a bigger reinsurance protection, so that fund is not really relevant. Rather, going back time -- and the loss ratio, excluding the extremely large natural disasters, is now working as a trigger for us to have provisioning.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I'm sorry, so the big disasters last year were not triggered, but this year's is triggered. Is that what you're saying?

A - Osamu Nose {BIO 4205216 <GO>}

Last year's disasters are too big to be included in the average, the loss calculation of the past years. This year's disasters, however, are included in the calculation. Thank you.

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