FINAL

Bloomberg Transcript

Q3 2014 Earnings Call

Company Participants

- Shiro Sasaki, Corporate Communications and Investor Relations Group, Group Leader
- Unidentified Speaker

Other Participants

- Futoshi Sasaki, Analyst
- Hideyasu Ban, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Tatsuo Majima, Analyst
- Unidentified Participant
- Wataru Otsuka, Analyst

Presentation

Shiro Sasaki {BIO 19269575 <GO>}

My name is Sasaki. I come from the Corporate Planning of Tokio Marine Holdings. Without further ado, we would like to explain about the overview of the third quarter of fiscal 2013 results as well as the full year projections of Tokio Marine Holdings, which was announced today.

We are providing the following four documents for this meeting: financial [ph] report, PowerPoint document entitled overview of the third quarter of 2013 results and full-year projections, supplemental material for conference call and financial settlement data.

I'd like to ask you to access our website, then from the home page under topics access the page where we have disclosed those materials and get your own copy via download.

In this conference call, we will be using the PowerPoint document and the supplemental material for the third quarter of fiscal 2013 conference call to give you a presentation about the overview of fiscal 2013 third quarter results and full year projections for about 30 minutes.

Please turn to page three of the PowerPoint document. First, I will explain about the consolidated ordinary income. Ordinary income was JPY3,167.3 billion year-on-year, plus 17.6%, increased by JPY473.4 billion. I will explain the reasons behind the increase one by one.

Net premiums written for domestic and international non-life insurance business was JPY2,134.3 billion year-on-year, plus 13.2%, up by JPY248.8 billion. This is mainly because of increase of domestic P&C businesses, auto insurance, expansion of underwriting at international insurance business as well as full-year contribution of consolidation of Delphi who became part of the consolidating accounting from the third quarter of last year and positive impact of progression of yen depreciation.

Next, life insurance premiums of domestic and international life business was JPY263.1 billion year-on-year, minus 11.7%, or declined by JPY34.8 billion year-on-year. Tokio Marine & Nichido Life Insurance Company increased its in-force policies, favorable sales of new products in Asia and contribution from Delphi's consolidation pushed up income. However, there was increase in surrender benefit and other refunds at Financial Life, which led to a decrease in life premiums overall.

Next, investment income was JPY586.9 billion year-on-year, plus 81.2%, or up by JPY263 billion. This is mainly because of increasing gain on sales of marketable securities of TMNF and due to recovery of domestic market. Financial Life recorded investment gains on separate accounts.

Because investment gain on separate accounts was booked, same amount of transfer through the underwriting reserve was recognized, which makes this a neutral factor to P&L.

Next, I will explain the consolidated ordinary profit. Please turn to page four. Ordinary profit was JPY229.6 billion plus 72.1% year-on-year or up by JPY96.2 billion. I will explain the reasons for increase and decrease one by one for each domain on the slide.

At TMNF, underwriting profit and net investment income, both increased, which led to the ordinary profit increase of JPY54.5 billion. As a result, domestic non-life business overall had increase in ordinary profit by JPY58.8 billion year-on-year. I will explain the details later.

In domestic life business, at TMNL, ordinary profit decreased because of increase in provision for underwriting reserve owing to decrease in standard interest rate and increase in agency commissions associated with revenue growth. On the other hand, at Financial Life, there was increase in income from insurance related expenses in accordance with the recovery of domestic stock market and increase in reinsurance cost due to decrease in-force policy amount which led to increase of ordinary profit. However, for domestic life overall, ordinary profit declined by JPY3.5 billion.

In overseas subsidiaries, there was expansion of underwriting. While we remained highly disciplined in underwriting, contribution from Delphi's full-year consolidation and positive impact of yen depreciation led to year-on-year increase in ordinary profit by JPY47.8 billion.

For consolidated adjustment, negative adjustment increased by JPY8.2 billion year-on-year.

This is mainly due to the reversal effect from consolidation adjustment in fiscal 2012 related to Hurricane Sandy at overseas subsidiaries, and at the same time, there was an increase in dividend payment from subsidiaries paid to TMNF, an interim holding company, which increased the amount of consolidation elimination for this quarter.

Now, I will explain about the quarterly net profit. Please turn to page five. Interim net profit was JPY150.2 billion year-on-year, plus 72%, or up by JPY62.8 billion. Main reasons for increase and decrease is same as what I have explained earlier for ordinary profit. To add this additional factors, at TMNF there was a reaction from gains on disposal of fixed assets, which was booked last year.

At Tokio Marine Financial Life, there was a reaction from booking extraordinary loss from increased retirement payment last year. That was the overview of financial earnings for the third quarter of the year.

I will continue on to explain about the overview of each company. Please turn to page six. First I'll explain about the overview of the third quarter of fiscal 2013 earnings for Tokio Marine & Nichido Fire Insurance company. On the page, you will see up arrows and down arrows. Upward arrow means positive factor for P&L, downward means negative factor for P&L.

First I'll explain about different factors for underwriting profit and loss.

My explanation will be mainly about private lines of insurance. Therefore, please look at private insurance line on the left chart. For net premiums written, all lines of insurance increased their topline centering around auto insurance. Net premiums written for private insurance increased 5% or up by JPY60.3 billion. Earned premiums increased by JPY44.9 billion pushing up the earnings.

Line by line situation is explained on page eight, please look at page eight later.

Net incurred loss of private insurance overall declined by JPY42.8 billion and I'll explain about each factor. As for net incurred loss from natural catastrophes for this term, although we have typhoon number 18, Man-yi, and typhoon number 26, Wipha, this year was a swing from last year when we had Hurricane Sandy and massive low pressure. As a result, net incurred loss was reduced by JPY33.9 billion year-on-year. As for net incurred loss excluding natural catastrophe, although we had some large accidents, it decreased by JPY19.9 billion year-on-year mainly due to decline in net incurred loss of auto and fire insurances.

On the other hand, due to the progression of yen depreciation compared to the yen rate of last year, there was increase in provision for reserve for foreign currency denominated outstanding claims by JPY11 billion.

Next I will explain about the catastrophe loss reserve. Last fiscal year owning to natural catastrophe, such as massive low pressure, we had a net reversal of reserve. This year owing to decrease in claims paid related to natural catastrophes, there is a net transfer to reserve. This led to an increase in provisioning by JPY55.8 billion. As a result, underwriting profit for the term increased by JPY17.3 billion and came to be JPY29.7 billion.

Next, I will talk about the investment income. Due to the increase in interest and dividend income due to increase in dividend payment from overseas subsidiaries, gain on sales of securities owing to progress in sales of business related equities and decrease in impairment losses on securities associated with recovery in domestic stock market, net investment income increased by JPY40 billion to be JPY144.8 billion.

The business related equities sold this quarter was approximately JPY83 billion. Most of the dividend income from overseas subsidiaries are eliminated on consolidated basis.

As you can see, both underwriting profit and investment income increased, which led to third quarter net income increase by JPY31.5 billion year-on-year to be JPY108.1 billion.

Next, I will explain about the combined ratio. Please turn to page seven. First, let me explain about the written-to-pay basis loss ratio. Compared to last year, there was decrease in paid claims relating to natural catastrophes as well as paid claims excluding natural catastrophes in fire and auto leading to decrease in total paid claims, including loss adjustment expense by JPY36.2 billion of decrease. As a result, private insurance written-to-paid basis loss ratio improved by 6 points to 58.9%.

Here, I'd like to touch up on the earned-to-incurred basis loss ratio. E to I loss ratio for this quarter improved by 6 points to 62.1%. This is mainly because of higher provisioning for claims reserve for foreign currency denominated policies increased, loss from natural catastrophes capacity decreased, and incurred-to-loss decreased for fire and auto insurance.

Auto insurance E to I loss ratio improved by 4.6% to 65.6%. Main reason being unit claims payment increased for vehicle damage and property damage liability insurance, but reported claims decreased, and unit premium increased.

Let us also look at the expense ratio. Due to the increase in net premiums written, the corporate expense ratio improved. As a result, business expense ratio improved by 0.4 points to 32.1%. All in all, the combined ratio on a written/paid basis improved by 6.4 points year-on-year to 91.1%.

Net premiums written and loss ratio by line of business is provided on page eight as well as details of asset management results on page nine, please refer to them at your convenience.

Next, I will discuss the financial results of Nisshin Fire on page 10. Underwriting profit of Nisshin Fire grew by JPY3.4 billion to JPY3.7 billion while the reversal of cat loss reserve decreased in the fire line business; losses incurred related to natural catastrophes decreased; and in the automotive business net losses incurred declined in addition to lower business expenses, net investment income increased by JPY900 million to JPY2.3 billion, mainly due to an increase in gains on sales of securities. As a result, net income grew by JPY3.1 billion year-on-year to JPY3.7 billion.

Next, I will explain the performance by Tokio Marine & Nichido Life on page 11. To give you the overview of the sales results, I will start with ANP. The health [ph]graph shows the historical trend of ANP. Following the second quarter trend, the company maintained a higher rate of growth. ANP of new policies grew significantly by 32.4% year-on-year, Medical Kit R that we have launched in January 2013 drove the topline growth of the third sector and first sector policies and individual annuities continued to sell well.

And thanks to the steady increase in in-force policies ANP of in-force policies grew by 9.0% since the end of last fiscal year.

Next, I will go over the results on the statutory accounting basis. Insurance premiums and others increased by JPY57.3 billion to JPY456 billion due to the steady increase in policies as well as in-force policies as I just explained for ANPs.

Net income declined by JPY5 billion year-on-year to JPY8.1 billion mainly due to the increase in provision for underwriting reserves in conjunction with the revised standard discount rate; increase in business expenses mainly in agency commissions also contributed to this result.

Next, please go to page 12 to discuss International Insurance Business. Following our traditional IR communication format, I will explain the performance of our International insurance business based on the aggregate number including the performance of overseas branches of Tokio Marine & Nichido Fire, equity method companies as well as non-consolidated companies.

Net premiums written grew by 57% or JPY281.4 billion over the year to JPY777.7 billion. This is mainly due to organic growth of our existing businesses and full-year contribution of newly consolidated Delphi in addition to the depreciation of Japanese yen.

I will next explain more details by business domain. Philadelphia grew their topline by 40% through increase in new business and continued rate increases on the renewal book.

Delphi was consolidated to our group in the third quarter of 2012 and is now making a full-year contribution. As a result, their contribution grew by JPY107.1 billion.

Topline of Kiln increased by 21% mainly due to weaker Japanese yen. Topline in South and Central America grew by 49% primarily driven by steady increase in sales of our core automotive policies in Brazil. Topline of P&C business in Asia grew by 36%, mainly thanks to the increased sales of personal automotive insurance in major countries in the region.

Next, please go to page 13 to review adjusted earnings of international insurance business. Adjusted earnings of international insurance business grew by 92% or JPY47.4

billion year-on-year to JPY99 billion. This is due to depreciation of Japanese yen, decrease in natural catastrophe losses, progress of various growth measures and profit contribution of Delphi.

I will explain more details by business domain. Adjusted earnings of Philadelphia grew by JPY7.3 billion because of increase in net premiums written as well as decrease in natural catastrophe losses from a year ago. Delphi's contribution increased to JPY16.2 billion as they are now contributing to our Group on a full year basis similar to its impact to the net premiums written. Adjusted earnings of North American business increased by JPY2.2 billion, primarily due to the decrease in reserves related to losses we've incurred in previous fiscal year. Kiln grew their adjusted earnings by JPY800 million supported by falling Japanese yen. Adjusted earnings of Europe and Middle East decreased by JPY1.5 billion due to major accidents in Europe. P&C business in Asia grew their earnings by JPY18.1 billion revenue from property and automotive line of business grew in Malaysia and India and reserves related Thai flood declined. Adjusted earnings of reinsurance business grew by JPY4.7 billion mainly due to decrease in natural catastrophe losses.

Lastly, I will discuss the revisions to our full-year forecast on page 15. As we reviewed our full year forecast, we made no revision to ordinary profit and net income guidance on a consolidated basis. However, I would like to explain to you revisions that we made to some of our companies.

We reviewed the full year forecast based on the market environment prevalent as of the end of December 2013. Based on the assumption, we made some revisions to some companies or business segments. I will highlight the major revisions that we made. For Tokio Marine & Nichido Fire forecast of ordinary profit is revised downwardly by JPY13 billion and I will amplify all the reason behind this later.

For Tokio Marine & Nichido Financial Life, we made an upward revision assuming a decrease in provision for underwriting reserves due to the improvement of investment environment. We made an upward revision also for overseas subsidiaries since the forecast was revisited based on the Forex rate as of the end of December 2013.

Now, I will explain the full year forecast of Tokio Marine & Nichido Fire in more details. Please go to page 16. Forecast of underwriting profit is revised downwardly by JPY7 billion while natural cat and other losses are expected to decrease due to further depreciation of Japanese yen, reserves for foreign currency denominated outstanding claims are expected to increase and due to decline in claim payment provision for cat loss reserve is expected to increase.

Aside from underwriting profit, we made another downward revision by JPY6 billion reflecting the decrease in gains on Forex forwards and currency due swaps due to the further depreciation of Japanese yen. As a result, forecast of ordinary profit is revised downwardly by JPY13 billion to JPY181 billion.

Lastly, I will explain the forecast of adjusted earnings of international insurance business on page 17. Adjusted earnings are revised downwardly by JPY18 billion to JPY133 billion due to the progress of yen depreciation.

This concludes my presentation and we would now like to entertain the questions that you may have.

Thank you very much for your attention.

Questions And Answers

Operator

Thank you very much Mr. Sasaki. Now, we would like to get into the Q&A session. The operator is now explaining how to casting a question to the Japanese audience. I apologize for the foreign participants, but I ask you to wait on the line until the explanation by the operator finishes. Thank you.

The first question is from JPMorgan, (inaudible). Please ask your question.

Q - Unidentified Participant

Thank you for the opportunity. On the data, there is a big Excel spreadsheet that you have released for the first, second and third quarter of this year and it shows everything from the premium income all the way up to the (Technical Difficulty) and I want to ask a few questions based on that spreadsheet. And on the very bottom of it you are showing the E to I loss ratio for natural catastrophe for different lines of products.

And for the first quarter and third quarter I can see that there was an impact coming from the cursory methodology of calculation, in calculating the E to I loss ratio. This time excluding the cat, auto is 65, which was an improvement by 4.4% and then compared to the second quarter there was also an improvement by about 4% -- 4.5% decrease in the loss ratio for auto. Here, was there any impact coming from the cursory calculation methodology? Do you think there was any noise coming in from the change in the calculation method change, because I'm sure you are using the nine month average, but the pace of recovery is very fast. So I wonder if there was any noise coming from the calculation methodology.

And in addition to that question, on the very top there is the net claims paid for auto with a decrease by 8.4 billion for the third quarter and then compared to the second quarter there was a decrease by 9.2. So for the claims paid, it looks like there was a slowdown in the change in the auto claims. However, looking at the E to I loss ratio, the piece of the improvement has not slowed down. So which column should I look at in order to address the status quo of the auto insurance.

A - Unidentified Speaker

My name is Taso [ph]. I'd like to answer your question. I come from the corporate accounting. So for -- as you say, for the first, second and third quarter we did use a cursory calculation method and this may not answer your question, but due to the cursory calculation method, the noise coming from the calculation method is not a major impact revealed in those numbers.

To the second question, about the net claims paid, the reduction in the net claims paid versus the E to I basis loss ratio improvement, which should you look at in order to address the status quo more accurately? That's a difficult question. But I believe the most recent trend has been revealed more on the E to I basis loss ratio. I think this E to I basis loss ratio better reveals the most recent trend. That might have not answered your question directly.

Q - Unidentified Participant

Yes, I understand. That's fine. Okay. So the current situation, looking at the claims paid, it looks like the improvement has slowed down, but you're saying that it may not be the case if you look at the E to I basis loss ratio. That's right.

The second question is easier. On slide 17, you are showing that the adjusted earnings for revision for the overseas business. And for that loss assumption, did you -- I know this is after tax, but your assumption for nat cat I believe it was JPY35 billion originally at the beginning of the year.

For -- after you finished the first half, I believe you still have the 35 billion as assumption. But after you concluded the first half and also as of today what is your current nat cat loss assumption?

A - Unidentified Speaker

My name is Moriyama [ph] from the International business development department. For overseas businesses, for natural catastrophe occurrences, as you say, at the beginning of the year we were assuming the loss to be JPY35 billion pre-tax. And in November, when we refreshed our year forecast, in the first half we had some loss developed in the first half. So based on the actual result from the first half, we announced our forecast for the rest of the year, which was going to be around JPY30 billion as of November. This is what we have disclosed to you last time. This time, for each business plan, it's not that we revisited each business plan for separate entities, this is not an accumulation of multiple factors. This is simply coming from the yen depreciation, upward revision coming from yen depreciation and also as of the end of the third quarter, as much as we knew, at that point in time we looked at the business trend and based on those factors we did some adjustment on both basis overall.

And so we did not adjust the nat cat loss assumptions specifically in order to revise the forecast. But as a reference, the nat cat loss occurrence is actually less than what we had anticipated at the beginning of the year and that assumption has been factored into the forecast. But I'm not able to tell you the specific refreshed figure for the nat cat loss assumption.

No storms occurred in North America. In North America, I know there is a three month gap. So as long as it is not a major factor, it will I guess become part of the first quarter in smaller factor, but if it develops to become a bigger factor, then I believe there have to be some consolidation adjustment for the losses booked in overseas businesses.

Q - Unidentified Participant

So based on all those requirements I believe you are making the revised forecast this time, considering all those nat cat potential development.

A - Unidentified Speaker

Yes. For the obvious factors that we can count on as of today, we have taken those into consideration in announcing the refreshed figures. For the storm that occurred in North America, we are receiving information about that now and when we accumulate all of the numbers that's been reported there has been some damage coming from freezing and we can't really know or we can't really estimate the total amount of damage until it gets warmer. But as much as what we can forecast as of today, we don't think it becomes a factor to significantly impact our annual guidance.

Therefore, the numbers that we are announcing today, are based as of today and based on as much as we know is an obvious and reasonable forecast that we can announce to you today.

Q - Unidentified Participant

Thank you very much.

Operator

The next question is from Mr. Otsuka from Nomura Securities. Please go ahead.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you very much for this opportunity. On page 16 of the hand-out material, I'm sorry to ask you about the details, but this time around. At Tokio Marine & Nichido Fire earned/incurred basis loss ratio forecast is now revised up to 63.2%.

Now, how about the snow damages in February? I'm sure that you haven't received any report about that damages yet, however what is your assumption with regards to the snow damages in February? That is my first question.

A - Unidentified Speaker

Yes. My name is (inaudible) from the department of Tokio Nichido Fire. 63.2%, yes, with regards to that the impact of the snow in February is not clearly factored into that number. However, originally, when we put together the budget for the losses incurred, of course, we have factored in some snow damages.

Now, when it comes to snow damages which occurred in February, we are yet to assess the specific numbers yet. However, at this point in time, we believe that damage is not significant enough to change or revise our assumption or guidance.

Q - Unidentified Participant

Okay, thank you very much. I have another question related to earned-to-incurred basis loss ratio. On page seven, you're saying that 32% is approximately the ratio that you're now looking at.

So simply put, if you add 63.2%, then that would add up to 95.2% and in March 2015 you are targeting 95%. If business go as usual, then I believe that you'll be able to achieve the target one year ahead of original schedule. Of course, it depends on how the consumption tax impact will affect the number, but how do you see the progress vis-a-vis the target?

A - Shiro Sasaki {BIO 19269575 <GO>}

I am Sasaki. According to the current forecast that we have, as you pointed out, on earned-to-incurred basis, the combined ratio is going to be higher range of 95% for the private line of business and I believe that it is going to be 93.2% on a written to paid basis.

As you pointed out, of course, one of the factors to be noted here is the consumption tax impact next year. Of course, we have factored in some impact already on earned-to-incurred basis this fiscal year, but 1.8 point is expected increase in combined ratio due to the scheduled consumption tax hike and also with regards to natural cat impact.

At Tokio Marine & Nichido Fire our budget has been lowered by about JPY5 billion and so we had relatively smaller or lower level of natural cat losses which led to this improvement vis-a-vis the target. So, compared to our initial plan and target, I believe that we are performing in line with or slightly ahead of the schedule; however, there could be some factors that we need to be mindful of next year and we have to look at how, for example, the automotive profitability would trend next year, particularly repair cost, and we will try to do a good job in continuing to improve the profitability.

Q - Unidentified Participant

(inaudible) that I would like to clarify as a follow-up question is as follows. In previous communication, you disclosed that at Tokio Nichido Fire you made a price revision in October 2013. And in fiscal year 2014 ending March 2015, I believe that there is going to be an expected impact of JPY26 billion to the profit level. And so 1.8% increase due to the consumption tax hike and JPY26 billion of positive impact coming from the price increase, would they cancel off each other?

A - Shiro Sasaki {BIO 19269575 <GO>}

In fiscal -- in October last year, you made a price revision, yes, which I believe is going to make a full year contribution next year. Yes, that is expected to be JPY26 billion as you correctly pointed out. Yes, that is going to be the positive impact that we are expecting for the next fiscal year. And as we have been communicating, the price revision that we made this time around is not the price increase that we did to prepare for the cost increase in conjunction with the consumption tax hike. So they will cancel off each other.

In term of impact of the consumption tax hike to Tokio Nichido Fire, I believe that it is going to be about JPY29 billion or about JPY30 billion. That is the rough estimated impact of the consumption tax hike.

Operator

Next question is from Mr. Muraki of Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

My first question is about auto insurance and the second is about re-insurance business. My first question is about the auto insurance business. E to I loss ratio this time, on page seven, as you show, looking at the number, 4.6% improvement, it's shown on page seven. And compared to this year's plan, the plan had 2.3% improvement for this fiscal year. Therefore (inaudible) we can see on nine month basis, you have made a significant improvement. And my first question is, due to the new (inaudible) fund there is a deterrence to make claims, which must be happening more than you've anticipated or is it happening more than you thought.

The second question is in the fourth quarter the consumption tax hike was expected and it's only going to start from next fiscal year. However, there was a revisit to the balance of the claims reserve. So while there is a deterrence to make claims, is that impact coming into the second half of the year, and calculating the balance required for the claims reserve -- and is that why the E to I loss ratio is improving this term, and how much of an improvement in the E to I loss ratio are you factoring into this year due to those two factors?

A - Unidentified Speaker

My name is (inaudible) from Tokio Marine & Nichido, about the reduction in the claims, your question was are we receiving less claims than expected because of the new rating fund.

The decline in the claims, or to measure the decline in claims alone is very difficult. Out of the claims cost, we factor in that element as well and that has not been changed for this fiscal year.

As of the end of December, the number is improving indeed. On that point, perhaps in December, we had less snow and due to those most recent trends we are seeing an decrease in the loss ratio. Does that answer your first question?

Q - Unidentified Participant

Just in the third quarter, the reported claims is 6.7 percentage point improvement. So there is increase in your policies and the traffic volume increased, but I believe the biggest factor is less snow damage in December, does that explain why you saw the improvement in the third quarter? Is that the right way to understand it?

A - Unidentified Speaker

Yes. Snow damage alone will not explain the situation fully. However, in reality, looking at the statistics by the police department, the accident occurrence itself has declined. So there is a social trend that is factoring into this improvement in the third quarter.

Q - Unidentified Participant

Okay. Thank you very much. The second question. So in the third quarter, you've used a cursory calculation method, but for the full year financial settlement, the originally assumed E to I loss ratio for auto was 67.1%, I believe. And, right now, you're not going to be too off from this original forecast, right?

A - Unidentified Speaker

To the second question, your understanding is correct.

Q - Unidentified Participant

Thank you. Next question about the reinsurance business Munich Re announced their financial settlements and about the renewal of this year's re-insurance policies. They said that the situation is very critical or harsh for the renewed re-insurance policies for January, what was the decline in the rate, and also for April and July these are two important months, what will be the forecast for the change in the insurance policy rates for the upcoming renewals in April and July?

A - Unidentified Speaker

My name is Moriyama from the International business development department. As you mentioned, for catastrophe reinsurance contracts, there is excess in capacity in the market, which continues in the market. And as of January 1st, in the North America and also other than North America there was a decline in the premium rate that we saw.

As for our Group companies' renewal situation, we don't really have the specific numbers as of today, we are just gathering that information from the Group companies and I'm not able to report to you the specifics in today's meeting.

However, going forward, considering our business -- it's not that there will not be any impact on to our future business. We will not be withholding any underwriting in order not to go after the topline, we will of course remain our disciplined attitude in the underwriting of insurance policies. So overall the impact to the topline and also the shorter term to medium term impact to our earnings remains to be same.

On the other hand, amidst the situation, the higher credit rating subsidiaries do benefit from the environment in some cases. Therefore, we will continue the disciplined attitude, we will be selective and will always seek after the growth opportunity -- that will still remain to be our growth opportunity for the re-insurance business. That concludes my answer. Thank you.

Q - Unidentified Participant

Thank you. So for April and July basically the trend will be the same as January trend. And as for the numbers, you don't have a full grasp of the specific figures, but at a certain level there is going to be a reduction in the rate and there will be more cases where you will waiver the renewal of the re-insurance contract. That's (inaudible) around you right now.

A - Unidentified Speaker

Yes. Of course, depending on each business, each region, the situation is different. In some regions they are accepting new reinsurance businesses, so I don't want to make an overall blanket statement. But, as an overall trend, the April to June situation will not be so different from what we saw in the January.

Q - Unidentified Participant

That's very clear. Thank you.

A - Unidentified Speaker

In the -- the latter half of the first question, I believe you asked whether if we changed our forecast for the auto E to I loss ratio, and the answer was, no, we did not change it much. But we are expecting some improvement. So let me make a correction to my answer. As of the mid-term, the E to I loss ratio was 67.1%. However, as of the end of the third quarter when we revisited the full year outlook the E to I loss ratio for auto is now refreshed at 66.2%. So we are expecting some improvement since the first half until the end of the third quarter.

Q - Unidentified Participant

Thank you very much.

Operator

The next question is from Daiwa Securities Capital Markets. Mr. Shiota, please.

Q - Unidentified Participant

Yes. I would like to ask you two questions. Number one, related to Tokio Marine & Nichido Life, Medical Kit R, in January this year, I believe that you have run a cycle after 12 months (inaudible) since the launch. How is the sell situation currently? What is the sell situation currently?

A - Unidentified Speaker

Yes. Let me answer to that question for you. As I explained earlier, in January 2013 we launched Medical Kit R. In December last year we recorded and exceeded 200,000 policies already. So as I mentioned, the third sector, an individual annuity, and also first sector across the board, the business is growing well.

However, in the third sector in particularly -- the third sector comes to about half of the entire business of this operation. So it's been doing well.

Q - Unidentified Participant

What about the number in generally?

A - Unidentified Speaker

I'm sorry, I don't have the separate number on a monthly basis.

Q - Unidentified Participant

Thank you. My second question is related to the payment of extra expense coverage insurance attached to automotive insurance. I don't think there is going to be any significant impact to the overall earnings, but anything that we should be mindful more, perhaps related to the -- the cost related to advertisement and communications in conjunction with this incident?

A - Unidentified Speaker

Right. Recently, recently mass media and we also made a press release ourselves that we are causing concerns and I would first like to apologize for the concerns that this issue has caused to you. Now, this incidents took place last week and we made a press release and after that we established a call center service and we are responding to the inquiries from customers.

So at this point in time, with regards to the impact to our earnings or business performance, I don't think that there is anything that we can recognize and share with you at this point in time.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Next question from SMBC Nikko Securities, Mr. Niwa.

Q - Koichi Niwa {BIO 5032649 <GO>}

I have two questions. First is about your plan for this fiscal year. The breakdown of the revisions. Your adjusted earnings for the overseas business, which was JPY18 billion and we have the breakdown of this 18 billion for Philadelphia, Delphi, Kiln etcetera, please let me know the breakdown of this adjusted earnings for the overseas business.

The second question, as people have been discussing, the extra expense coverage insurance. I don't think the impact to the earnings is uncertain, but what will be your plan, what will be your plan to the insurance premium income as well as the shareholder return that might arise coming from these incidents.

A - Unidentified Speaker

My name is Moriyama from International business department. About the upward revision to the adjusted earnings for the overseas business of JPY18 billion, so JPY18 billion of revision was made. As of Mr. Geno [ph] asked earlier as I have answered, this is not an accumulation of the numbers presented by each entity. The major factors are the yen depreciation, expansion of the profit coming from yen depreciation and the market environment, the business environment improving upwards.

But I'm not ready to talk about the specifics or the breakdown of this revised number. So I apologize for the lack of information on that point.

I still need to answer his second question. So my second question was our plan going forward about the impact coming from the extra expense of reinsurance payment and also any impact to the shareholder return. And there is nothing that I can report to you as of today. And we have made press releases. As mentioned in those press releases, we will receive any consultation that may be required from the assured clients and that is the immediate action that we need to be taking at this point in time. While we do that, what kind of impact this may bring to the future of the business is not something that I'm able to disclose to you or talk with you today.

Q - Unidentified Participant

I understand very well. Thank you.

Operator

Our next question is from Mr. Majima from Tokai Tokyo Research Center.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you very much. I'm sorry to ask you, perhaps a repetitive question, but with regards to this unpaid claims. Assuming that claims will be filed by some customers and of course those customers (inaudible) prescription and therefore you don't have any provision to put a fight, to deal with the clients claims. And assuming that there will be many customers of that kind, would you provide for separate or additional money to respond to those claims. So do you have that provisioning made already with regards to reserves.

A - Unidentified Speaker

I should perhaps amplify on this a bit more, but since 2005, we did investigation with the worst [ph] actual claim payment performance in the past and we made a report about it already. And what's been covered by mass media recently is with regards to 2002 April through June 2005 and 2002 April through 2003 June. And what we reported during this period and what we used to report in the past seems to be different. That's what been pointed out by the mass media recently.

So essentially there is no reserves that we have provided for the potential claims to be paid.

Q - Unidentified Participant

So you're saying that, that is not the kind of claim that you have to provide a reserve for?

A - Unidentified Speaker

Right. I don't think that we should be providing any money as a reserve based on the -- the coverage that's been done by the mass media.

Operator

Next question is from Morgan Stanley MUFG Securities. Mr. Ban, please ask your question.

Q - Hideyasu Ban {BIO 15250840 <GO>}

Just one simple point. What you have told us today, the yen depreciation, the adjustment to or revision to the adjusted earnings. Recently, there is a volatility with the foreign exchange market. So if possible for the overseas adjusted earnings towards the end of the year, if there is a movement by JPY1, what will be the impact to the adjusted earnings of the overseas businesses? What is the sensitivity? And also at the Tokio Marine & Nichido Fire, you have explained about the impact of the foreign exchange market, it's ordinary profit, but I would like to know the sensitivity. So what will be the impact to those numbers if there is a movement of JPY1 in the FX market?

A - Unidentified Speaker

As I have explained, for the overseas businesses, their fiscal year is January to December. And so December number has already been reported and we already have the FX rate, which is fixed in measuring their business as of the end of December. So any volatility that may come in from January and after will not be making any impact to the adjusted earnings for fiscal 2013.

For Tokio Marine & Nichido Fire, what would be the impact on them? Additionally, I'd like to give you some explanation on that point. There is a provision for -- increase in provision for reserve for foreign currency denominated outstanding claims and there is an FX derivative gain and loss, which may differ according to the FX rate. And both factors, totality, the impact is JPY1.7 billion versus the movement of JPY1 in the FX market, this is a negative factor.

Q - Unidentified Participant

Yes. I understand very well. Thank you.

Operator

The next question is from Mitsubishi UFJ Morgan Stanley. Mr. Sasaki, please.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you very much. I just wanted to ask you one question. Now, earlier Muraki San asked about the change of the grade rating system and towards the end of the year whether the estimated reserve calculation will be changed or not. Could you answer that question?

A - Unidentified Speaker

Sorry, the question was toward the end of the year the reserve -- are you asking about the impact of the number of accidents to the reserve?

Q - Futoshi Sasaki {BIO 17564798 <GO>}

No, no, no. The grade rating systems revised led to a major difference in situation. So would that affect the reserve provisioning or not?

A - Unidentified Speaker

Oh, in that sense, at this point in time, as of December end, we have looked at the trend, which we clubbed into the full-year number. So for January through March period, we expect the number to essentially stay flat.

Q - Unidentified Participant

How about in and after next fiscal year. Have you factored in any forward-looking forecast or a trend in the number?

A - Unidentified Speaker

No. We have not factored in any potential views on the future trend.

Q - Unidentified Participant

Thank you.

Operator

There seems to be no more question coming from the audience. If any of the Japanese audience have a question, the operator is explaining how to cast in a question among the Japanese audience. Please stay on the line. There is no more question coming from the floor. I will pass it back to Sasaki then.

A - Shiro Sasaki {BIO 19269575 <GO>}

Thank you all of you for attending the financial earnings announcement meeting for the third quarter fiscal 2013 for Tokio Marine Holdings. If you have any further questions or any clarifications that you need, please contact us separately, and I thank you again for your participation.

Operator

This concludes the fiscal 2013 third quarter financial announcement meeting for Tokio Marine Holdings. I thank all of the participants for their active participation to the meeting and please hang up your line. Thank you. This is the end of the conference.