SOMPO Holdings Inc Mid-term Management Plan and Direction of Management Presentation

Company Participants

- Kengo Sakurada, President, Group CEO, Chairman & Executive Officer
- Masahiro Hamada, Group Chief Strategy Officer, Group Chief Information Officer, Managing Executive Officer & Director
- Shinichi Hara, Executive Officer & GM of Global Business Planning Department
- Unidentified Speaker, Unknown

Other Participants

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

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

Thank you very much for coming out of your busy schedule. All the results for the financial numbers are already disclosed on 19th last week. So I want to go over the overall explanation so we can have more mid; and long-term perspective discussions, especially focusing on the direction of our group midterm strategies.

And please turn to Page 4. So this 5-year midterm management plan have already completed 2.5 years. And now we're in the middle point of the midterm plan. So as you know, this year, we're strongly affected by the natural disasters in Japan. But we have been steadily executing various challenges and issues that were set out in our current midterm management plan and -- but we had to experience such natural disasters, aside from the financial results on an accounting basis. But we were exposed to very tough numbers as a result.

So the current condition of seeing such a recent series of natural disasters could be maybe considered as an abnormal condition that could happen once in every many decades. Or it could be a condition to be called as new normal. So there's some discussions still going on to determine which way to understand the current situation. But as a business management member, we will try to build a system to look at the business in more advanced and complicated manner so we can be more resilient in addressing various challenges. And participating in international conferences, such as Davos convention, we are feeling that, an additional disruption. So the speed of such an external environment changes, such as technology evolution, is quite amazing.

So today, I will be explaining our direction to go for the future. But I will get back to you more detailed numbers in next May. But in simply put, we will accelerate for the globalization, also theme park synergy. So we'll further reinforce such qualitative evolution to improve the corporate values. And I will explain what we are planning to do to achieve that.

On Page 5, this is showing the progress of this fiscal year's numbers. So let me be brief on this page. As you know, last year, we were affected by the U.S. Hurricane Harvey. And this year, we are also exposed to the Super Hurricane Jebi, which is considered to be in a size of once in 30 years. So we recognize the importance of risk management and pricing through such experiences.

In order to show you the actual condition of our business, we have actually normalized numbers considering the domestic natural disasters that if that was the case, then we were able to secure increased profit this fiscal year. So from initiative perspective, we have been realizing the results of such activities.

Let me skip Page six and 7. So we can turn to Page 8. And we started the current midterm management plan in fiscal 2016. And these are the achievements so far. So as you can see, we have achieved so many different initiatives. And looking back, what we have done so far when we made this plan in 2016 or 2015, many of these initiatives were not shaped clearly. But now we're starting to see the results borne from such initiatives. One of the major activity was the overseas international business, as you know. We bought the old Endurance. And a while later, one -- right after that, we sold Canopius. So we have reorganized the international portfolio.

In addition, the Sompo International, which it was ex Endurance. And now we position this business to be a global platform. So the profit size for international business has tripled. And also, we never expected this to happen even in retail area. We were able to build a platform. So now we have the organization and now moving forward with various discussions. This was not expected at all two years ago.

Probably globally, even in this retail area to build the platform, I guess we are the very first player to do so. And at the time of the planning, this nursing care business was a lossmaking business. But now we were able to turn around to start making profits for single year. And now the -- we have built the ecosystem using dementia -- senile dementia as a key business area to generate the group synergy now.

In digital area, we didn't have any operations in the past. But now we have invited CDO for the group from outside of the company to build the trilateral structure located in Tokyo, Silicon Valley and Tel Aviv. And now we are realizing various dialogues or ecosystem with advanced players in the world. And one of the major example was the cybersecurity business. And this -- we want to grow this business to be the first pillar business. In addition, we are planning to have that second and third initiatives to follow cybersecurity. So hold your expectation for the company.

And please turn to Page 9. For the coming two years, this is a direction we are pursuing for. The current midterm plan is not just to achieve the financial targets. But also this is the phase for us to transform our businesses to be able to address various environmental changes to come for the future. That's why we have set out a long-term midterm plan for five years. After two years, now we have started to see the ideal image of qualitative evolution, which should be pursued by different businesses. And now we are in a phase to realize such activities.

As you can see, these are the qualitative evolution of each business. And we will try to connect them in organic manner to improve the bottom line and also to establish a business model to achieve the capital efficiency, which is higher than the capital cost as early as possible. For that purpose, it would be important to implement additional strategy, data utilization and human resources data. The capital principal has been a mainstream of the business right now. So we are likely to be overwhelmed by such additional strategy the most in the financial business earlier than any other businesses.

So we want to be the disruptor in such an environment. That's why digital strategy, data strategy and also human resources to realize them will be key factors for our business. That's what we are believing right now.

And at the same time, we should not be bound by the established concepts or vested interest to securely implement such initiatives. We think maybe we need something different in our governance system. So in order to incorporate more external, global perspective into our group business management, we are discussing what the most suitable image of governance would be at this point. Let me elaborate a little bit.

In addition to those 4 businesses. So we will try to evolve qualitatively, including digital. But the group management and governance will need to be evolved furthermore. In order to be a global group company, the governance itself must be also globalized. It has to be also diversified. And with such diversified members, we can have more multilateral perspectives to have more professional discussions. So current -- under the current business owner system, we can accelerate the speed of the decision-making in each business. And supervising functions and transparency will be further improved. These are the elements which are needed by the current era. And that way we can build the governance most suitable for Sompo Group.

The Nomination Committee, which is considered to be the global standard, is now being implemented. And we are establishing a global management committees meetings. So we will discuss this over in a board meeting. And once we make further decisions, we will be sharing the results as soon as possible with you.

Turn to the Page 10, please. In each business, we are looking for the growth and expansion, efficiency improvement and earnings creation. So those are the difference in strategies and keywords in different businesses. But the missions are different by different businesses. Among those different missions are some quantitative targets, we -- not just by focusing on them but also most importantly, multistakeholders, especially we need to build a business that will be most accepted by our customers. So we are determined to implement such transformation with the qualitative evolution and have confirmed with the various business owners.

We have already started to use indexes, such as return on risk. And each business owner are also addressing revising nonperforming assets to improve the profitability in their businesses. But we will further reinforce such initiatives to accelerate the that shift to more profitable businesses and products and services.

In addition, at the holding company, we are thinking about the roles of the holding company. So to improve the capital efficiency furthermore, we will try to achieve optimization of business portfolio for the whole group in a speedy manner. As part of the group common initiatives, we will be more aggressive in establishing an ecosystem through strategic partners to pursue further inter-business synergies.

Please turn to Page 11. This is an example of creating synergy across businesses. We have been focusing on -- in the nursing care business, focused on dementia. I would like to share with you a sample of ecosystem creation with -- using dementia as the origin.

When we first entered nursing care business, something that we were not cognizant of, I wouldn't say we did not notice this at all. But this was not an idea we were growing. We were thinking of using the knowledge that we have absorbed by going into this business. And we're going to fuse that with the expertise we have in P&C insurance. And we are going to add to that the efforts of our external partners. Using dementia as key, we're going to have a private and public as well as academia come together in an ecosystem. And this is going to be a business model, which will introduce new service, including insurance products. And this is an approach of addressing a societal issue. And this, I believe, is truly a case of giving flesh and bones to the thinking of theme park. We would like to increase this.

In the digital strategy area, we are seeing improvement in productivity. And we're starting to see efforts in commercialization actually contributing to enhancing our connectivity with our customers. We have been investing in venture funds as well as introducing new strategic alliance. We have been investing in more than several dozens such cases. We would like to continue to do this. So that we can transform ourselves as well as create new business model so that we can have greater earning power.

On Page 12. Strict control of risks and maintaining robust financial standing are imperatives to the business. It goes without saying. Our policy of realizing attractive shareholder return on top of those has not changed. While we have been impacted substantively by domestic natural disasters this term, from average year levels, we're still confined to what we may term as temporary losses.

As for the total payout ratio, the board held recently has confirmed that we will review the situation effectively, keeping last fiscal year's total amount returned to shareholders in mind. For further growth, we are going to maintain a strict discipline. And we still are going to have a strong M&A appetite. And the way we're going to make sure that we'll be actively pursuing this, for the program beyond the next fiscal year, including numerical targets, this will be shown when we meet in May. And we're going to make sure that we will take all necessary measures to enhance our global presence as proof.

The portfolio direction is shown on Page 13. So if you could just skip to Page 15. This is domestic P&C insurance, which, of course, is the greatest source of cash flow of the group. We have -- we are continuing to enhance the productivity through reviewing, in addition to systems. But the business process and distribution channels as well. We are going to make sure we enhance our connectivity with our customers. And we will introduce new transformation projects that will create new added-value services.

And we believe that there's still room for upside in numerical achievements. And in the near future, we'll be focused on premium rates optimization. And we will also look at new insurance products sales expansion, which will use our integration with SI. And we will focus on efficiency enhancements, too.

Some recent activities include inclusion of LINE social media insurance on Page 16. The overseas insurance business is not considered just a global -- sorry, booster of group profitability. But it should be the global platform. And this we are constantly communicating to heads of overseas insurance companies. SI is going to be made global platform.

In the corporate business area, where we have strengthened, we have already moved to synergy creation phase. Agri Sompo is something that we have already introduced to you. And we are prepared to enter Brazil and India making full use of Sompo license. So Sompo, like core insurance activity strength, will be used in SI area in new markets.

We are going to also bring into our platform retail area. For example, our -- the Sigorta in Turkey. They have very high expertise and know-how in automobile insurance. And we are going to apply and expand that globally. So that kind of organic growth is, of course, going to be base. And we're going to expand and achieve geographic and product-type diversification. We're going to focus very much on bolt-on type M&A. Therefore, today, I do agree that the valuation will be high. But we still have the appetite and capability for a major M&A. We do have inorganic growth in our view also. But I would like to say that we maintain very highly disciplined approach.

If you could go to Page 19 and 20. This is domestic life. We have been able to achieve steady growth focused around medical insurance. And this is ongoing, the thinking of health support enterprise. Some of the new products, a new income protection-type insurance that we have launched in April of this year, allows the policy holders to receive returned premium if they become more healthy. And this is done in a retroactive manner, very innovative products. And we already have achieved greater than JPY 5 billion in written policies.

And we have introduced last month the industrial first mild cognitive disorder insurance. And we will continue to take measures to expand the number of policies written.

As you know, the life insurance business will be impacted by the interest rate. But we're going to make sure that we will develop Insurhealth. And through introduction of innovative and profitable new products, we will maintain profitable portfolio.

On Page 21 and 22, this is the nursing care and health care business, which became profitable last fiscal year. Based on improvement in occupancy rate, we are going to enhance efficiency through Sompo Care better and digitization. And we will continue to make sure the profitability will improve and become more stable.

As I have said, this may be the first example of creating group-level synergy. We are going to make -- leverage the voices of the users as well as their data, which number more than 100,000. And we are going to expand the new business and new services and products to monetize.

While we hope to continue to gain the shareholder acknowledgment by becoming profitable by itself, we are going to enhance the presence of this business unit through greater group synergy. And through that, we hope to contribute to resolution of societal issue of Japan and also globally.

Remainder are all reference materials related to investment, ERM and ESGs, all of which are quite important. And we are firm on promoting this. Please refer to them when time allows. Thank you.

Questions And Answers

A - Unidentified Speaker

So now we want to move on to Q&A session. Just like as usual, when you ask your questions, we will bring you a microphone. So please state your name and your company name as well. Please raise your hand if you have questions.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Watanabe from Daiwa Securities. I have 2 questions. My first question on Page seven of the presentation, regarding the return to shareholders. So you have some explanation. I'm talking about the total payout ratio. You will be considering this payout ratio in a flexible manner. So you also commented on a teleconference about this payout ratio. Can you elaborate more on your concept on that payout ratio? About six months ago, in the latter half of the midterm plan, total payout ratio or definition, I thought you will be explaining about the update on them. How you're thinking of your return to shareholders in the latter half with the midterm plan. So please explain this as well.

The second question is about Page 18, regarding international business. So in order to secure the growth for the midterm perspective, you have 10% to 15%. And so when you revised the guidance, organic growth was said to be -- was actually revised down from 13% to 6%. But why you're not reducing this percentage for the midterm perspective? Also left bottom, you're talking about the continued increase in employees centered on underwriters. What would be the number that you want to increase in the final number in the midterm perspective as well? And so those are my 2 questions.

A - Unidentified Speaker

Thank you very much, Mr. Watanabe. Regarding the first question about return to shareholders, let me explain and answer to this first question. And so as of May of this year. So 50% payout ratio was maintained, just like before. And the remaining 50% was allocated to the internal reserve. That's what we have shared. As you know, because of the natural disasters still happened in Japan have affected negatively, that increased more than what we had expected in the plan to affect our profit. So we had to revise the profit plan. So natural disasters are now identified and now we have such risks so as mentioned previously. So the 50% planned for the internal reserves would be minimized furthermore to shift more to return to shareholders. So the need for this internal reserves.

Let me comment on the condition of ERM at this point. At the end of this mid interim timing, the solvency ratio was 232% right now. Our target level is 180% to 250%. That is the range we target at. So the lower limit of 180%. Now we're exceeding this number by 52%. And we are a little bit more to the top limit, upper limit. So from 2014 through 2017, for the last four years, we have had internal reserve a little over JPY 280 billion. And that's why we are achieving this level.

To improve the capital efficiency, the extra capital could be also utilized for return to shareholders by some companies. But for us, we have some midterm targets. So we don't have capacity to do so. But there's -- we looked at whether we need to further accumulate our internal reserve or not. That is to be discussed. So the use of such extra capital, how much we have right now is against the risk right now, JPY 1.9 trillion. And from the target lower bottom, how much is the margin we have. We have 52%, which would be JPY 730 billion, a little over that, that we have.

So what do we use this for? First for the M&As. We decided acquisition last year, the Endurance. And in the past, if we were to conduct a similar size of acquisition, the ESR can be lowered by about 40%. And if we were affected by major disasters. So we need to have certain buffers. So major typhoons, such as like for once in 250 years. So because this recent super typhoon was for once in 30 years. Even for a typhoon for once in 250 years, only over 10% impact on ESR. So to be prepared for such a major disaster, we need to have certain buffers.

But looking at the possibility of conducting the major M&A. And there's a specialized team, led by Nigel. Right now, the valuation is staying at the very high level in the market. So we are on a wait-and-see mode at this point. So excluding such a risk and looking at the current capital condition. So for this year's adjusted income of 50%. So if we were -- if we reduce, that was applied for the internal reserve, that can be also shifted to the return to shareholders. So the same amount to be provided to the return to shareholder, that can be also provided as an option. And we're talking about this with the Board of

Directors. And final decision will be made in the financial results timing next year. As of now, there is no opposition so far that we heard of. So I believe there is a consensus on this option at this point of time.

And finally, adjusted profit. Depending on how much adjusted profit we will have at the end of the year. And how much we can reduce the amount that will be allocated to internal reserve. So the payout ratio can be affected by such variable. But so we'll continue to look into them towards the end of the year. Until 2020-something years, we will try to achieve ROE of 10%. So we will try to maintain the certain capital efficiencies, try not to be inefficient in capital. And while we will ensuring certain amount return to shareholder, that's what we hope to see.

In the latter half of the midterm of the plan, what the return to shareholder would be, that was another question you had. And by 2020 in our midterm plan through 2020, well, right now we're actually at the middle point to share the actual numbers of all the midterm plan progress. But as you know, we have had to revise down our target for the profit. So regarding shareholder return, what to do through 2020 is not finalized yet at this point of time. So we will further look into this to figure out to set the proper shareholder return. And that is the answer to the first question.

A - Shinichi Hara {BIO 20712733 <GO>}

And this is Hara answering to your international business. The strategic business hiring underwriters has been continuing for the last few years. So no change to this strategy. And Sompo have licenses in 30 countries in the world. So utilizing such licenses, we will also utilize our skills of underwriting. We will come up with different products. That is our plan for the strategy. That way, we can grow the gross premium revenue by 10% to 15% per annum. But looking at the business unit, the insurance, such as specialty business, the underwriting business could be the growth driver. The U.S. and Europe and other countries are expected to grow by 10% to 15%. And SI is quite unique in agricultural insurance.

So about the revenue -- the premium. 70% are coming from agricultural insurance. And this is not a growth market. This is a mature market. And this business doesn't require much capital at the same time. So the bolt-on M&A or additional underwriter hiring can be utilized to grow the business even under mature markets. In addition, Agri Sompo was mentioned by also Sakurada. So by accelerating this initiative, we can grow in other regions.

Regarding pricing, last year, as at this time of the year, we thought a big growth in pricing this year. That's what we included in our forecast. But that didn't work out as we had expected. So we need to take this seriously. But at the same time right now, looking at the global pricing condition, every quarter, 4 quarters in a row right now, we see pricing increases year-on-year. So we started to see momentum in pricing trends at this point. Alternative capitals have been coming in substantially at very quite rapid pace. But now it seems like certain moderation taking place in such a inflow. So with such a backdrop, I'm sure you know better than us the financial situation in the U.S. market had been changing slightly. So based on such an environment, if we were to see a rate to be on increasing trend maybe on a gradual basis, SI business actually minimizes the amount of all policies in force against the underwriting amount. The underwriting is about a little less than JPY 600 billion. But the net agreement is about a little over JPY 300 billion. So we have about 50% policy ratio -- in force ratio.

And this is due to risk management. That's one reason but also depending on the market condition because things may not maybe moving in the way we expected. So the amount to be held, we try not to have too much actually as a policy in force. As we start to see the improvement in rate conditions then we can start increasing amount of policies in force. So that way we can increase the net premium written without putting too much burden on ourselves. So because of a weak environment right now. So we are at the level of 6% or 7%. But in a midterm perspective, we can grow double-digit level. We are capable of doing so. Thank you very much.

A - Unidentified Speaker

Thank you very much, Mr. Watanabe. I have seen 2 people raise their hands at the same time. Tsujino-san, please?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I am Tsujino from Mitsubishi UFJ Morgan Stanley. I have 2 questions. First of all, I would like to know the net payment you have made for the domestic natural disasters, which happened this term. It came to a little less than JPY 150 billion. But I would like to know about your thoughts on this amount. Was it more or less than you would have liked to have paid? There are different thinking in terms of reinsurance. So I would like to know if this was much bigger or bigger than what you would have liked to have? Or if that was the case, what are your thoughts on the measures going forward to reduce that, if possible?

The other question can be considered broadly your thoughts about capital structure. You did say that from ESR basis, 99.5% ESR gives you 232%. Although the amount is minor this time, based on EV, capital life insurance holds a little less than 30%, which may be considered relatively high. So in such cases, because of the mobility restrictioness of life insurance-related amount may be a requirement.

And of course, catastrophic loss reserve, some people might say should be considered capital if you are looking at economic value-based capital assumptions. After the disasters drawdown, it would be less than JPY 40 billion. So you might want to hold this, which means that, that will lead to more mobility restricted capital. So while you were saying that you do still have much appetite for M&A, isn't it the case that you are in a situation that you cannot make mistakes? I know I'm being presumptuous. But I would like to know what the management really are thinking about M&A going forward. And also, I asked -- also would like to know about the possibility of additional procurement through hybrid bonds. According to Solvency II rule in Europe, of course, you are in a situation of being able to procure more capital from the market. But such system is not that clearly stipulated in Japan. And what rating organizations have in mind is very much relevant. I'm sure you are thinking about all of this after the natural disasters. So I would like to know what your thoughts are in additional procurement, hybrid bond, et cetera.

A - Masahiro Hamada {BIO 20083917 <GO>}

Well thank you. I, Hamada, would like to respond to your first question. And I take it that your question is related to our reinsurance strategy related to this year's natural disaster situation. There's no meaning in evaluating in hindsight. But what we can say, is for example, in the most recent five years, natural disaster in Japan takes up much of our risk amount. In 2013, what used to be JPY 412.7 billion, 99.5% value at risk, in 2017 was halved to JPY 218 billion. Since the grading has changed, the Japanese P&C insurance became more profitable. So we have been successful in reducing volatility. But that said, there is not much we could have done better because this has been a very unprecedented situation.

I can give you another example. The previous major disaster was in 2004 when 10 typhoons had landfall in Japan. JPY 590 billion to JPY 600 billion was the total industry impact back then as published. But this time, they say that it's twice that amount. The net effect on RPL in 2004 was JPY 189 billion. It probably is less than that for this year, which means that the total damage was twice compared to last time. But the impact on RPL did not change. It was even less. Could tell us that our most recent reinsurance strategy worked. But of course, I'd like to apologize to our shareholders for the inconveniences we are incurring in terms of adjusted profit.

A - Unidentified Speaker

The next question had to do with capital. Economic value basis. I talked about as of end of September, it was 232% ESR. Now you are correct. It's not all cash. The EV of life insurance, for example, is included in that. So the risk of amount, which I have talked about earlier, that is not all cash or not all valuable securities. It's not that the entire amount can be readily provided in that matter. But we keep those in mind when we consider M&A. We will -- we are repeating stress testing so that we are ready for natural disasters going forward. That's our understanding. You also have mentioned about the catastrophic loss reserve or impact on that. We can draw the reserves down according to the level of end of our previous term. We have actually provisioned during the term by 14%. So the amount for fire insurance will be about JPY 50 billion. But compared to end of last term, of course, catastrophic loss reserve will have to be reduced. Now whether or not the special provisioning will be done or not, we still have time until the end of the term. So there is still upside and downside in terms of profitability. So that will have to be taken into consideration as Sompo Japan Nipponkoa will decide whether there's going to be special provisioning, by how much and when. But as we speak, we are preparing to shift to IFRS. We were going to prepare ourselves so that we can transfer in 2021. But the most recent announcement is that there could be a delay by a year. So we now have a higher possibility of shifting to IFRS in 2022. But once we move to IFRS, the catastrophic loss reserve will no longer exist. So that should also be taken into consideration. So we still have couple of years before we decide on how much and how and using what kind of provisioning rate we want to apply to catastrophic loss reserve. We would like to continue to think about this. About hybrid bond issuance and the other procurement of capital, our group, as we speak today, has the borrowing, which includes senior debt and hybrid debt of JPY 563 billion. And the rating organizations say that the leverage ratio of 20% and less will give us premium. We are now at 17%, which means that, well, for us to reach 20%, we need to borrow JPY 800 billion, which means that we still have JPY 150 billion without having an impact on our rating. So that is our current understanding. So I hope I have addressed your second and third question.

And Mr. Muraki?

Q - Masao Muraki {BIO 3318668 <GO>}

I'm Muraki from Deutsche Securities. I have 2 questions. My first question is about the initial plan for the next year. So this year, you had natural disasters. And these will be affecting or not affecting next year or not. But can you tell us the impact and, for example, the initial budget for natural disaster was enough or not? And also the remaining, the balance of catastrophic loss reserve, I guess there is going to be reduced or do you need to increase more? Also, the reinsurance, the writing cost and how much increase should be expected? And please tell us initial plan for the next year and compared to this year initial plan, please tell us the changes or no changes would be made or not. And my second question, as you explained in your presentation today, LINE insurance or cybersecurity business. This is not the insurance business, I guess. This is the cybersecurity business itself. And now you will be fully implementing this year that was mentioned last year. So please tell us the progress of these businesses. And what will be the final image of monetization of these businesses to contribute to your profits?

A - Unidentified Speaker

Let me answer to your first question. Conclusion, there's natural disasters impact on the next year's numbers or not, yes, there will be the impact on next year. The negative impact will be expected. On the other hand, generally speaking, it will not be a major amount. I won't be able to give you a specific number because we are currently calculating right now. So I won't be able to share as of today. The affecting factors would be, as you mentioned, yes, first of all, the initial budget at the beginning of the year, whether we consider this as a new normal or not, how we will set the budget will be affected. So there are various organizations that we are looking at weather conditions. There's increases of heavy rains. But they haven't really mentioned clearly that there is an increase of Japanese typhoons. There's no official statement out yet by any research institute. But we are feeling for the last 5 to 10 years, we're seeing increasing number of typhoons in Japan. So there will be a certain conservative coefficient to be added to the current model that we're using right now to conduct the simulations. Then we will need to revisit our reinsurance strategy to decide on our budget. But we are thinking of increasing for the next year. About the catastrophic loss reserve, as mentioned earlier, at least every year, the provision will not be increased more than 14% every year at this point. Reinsurance strategy. Exactly as I mentioned. So there is a cost increase for reinsurance. Also, there is a volatility. So we need to figure out how much reinsurance should be applied. And we are getting various information at this point. So we are not able to give you specific numbers. But it's not going to be increasing by 2 or 3x more. So it won't be that big. So the rate increase will not be such huge. But there will be a certain impact. And right now, we are considering what type of -- how much -- what the size of reinsurance we would need for the next year. Another thing is fire and LINE rate increase. As you know, according to the reference rate, it's 5.5% for the housing. That's what's been set. And so we will use that as a base number. The peer premium rate will be utilized as a base number. But that won't be enough. And we don't have the recent data yet. And so peer premium rate has been quite stable. But we're looking now for the past 90 years in a long-term perspective, the -- our view compared to the current levels, we see a gap actually. So we may need to optimize the pricing furthermore. But for next year, maybe no major impact expected next year. So as a result, it depends on what will be the budget we will set at to decide on the reassurance (sic) (reinsurance) strategy. And we're trying to balance this strategy versus our profit level. Regarding your second question, you may feel it's more overconfidence from us. But at the beginning, as we have decided to implement a theme park initiative, one of the principles was that not to pursue the synergy even from the beginning. That is the rule that we have set. The largest platform would be for the domestic P&C business. And so because we have such a business. So we -- it makes it easier for us to monetize this digital business more easily or better than the other players. We both fail in that concept. Because in each different expertise, there are professionals existing, a group of professionals existing already. So we have to be also competitive enough against them in those different sectors. That will be the key. So at least we also have to be confident to be sustainable in this area. So same thing for the nursing care business. So for the nursing care business, the size was important. And that's why we wanted to be starting as #3 and now we're trying to be #2 and #1. For international business and digital business, as we have researched, for now, the markets would be about a few trillion or it could actually go over JPY 100 trillion in a global perspective, which is quite huge. But how we can win in this huge market. And we need to figure out where to target in this huge market. I won't say a specific name. There are IT majors in Japan, also network digital business in Japan. Instead of competing against such majors. But our strategy is to compete -- we want to focus on SMEs actually in this business area. So it's more like utilizing the outsources for the outsourcing business. And not showing the Sompo as the business front line. But we also have to have a know-how in business themselves not just being in front of such outsources. So not just in Silicon Valley but also Tel Aviv in Israel, we have built an operation because we want to build our expertise and know-how. I also went there to see the condition and specially cyberattack-related technologies, the Israel, they're #1, almost the first-class level. They are the defenders or they could be the #1 attackers. I don't know whether there is a profit or not. But anyway they're skilled that much. So we need to capture such skills they have and so we can have all such technologies so by hiring the local people, also by making more investments to add more affiliated companies of this business, especially cyber terror risk will be analyzed for SMEs first. That's what we plan to do to determine the potential risks or the fear for those SMEs. And we issue the report for them. And we point out their weakness. And we also provide a vaccine to address such weakness. I know it may sound a little too cool. Also, I tell people not to talk about insurance in this business, if a customer comes back to us. So in a worst case, even if we are affected by the attack, if there are any costs, what happens? And if that was the question we get, then we will talk about the cyber insurance or terrorism insurance. That's only when we talk about insurance. That is our policy. So we're prepping for this business. In the midterm, I know you may be hearing this here and there. But a little while later, in cyber risk diagnostics business, more details of this business and the level of technology can be shared in the near term. So I hope you can bear with us.

Q - Masao Muraki {BIO 3318668 <GO>}

On the same note, if that's possible. So you want to put the insurance business to the front line at the beginning. But when it comes to distribution channel, you are using the SME channel for Sompo Japan Nipponkoa, is that the plan?

A - Unidentified Speaker

Yes. That is likely to be. But we don't really go visit them and say hello and how about introducing this cybersecurity. It won't be like that. First, we need to be specific how to approach the market by explaining the cost and the time needed for conducting diagnostics. We will need to inform such information to the customers. That will be important.

About catastrophic loss reserve information, let me elaborate on this point, as questioned by Mr. Tsujino on this point. Earlier, I talked about shifting to IFRS. And there will be no concept of catastrophic loss reserve to be implemented once we shift to IFRS. So right now, this liability item will be counted as asset. So right now, this is actually the capital with the credit rating companies. So -- but this system will not be completely gone on the financial results. The non-life insurance business will need to come up with the numbers according to the current rule. But when we consolidate, we will use IFRS. So this catastrophic loss reserve balance, also the provision rate every year will need to be monitored and watched closely every year as non-life insurance business. And we need to have enough amount of provision every year, just so you know I wanted to elaborate and explain on this.

Yes. Sato-san and then (Otsuka-san) in that order.

Q - Koki Sato {BIO 19983862 <GO>}

I am Sato from Mizuho. My first question has to do with FY 2018. You are now at midpoint of MTP. I would like you to give us your overall evaluation. You are talking about JPY 273 billion adjusted consolidated profit. Your target, this was not adjusted for reinstatement and cannot be as it's not included. Maybe that's the reason why it's less than what you have targeted at that between 22 -- or JPY 220 billion and JPY 230 billion. I have looked at your previous numbers and it seems that is slightly lower at JPY 207.3 billion against the JPY 220 billion and JPY 230 billion. The other is, I think you have basically talked about overseas insurance. But -- when you talked about M&A appetite. What about the for noninsurance, including cybersecurity and the health care including those in care business? Are you also thinking about acquiring other companies in those areas? How do you intend to use your capital in those other areas, other than overseas?

A - Unidentified Speaker

Thank you very much. The forecast for FY 2018, excluding natural disaster impact that JPY 207.3 billion includes different things, including some impact by the reinstatement of fees, et cetera. As a result, it's somewhat different from what we had thought about at the beginning of FY 2016. The biggest difference came from large loss aside from natural disaster related that increased substantially last year. It was okay until midpoint this year. But in the second half of this year, we have to be more conservative because in the economic cycle, we are seeing, for example, obsolescence of machinery because of the lower CapEx spending, which experienced before. And this was more than we had expected. As a result, domestic non-life compared to two years ago forecast is smaller in the end. For life insurance and nursing care, it is almost entirely on track for overseas. Now it's quite difficult what to compare against because there is nothing of sort of endurance when we did MTP planning. Compared to when we acquired, we are struggling in terms of comparison between where we are now and what we have forecasted. So that's our general evaluation. Your second question has to do with our intent for acquisition in non-overseas. Do we really have appetite? Yes. We are going to try to become a theme park for customers, which means that we will be looking at other areas. As was the nursing care business in the past, we are looking at completely new areas too. But as was presented by Sakurada at the very beginning, we will be making investments into digital and strategic. We are thinking of strategically investing in start-ups as minor shareholder. We have been doing that. But we are also considering possibility of owning some of them. We are seeing some such projects already. And we are looking at non-life, life and others to take place outside of the country. We have delegated authorities for SI to make decisions, of course, above a certain amount of money. Of course, the decision will have to be made by the holdings. But it is true given the current situation, it's quite difficult to find a good acquisition in Japan. But if there's anything good, then we will.

Next (Otsuka-san).

Q - Unidentified Participant

I'm (Otsuka) from JPMorgan Securities. I have 2 questions. My first question on Page 10 of your presentation. So looking back at the midterm plan. You had the results on achievement on Page 8. And I have an understanding on that. But from now on, what will be the challenges for the remaining part of the midterm management? What is still not -- what is lacking at this point?

A - Unidentified Speaker

So as mentioned by the president, that to improve the profitability or capability to generate more profits will be the key for the remaining phase.

Q - Unidentified Participant

On Page 10, is it going to be on increasing trend of each business? This actually represents improved profitability and you're showing this is the challenges that we need to realize such target or goal. Is that the right understanding? And if those are achieved, then you can achieve return on equity of 10% or higher or getting closer to JPY 300 billion? That is my first question. My second question again on Page 10, within the domestic P&C business, the cost is with a down arrow. I'm sure this is about cost reduction. Then again for the reinsurance low or on the consumption tax low, there are potential increases on the cost having negative impact on the business according to your combined ratio. I know it's difficult to understand because of natural disasters. I don't really see much negative impact on your number in recent results. But would you be able to reduce further more from now by reworking on your strategies?

A - Unidentified Speaker

Thank you very much. First of all, about capability to generate profits, we have different missions actually assigned to each business unit. If it's only about the profit amount in yen terms or the growth rate of the profit, then international business, advanced business, there will be a lot of pressure on these businesses. I know we have high expectation for those areas. And I'm sure they can meet these expectations. And so it's not just because of their inner spiritual (attitude). But also we had major disasters last year. And we see a slow speed of recovery in the market. But the natural disaster actually only increased cost by 4% only in overseas market. But the Sompo International was double-digit growth, 10% or 11%. But we're not just beaten by the others. So we're actually winning over, like we're growing like 6% to 7%. So we have a stronger capability to generate profits. So the cat loss-wise, at Sompo International, we're on a very conservative level. So we're likely to release them without purchasing reinsurance, we can hold. We have a growth -- we have a potential for growth furthermore. And that can be also turned into the profit for our international business. When we talk about our contacts with our customers, we want to focus on life insurance and also the nursing care business as there is a growth potential for contact with customers. In our nursing care business, this will be related to the last half of a person's life. And so this will be related to the eternal place for them to live. So this can create many opportunities to contact with the customers. So if a customer -- through this nursing care business, if we can obtain trust from the customers, we can actually grow a lot of our -- the main dementia business. So first, what we expect for the nursing care business may not be, of course, profitability but that will come in the future but now is quality and trust, to be nurtured, to build more trust relationship with the customers. And that is we're making progress on this point -- at this point. And for the domestic business, we need to show difference from a major life insurance in order for Himawari Life to stay in the business. So we will make this company to be a health support business to take initiative. And if -- by introducing major products into the market, that has given some differentiation in the market from the others. So on these 2 area, we will need to build good impression interest from the customers. From casual perspective, the Japan domestic P&C business will be the major source. This will be related to your second question from the numerator and denominator wise. Of course, both of them we need to have the larger denominator and smaller numerator. So it's quite simple. Now we see a mature market in Japan. And we don't think we can sustain 5% to 6% growth of this market and we need also to pay extra attention to the risks in this market. So as we mentioned, on the operational costs within the combined ratio will be the focus to be reduced furthermore, especially fixed cost portion in the operational cost would be related to the labor on expenses. Those are the area we need to address to reduce furthermore. And we already have them in the plan. But we need to make sure there is no meltdown on this area. In PLA or AI, we have 2,000 more people because we're now introduced to AI. That should not be happening. We're not in trouble yet. For growth perspective, we need to make sure to reduce unnecessary cost. That's what we need to focus on. And by the next time, we can discuss more details and we can show you the result with the evidence about our plan.

Yes. Majima-san, please?

Q - Tatsuo Majima {BIO 15338044 <GO>}

Yes. I'm from Tokai Tokyo Research. This is rather detailed. But it's on the Page 27 of the addendum. It's not what you have presented. This is looking at unconsolidated the seeding situation of Sompo Nipponkoa, JPY 74 billion book and the insurance was JPY 63.7 billion book. For other non-life, at the midterm, you only gained something like JPY 20 billion, JPY 30 billion and you were able to recover the seeded reinsurance amount early. Is this because you had some special situation? And that probably will means paying out your insurance money early, how big is that? Is it by several billions? I wanted to know the size. Secondly, this is not directly related to your business but Nissan is in a scandalous situation. And it seems that according to a newspaper reporting, they want -- Nissan wants more independence from and of course, parent, everyone know, is against it. Is Nissan becoming more independent in the business administration favorable to you or not? If it is okay, please let us know your position.

A - Unidentified Speaker

I know we are in a very sensitive period critical. And this is in the hands of justice. I would not like to comment. But our sense towards Nissan will be maintained. There will be no change. I wonder what your definition of independence really is. If it means more shareholding to take place in Japan, then we'll have to be very careful. But otherwise any independence that is something that should be favored. I'm not in a position of giving you any more details. We have not collected sufficient amount of factual data to be able to say anything that will impact in any way our view towards their running of business or what we want to do.

Thank you for your question. I would like to talk about (Ioma Kawabe), Page 27 of the addendum talks about, for example, 2018 this is about JPY 177.7 trillion and the JPY 112.6 trillion.

Q - Tatsuo Majima {BIO 15338044 <GO>}

I'm looking at the seeded amount.

A - Unidentified Speaker

Well I do not have detailed information in front of me. But some major factors include we have the covered reinsurance recovery. Whatever incurred last year at the end of the year, we will be receiving this year and that probably has had an effect. For detailed numbers, I would like to get back to you after reviewing them in detail. If you are talking about major difference vis-a-vis other competition, then that's that. So of course, collection is going to take place after it was incurred this year. And so that effect is going to be beyond.

Q - Tatsuo Majima {BIO 15338044 <GO>}

And what would be -- what would the size be around JPY 1 billion?

A - Unidentified Speaker

Well I would rather not give you any figures now. Let me get back to you.

Sasaki-san, please?

Q - Futoshi Sasaki {BIO 17564798 <GO>}

This is Sasaki from Merrill Lynch Securities. First question is about shareholder return, let's say, for next year. So if we were to have typhoon again next year, you're going to have to reverse the internal reserves to conduct shareholder return with the same amount of last year, is that your thinking? Because last year the amount of shareholder return, I want to see if that is the bottom amount committed to the shareholder return or not. I want to confirm that. Second thing is the CALI, automotive insurance. For each automakers, let's say, they have a maintenance or some vehicle inspections. They may offer a package, including insurance. That is the trend we're seeing right now. And will that have any benefit on your business or negatives on your business? Is there are any positives or negatives on your business with this trend?

A - Unidentified Speaker

Thank you for your questions. Regarding shareholder return, let me answer your question. Our basic policy of shareholder return is a stable dividend. That is the basic policy. So the dividend amount of last year will be maintained first or even there will be additional amount to -- in addition to the previous year dividend. That is the concept of stable dividend. Talking about payout ratio. In a normal planning, we are setting 50% as for shareholder return. And so basically, we provide dividend -- and the difference will be covered by the share buybacks. So just like we did this fiscal year, if we were to have another downward revision next year, then what do we do? I believe that was your question. We will try not to reduce the amount of shareholder return. That is the basic idea we have internally. That's how we're thinking at this point. That's all for shareholder return. Talking about automobile insurance impact. So among automakers or the auto dealerships, if they were to offer a package, including maintenance and vehicle inspections and if there are any impact on our insurance business or not, I believe that was your question. So this is actually related to the channel strategies. So we also sell our insurances through the maintenance repair shops. And we also sell insurances through the dealerships at the same time. Which is more beneficial for us? There are different indexes to measure that. So we cannot really say which is better or worse. So the dealership insurance will be maybe better for us for the profitability. But we also need to think about the future potentials, the direct impact on the business wise. Whether to have the vehicles at the dealerships or the vehicles at the repair shops, I think it depends on the actual costs to be delivered. But in either case, there is no major impact on our numbers basically. It's been a while since the automakers are changing their trend. They cannot just sell the cars. They're trying to expand their business with their supplementary services. And that will not have a major impact on our business. That is the current conclusion.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

So for example, let's say, Toyota for certain cars, they have already started underwriting for certain insurance companies. So it's almost 100% share by a certain insurance company. The same thing happens with other automakers. Would that be a negative impact on your business or maybe it's possible certain automaker can sell your product only? Would that be possible?

A - Unidentified Speaker

I understand your point now. Those type of insurances, yes. And we call this as branded insurance. And that's been taking place under certain conditions. And with certain insurance companies, the products are being sold by automakers.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

So the real exclusive agreement existing or not?

A - Unidentified Speaker

Well not completely. Actually, if one company does that with one automaker and the other company will follow to do the same thing. So that doesn't really change the market condition.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

So for the future changes -- potential changes wise?

A - Unidentified Speaker

So cars are sold maybe not just by dealerships, car dealers are not the only one to sell the cars. Now that we're seeing more autonomous driving influencing the market, the individuals may be owning the cars or there would be more car sharing taking place in the market. There could be a drastic market change expected. And we need to prepare for such a change.

Thank you very much. Anybody else has any other questions? So no other questions. So now it's about the time for wrap up. So thank you very much for coming to today's session.