Shareholder/Analyst Meeting

Company Participants

- Kengo Sakurada, President
- Unidentified Speaker, Analyst

Other Participants

- Futoshi Sasaki, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Taichi Noda, Analyst
- Wataru Otsuka, Analyst

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

As introduced, I am Sakurada, the Group CEO. First, thank you for coming to our IR meeting despite your busy schedule. It seems that it has stopped raining.

I am sure that you are interested in hearing about our next medium-term management plan at Sompo Holdings that will start from next fiscal year. We have been spending quite a lot of time on internal discussions regarding this. And work continues as we speak.

Thus, we are planning to share the details here next May. But as the Head of Management, I would like to touch upon the outline of the plan today.

For the other items, we have already disclosed the content at our results meeting and through phone conferences. So I am going to skip those pages. But if you have any questions related to that kind of content, please ask questions during the Q&A session.

So first I would like to move on to page four -- or page 1. Here are the key points for today. I'm sorry, it's not page 4; it's page 1.

Here are the key points for today. This fiscal year is the final year of the current mid-term management plan. As I explained back in May, progress against target continues to proceed well based on what we achieved. You may be interested in, the market may be interested in the next mid-term plan. And what we are striving to achieve in it.

But qualitatively with regards to our Group we would like to become globally competitive and truly transition to being a service-oriented industry. We have reiterated this point. In the next medium-term plan we'll be able to show this in a more detailed manner and we'll be able to also present a business model. We believe this will be the most important part of the next mid-term plan.

The five-year period happens to lead up to 2020, the Olympic Games year. With five years as an assumption, we are in the process of depicting a picture in which we enhance corporate value and grow EPS and ROE.

We would like to have an optimal managerial resource allocation; and, we would like to ensure that digital technology becomes a growth driver. People call this disruption. But we would like to monitor the trend and capture opportunities. So that we could ensure we obtain opportunities for game changes.

I'm sorry I'm being a little vague. But we are currently right in the middle of having discussions around the next mid-term plan.

Our Group, by engaging in this, we would like to strive to become different from competition.

Having said that, with regards to key points of each business segment, it is pretty clear cut our most important business segment, one can say, is the domestic P&C business. For this business we would like to continue to strategically transform the profitability structure. The pie is not likely to grow although people will be competing for share. So we need to ensure that we pursue further business efficiency improvements.

As growth areas one will be the overseas business, the overseas P&C business. Also, the domestic life insurance business is a growth area as well. Thinking about the characteristics of Himawari Life we believe that there's still opportunity for substantial growth. So we would like to be active on that front as well.

As a matter of course, from a managerial resource point of view, for the overseas business and the life insurance business, we would like to shift the resources in an active manner than before. And also turn them into growth drivers for the Group.

One thing I would like to reinforce is we would like to evolve ourselves in being a true service provider. So it's not just about selling P&C insurance. But we would like to ensure and provide that we offer high-quality services to our customers with the key words security, health and wellbeing.

One of the rare growing markets in Japan is the nursing care and healthcare business and we have decided to engage into this business in earnest. We have just announced the acquisition of Watami's nursing care business. And we have just established a company called Sompo Care Next.

So please turn next to page 4. From here on we'll be talking about some numbers. But it's pretty clear cut. So I would like to go through it briefly.

So here we show a slide on adjusted consolidated ROE and EPS, the Group's key indicators. We've been seeing steady improvement of these indicators. 7.6% is the target for this full year. At this point in time, we believe it is fully achievable.

Also, we have committed to you adjusted consolidated ROE of 7.6% or more. We see this as a passing point. Once we achieve it, we will strive for higher ROE. So we believe this is a passing point.

Also, for adjusted EPS, we are continuing to see increasing trend. So we would like to continue to show good results on this front.

Based on improved key indicators, an increase in shareholder return has been realized as well.

Let me now turn to page 5. Here's the forecast for the final year of the mid-term plan as of this point in time. Basically, there are no major changes. Each of the business segments, as you can see here, whether it be domestic P&C, up to financial and other services, each of the businesses are steadily engaging in their work. We are not concerned about how things are progressing.

So now please skip to page 10. From here I would like to talk about something abstract. For the direction of the next mid-term management plan I'd like to talk about our core strategy.

VUCA world, is written on the slide in table [ph], convention in which I attend recently. Global business leaders often use the word VUCA: volatility, uncertainty, complexity and ambiguity. This is a really uncertain world. This is where we are and this is the area we are entering into.

What is needed in the uncertain time called VUCA, it's really difficult to plan, or the plan is overturned sometimes. It's the same for our Company too. However, global leaders do not think so. And I have talked with the other officials as well.

In this VUCA world there are certain things that are necessary for us. The first one is the speed of business management. Agility is the most important thing. Agility is the most important thing. But unless you take an action you would never know.

If you think you've failed after taking action you have to change your direction immediately. That's the speed of the management. That should be essential.

Also, you have to target certain directions. You have to target certain areas where you are very good at even though it's very difficult. You have to narrow down the list of your target market and customers.

Also, you have to predict the future direction of your customers thoroughly.

Within the Group we create scenarios over the future customer movement and market movement. Once you prepare the scenario we share the scenario with the Board members. So that every one of the Board members believe in the direction.

In this VUCA world we have to be agile. At the same time, we have to thoroughly pursue our own scenario that we create, based on which we have to really focus on our future direction with unraveling determination.

So scale and size matter. In this uncertain world with a lot of changes, we need to have resilience in our organization. So even though our one organization is small, as a Group, we need to have size and scale. So scale matters.

In that sense, during this next mid-term management plan period, as a bottom line. But this should be difficult to compare globally apple to apple. But we'd like to make profits of the global top 10 level. That is our aim. So that we can be globally competitiveness; that is our definition of being global.

Another one is in this VUCA world, the growth driver and also disruption is digitization. Digital technology is something very important. I'm not going to talk about this. But digital strategy should be crucial for the direction of our management. It's really imminent for us to consider digitization.

For example, all of a sudden, you might have new competition in the market, as in Google and the automobile industry. Already in FinTech, we have pseudo currencies on the market globally in the financial industry. It's the same for the insurance industry as well.

So digitization would bring such a great effect; at the same time, great risk, potential risk. And we have to identify good opportunities to pursue.

So for a thorough digital strategy, I am considering a new business unit to which I allocate certain resources and capital. But please, do not worry about our being Amazon. We have to understand the market and we have to identify risks always; that's our direction.

Another one is that it's not only about big three in Japan; we have to be globally competitiveness. But we cannot really pursue the same business model with the same perspectives.

Chubb in the United States is going to merge with ACE. This is a great company. They have great know-how, for example, know-how in antiques and also sports. They have such uniqueness and, also, they have very unique business model, for example.

Geico and also Progress and also Sompo, Sompo is a company in Sweden, this is a very big company in Sweden under which we have a company called If. Some years ago, they started to focus only on direct sales without distributors and 30-some-% of this business is held by them. So that means they are unique and uncommon.

In short, differentiation from the other companies is important in your business model. By having ICT, they are exploring a lot of opportunities and that should be something we are going to observe in the next mid-term management plan period.

We shouldn't be absorbed. We should focus on our direction. So that we can take the lead in that movement.

I'd like to use two terms as the key words for the next mid-term management plan. The first one is safe, secure and health. We provide services to customers and insurance business is one of them.

Another one is a theme park-type business model. When customers use insurance, probably that's only once in 10 years. So if that is really true, the relationship with the customers might be diluted. That means we should be away from our customers.

If there is focus, we cannot increase the number of customers. When the customers are healthy without any injury, without any accident what they require is something we have to focus to provide services to customers when they are not in need for insurance.

In terms of P&C and life and nursing care and health care, those are our three main pillars. But around the three pillars, we should have some other opportunities to provide services to customers even though they do not need insurance. So that we can capture all potential customers globally. That is what we focus on this theme park-type business model.

I'm sorry this is abstract. But I hope you understand. It's difficult for our internal employees to understand this concept. However, through the integration, employees started to realize the importance of the concept.

One of these approaches was to acquire Watami nursing care business. We see the nursing care market is JPY10 trillion. By 2025, it's going to be doubled. After that, as in some of the articles, in China in 2030, I'm sorry if I'm wrong, the market is going to be JPY1,000 trillion.

This might not be the only market. But I'm sure this nursing care business market is going to be a huge growing market. But this might be a red ocean. It might be very dangerous. But including external Board members, we are having thorough discussions about how to pursue this business. But we are already determined.

So from here, I'd like to speed up. This is about our portfolio and this is the direction of our drivers. For example, nursing care, life and nursing care health care, they are going to grow.

For the purpose, we have some measures we have to take now and in the future as well. We need to purchase time through M&As. This is a very important strategy and to realize that, we need to focus on the next framework; that should be a different keyword.

One of them is federated management. Federated management is short for operation. We thoroughly delegate the authority to the field or on-the-spot activities. So that we can be agile enough to take quick actions when necessary.

It's very difficult, because our Group is not small. Globally, we have more than 50,000 employees and some tens of thousands of managers. But as soon as possible, we have to start this federated management and the managers have to acquire skill and also corporate culture for federated management.

Another one is called center of excellence. In short, since we have a lot of business divisions and also, globally we have a lot of organizations, we have to go beyond the nationality. For example, as in Nikkei [ph] Newspaper today, (inaudible) is a center of reinsurance market and Sompo Japan cannot be as (inaudible); it's going to be established under Chile [ph].

As in the name, the excellence in this area is the strength of our underwriting reinsurance business. That's the strength of Canopius that we can utilize as their know-how and we appointed a Swiss CEO. We delegated the authority to him. That means our reinsurance business in Japan is going to be delegated fully to him. They have the best knowhow and the best technology of reinsurance business to assume reinsurance. I really hope that is going to be successful. But I'm very sure they are going to be successful.

As for enterprise risk management, it's going to be the same.

In Turkey, we can think about the same thing. And in Brazil as well.

So it's wrong for us to consider Japan always is the best. Of course, Japan has strength in many different fields; however, center of excellence is something we have to pursue. So federated management and center of excellence are the points for the next business portfolio.

In terms of allocation of resources, the roles of Sompo Holdings is written in the next page.

In the past and, also, right now and in the future, the biggest role of Sompo Holdings should be more enhanced. That means governance structure; how we'd like to transform that vertically and horizontally. Vertically, we have business functions; and also, horizontally, we have functions as officers, CXO [ph] officers.

In concrete [ph], there are two core things about holdings organization. One is cash management and also capital allocation. Another one is human resource management. Those are top two elements about the management of the Company. So we have to centralize that.

As for operation, we'd like to allocate authority to every division thoroughly. As written in here, I talked about digital strategy. As Sompo Holdings, we have to assume a great role to pursue digital strategy. ICT itself, as I mentioned before, leads disruption and also destruction. So when you delegate all the authorities to business segments, they might be destructive.

In that sense, we need to employ a digital strategy and ICT strategy that matches each business segment. In a good sense, we'd like to have good conflict between business segments and Sompo Holdings to empower each segment.

We assigned risk owners for each business segment. For example, risk owner for P&C, Mr. Hutamia [ph] is a risk owner for P&C. And Mr. Takahashi [ph] is for life insurance business, domestically. So we have CFO, CRO in the holdings, as well.

Mr. Tsuji is the Group CFO. Regardless of if it's in Japan or overseas, he has the responsibility as the Group CFO.

As for domestic business, business efficiency is the biggest challenge. You might wonder about domestic life. Right now, we are in discussion. But mid-term and long-term, in the near term, the policy in force and also the profits, are going to be doubled.

As for healthcare, I mentioned already this is a red ocean. However, in the red ocean, we need to target the market and we need to assume price leadership. Also, the target might be, for example, public entities and also the government.

So unless you have certain scale, you are going to be absorbed by the market. You are going to be negatively affected. So you have to be very careful.

As for M&A, I already mentioned one point here is, in M&A, according to my humble experience, the more important thing is PMI after the merger, post-merger integration. How to share corporate philosophy and value is very important. Suppose the CEO of the integrated company is still within the group, how we can integrate and how we can share the same view and also, at the same time, the arm's length relationship is very important. You need human skill and chemistry.

So unless you are good at PMI, one plus one might not be two. And you have to consider how to deal with the goodwill. We have to be very careful about that.

M&A market is still attractive; however, my impression is that it's overheated. But still, we would like to be active.

So please go to page 22. As you can see, this might be too good to be true. However, this is not only for our own Company only, this is the industrial situation, because of the improved profitability of automobile insurance. And also synergy effect and cost reduction effort by the integration for our Company.

Within four years we drastically improved the situation by 10 points. In value, it's very close to JPY200 billion. This is a drastic positive effect.

B2C market might not be so easy for us. So we need to pursue more efficiency and more productivity continuously. We need to make more effort.

Please go to page 39.

Here we talk about Himawari Life. This company's strength, in reality, is that it is able to leverage the P&C agency network. It has a strategy focus on selling high-margin production-type products that has proved to be a success. That is the reason why embedded value is at the level we are currently seeing.

So with regards to how we see Himawari Life, we believe that, going forward, because Himawari Life is very agile. And I want to avoid misunderstanding, I don't want to be misleading. But it is able to have less vested interests that it needs to protect. So it has a lean operation. And we believe that can be leveraged. If that is leveraged in the future, with regards to the domestic life insurance market in Japan, we have might [ph] changes of the customer.

Like I mentioned earlier, due to the evolution of ICT, information will not be disparate as it was before. And customers may be either more well-versed in knowledge. If that becomes the case, because Himawari Life is agile and it has less vested interests, we believe this will be a merit for Himawari Life and substantial growth can be expected.

So what are we going to do? President Takahashi and his people are currently engaging in intense discussion.

Please turn to page 40, where I will talk about the growth strategy concept. So we need to set a target first. But our target is, over the medium to long term, with regard to net income as well as number of policies in force, we would like to double the numbers. That is what we are striving for.

As I mentioned, Himawari Life is part of Sompo Holdings. However, we would like to ensure that Himawari Life becomes the driver for the Group and establishes a new business model, or it is regarded highly by customers. And because we will be engaging in cross-selling, it's a matter of how we can grow Himawari Life products amongst our P&C customer base.

It's currently at 6%. But we don't believe it's going to go up to 20% to 30%. But rather we would like Himawari Life to become an innovator. And try to portray an image that

Himawari Life is a company that attempts to do new things.

The management, Himawari Life and at Sompo Holdings, we are currently working very hard to come up with new strategies.

So ICT will be leveraged and the key word will be health, as we strive to create a new business model. But Mr. Takahashi will be angry with me if I talk about this too much. So once we solidify the new strategy, we would like to share it with you.

Basically, we would like to have products that are customer-oriented. We would like to be in the point of view of the customers, as we develop products and services. We are starting to see what that looks like. We would like to have a channel strategy that matches the new types of products and services.

From July, we have also started direct online sales of products. And we have started to learn a lot through this new engagement. But because we have less vested interest, we would like to use this as a strength so that we could position Himawari Life as innovator.

Next, I would like to move onto page 46, where we talk about overseas business. I already talked about overseas so I'm going to skip through quite a lot.

But once again, I would like to reiterate that the center of excellence does not necessarily have to be in Japan or in Tokyo; it may be in Brazil, Switzerland or in London; or the business model can be imported from Turkey, for example, because Sompo Sigorta has great business models available. I just visited the other day and I was quite amazed. So we would like to bring that here to Japan.

The importance of PMI will be focused on PON [ph] as well. We believe that mergers and acquisitions will continue in the future. But we don't want delegation as well, as leaving everything up to them is different. If you leave everything up to them and just invest in that business, you won't be able to create synergies. Eventually, in the future, things wouldn't work out and the value sets will become disparate within the Group.

The management philosophy would not be shared. So this is a challenge. Even between Japanese players it is hard. But where you have different languages as well as cultures, trying to integrate the value sets between CEOs and employees is quite a challenge.

So I have been frequently visiting our overseas entities. And when I don't have the time, we've been having video conferences. With the local CEOs, I have been engaging in a lot of view exchanges.

Next, I would like to turn to page 47. I talked about this earlier. So basically in Zurich, this talks about the reinsurance company we established.

Please skip to page 54. You're already experts. So you can see this to understand the situation. We are going to continue investment into our growth. And also the balance between investment and also shareholder return is very important. This will not change. This is our responsibility.

Please turn to page 60. This is about reduction of strategic-holding stocks. Before establishing this environment from FY 2010, actively we reduced the strategic-holding stocks. Cumulatively, we reduced more than JPY700 billion of the strategic-holding stocks.

The freed-up capital is going to be the source for the investment for further growth. And that should lead to enhanced ROA going forward actively. We'd like to continue this strategy. Right now, we are discussing the numbers. But they shouldn't be lower than these numbers toward the future.

The last one is page 61 about the shareholder return. Once again, I'd like to talk about this very important topic, as in the dividend increased in two consecutive years.

Of course, shareholder return has been very important for the management. We didn't make an announcement about the share buyback in the mid-term. However, we unchanged policy to conduct flexible buybacks, according to capital condition and level of adjusted profit.

Of course, the shareholder return is very important for the next mid-term plan. Some of you asked questions about the return to shareholders, based on the profit from domestic life. Of course, we are incorporating the idea.

Also, we are actively having discussions. So that we can include the profit in the return and to meet the expectation of all of you, who are very important stakeholders for us. Since we have seven external Board Members in 17 Board Members. And with discussing all of them actively, we'd like to prepare attractive shareholder return policy and also capital policy.

I hope you understand our situation.

Thank you very much.

Questions And Answers

A - Unidentified Speaker

Now, we would like to take any questions that you may have. When you have a question, we will give you a microphone. So please let us know your name and affiliation before you ask the questions.

Who has a question? Please raise your hand.

Q - Masao Muraki {BIO 3318668 <GO>}

Masao Muraki, Deutsche Securities. I have two questions, first of all with regards to IT investments domestically. You didn't go through it in detail today. But last month the Hitachi IT System Company JV was established. According to the press, you're planning to update the mainframe system and start operating it form 2020. Can you let us know the plan as well the cost you're going to recognize in accordance to this?

Also the expense ratio, on page 27 you show the expense ratio. But how far can you reduce this?

The next medium-term management plan's period is not known yet. But it seems that the system operation is going to be further out. So it seems that the net expense reduction is going to happen far out. Can you let us know your target?

My second question is with regards to investments in the overseas market. Going back to page 11, you show a chart. I'm not sure if this falls under the mid-term plan. But in 2020 you show the breakout of your business portfolio. About 25% is overseas, which is going to be higher than where it currently stands. My question is when you assume this kind of breakout?

Going back to page 55, business risks, it says 8% capital employed in the overseas market -- overseas business. But how much capital are you intending on employing?

Also, there has been some heated coverage over mergers and acquisitions. But if you don't procure common shares, how much of overseas investment is possible?

On page 54, you show a graph for internal solvency ratio. And against risk amount, capital is about JPY2.8 trillion. In order to maintain current rating of A-plus. And if the deal is large you're probably going to issue hybrids, or you might commit to a reduction of strategic shareholdings. But in order to maintain an A-plus rating, how much can you invest, is my question?

A - Unidentified Speaker

Thank you very much for your question. Let me answer your first question first. Last month we announced a JV with Hitachi.

From here on, in the times we are in today, or up until now, our system was quite heavy. So basically we're going to renew it. Through the renewal process, we would like to strive for business efficiency.

For example, if it's a product, we would like to reduce the development period to one-third, or also be thorough with paperless. So that our sales offices can be efficient by 50%.

Also, for agencies, we believe they can be efficient by 20%, by making operations completely paperless. That's one of the reasons why we established a JV with Hitachi.

With regards to how much it's going to cost, as you've pointed out, initially we're going to see front-loaded costs be incurred. But once the systems start operating, which is around 2020/2021. And beyond, from there on, we believe that headcount reduction can also happen.

With regards to targets for expense ratio, we would basically like to be globally competitive. So our target is to be below 30%.

Next, with regards to your second question around the overseas business, with regards to how much risk is going to increase for the overseas business, we don't have an accurate calculation.

But when you talk about M&A's, it's not just about investment amount. But it's also about the risk portfolio of the entity with which we are going to merge.

The risk amount is likely to change, depending on who we are going to merge with. So we don't have a standard scenario on that point. So we haven't done a verification yet, as to how much risk is likely to increase.

But with regards to the single A-plus rating. And maintaining it, as you know, with regards to strategic shareholdings, as well as hybrids, if you were to take that into account, JPY1 trillion in size of a deal would not be a problem. We have done a verification around that.

Q - Masao Muraki {BIO 3318668 <GO>}

With regards to the expense ratio, going back to your first answer, you were saying the system is going to start operating in phases from fiscal year 2020. So the majority of cost for expenses is going to be booked in the first year running?

A - Unidentified Speaker

Yes.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you very much.

A - Unidentified Speaker

With regard to IT related investments, currently the costs are recognized when it actually operates. But there is a way of recognizing it as an asset. And then amortizing it later on.

That is the way we are considering it. And Muraki-san in your question, with regards to the net expense ratio part of your question, Mr. Okumura said our target will be to go below 30%.

But in the next medium-term management plan, the ROE target currently it's at 7%. The current -- currently running mid-term plan is 7% in target.

If we were to raise it to 10% let's say, in the case of the P&C business, our plan has been to have the combined ratio at 95%. But if ROE is going to be 10%, the combined ratio needs to go below 95%.

Currently, the expense ratio is about 31%. And the loss ratio will come hand in hand. So the total from 95% needs to be closer to 90%. And that is how we would like to achieve the ROE target.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you very much.

A - Unidentified Speaker

Thank you very much Mr. Muraki. Who will be the next person; who would like to ask a question?

Q - Taichi Noda {BIO 16478436 <GO>}

Goldman Sachs, Noda. I have two questions. The first one is about strategically holding stocks. Also, the second one is telematics.

The first one is strategic-holding stocks. Well final reduction in the target is presented by some other companies. And I see in page 54, right now, about 60% is your total asset; consolidated assets, 17%, 18%. JPY1.6 trillion out of JPY92 trillion, that's written in page 57.

What's your target to reduce it? Are you going to present that within your mid-term plan? Do you have any targets specified? Could you please share with us?

And as for strategic-holding stocks, well, does it lead to the shareholder return. And is it included in your mid-term plan? That's the first one.

And the second one is about telematics. And also advanced technology you were talking about. With Nissan, you have a project with an automobile company to sell new type of automobile insurance, to gain more market share. This might be your pilot.

Are you going to continue this kind of initiative jointly with automobile industry? Are you going to establish such relationship with the other automobile manufacturers?

A - Unidentified Speaker

Thank you very much for your questions. So the first one is about strategic holdings stocks. I'd like to explain our concept.

As for strategic holding stocks, as of the end of September, our balance is JPY1.6 trillion. And at the end of March, it's very close to JPY1.8 trillion, because Nikkei is JPY20,000.

Why are we trying to reduce these stocks? Because we'd like to increase our excess capacity of using our capital. And also with rating companies, we continue communications so that we can reduce the risks. So that we can increase the capability, to use our capital for our businesses to increase the risk buffer. For example, we can put more investment into overseas businesses. And also nursing care businesses, new businesses. And the return coming from those businesses can be returned to shareholders. That's our concept.

Q - Taichi Noda {BIO 16478436 <GO>}

So after the selling of strategically holding stocks, it doesn't directly come to shareholder return?

A - Unidentified Speaker

Well we would like to have capability. And also we would like to have capability to put more investment into our growth. Then we would like to return to shareholders from there.

In 2010, we had this integration. And this is the sixth year since then. About JPY700 billion or so reduction was our target. And also we have achieved this target within six years. Also, P&C asset, JPY9.2 trillion is the policies in force. And I think you are talking about that, out of that JPY1.6 trillion.

Including unrealized gain. And also the reserves for contingency, our net asset is about JPY2.1 trillion. We used to have the same amount of strategic-holding stocks. So that's what we are trying to reduce right now.

60% to 70% of adjusted net asset is our first goal. Right now, we have about 90%. So we would like to aim at 60% to 70% of the adjusted net asset, within the period of the mid-term plan. In the next mid-term plan, at least we would like to achieve that level. That's about the strategic holding stocks.

About telematics, joint project with the automobile industry you are talking about. Recently, especially we have corporate customers for a fleet contract. And we have Smiling Road, a service we are providing to those customers.

We have the knowhow from the statistics. And also a quantitative approaches. And we are accumulating the knowhow. And how we can roll out the business based on them should be related to rating and also pricing. We have to look around our environment to discuss the possibility of pursuing such projects.

However. And that's our recognition of the direction. So we'd like to accelerate our effort.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you very much.

A - Unidentified Speaker

The next question, please?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

(interpreted) Tsujino, JPMorgan. I'd like to share about the short term with regards to this fiscal year's shareholder return. You have talked about the fact that you have various thoughts. But with regard to adjusted profit excluding life, you are forecasting JPY133 billion right now.

Forecasted dividend is JPY32.6 billion. And if you say 50%, if you're going to reach 50%, you will have to buy back a considerable amount of shares.

You have been explaining from before that in fiscal 2013 your return ratio was 200%; and in fiscal 2014 it was about 50%, because things have started to improve. And for fiscal 2015, maybe not 50%. Is that direction still the same?

For fiscal 2016 onwards, when you start to implement your new medium-term plan, if it's going to be 50% we will see quite a lot of return in fiscal 2015 and 2016. So I just wanted to have you share your prospectus on that?

My second question is with regard to assumed reinsurance in the overseas business. You had some big claims this year, according to what I've heard. And you've been impacted by the softening of the market. I think it seems that you were impacted from the reinsurance -- assumed reinsurance business; and you're going to transition to a new company that you're going to establish in Zurich.

So with regard to that assumed reinsurance business, what kind of short-term improvement can we expect? And how much of an expansion can we expect?

A - Unidentified Speaker

Thank you very much for your question. First of all, let me talk about shareholder return first. With regard to shareholder return, as you have explained to Tsujino-san, we have continued to explain our position on that from before, for fiscal 2015 and the return ratio.

We are showing the slide right now. But this is on a EP basis. But we exclude that. And we offer 50%. So at a dividend of JPY80 per share it will be JPY32.3 billion that we pay out; and for share buybacks we will be buying back JPY34.2 billion-worth of shares, if we were to do simple calculation.

Over the medium term, if we are going to offer a return of 50%, which is what we've been explaining, when you look at six years, in fiscal 2015, if we pay out dividend adjusted profits was minus JPY98.7 billion in 2011. But if you count that as zero, the return ratio was at 80%. So at that point in time we have already exceeded 50%.

The typhoon season is now over. And the merger between the P&C companies have -- is over. Our business forecast has remained the same. And we'll pay out JPY40 of interim dividends as planned next month.

So snow damages, as well as up until the end of March, it depends on interest rate trends as well as the equities market. We would like to continue to monitor the trends. But when you look at our interim results, corporate earnings in Japan has been quite firm. So with regard to the financial and equities market, we are not really expecting negative trends to occur.

So if things prevail as they are. And if we are able to confirm these trends, when we have the BOD in May next year a decision will be made on how much shares should be repurchased.

But we will also be -- like to be aware of the next mid-term plan. JPY45.5 billion was the return we paid out in 2014 fiscal year. But we are expecting an increase in earnings. So the total amount that we paid out in fiscal 2014 is something we will probably be conscious of.

In fiscal 2014 the total return ratio was 50%, sure. So for fiscal 2015 for dividends our forecast is JPY80 per share.

So it's a matter of how sized the share repurchases are going to be on top of that. So we would like to be conscious of our forecast for this year, as well as how that is going to lead into the next mid-term plan. By taking all of these aspects into account, we would like to decide on the amount if we are going to do the repurchases.

For the next mid-term plan. And the way we think about shareholder return, currently, at this moment, the Independent Directors have not yet been consulted. We haven't yet been through that procedure.

However, when you look back at our past, even if we were loss-generating in our results to investors and to our shareholders, we have ensured -- we have always thought about what's best for them.

So that kind of mentality will be maintained in our next mid-term management plan. That is where we are right now. I hope that answers your question. Thank you.

With regards to the reinsurance part of the business. We introduced this earlier. But in Zurich we're going -- we have established a platform. Of course, business is not going to expand overnight. It's going to be part of our center of excellence initiative. And we are going to integrate our functions there. In fiscal 2014 to fiscal 2015 we have had some large losses. And the reinsurance market overall has softened.

So because of that, for underwriting we have been on the cautious end. But over the medium term the hurdle rate for ROA was 7% or more. And we can account -- we believe that is possible. So that is the mentality under which we are engaging in our reinsurance business.

Does that answer your question?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you very much.

Q - Wataru Otsuka {BIO 16340098 <GO>}

(interpreted) Otsuka, Nomura Securities. After 2020 you are talking about your status. It was very interesting. I have three questions.

The first one is unique and uncommon business model that Mr. Sakurada mentioned. In order for you to realize that, what you need as your experience and capability and capacity? What's your current status of all of them?

Well I'm not saying that you don't have any of them. It's really hard to see from an outsider. And so could you please specify the point? Could you please elaborate on that point?

The second point is about digitization strategy. While you were talking about this is a game-changing opportunity, right now do you see any opportunities, or threats, challenges? Do you have any concrete examples, or are they invisible? So to prepare for the future, do you have this digital strategy; and also, capital allocation that is specified in page 12?

Number 3 is about capital efficiency. In page 10 you are talking about ROE 10% after efficiency. And the path toward that. Are you talking about internal growth? You are talking about combined ratio? ROE 10%, is that possible only with internal growth, or are you thinking about external growth, for example are -- M&A opportunities to achieve ROE 10%? What's the balance between that?

A - Unidentified Speaker

Thank you very much for your question. The first two questions I'd like to answer.

That's a very difficult question to answer. We have been discussing this matter. Also, Board Members and I, myself, really thought about that. Unique and uncommon is easier to say. However, what is our core competence was thoroughly discussed. Well our external Board Members, of course, participated in the discussion.

It's a core competence of ours. What really is our core competence? You have to really think about this. This is a good example so I can talk about this.

Well manufacturers talk core competence, about their core technology and also corporate culture to support that. Well this is a good example. For example, Mazda has core competence in clean diesel technology in such a difficult time. They entrusted their engineers. That was really unique and uncommon. That's one of the good examples.

So as you can breakdown these kinds of initiatives, you can see the corporate culture. You have the Board Members and CEO to support the corporate culture.

So for example, Holdings Group. What is our core competence? We thoroughly discussed that. One thing we noticed was that we really focus on Gemba, the field. It's easier to say but our definition is that on-the-spot activities to face customers. That's the moment of truth with your customer. That's the contact point with your customers. So it doesn't have to be the sales teams.

Gemba, the field, of course, are sometimes distributors, agencies and call centers and also the officers to pay for the claims and also they receive directly from the customer, such as (inaudible) and complaints. So that is our definition of Gemba, the field; on-the-spot activities.

So when they think something is good for their customers they can make their own decisions to take an action themselves.

The corporate culture to support that should be important. We don't think that that's perfectly working in our Company right now. Sompo Holdings Group used to have a very strong field activities. Even though we fail that was for customers, the staff members on the spot made the decision for the customers; so even though they fail, we didn't really score them for the next success. The seniors, together with those on-the-spot members, reflect on what happened and thought about what we should do next time. That is our definition.

Suppose that our core competence, as I mentioned before, federated management is based on that kind of approach. So some things should be kept by the headquarters and some things should be delegated to the field. So actuality that is the most important thing for our Company. That is our core competence. So the basis of being unique and uncommon is our on-the-spot activity approaches.

Have we really established that compared to the other companies? Are we really overwhelming? I don't really think so yet. However, we used to have that strength. So that should be within our DNA. That should be revoked again.

Another one, in Japan mostly P&C and life insurance business use agencies and also sales teams. That means we are using human resources, capability of them, to convince customers so that we can obtain contracts from the customers. So for acquisition of businesses we exert such an energy. But in life insurance we might not have so much energy put into. And also root sales and agency and also P&C as well, other than automobile.

From the customers' point of view maybe they are not so much interested in the points we are where we put so much investment in to increase the top line. But when it comes to unique and uncommon approach, as I mentioned before, insurance is when customers are in predicament. It shouldn't be everyday life.

Of course, they want to be safe and secure every day. But in terms of nursing care, nursing care is very close to their daily life. When it comes to the point where they really need insurance or nursing care service they can think about Sompo Holdings. And they can feel secure by having business with us.

So our service and their needs are linked together. So those businesses should be probably more than insurance. So if we can achieve that, that should be unique and uncommon.

Outside of Japan, for example, MAPFRE Spain has that kind of business model. I forgot the name, in Brazil, there is a P&C company. They really have such kind of service-providing type approaches. Well regardless of automobile insurance they have this road service provision and insurance services are later. So this is very uncommon and unique.

ICT as a game changer, I think there are two points here. One is pricing. Pricing is, of course, important. B2C model is very important too. But you shouldn't really focus only on advisory rate.

Of course, advisory rate is very important. You have to maintain it. But you have something additional for pricing. That comes from data analysis. So data analysis very important. Actuaries are based on past statistics. But real-time or forward-looking pricing using big data should be more important in pricing of insurance business as well.

Something bigger than that is disruption of the business model. Digital agency is the buzz word right now. Artificial intelligence or a cognitive intelligence that is beyond human beings. You understand the insight of the customers before customers tell you something. And if you can achieve that it should be very efficient.

More than human beings, you have more precise insight of customers. That is digital insight. That should be incorporated into the business model. So that is a game changer in good and bad senses.

Well we are not really sure about how much investment should be put into this area but it should be a solid amount. But as I mentioned before, we don't want to be Google and we don't really think about being Amazon in this industry.

As a user of the state-of-the-art technology we should make sure that we should have the right approach to use the data. For that purpose, R&D is important.

The third point is about capital efficiency, how to enhance that. First of all, strategic-holding stocks should be reduced and we can put more investment into the growing area after freeing up the capital.

It doesn't have to be only our Company. In Japan -- successful examples in Japan our P&C businesses. Of course, life insurance business as well and healthcare-related businesses and DC. But still, life insurance as well.

The P&C business in our Group has been very successful, the scale of which is bigger. So we need to review strategic holding stocks. Also, we have scheme already alive, which we would like to foster more.

The next one is nursing care business. Nursing care business, when you look at the former nursing care business before the acquisition, ROE is two digit; means our companies have two-digit ROE.

This time, as of December 1, we acquire Watami nursing care business. Within some years we would like to achieve two-digit ROI in this business.

So other than P&C -- domestic P&C business we would like to shift our capital into. So we can expands the other areas as well. That should include the overseas P&C business as well and non-insurance business, overseas as well.

Of course, we are going to grow by enhancing capital efficiency. But in Japan the population is declining and also this is the VUCA area globally as well. So as I mentioned, right now, we would like to shift the capital allocation so that we can enhance capital efficiency. Did it answer your question?

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you very much.

A - Unidentified Speaker

The next question please.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Watanabe, Daiwa Securities. I have two questions. With regard to your perspectives on the next mid-term plan, I would like to refer to page 11 where you show the transformation of your business portfolio. And you show the image of 2020.

What are your assumptions? Is it asset, your earnings base, your profit base? What is the basis of this image?

Second question is with regard to profitability of the business, it may overlap with your response. But out of the four segments you have, with regards to long-term profitability, what would be your order of priority? Can you give us an order, please?

Those would be my two questions.

A - Unidentified Speaker

With regards to details, in our discussions around the next mid-term plan, we would like to solidify the details going forward.

But like Mr. Sakurada mentioned, we would like to be globally competitive; that would be our benchmark.

With regards to bottom line, that is the result we would like to generate.

With regards to profitability, depending on the environment, this is likely to change in the world of ERM. We have four business segments. We would like a healthy capital to the segments of higher ROR. So at this point in time, with regards to priority, as of 2020, this is something that we cannot share at this moment.

But currently, what we can say is that overseas insurance is where we expect growth. Also, the healthcare business, ROI is relatively high and that is where we would like to allocate our managerial resources.

Thank you, Mr. Watanabe. Does anyone else have a question?

Q - Koichi Niwa {BIO 5032649 <GO>}

Niwa, SMBC Nikko Sec. In your next mid-term plan as well as overseas mergers and acquisitions, those are the two questions I have.

On page 10, with regards to details, I think they are likely to come out going forward. But if you we're to give us an image, ROE 10% and adjusted net asset JPY3 trillion. If that is the assumption, is profit going to be around JPY300 billion?

And from there, excluding EV for the life insurance business, about half of that is going to be allocated for a shareholder return. It seems that the profit that are subject to shareholder return is going to substantially increase. So is that the correct way of looking at it?

Another question is, this might be somewhat distorted. But with regards to your thoughts on mergers and acquisitions overseas. You were talking about a deal size of JPY1 trillion being feasible.

But I was wondering, in this scale, are there any unique opportunities available in the first place? And if you were to integrate and merge that kind of company, how much should we wait for that uniqueness to be leveraged inside your Group?

A - Unidentified Speaker

So first question is with respect to, hypothetically, ROE 10%, JPY3 trillion/JPY300 billion. So with regard to the source of shareholder return going forward, that's exactly what we're discussing about.

We don't think it's going to come down. However, it depends on the flow we see every year. Also, we'll also look at the asset side as we make decisions.

So we can't just simply say that it's going to be JPY300 billion less EV divided by two. We don't do it mechanically. So we would like to share this in detail in our next mid-term management plan.

With regard to overseas mergers and acquisition and JPY1 trillion. This is just basically theoretically on paper. Theoretically it is feasible. But I'm not saying we are going to acquire a company that is that large, right away.

With regard to unique and uncommon companies. Management, chemistry, business models as well as the relationship with our business model are the aspects we'll be looking at as we consider overseas merger and acquisition opportunities on a daily basis.

But with regards to the unique and uncommon business model. I would rather -- I would say that, relatively speaking, we're looking at domestic business opportunities, actually.

With regards to the second part of your question I would like to add some comments. How do you define unique and uncommon is the question?

As I mentioned earlier, one of the examples I -- you can raise is MAPFRE in Spain. Of course, we can obtain it for JPY1 trillion and the company in Brazil, maybe we can buy them; I don't know.

But in any case, what's important is that we are able to know what's unique and uncommon for us. Do they have a core competence? Do they have theme park-type of business model? Are they already engaging in something similar or can they share that value set? We will look at these opportunities in a qualitative way first. But there aren't that many companies available right now.

But with regards to federated management-based companies, there are such companies existing.

Whether or not we can acquire them for JPY1 trillion or not, may not be that easy. It might be double-digit trillions of yen. But what's important is that I always talk about demand driven. But you really need to think about why you want to acquire that company and be accountable for that.

Then it's a matter of how much it costs. Then you need to ask the supply-side CFO, they will say no, we don't have those funds available; or yes, we do have the funds available.

But we'll also need to engage in borrowing. So we always go through that exercise. And go back and forth.

I do see a lot of deals come up. But we don't believe these opportunities are easily available. We don't want it to be easy either, because PMI will be the question. You might acquire a certain company. But it's going to be such a hassle to take care of that company.

Or they might be really stubborn and may say back to you, well, we thought we were going to be given the freedom, even if you acquire us. But this is basically the type of exercise we go through all the time.

Also I would like to mention Mr. Okumura was following up. But with regards to JPY1 trillion comment. When you do the calculation, it comes to JPY1 trillion. But it's not just that. The time horizon of the next medium-term management plan needs to be decided as well. Is it going to be three years or five years?

And also for strategically held shares, during this three year/five year period, if we were to sell down the strategically held shares, then the deal size can be JPY1 trillion. So it won't be as if we could pursue a JPY1 trillion deal overnight. So that was a follow up comment.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you very much, everyone.

A - Unidentified Speaker

Next question, please.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Sasaki, BofA Merrill Lynch. I have two confirmation with Mr. Sakurada, the first one is about digitization.

You were talking about and importance of investment was specified. And among global insurance companies there might be some other digitization focus approaches.

Also, what you are talking about IT investment, well, yen-based there's some hundreds of billions of yen. And when you talk about digitization of Company, the IT spend -- how much of IT spend are you talking about in your mind?

And also, the second one is about shareholder return. About the life insurance EV that should be incorporated into the shareholder return. You were talking about that; have you already decided on that, or is that only new business, or all EV-related increase? So what's the image of your comment?

A - Kengo Sakurada {BIO 15149542 <GO>}

The first one about IT spend digitization. Well it might depend on a category of IT and also definition of IT. Hundreds of billions of yen for a year, well, I think hundreds of billions of yen for certain years not one year. For example, using data if that's included in system investment, or including maintenance. Well I think we are using about JPY60 billion. Within two or three years, it's going to be some hundreds of billions of yen.

As I mentioned before, we need new technology for agency systems and also systems. It's not only about UI with customers, for example, pricing model in digital agency, cognitive [ph] computing.

Generally, it's a very good Company. But conventional approach of IT spend for efficiency, of course, we are going to continue that. However, compared to that, we would like to increase the innovative-type, destructive-type IT spend. And we'd like to reduce the portion of conventional-type of IT spend.

So the new approach wouldn't be some hundreds of billions of yen. Well so we don't have any plan right now about the scale of the IT spend. It's discussed for what we need IT spend. And right now we are going to start discussing in the Board meeting. So right now, we don't have any specific numbers.

The second point, well, maybe Mr. Tsuji is going to add some comments.

A - Unidentified Speaker

We are still discussing how we are going to include life insurance, the EV shouldn't be only EV. We have to identify how much value EV has in cash: does it include all the policies in force, or only new businesses? What kind of benefits we can deliver to the shareholders?

Right now, we are discussing all of them. So please wait. But in some way we are going to return to shareholders.

As for life insurance business, as for the profit from that; after FY16 and right now, our recognition of profit is based on the increase of EV. But last year, for the first time in six years, we started to sell new medical insurance plan and there were many customers who switched to the new plan. That means we had a lot of surrenders and we had a lot of constraints. But including the surrender in that calculation.

We do not have cash at hand right now from EV. And because of that we don't include that portion in shareholder return.

But FY16 and onwards, IFRS introduction is being postponed every year. But from 2020, I think it's going to be visible, that we can employ IFRS. So we have to consider that within mid-term plan as well.

So adjusted profit from life insurance should be included. But we have some options right now we are discussing. In May next year, we are going to make an announcement about the new mid-term plan. By then we are going to make a decision.

So depending on how we are going to decide, the profit of life insurance, how we incorporate the profit into the shareholder return should be determined later.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you very much.

A - Unidentified Speaker

Thank you very much.