Q2 2016 Earnings Call

Company Participants

- Hirokazu Fujita, MD
- Ichiro Ishii, Senior MD
- Kenji Iwasaki, Senior Managing Executive Officer & Group Chief R&D Officer, Tokio Marine & Nichido Fire
- Kunihiko Fujii, Senior MD
- Shinichi Hirose, President & CEO, TMNL
- Shozo Mori, MD, Tokio Marine & Nichido Fire
- Takayuki Yuasa, MD & Group CFO
- Tsuyoshi Nagano, President, Group CEO
- Unidentified Speaker, Analyst

Other Participants

- Kazuki Watanabe, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Tokyo Securities Co., Ltd.
- Wataru Otsuka, Analyst

Presentation

Tsuyoshi Nagano {BIO 16141096 <GO>}

Good afternoon, ladies and gentlemen. Thank you very much for coming, despite your busy schedule. Thank you, once again, very much for attending our FY16 second-half investor meeting. I would also like to take this opportunity to thank you for your ongoing support to our business.

Today, I would like to give you updates primarily on our FY16 business plan. But since we are half-way through our three-year mid-term business plan this year, I would also like to share with you the progress of our growth strategies under the mid-term plan, in addition to the latest business results.

Given the low interest rate environment and increasing uncertainties on the global basis, we cannot be optimistic at the moment. However, I would like to explain to you today how we are executing our management strategies, to generate sustainable corporate value, even under such operating environment.

After my presentation for the first 45 minutes or so, we would like to open the floor to entertain your questions and comments, as much as time allows. Let us now begin from page four of the handout material.

This is a recap. This is a recap of goals under the mid-term business plan entitled, To Be a Good Company 2017. Each of our business is executing growth strategies steadily, to achieve the targeted adjusted ROE in the upper 9% range. And adjusted net income of approximately JPY400 billion in the final year under the plan FY17.

Please turn to page 5. On page 5, you can see FY16 Q2 results and on page 6, full-year projections for FY16, since we made the announcement already on November 18, just to give you the highlight.

Adjusted net income, which is our Group-wide KPI and fund for dividend payout, increased by JPY78.9 billion, year on year, due to profit contribution of HCC and decline in natural cat losses in Japan.

Appreciation of Japanese yen is negative to our international insurance business. And yet since it is positive to our domestic non-life business, the net impact to our Group overall, is limited.

As for FY16, full-year projections on page 6. While international insurance business will be affected by stronger Japanese yen, since domestic non-life business is now expected to grow profit more than the initial plan, we made an upward revision to adjusted net income by JPY1 billion to JPY389 billion.

At the bottom of the page, you see full-year projections for business unit profit, which I will come back in more detail when I explain to you plans and strategies by business domain.

Let us now move on to page 7; pages 7 and 8 show trend of three KPIs under the mid-term business plan.

Adjusted net income is projected to reach JPY389 billion, up by JPY37.1 billion year on year. We expect adjusted ROE at 10.7%, exceeding our original projection. While net asset value is hit by stronger Japanese yen and decline in stock prices, we have enhanced our control over risks and capital.

I will amplify on shareholder return later. But for FY16, we're planning to increase dividend for fifth consecutive year to JPY135 per share. Furthermore, this time around we have decided for share repurchase program up to JPY25 billion.

Page eight shows the trend of KPIs since the previous mid-term business plan. It is noteworthy that all of these KPIs have been enhanced steadily across the board, which indicates that our Group's earnings power has been truly reinforced.

Under the mid-term business plan, our goal is to transform our business structure, to enable us to achieve sustainable profit growth with higher ROE. The actual results on these charts is an evidence that our transformation is underway successfully.

Through this expansion on profit and increased capital efficiency, we're pleased that we can expect to increase dividend five years in a row. And buy back our own shares to return enhanced value to shareholders.

Please turn to page 9. As I mentioned earlier, since we are halfway through our mid-term business plan, I would like to share with you what we have achieved over the last 18 months, since we launched the plan, as well as our future direction on page nine and 10.

Under the plan, we have been implementing growth strategies, based on four pillars: enhancement, evolution, expansion. And excellence. I might elaborate on some of the details later, in a discussion about respective businesses. But let me first make an overall comment.

First, enhancement, as you can see at the very top, this is a strategy to enhance our business model to unlock our Group's potential. Even in the domestic Japanese market, where some say it is difficult to grow the business going forward, by reinforcing our consultation capabilities, based on next generation business model. And making Super Insurance product even more attractive through the promotion of integrated business model between life and non-life, we have been growing our business continuously.

In the international insurance business, we're working to generate Group synergies, by leveraging our global network and expertise of our international Group of companies. Going forward, we would also focus on establishing new business models from the perspectives of supporting regional development in Japan and health and productivity management, to aim for further growth.

Evolution is an effort to become more responsive to changes foreseen in the future and drive growth out of these changes.

In the domestic non-life business, we're now offering revised auto insurance product and new services, to respond to the advancement of autonomous driving technologies.

In the domestic life business, we have launched new products, focusing on living protection.

Also, we established digital strategy division within Tokio Marine Holdings in July this year, to further reinforce our R&D function globally.

We will study continuously further advancement of technologies. And offer products and services to proactively capitalize on changes in the environment, to deliver safety and security to our people, while transforming our insurance business portfolio and business mix, particularly here in Japan, concurrently.

Under the expansion strategy, we're aiming to expand our growth territory, to optimize our Group's business portfolio. With the HCC transaction closed in October last year, along with our previous acquisitions, Philadelphia and Delphi, we now have very solid business franchise in the US specialty insurance market.

Our business portfolio is now well-balanced, even on a global standard, in terms of diversification by geography and by line of business. Our management foundation has become more resilient against changes in the environment and nat cat risks.

Going forward, we will continue to study new business investment opportunities, in both developed and developing countries. But we will, first and foremost focus on PMI, to enhance our collective strength as a Group.

Since all of these strategies are underpinned by business platform, through our strategy, Exodus, we've been working to advance our business platform, aiming to become an even more competitive player globally.

Under the mid-term business plan, we have advanced our ERM to maintain financial soundness while enhancing capital efficiency. To be specific, we have been reducing business-related equities consistently and, at the same time, reinforced our control over nat cat risks, in order to improve our risk portfolio.

In April, this year, to enhance our value creation capabilities in the long run, we reinforced Group-based management structure to better leverage our collective strength as a Group. It's been six months since we established this new structure and we can feel that it is working effectively.

Strength of our Group companies, both home and abroad, are now connected organically and enable us to address management issues, based on our comprehensive strength as a Group.

Another vital component to realize sustainable growth is people and organization with enterprising spirit that can self-initiate actions. So it's been also our very important focus to promote talent development and diversity. In order to develop future leaders for our Group, we will further strengthen global HR strategies.

I will next discuss ERM and shareholder return. Please proceed to page 13 and 14. Please refer to both pages 13 and 14 at the same time.

Tokio Marine Group has been promoting ERM as a core of our business management to maintain financial soundness and enhance profitability. To be more specific, we have been controlling the balance between capital and risks to maintain AA credit ratings, while taking various measures to enhance capital efficiency.

As it has been the case to date, as an indicator of our financial soundness, we calculate ESR conservatively by excluding restricted capital and measuring risk capital based on

99.95% VaR for AA calibration with the target range set between 100% and 130%.

Movement of net asset value and risk capital are shown on page 14. As of the end of September 2016, our ESR was 130%. We maintain adequate financial soundness.

Please note that on page 13 in the dotted-line box on the left of the bar chart, we are indicating for your reference ESR based on 99.5% VaR with UFR for better comparability with our peers.

The same with our ESR, we excluded restricted capital and after excluding restricted capital, the ESR turned out to be 161%.

Sensitivity of activity analysis of ESR is shown on page 14 on the right. While monitoring the economic environment cautiously to stay financially sound, as we have done to date, we will continue to reduce business-related equities in a well-planned manner and grow profit in the respective businesses so that we can enhance our capital buffer.

Next, let me discuss shareholder return on page 15. Dividend is the primary means of our shareholder return as we have communicated traditionally. Since we pay dividend out of profit generated by respective businesses, in order to steadily and surely increase dividend, it is crucial, more than anything else, that we grow profit in a sustainable and stable manner.

For FY16, we're planning to increase full-year dividend by JPY25 to JPY135 per share. And we decided the interim dividend at JPY67.5. So we're expected to increase DPS five years in a row this year and we will continue to grow profit across our Group. So that we can grow DPS steadily in line with profit growth.

As for share repurchase, it has been our policy to make a comprehensive judgment based on market environment, capital position and availability of business investment opportunities. And buy back our shares flexibly to balance financial soundness and capital efficiency.

This time, we decided to repurchase our shares up to JPY25 billion during the second half of this fiscal year. Thanks to the favorable result of our core domestic P&C business and contribution of HCC, profit has accumulated and we determined that the current capital level is good enough to withstand rapid changes in the financial market if any.

Meanwhile, since there is no immediate large-scale business opportunity that we're planning to newly invest in, we decided that we should adjust our capital position.

Now, I would like to touch upon our Group's investment strategy. So please turn to page 16.

Our basic asset management strategy remains unchanged. With ALM investment at the core, we will aim for higher profitability within tolerable risk level. At the same time, since our Group has become more global, we would also diversify our investment portfolio globally.

Also, by strengthening collaboration among Group companies in and outside of Japan, we will strive to enhance our investment capabilities.

In terms of investment yield of our Group, as indicated in the top right chart, the impact of low rate environment in Japan is limited, because of our core asset being long-term bonds and our Group-wide effort to diversify our investment portfolio.

As for business-related equities, our strategy is to sell down those equities steadily by JPY100 billion or more per annum over the current mid-term period.

We sold equities by approximately JPY77 billion-worth during the first half of the year. We will continue to sell down those equities to enhance our capital efficiency and better control our risks.

Now, I would like to discuss business strategy by business domain. First, for domestic non-life business, please turn to page 19.

For the overview of domestic non-life insurance business, I will explain about the progress of medium-term business plan of Tokio Marine and Nichido Fire, which is the pivotal domestic non-life entity of the Group.

First, on the 2016 projections, net premiums written was revised downwards from the original projections, due to the impact of appreciation of yen on foreign currency-denominated contracts.

For business unit profit, due to decrease in provision for reserve for foreign currency-denominated outstanding claims associated with appreciation of yen, an improvement of loss ratio, mainly in auto, we made an upward revision by JPY15 billion and now project JPY173 billion.

Last fiscal year, there was a temporary increase in premium, due to revision of fire insurance product line and this year, we are projecting decline in premium on year-on-year basis.

However, looking at average growth rate, we are seeing steady progress for both top line and bottom line in line with the mid-term business plan.

Please turn to page 20. As for the combined ratio for FY16, expense ratio will go up due to decline in premium. But loss ratio is expected to improve. As a result, combined ratio for this fiscal year is projected to be 90%, a 1% improvement from the original plan.

On the bottom half of the slide, we are showing the top-line situation of auto insurance, which is our major line of insurance. Bottom left graph is the comparison of Tokio Marine's insurance policies versus number of automobiles owned nationwide. You can see that we are constantly expanding market share.

The bottom right graph is the monthly year-on-year change of non-fleet auto premiums. Premiums written for new contracts is always beating the premium of the same month in previous year, a proof of its steady growth.

Now, I will talk about our growth strategy which supports this kind of growth. Please turn to page 21.

At Tokio Marine and Nichido Fire, we have been promoted the integrated business model of life and non-life, centering around the promotion of Super Insurance product, in order to further enhance our competitive advantage.

There are various initiatives being taken to enhance this business model even more. So I am going to introduce these initiatives.

To make Super Insurance more attractive to customers, we had expanded comprehensive discount scheme for Super Insurance in October this year.

To promote sales of multi-line policies we decided to give bigger discount for policies with three or more lines of products. And also introduced new discounts for life insurance and long-term fire insurance.

To advance consulting services, we are defining next generation business model and enriching training programs for employees in charge of agents, to improve consulting skills of the agents.

As seen with the trend of the unit premium of Super Insurance on upper right, thanks to all the efforts so far, we are enjoying progress with multi-line policy sales.

The ratio of the policies with life or third-sector attached most recently in October exceeded 17%. And will continue to achieve the goal of 20% by 2020.

Please turn to page 22, next I'd like to talk about a new business model developed as a part of enhancement strategy with new perspectives on regional development in Japan. And health and productivity management.

The domestic environment continues to be tough, facing issues such as declining population, ageing of society, with low birth rate, depopulation of rural areas. And decline in labor force, which all make themes, such as revitalization of regional parts of Japan. And health and productivity management extremely important.

While national government and municipalities are working on the same issues, we will be utilizing our accumulated intelligence and knowhow to provide insurance products and services to contribute to resolving these issues.

In the area on regional development of Japan, by collaborating with municipalities, financial institutions and Chamber of Commerce, we will contribute to revitalize regional economies and tap into the wide spreading SME market at the same time.

In July, this year, we launched a new nationwide Group insurance called Super Business Protect, for the members of Chamber of Commerce. Going beyond the conventional framework of insurance, this product comes with services such as inbound information service to support companies facing inbound travelers; and other services to assist the companies to increase customer traffic, which were highly in need by SMEs.

Two months after the launch we have already acquired over 10,000 policies.

Health and productivity management on the bottom is an initiative to facilitate most-advanced healthy nation, initiated by the Japanese Government.

Through promotion and penetration of health and productivity management, employees' health will be promoted, which will lead to improving productivity and alleviating medical expenses.

This is an area that has high affinity with Tokio Marine's business. By leveraging on the solutions we can provide, we'd like to make a contribution to the national initiative. And also link this effort to Tokio Marine's growth.

Until now, we had already provided Group health insurance scheme and data health support service for companies, mainly with third sector products.

This time, we are focusing on analysis of workers' productivity. And have launched on a new service to support the implementation of health enhancement measures for employees, in order to strengthen initiatives in the area of health and productivity management at Tokio Marine Group.

These strategies are brand new initiatives for us. And we believe they will lead us to a medium to longer-term growth.

Please turn to page 23; in the current mid-term business plan of Tokio Marine Group, evolution was one of the pillars for us to preemptively capture changes in the environment, such as advancement of technology. And changing demographics, in order to create new business opportunities.

Thus, we have been focusing on R&D activities centering around the new product and services development along this theme of evolution.

Please take a look at the left half of this slide shaded in blue, about the development of auto technology. Investors had voiced their concern about the shrinking auto market.

While we witnessed complication of parties involved to bear liability over auto accidents involving not only drivers. But also manufacturers. And software companies, I myself felt that there must be something we can do as an insurance company. And that there is a new role to be played by us as an insurance company.

The newly developed product, coverage riders for expenses for saving victims is a product that will allow for a quick rescue of victims, even under a situation where liability structure of the parties involved is still unclear.

This is a product that will make quick rescue of victims possible. And was developed in order to contribute to a realization of safe and secure car society, which is a social mission of an insurance company.

As it was reported in the newspaper this morning, using telematics technology we will be providing a Drive Agent Personal. Also, we are revising the fire insurance in order to capture the needs over a wide area of disasters.

Another point in R&D, along [ph] safety and security is responding to new types of risks. On the right half of this slide we are listing some new types of products responding to new risk areas, such as cyber risk insurance, agricultural insurance. And sharing economy insurance.

Our intent is to continue to promote these type of initiatives. So that we can expand the specialty insurance market in Japan, which is relatively small compared to that of overseas. And achieve transformation of insurance portfolio over longer term.

Next, I'd like to talk about the domestic life business, please turn to page 25.

First, I will explain about the FY16 projections of Tokio Marine & Nichido Life Insurance Company. In this mid-term plan after Japan entered a negative interest rate policy, we have accelerated the shift from savings type products to protection-type products to achieve growth with profitability and financial soundness.

Measured by new policy A&P excluding long-term savings products which we focus and monitor, we had to make a downward revision to JPY103.1 billion from the original projection, due to reversal effect of favorable sales of cancer insurance in fiscal 2015.

The sales of medical products launched last year in November, is trending favorably. And we expect year-on-year increase in sales this year.

On the bottom strip of the graph we are showing the ratio of new policies A&P. Other than long-term saving-type products by continuous launch of protection type products and alleviating sales of saving-type products, we expect to see the ratio to be 94% in 2016, which is a 20-point increase from the end of FY14.

Next, I will talk about business unit profit measured by increase in MCEV. Please look at page 26.

We introduced MCEV in April of 2015. And it has been a little over one year since its introduction. Under the current environment, some of the elements involved in the calculation were seen as too conservative and had revisited the definition of those elements, based on some objective data.

As a result, some of these elements, mainly those indicated on the slide were changed in their definitions when applied to measurement method.

Mainly due to the changes in definition the measurement method, the MCEV increase for this fiscal year will increase by JPY163 billion against the original plan, to JPY202 billion.

Even in the current low interest rate environment, we will make further shifts to protection-type products, in order to secure positive value of new business.

Next, I will talk about business strategy. So please look at page 27 and 28.

TMNL has a product strategy focusing on conventionally untapped area. And also has a multi-channel strategy using four major sales channels. These strategies allow us to achieve growth, outperforming the market.

On page 27 it talks about product strategy. Page 28 talks about channel strategy. Please, first, take a look at page 27.

With advancement of ageing. And sophistication of medical technology, there is a higher need for protection from longevity risks, such as inability to work, receiving outpatient care. And nursing care.

Based on this trend, we are focusing on conventionally untapped areas, uncovered by conventional life insurance policies. And continue to launch new and unique products.

During the course of the mid-term plan, last year we launched a cancer insurance in July. And medical insurance in November. We also upgraded the hip product, the Medical Kit R.

Further, in this November we launched another new product, household income term insurance, which is a first sector protection-type product. This product is designed to provide wide coverage over the risk of inability based work by paying not only the conventional monthly benefit after discharge. But also paying lump sum benefit payment in case the policy holder is hospitalized with five major diseases.

This is an industry-leading level of coverage that we are providing. For example, in case a patient is diagnosed with cancer, one in every three corporate workers end up leaving their work; and, over 10% of business owners end up closing down their business.

As you can see with the bottom right pie chart 62% of cancer patients experience decline in their income to less than 70% of the full amount he or she was paid before becoming a cancer patient.

To such risks, medical treatment fee will be paid by cancer insurance and their decline income can be reimbursed by household income term insurance. By offering such coverage, we can protect customers while enjoying sustainable growth.

Next, I will explain about channel strategy. Please turn to page 28.

We are promoting multi-channel strategies, centering around non-life agent, while utilizing each channel's strength. Major initiatives underway are shown on this slide, especially focusing on the three areas explained on the bottom half of this slide.

Non-life agents have their strength in their consultation capabilities spanning across life and non-life policies. By making the one and only life and non-life integrated product super insurance more attractive, the integrated business model of life and non-life will be promoted further and that leads to our sustainable growth.

The tie-up between non-life agents who have non-life customer base and life professionals. And life partners who have strength in life policy sales should be strengthened, in order to drill down deeper into the market. And have already seen fruitful results out of such tie-ups.

On top of the above initiatives we are enhancing website marketing. While we use web advertisement to strengthen customer contact, we have introduced the Internet completion application system to meet customer need of completing the application procedure on the web. This system will be deployed among agents who solicit customers on the web.

We will continue to enhance growth potential revolving around four sales channels while we respond to changing customer needs in the changing environment.

Next I will talk about international insurance business. Please turn to page 31.

On the very top, the two lines indicate what we want to say. While we see a global slow-down in economy and softening trend of the insurance rate procrastinate, globally the insurance market's growth is slowing down.

In the financial market, there are some changes post the presidential election in the United States. The lingering low interest rate environment under QE policy globally is bringing negative impact to the asset management of insurers in the world.

This challenging environment is, obviously, impacting Tokio Marine's international business. But nevertheless, by further enhancing risk control and underwriting discipline mainly through ERM and by adding the capabilities of TMHCC, a newly added entity to the Group. And by promoting measures to maximize organic growth potential of the Group companies, we are aiming to achieve steady profit growth.

Now, let me explain about the overview of FY16 projections of international insurance business.

On this slide, there is a gray bar and a blue bar for each year. The gray bar on the left is the result basis. Whereas the blue bar is the normalized basis excluding the FX effect, to have you better understand the underlying status quo of the business.

For profit, blue bar also normalizes the natural catastrophe losses to an average annual level. So please, look at the blue bars for the normalized basis.

In the revised projections for FY16, compared to the original projections, we saw an aggressive progression of yen appreciation, which led to a downward revision on result-basis projection. However, by excluding FX and natural catastrophe loss impact we are projecting an upward revision versus the original projections for both premium and profit, showing steady growth.

Before we enter into details of each region, I will explain about Group synergy on page 32.

Based on the inclusion of TMHCC to Tokio Marine Group, we have embarked on realizing global-based synergy on wider scale from this year, not limited to developed market, such as Europe and US. But also including emerging markets in Japan.

In different areas of synergy, be it revenue, investment, capital or cost, we have already begun to see results bringing major value to the business.

On revenue synergy in both developed markets and emerging markets the globally expanding sales platform of each Group company is being utilized, in order to offer highly competitive specialty products from companies like TMHCC, TMK, etc. We are already seeing good results in each region to enhance organic growth potential of each company.

Even in Japan, we are currently considering and developing new products that use highly specialized expertise of TMHCC, which will expand the scope of specialty market.

Now, I will explain about each region starting from North America. Please turn to page 33.

Starting with the North American market overall, with the addition of TMHCC we now have an ever-robust specialty insurance franchise. Tokio Marine's market share in the US commercial P&C market is now within the top 10 ranking, as shown on the right-hand side of the slide.

On the lower half of the slide we are showing Philadelphia and, on page 34, we are showing Delphi and TMHCC. When you open these two pages you can see them at a glance. At all three companies, they are experiencing growth through measures leveraging on each company's strength, such as new policy sales, rate increase at contract renewal and others.

Further, by showing better than market average combined ratio and expanding their investment income utilizing investment synergy, steady growth is achieved; thus, continuing to strongly lead international insurance business.

Next, I will talk about the Europe and the insurance business. Please turn to page 35.

While Europe continues to see soft market, underwriting discipline is maintained rather than going after growing the top line. At the same time, we are expecting further growth in premium and profit by Tokio Marine Kiln's expansion of US cover holder business.

In reinsurance business, we are factoring in the assumption for rising loss ratio in the non-catastrophe business and made a downward revision to the normalized basis profit. On result basis profit, we are keeping the same projection.

We will reduce the rate of natural catastrophe related underwriting and by further diversifying geographical and product aligned portfolio we are building a business platform to maintain stable profit.

Lastly, I will explain about emerging markets. Please turn to page 36.

In the emerging countries, we are also impacted by the deceleration of economy. Over the medium to longer term, we are expecting growth centering around South and Central Americas, as well as Asia. And will continue to capture growth opportunity in each country appropriately.

In Brazil, which is the biggest business center in Latin America region, we are factoring in the impact of economic slowdown and made a downward revision for premium from the original projection. However, on year-on-year basis, we are expecting growth trend and still seeing growth rate outperforming that of the market.

In Asia premium, or P&C business, is impacted by slowdown in auto sales at Thailand and Malaysia. Life premium is impacted by sales trend in the low interest-rate environment.

Based on such trend, we made some slight downward revisions from the original plan. But still expect to see growth in premium on year-on-year basis.

That concludes my presentation. Thank you for your patience. I'd like to welcome questions from the floor now.

Questions And Answers

A - Unidentified Speaker

We would now like to open the floor for the Q&A session. If you have any question, please raise your hand; we will bring you a microphone. And because we would be also referring to handout material, please allow us to be seated as we answer your questions.

We would like to entertain questions from as many people as possible. So we thank you for your understanding in advance; and please limit your questions to two questions at a time.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Tsujino, JPMorgan. With regards to shareholder return, while the market expectation was not high, you decided for JPY25 billion share repurchase; thank you for that. Having said all that, JPY25 billion, given your business, I must say, is a moderate size in terms of share repurchase.

Now currently, the market is rather volatile. And yet you rather decided for a modest-sized share repurchase. What concerned you most in making the decision? Or are you planning to perhaps do a share repurchase more on a constant basis, perhaps every six months or so? Are you perhaps changing your policy slightly? What was the rationale behind this decision?

In addition to that, on page 13, this time around, in order to help the comparison with the peers, UFR reference indicates that ESR of 161%, based on UFR, with 99.5% VaR. However, you have excluded restricted capital, right?

Normally, when you change the confidence internal [ph] from 99.95% VaR to 99.5%, there will be various positive effects. For example, the expected losses will be reduced. And therefore you can recognize more tax effects. Nat cat. And also other major risks, will decrease. And therefore diversification will increase.

So based on the normal distribution. And also Tail-VaR [ph], the risks based on 99.95% will be about 1.3 times higher than the risks based on 99.5%. Yet, the magnitude of the change that you're showing this time around is not as significant.

That is because you are excluding restricted capital. If we didn't exclude restricted capital, I would assume that this number would have exceeded 200%. So I understand the calculation behind this.

However, probably I believe that you actually wanted to show this number of 161%. So what concerns you also here in this calculation, in disclosing this number for our reference?

A - Unidentified Speaker

So the point of your question is in terms of shareholder return, given the numbers that we have announced, you are concerned that this share repurchase program is rather modest and conservative. So what are the concerns that we have? That is your question.

I would now like to invite Mr. Yuasa, from Tokio Marine Holdings.

A - Takayuki Yuasa {BIO 17941516 <GO>}

Yes. On page 15, we are showing the flexible share repurchase policy of our Company. As you can see here, we have looked at the market environment, capital position, as well as availability of business investment opportunities, comprehensively. We followed this policy this time around, as well.

As Mr. Nagano mentioned earlier, in terms of business investment we are not expecting anything significant for a foreseeable future. And in terms of capital level the ESR is 130%. So we think that the ESR is now close to the upper level of the target range of ESR.

In terms of the concern, we are concerned that the market environment is rather volatile. Given that, we think that a JPY25 billion is an optimal size of share repurchase. That is the thinking process that we had. I hope that it answers your first question.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Yes.

A - Unidentified Speaker

You asked another -- you have another question, right? And I believe that -- to fully answer the first part of your question, I believe that we also want to touch upon the technicality.

You have suggested that ESR should actually increase. Furthermore, based on 99.5%, because we're excluding restrict capital, could we perhaps amplify in that?

Yes, once we apply UFR, normally restricted capital would be normally released. We understand that is a general practice. But based on 99.5 -- 99.95% VaR, we are excluding our restrictive capital. And that policy has remained unchanged.

Therefore, following that policy from the perspective of better comparability, we decided to show this reference number based on 99.5% VaR, with UFR.

Now, the -- this number looks somewhat modest compared to our peers. That, I think, is another point that you made. I won't be able to give you detailed explanation. However, your point is valid, I believe. And I believe that on a different assumption the number should, actually, become higher.

So can you perhaps answer as to your second question?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Yes. With regards to the consumption tax hike which was postponed, once the consumption tax is actually hiked, mainly in the auto business, I believe that there will be a significant negative impact to your profitability. So once it happens, would you increase your pricing? Should we assume that you would consider increasing your price?

A - Unidentified Speaker

So once the consumption tax rate is actually hiked, would we consider increasing our rates?

Of course, we'll have to make a comprehensive judgment. But can I ask Mori-san, of Tokio Marine & Nichido Fire, responsible for product development, to answer your question?

A - Shozo Mori {BIO 18236458 <GO>}

Yes. My name is Mori. Thank you very much for your question.

As it was just mentioned, once the consumption tax is actually hiked, obviously, the repair cost of auto, this is for instance, because it is a -- is subject to consumption tax, the cost would increase. And our payment would increase.

Simply put, you might conclude that we, therefore, have the increased pricing. However, in actually determining the actual premium rates, in addition to the movement of the claims that we pay, we also look at the profitability of our business. We also have to consider the competitive landscape and, ultimately, will make a final decision, based on comprehensive judgment. Therefore, even if the consumption tax rate is to be hiked, that does not necessarily directly result into higher pricing that we will push -- put through.

As we have communicated before, in terms of the combined ratio, we want to keep it at 95% level or below, consistently. Combined ratio should not be -- and of the pricing should not be volatile in the eyes of the customers. So depending on the actual conditions in the market and also our situations. And also including the repair costs as well as the frequency. And also the future forecast, we'll have to make a comprehensive judgment for the future in view of the customers as well.

Looking at the current environment, as I mentioned at the very beginning, there is not much visibility. And that is the reason why. Coming back to your first question, we decided to do the share repurchase at a size of JPY25 billion. Thank you.

Q - Masao Muraki {BIO 3318668 <GO>}

Muraki, Deutsche Securities. I have two questions for you. The first is about P&C business; and the second question has to do with life business.

On page 23, looking at the R&D. And also developing new products and service preemptively, reading the changes in the market, I have a very simple question. When you develop the new products, others, within one or two years' time, can easily copy. And so, first-mover's advantage, I wonder how that advantage is going to be monetized before others catch up?

Also, the overall premium rate for the auto insurance, I'm sure the profit is going to decline over a longer term. But is there anything that you can create to offset that decline? Are these new products you are developing going to become big enough to offset decline in auto?

This time, you have developed a coverage rider for expenses for saving victims. I believe the actual claims payment will not actually occur under this new rider. So the impact might be very small.

However, in the market, there are certain things that's not covered by insurance right now. And this rider could become something to cover those uncovered areas. So that gives a sense of security and safety to the policyholders.

However, when others copy you and launch a similar product, how much first-mover's advantage would you enjoy, just in the first year?

The second question. On page 55 and 56, it talks about your life insurance business. And it talks about your past track record. What I really wanted to ask you was, when there is a sudden drop in interest rate. And when it starts to drop, the ESR on the Group level, in fact in the past few months, it has dropped significantly.

So what is the positioning of the life business within the Group? What are the discussions that you have had in the past few months, amidst this environment? Can you share that with us, because how much underwriting you should extend in life area, for long-term life insurance policies, I believe that was under discussion within the Group.

This time, certain things that couldn't be covered within the traditional ALM, the new types of risks are emerging and the environmental changing. So I wonder how you will position your life business, going forward.

A - Unidentified Speaker

So starting with your P&C, how much first-mover's advantage will we enjoy? And also, can we really create a portfolio to offset the potential decline?

So Iwasaki-san and also Mori-san, can you two collaborate and answer this first question about P&C?

A - Kenji Iwasaki {BIO 17547217 <GO>}

From Tokio Marine & Nichido Fire, my name is Iwasaki.

Last year and year before that. And also in the first half of this year, in terms of growth rate, we are maintaining a top level of growth rate in the industry. The first reason is because our products are attractive. The second is our selling capability.

So due to those advantages, I believe we are enjoying the current growth. For example, last year and, also, this year, it is not that we relied on one product to make a difference, or with one channel we made a difference, it was not the case.

In all sorts of lines, including auto and in every region from Hokkaido to Kyushu, on average, we are enjoying a very sustainable, steady growth. This is a comprehensive outcome of various initiatives that we had implemented in the P&C business.

In the area of product, how much first mover's advantage we can enjoy, it depends on the product. But that itself is not the only source of competitiveness we have against the peers.

In the current mid-term plan. And perhaps also in the next mid-term plan, auto insurance will continue to be our main line of insurance. In fact, as of today, the auto premium is increasing.

However, over longer term, autonomous drive will penetrate more in the society. So perhaps after five years, after 10 years, the positioning of auto insurance may decline, although it may be a gradual decline.

So while that may happen, that will be the emerging lines of insurance, to offset that. We are thinking of various things. We have different ideas.

For example, as Nagano-san mentioned, medical, nursing care, robot, cyber, agriculture, these are different themes that we can think of other than auto, to potentially augment the portfolio.

Of course, there is no one decisive thing. But there are various things. Including auto and other types of insurance, I'm sure the overall pie of the P&C business will continue to grow.

Please Mori-san, please. Please.

A - Shozo Mori {BIO 18236458 <GO>}

About the products, I'd like to add some information here. Looking at page 23, on the left, there are the new products and revisions that we have done in April 2017.

Just changing a part of the insurance contract, is something we can do. And that can easily be emulated by others. They are products that we can change just by changing the contract. But it is the underwriting that we need to focus on, because unless we manage the underwriting well, we cannot really enjoy profit.

So as the first mover's advantage, underwriting management, is the first thing we look at. And that's how we develop products. So in terms of the profitability coming from those new policies, I'm sure we will enjoy the first mover's advantage.

Also, Drive Agent Personal as indicated on the slide, this is a rider that we are attaching to a policy. This is a service where we rent drive recorder to policyholders. So to those people who are interested in equipping their car with drive recorder, we can rent them.

As a service, we are adding services that can only be offered by Tokio Marine. So simply going into a shop and buying a driving recorder, is inadequate. We are adding services, using drive recorder.

As we have news released, if you attach your car with a drive recorder, if there is a major shock at the time of accident, it alarms the security service company and, if necessary, the security service company will inform the fire department.

Also, there is a diagnosis report that we can issue to drivers. Another thing is that the driving propensity, the driving characteristics have been investigated. And also, depending on the weather, depending on the time of the day. And the external environment, if the driver is getting near to a dangerous risky area, the drive recorder will let the driver know that he or she is approaching a dangerous area.

These are the services, not simply offered with the hardware of a drive recorder. But these are services that we are adding. So it is a combination of our services, plus the drive recorder that can roll out this product. And that cannot be easily copied.

On the very bottom, we talk about the fire insurance. And it says product revision to strengthen capability for wide area disasters. At the time of claims payment, we revise the product, in order to pay the claims quickly. Being able to pay the claims quickly, will also lead to cost reduction on our side.

Once that becomes part of the insurance contract, I'm sure that will allow us to keep the price competitiveness over the peers. So it is not a simple revision being done to the contractual documents. But it is something more than that. That's what we have in mind as we develop and revise products.

A - Unidentified Speaker

Are you okay about the first point?

I think you are very right. So products are not just products. But we have to be able to communicate about them; we have to convey that to the customers. We have to develop new markets; we have to deliver products to the customers.

All of these are included in what we call first-mover's advantage. So that continuously, we will be able to maintain the competitiveness of those products. How we can understand that, how we can implement that. And how we can do that as an organization, will give us a difference versus the peers. That's the kind of team that we like to have.

About the life insurance business, can I ask Mr. Hirose, to talk about the life insurance business? While the interest rate environment is changing, what are discussions that we are having and, also, what is the view of the future positioning of the life insurance?

And after that, I'd like Mr. Yuasa, to also speak on this point.

A - Shinichi Hirose {BIO 18820991 <GO>}

My name is Hirose from Tokio Marine & Nichido Fire Insurance Company. As it was indicated in the slides, Tokio Marine & Nichido Life is marking steady growth.

However, most recently, while we saw the plummeting of the interest rate, it is having some impact to our life operations. So the positioning of the life business within the Group has been discussed internally.

We do execute ALM. However, life insurance policies has whole life insurance and other long-term liabilities. On the other hand, for the assets under management we have 30/40-year asset. But there is a limit. And so we are impacted by lowering of the interest rate.

In that sense, we are exposed to interest rate risk and market risk. In life insurance business, we have the interest rate risk. And also insurance underwriting risk. These are the two major types of risks. What risks we take in order to grow profit, is really the gist of the discussion that we have internally.

For insurance risk or underwriting risk, we can utilize reinsurance arrangements as a risk-hedging measure. Also, there are intelligence over underwriting that we have accumulated and we are able to control the underwriting risk to some extent so that we can provide profit still. We believe underwriting risk is a risk that we should be taking still proactively.

On the other hand, for interest rate risk, because of the market volatility, it's very difficult to hedge. So we want to reduce and minimize interest rate risk as much as possible as we manage the asset.

As we have explained, long-term savings-type products, which has large interest rate risk and interest rate sensitive, should be reduced. That is why, from October this year, we are suspending the sales of some products, such as long-term whole life and other savings products.

Also, we are launching other types of products since last year. So that while we minimize interest rate risk, we take more market risk, in order to achieve growth. So that's the kind of discussion we're having internally.

Also, on the asset management side, under the current environment we try to stabilize ALM and maximize profit. So diversification of asset management is another topic that we are discussing and implementing. That is why, as part of that, our subordinated loan is going to be arranged and it was announced.

A - Unidentified Speaker

So the positioning of the life business within the Group, Mr. Yuasa, please.

A - Takayuki Yuasa {BIO 17941516 <GO>}

In the domestic insurance market we have an integrated business model of life and non-life and we have Super Insurance. So P&C policies are sold together in a bundle. That integrated business model and growing together with both sides of the business is still our strategy.

Why we do that? As Mr. Hirose explained, the new policies that we are selling versus the in-force policies, which we have sold in the past, for the new policies, which we will be selling in the future, the super long-term saving-type products will not be promoted actively. We want to promote more protection-type products. So that we can create profit while we sell new policies.

That initiative has continued since 2010. Since 2014 up to 2016 we have increased about 20% increase in protection-type products and we still do have long-term liability. In this low interest rate environment, there are certain issues that we faced. One of which was that, from a certain point, we didn't think that the interest-rate rate was going to go down further. But rather, we thought there was risk of interest going up. So we had repositioned our asset, based on that assumption.

While we still see the low interest environment as we have now, the convexity risk that we have had is getting bigger. Also, even if we wanted to hedge such a risk, BOJ's operation is shrinking the market and, while we try to buy more fixed income asset, that might have a bigger market impact.

Therefore, we have to think about diversifying the asset management strategy. So that we take other types of risks and also enhance investment return. That's the discussion we have internally over this topic.

For the policies that we still have, once the interest rate changes, the portfolio will also change. We manage the in-force policies and also take appropriate measures, such as increasing the hedge ratio, etc., as we monitor the interest rate situation. That's something that we will have to think about in the future.

Thank you.

A - Unidentified Speaker

Did that answer your question?

20 years ago, when we entered into the life business, the antithesis we had posed against large insurers is that the life policies will match the needs of the customers, not the customers matching the life policies. So we wanted to be customer oriented when we sell life policies. And that basic philosophy will remain unchanged.

Also, by providing both P&C and life, we want to provide a sense of security and, also, diversify business portfolio. That concept remains unchanged.

However, more so than we had expected, the environment change, such as interest rate volatility got bigger and interest rate risk got bigger. So that has to be considered. That has to be minimized while we pursue the business and diversify our asset management portfolio. But the basic concept, the original concept will maintain. That's our thinking now.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Kazuki Watanabe, Daiwa. I have two questions. First of all, as for the outlook of the pricing for the older business, since, from FY18 it seems that there will be some discount given to ASPs. What kind of impact do you think this is going to give to your performance?

Now, I would like to ask this question because while there are some positive impacts in terms of the frequency, the repair cost might be on the rise, which is, of course, a negative factor for you.

I have an impression that as a possibility, the negative impact could be actually bigger than the positive impact. So do you think that this discount will still allow you to stay profitable? That is my first question.

Second question is related to FX sensitivity on page 49. In terms of the P&L, you are showing the sensitive analysis here and in terms of the adjusted income, on the other hand, if you could perhaps help me understand the impact? Because of the absence of the depreciation of the goodwill, I believe that there could be an even stronger impact of the stronger Japanese yen. But is that correct?

A - Unidentified Speaker

I would like to invite Mr. Mori first.

A - Shozo Mori {BIO 18236458 <GO>}

Yes. As it was reported in newspapers as well, amongst the USVs, the braking system to avoid collision, is the point of focus for the new advisory rates to be applied from January 1, 2018. The application is currently made to the JFSA and a final decision is yet to be made. Therefore, I would like to refrain from making a specific comment.

However, let me share with you how we intend to respond to this revision once it's actually made.

Of course, we do intend to address the issue once the final decision is made. However, there is essentially a rate applicable to the respective models of the vehicles, because of the different risk profiles. So there are different levels for the qualifications made by model of the vehicle and the impact of the ASV is already factored into this bicategory rate table.

The discount system that is current discussed as a complementary to the existent system. So once, of course, a brand new model vehicle comes into the market, we don't know how effective, for example, the braking system really works. Therefore, this system is going to be complementary to the existing system to account for supposedly a better performance, due to the braking system.

We think that this is rather going to be a potentially temporary measure to compensate for the existing system. So probably for the first three years or so, the discount will be applied to the automatic braking system as a temporary measure.

Given that temporary measure, I don't think that there is going to be a significant material impact to our profitability. Even if a new discount system has to be actually introduced, we will have to decide on the pricing of the older business based on the total profitability of the auto.

And if the discount system is not applied to certain models, the rates on the relative term applicable to those vehicles would actually become higher.

And so, because we will be making a comprehensive judgment, looking at the total profitability of the entire auto business, again, we think that the magnitude of the negative impact of the discount system is going to become -- it's not going to be that significant.

However, once we see advancement of the autonomous driving, we think that the frequency losses will actually decline. However, there will be some vehicles that are not autonomously driven on the road as well and we know that the repair costs of those traditional models will, actually, become higher.

So while frequency will come down, the repair costs and also the personnel costs could actually increase. And we have to look at the balance between the two to determine out merely what the final claim costs for our Company would be. So we have to make a cautious decision there.

I hope that answered your question and Mr. Fujita, can you answer the second question related to FX impact?

A - Hirokazu Fujita {BIO 17671014 <GO>}

Yes. In terms of the FX impact to Tokio Marine Group, as we communicated before as well, for, first of all, TMNF we have outstanding claim reserves denominating foreign currencies as well as derivatives. As the Japan yen appreciates, there will be a positive impact.

When it comes to international business, on the other hand, as shown on page 49, with a stronger Japanese yen there is now a negative impact to the international business.

As mentioned earlier, on the P&L, we have amortization of goodwill and, of course, that is subject to foreign exchange impact. First of all, the amortization is calculated, based on the local currency non-Japanese yen term and that is converted back to the Japanese yen. Therefore, we've a stronger Japanese yen, the amortization amount is going to become smaller.

With the stronger Japanese yen there is a benefit of a decreased amortization, which is factored into our P&L. However, on the adjusted net income, on the other hand, amortization and also goodwill are excluded from the calculation to begin with.

Therefore, ultimately, the positive impact of that stronger Japanese yen on the amortization of the goodwill would now be reflected on the adjusted net income. And that, I believe, is about JPY8 billion or so in terms of size of the impact, based on the first-half results of this fiscal year, for instance.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Wataru Otsuka, Nomura Securities. I have two questions. On page nine and page 10, as Mr. Nagano mentioned, we are in the mid-point of the current mid-term plan. As you have well explained, at this mid-point, we have seen a lot of achievements and also a lot of new initiatives and new challenges.

Once again, an overview, as you evaluate yourselves what are the areas where you made progress, more so than you expected? Also, what are the areas which you evaluate yourselves to be lacking versus the original plan? So outperforming and underperforming areas is my first question?

The second question is next year as you finish off the current mid-term plan, you talk about the word global Group basis, I believe that's a key word in understanding the mid-term plan. As you globalize yourself or as you use more of this global Group basis, looking at the Tokio Marine from the outside, what we can understand you to be so global Group basis is that as we saw on page 32, more synergies across Group entities. And is that representative of what you think of as globalization or are you thinking of other things? What are the specific ways to realize what you call as global Group basis?

A - Unidentified Speaker

On the first question, on page nine and page 10, as we show the progress of the mid-term plan, are you asking the areas where we think we are behind the schedule; and also, the areas where we are in line with schedule; and also, outperforming the schedule?

Q - Wataru Otsuka {BIO 16340098 <GO>}

I know that there are a lot of achievements. But how do you evaluate the different initiatives?

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

Well rather than saying there are a lot of achievements, whatever we announced as our plan, most of the issues that we announced to tackle are being tackled.

We are getting into new areas, because the environment is changing. And we are trying to diversify risk on global scale. This is not just about establishing foreign entities. But we want to globalize the entire Group comprehensively.

What this means is that as we become a global insurance Group, there are functions, talents, that we have been able to enhance and that enhanced area should be fed back to each region of business. So the regional business also becomes stronger.

This will require penetration of the management philosophy to the entire Group. And also what talent we can deliver in the Group to propagate that. So the future business where we rely on the talent of the people we have. So quality and quantity, the types of talents that we can have in the Group, is the key.

Including Japanese staff, we have to provide more opportunities for people. So that we can enjoy the advantage as a globalized Group and, in that sense, we are still lacking speed.

But we cannot just ignore that, setting up a goal and then trying to fill the gap will distort the situation. So step by step, one by one we are developing talent. And that is the biggest issue that we are facing right now. These strategies that we are explaining, we are implementing them, we just have to do them.

But on the very bottom, on the very foundation, how do we bring up the experienced level of the people, how to train them and how to penetrate the management philosophy across the Group?

To do so in April there is a global committee that was established. So in areas like ERM, IT, investment, HR, those different areas, we have established committees within the Group. In those committees, whether life or non-life Japan, overseas, whatever, whoever has the biggest intelligence over the area sit as members of the committee. So that right people are making the right decisions over certain areas of the business.

Global committee we -- it's bilingual, we make all the documents in Japanese and English. This is a group where diverse types of people are gathered. And intelligence is gathered whether Japanese, non-Japanese etc.. And that's one way to globalize the Group. At last, one we strengthen each function and strengthen different areas of expertise, that should be fed back to the local business. So that local business should also grow.

There's no such thing as global business. Japan, US, Europe; it's a collection of local businesses. But we reflect our global structure to the growth of each local business. So that is how we evaluate ourselves and also the challenges that we are facing today.

Q - Wataru Otsuka {BIO 16340098 <GO>}

The second question, there are certain we are using global Group basis, what are the representative phenomenon to represent the global Group base? When you say global Group base, I don't really understand what you meant. But listening to your answer that you have just given now I understand better.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

So perhaps I have answered your question. But I'd like to ask those two people in charge of international business, Mr. Ishii and Mr. Fujii [ph] to add some words.

A - Ichiro Ishii {BIO 17943980 <GO>}

My name is Ishii from Tokio Marine Holdings. I believe Mr. Nagano's answer pretty much answered your question. But when we acquire overseas companies and adding those companies to our Group and looking at their strength, especially the talent they hold, are now being shared across the Group using venues, such as committees.

By leveraging on those strengthened functions, we want to strengthen each local business and each entity making up the Group all become stronger. So that's what we are trying to do.

In an overall sense, HCC and newly added companies have products which we don't have such as specialty products etc.. So we want to share that knowhow horizontally across the Group. That's one area of how we can pursue synergy across the Group in the area of products.

So by adding more companies to the Group we are expanding the so-called scope of business and we are accelerating the globalization. So that's an important managerial theme that we face today.

A - Unidentified Speaker

Fujii-san, anything to be added?

A - Kunihiko Fujii {BIO 17943918 <GO>}

I think it pretty much answered your question. But the quality of global management, the quality has to be enhanced overall and that may include the area of synergy and, also, digital strategy cannot be done just by Japan. So it has to involve other parties.

All the management members from Japan and overseas need to be strengthened. So that we were able to do things in an aligned manner as a Group. From April this year, we have had some specific initiatives, such as the area study has mentioned in the corporate functions. And there is an enhancement of capabilities.

A good company can be bought with money. However, if we buy a good company to sustain their high quality and sustain their growth over 10/20/30 years, to do that we need to make sure that the highly talented people in the Company want to remain in our Group. And they have to want to work with us. In other words, they have to respect us, otherwise it will not work out. This is a reciprocal thing.

So the more talented they are, the higher quality company we buy, we have to also enhance our quality. Otherwise, we will not be able to create a sustainable global Group. That's the structure that we have across entities.

So on different layers, the different initiatives being taking place. If we just assign in the area of investment, because he is a CIO, Mr. Don Sherman from Delphi is an Executive Officer and co-CIO.

In the area of HR, from TM North America, there is a person -- a manager named Caryn Angelson and 30% of her time is dedicated for works on the Holdings level. Together, we talked about how to create a global talent pool; how to identify talent; and also, how to execute the global leadership training on a global level; how do we collaborate Asia and North America leadership training, etc. These are the agendas on the table.

We are doing the same for the medium layer of management and, also, the younger layers. At different layers, we have to bring in the mechanism to develop talent. Of course, it cannot be done overnight.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I understand very well, thank you very much.

A - Unidentified Speaker

A person at the very back, please.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Majima, Tokai-Tokyo Center. On page 55, you are referring to subordinated loans to be financed by TMNL. I'd like to ask you a question about that.

Now, the bond, the market value has come down and under JGAAP, you want to be prepared, therefore, for the devaluation. However, as you mentioned at the very outset, the net asset value could decrease.

However, duration -- of course, it depends on that duration, however, I think that asset value -- the liability value will, actually, come down more and, therefore, it will still be positive to ERM. So why are you concerned about this devaluation risk?

I believe that in terms of the solvency, once the rates are to increase, the solvency ratio would actually deteriorate. However, the JFSA in the past said that they would, actually, take a relaxed attitude. So under such circumstances, you decided to finance the subordinated loans. Why is that? That is my first question.

Secondly, with regard to auto insurance, there were several questions asked already. But year after next year, with the introduction of the ASV discount system, finally the pricing of the auto would actually be turned around from a price increase, which continued for about a decade or so, to a price decrease.

I believe that you have secured a good profitability this time around. However, because the consumption tax is going to be hiked, I think the profitability will be put under pressure. And finally, the underwriting profit would actually not increase under the mid-term business plan. So what do you think will be the drivers supporting the profitability of the auto business perhaps in the next mid-term business plan?

A - Unidentified Speaker

Yes, just as usual, thank you very much for your questions. I always get to be the last person asking the question. So I guess that we are actually approaching the end of today's meeting. But shall I perhaps invite Hirose-san to answer that question.

A - Shinichi Hirose {BIO 18820991 <GO>}

My name is Hirose from TMNL. With regards to subordinated loans, now this time around, as a basic assumption, we realized that the funding environment is very, very favorable to us. That's one major consideration that we made.

Given the low rate environment, as I mentioned earlier, we are working to diversify investment, in order to better promote that we want to be better prepared. That's one rationale behind this decision.

Second, as it was also commented as part of the answer to a previous question, we want to be prepared for a potential rise in interest rates going forward. That's another consideration that we had at the back of this decision this time around.

In terms of ERM, or economic value-based number, even if the rates are to spike up, the value of liabilities would accordingly become smaller. Therefore, on economic value, even if the rates are to hike up that would not cause a major material impact.

However, under JGAAP with regard to liabilities, the liabilities are not mark-to-market at the moment. And yet, assets, the bonds that we purchased categorize as other securities are mark-to-market. Once the rates go up rapidly, on the asset side of that they would come down significantly. So net asset value would become much smaller.

That's one scenario that we can think of. Based on that scenario, we want to be better prepared. Of course, by using derivatives, we can take and we will be taking various actions.

However, on the JGAAP basis, we wanted to be better prepared and we wanted to be more resilient, because we don't know what could potentially happen in the future. We wanted to be on the safer side and we wanted to be prepared for some contingencies. And because, once again, the funding environment was good, we decided to do this financing.

A - Unidentified Speaker

Yuasa-san, would you like to add any other comments?

A - Takayuki Yuasa {BIO 17941516 <GO>}

Yes. You referred to JFSA earlier. But traditionally, we have been striving to enhance our value based on ERM and also economic value.

On top of that, on the JGAAP basis, we have been trying to ensure that our liabilities will not exceed assets and maintain solvency margin ratio at a certain level. As you have pointed out, if, for instance, the rates are to spike up, the JFSA might actually be more tolerant.

However, of course, it is all up to the actual negotiations and so we don't know. Therefore, we decided to do this financing as a forward-looking strategy that we want to implement.

We would like to take investment risks going forward. Therefore, of course, we wanted to ensure that we are capitalized well to be able to take investment risks.

A - Unidentified Speaker

I hope that it answers your first question. Mr. Iwasaki is going to answer the second question related to auto -- the outlook of the auto business.

A - Kenji Iwasaki {BIO 17547217 <GO>}

Now, with regards to the next mid-term business plan, we have just begun the process of developing the next plan. So we are not in a position of being able to make a specific comment.

In general, the year after next year we would like to give you the overview. Then, in the following May, we will be announcing the details of the plan. With that timeline in mind, I hope that I can give you a bit more color.

Now, the current mid-term business plan, as shown on this material as well, 92% to 93% combined ratio is set as one of the targets. The rationale and the thinking behind this is that, once in a while, we are hit by major natural disasters. Once those natural cat event happens, then the combined ratio might actually exceed 100%.

So including those very severe years, we would like to ensure that on a normalized basis, we can still keep the combined ratio at around 95%. In a benign year, we want to achieve the combined ratio of 92% to 93%. That's how we look at -- and that's how we set the combined ratio target.

As we develop the next mid-term business plan, I will assume, at the moment, that this thinking would stay as our basic assumption and also our thinking.

On that assumption, to try to answer your question specifically pertaining to auto business, we understand the situations that you talked about. However, with regards to underwriting profit, we do not expect the profit to significantly come down all of a sudden.

Under the next mid-term business plan, we believe that the auto will continue to be an important source of underwriting profit for our business.

On page 22, if you could perhaps refer to that page as well, we referred to various pages pertaining to the entire Group. But at TMNF, we have eight pillars underpinning our business plan, one of which is the promotion of the integrity business model between life and non-life. That's, again, one of the eight pillars.

We are in the second year under the plan and we actually added two more pillars. So we have 10 major pillars.

On page 22, we're showing the two new pillars that we added this year. One is supporting regional development in Japan. The other is health and productivity management. We started to include these two focuses in the plan, as our new initiatives. These are lines of business other than auto. So perhaps in the next mid-term business plan, this is going to -- these focuses will probably bear some good fruit.

Looking at the next page, page 23, on the right-hand side, you see our initiatives to expand specialty insurance. As you can see on the right-hand side of page 23, these are the types of, for instance, insurance that we want to be well engaged. So that in and after the next mid-term business plan we will be able to deliver and also show tangible results.

So including what's shown on page 22 and page 23, we want to ensure that we continue to secure strong underwriting profit.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Now, as for the next mid -- as for the next fiscal year, how much positive impact are you expecting from consumption tax hike?

A - Unidentified Speaker

When we put together a plan last year, we assumed JPY15 billion post-tax. I hope that answers your question.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Yes. Thank you.

A - Unidentified Speaker

This concludes Tokio Marine FY15 second-half investor meeting.