Q2 2018 Earnings Call

Company Participants

- Taizou Ishiguro, Group Leader, Corporate Communications and Investor Relations Group

Other Participants

- Futoshi Sasaki, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Koki Sato, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for waiting. Thank you for accessing to Tokio Marine Holdings Fiscal Year 2018 Q2 Results Conference Call. We'd like to remind you that during the presentation all lines will muted except for the speakers' line. This conference call will be taped.

Here is the disclaimer before we start the call. This presentation may include business projection and forecasts relating to expected financial and operating results. This is subject to a range of inherent risks and uncertainties. Please understand that actual results may vary materially.

Now we would like to move on to the results presentation. Mr. Ishiguro, over to you.

Taizou Ishiguro {BIO 20620398 <GO>}

Thank you for your participation everyone. My name is Ishiguro from IR/PR of Tokio Marine Holdings. I will be presenting about the overview of 2Q of 2018 results and full-year projections of Tokio Marine Holdings Group which was announced today. From this point around, our initial presentation will be about 10 minutes and we'll allocate more time for Q&A afterwards. As for materials, we will be using the presentation materials which we have posted on the website today, as well as the news release for shareholders.

And please turn to page 3. First, I will explain about the top line or net premiums income of Non-Life Insurance business. As of the end of Q2, in the Domestic Non-Life Insurance business, we have seen growth in all lines of business, except the compulsory auto liability. In the International Insurance business, underwriting expanded mainly in North America and Asia. As a result, top line grew by 1.7% year-on-year.

With our full-year projections, there is no change to the growth trend with top line. However, due to one-off increase in reinsurance cost, we are projecting 0.7% year-on-year growth with top line. Compared to the projections we had at the onset of the year, we are making an upward revision by ¥60 billion.

Next, I will explain about life insurance premium. There was a decrease in surrender of variable annuities of former Financial Life and contribution from medical stop-loss business acquired by TMHCC last year, leading to increase in life insurance premium by 6.5% year-on-year.

Full-year forecast of life insurance premium is still showing growth trend. In the first half, due to less surrender of variable annuities, life insurance premium grew by 3.9%. Compared to the projections we had at the onset of the year, we are making an upward revision by ¥40 billion.

Next, I will talk about the bottom line by looking at the statutory accounting basis net profit of the first half. Although there was a reaction from the North American hurricanes last year, domestic natural catastrophes pushed down the profit by ¥122 billion, which then was recouped by reversal of catastrophic loss reserve as well as risk performance of Domestic Life business and International business. Still, net profit declined by ¥22.8 billion year-on-year to ¥53.8 billion.

As I'm sure you know, reversal of catastrophic loss reserve kicks in when the written-to-paid basis loss ratio exceeds 50% for fire line of business. This time, because occurrence of the large natural catastrophes were concentrated in September, a lot of these losses have not been paid yet and, therefore, the amount of the reversal of catastrophe loss reserve as of the second quarter was limited.

Please now turn to page 4, where I will talk about full-year projections of bottom line. We have not changed original projections for consolidated net income in a financial accounting basis, as we expect the negative impact of domestic natural catastrophes to be offset by the reversal of cat loss reserves and less natural catastrophes overseas and profit growth in North America and Brazil.

Please also confirm the full-year projections of net incurred losses of nat cat as well as cat loss reserves on the bottom right. Full-year adjusted net income projections have been revised down by ¥98 billion to ¥298 billion, due to domestic nat cat and because the impact of cat loss reserves is excluded from financially accounted consolidated net income.

Finally, I'd like to jump to page 29 on which I will elaborate on ESR and shareholder returns. ESR at the end of September was 197%. Contribution from first half adjusted net income and sales of business-related equities were positive, but business investments in Safety in Thailand as well as Hollard in South Africa as well as shareholder return weighed on ESR.

Let me also touch upon the press release made today regarding the ¥100 billion size capital level adjustment. Our policy for a capital level adjustment is to implement measures flexibly by accounting for the market environment and business investment opportunities in a comprehensive manner and to maintain discipline in our capital policy. We made this decision from a capital policy maintenance perspective.

Moreover, we regarded that our earnings power is enhancing. In other words, although we were affected by domestic natural catastrophes this year, as we made progress in growing earnings contribution from the International Insurance business, adjusted net profit is kept at a certain level at ¥298 billion. And earnings stability is improving due to regional and business diversification. We have also comprehensively accounted for changes in the market environment, capacity for business investment, and continuous improvement of ROE.

Ordinary dividend for fiscal 2018 will stay in line with the beginning of year original projection at ¥90 a share for the interim period and a ¥20 increase for the full year at ¥180 a share. We will present more details about shareholder return at the second half IR meeting next week. Finally, although there are major natural catastrophes occurring in Japan lately, we will continue to diversify risks on a global scale, as well as thoroughly implement growth measures based on our plan to accelerate the earnings power of our group steadily.

This is the end of my explanation. We would like to now take any questions that you may have.

Q&A

A - Operator

Thank you, Mr. Ishiguro. Now, we would like to start Q&A. The operator is explaining how to ask a question to the Japanese audience. Please wait on the line until we come back. The first question, it will be from Mr. Muraki of Deutsche Securities. Please ask your question.

Q - Masao Muraki {BIO 3318668 <GO>}

I have two questions. The first is about the International Insurance business, if you look at page 26, you were showing us some changes to the forecast. I would like to get some update about the International Insurance business. There are some fluctuations with the FX, but there was a downward revision made to the Europe and U.S. business. In the North America market, what is the situation? And also in the first half, there was no profit being made in the European business, but that was revised upwards. Is that just because of natural catastrophes and foreign exchange? Or is it because of the forecast for the rest of the year where we do not need to worry about the European business?

And now the second question is about this domestic natural catastrophe. If you simply take the 10-year average for TMNF at the beginning of the year, I believe the average value is going to go up next year. But can I just assume that this 10-year average is going to be taken? Or are you going to be excluding something from this year's natural catastrophe level? And would you be adjusting the number in regards to the natural catastrophes that you have experienced this year?

A - Operator

From Tokio Marine Holdings, my name is Sakamoto (10:52) from the International business development department. I'd like to answer your question about the International business. I believe your first question was about the North American and European business, especially the profit and loss situation for the North America market. On this point, for point (11:08) expansion is taking place for its subsidiary and underwriting earnings is making some progress in accordance with the business plan. So, I do not see any problems with this.

In Europe, the reason for adjusting the forecast – and so we have made an upward revision by ¥2 billion. And so less natural catastrophes and FX gain are the two major reasons for this upward revision and that is indeed are the reason for the upward revision. And so those are the two reasons for making the upward revision to the European business. That concludes my answer.

My name is Nagata (12:03) from the corporate accounting of TMNF. I'd like to answer your second question. Looking at the trend of the recent natural catastrophe, from this fiscal year the natural catastrophe budget has been expanded per year from ¥40 billion to ¥50 billion. And as for this level, it's based on the claims payment from the past and also according to the risk model we have. From year-to-year, it could fluctuate.

This fiscal year, we did have a multiple of large natural catastrophes and including those, at this point in time, we are taking – we are not planning on the reviewing and revising the normalized level of natural catastrophes. However, we'd like to look at how the natural catastrophe occurrence trend in the future and without any adjustment, if needed.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. On the first point, about the European business, in the first quarter, there wasn't really any profit being made. And so, I believe the underwriting profit was not so good. But the lack of the progress in the first quarter is not necessarily of problematic to you. So, about the level of the reserve, in the industry some companies are lacking reserve. However, at Tokio Marine, should I not worry about the lack of the reserve with any of your international businesses?

A - Operator

This is Sakamoto (13:44) again from the International business department. About the European business, excluding those factors I have already told you versus the first quarter, profitability is improving. And also, as for the trend of the natural catastrophes going forward, we are still profit oriented, bottom line oriented, and we are making progress in accordance with the policy.

Q - Masao Muraki {BIO 3318668 <GO>}

So, overall, the reserve balance you have in the International business, what do you think about the adequacy of the reserve? You have no concerns over the adequacy of the reserve so far with your International business?

A - Operator

That is our understanding, yes. You are correct.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you very much.

A - Operator

Let's move on to the next question. Mitsubishi UFJ Morgan Stanley Securities, Ms. Tsujino, please, over here.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you. For the International business, for incurred losses from ¥50 billion it's now revised down to ¥38 billion, and for the first half, it was ¥11.2 billion. There were impacts from wildfires, and it seems that your assumptions are conservative. That's why it's reached these numbers. So, it seems that those numbers seem to be large. So, is that the right way to look at it? That's my first question.

For asset management gains from Delphi, and it seems that you're doing well on this front, that's my second question. Therefore, some ¥49 billion, you have revised up your expectations to ¥68 billion. So, it seems that last year was too good or very good, and the first half of this fiscal year has continued to perform well, and maybe that has led to the upward revision. So, with regards to this, I guess we shouldn't be that optimistic or can we be optimistic? That's my second question.

For the third question, I'm sorry, I have a third question, this time around for reinsurance, it seems that there is an impact on the domestic business. On a full-year basis, it seems that you have cover for each event, and you also have comprehensive cover on a full-year basis. And that's why - and accounting for reinsurance, you have resulted in these numbers. Is that the right way to look at it? Or should I look at it otherwise? Can you give me some details around that?

A - Operator

Sakamoto (16:44) will take your question.

I am from the International business development department at Tokio Marine Holdings. First of all, for nat cat expectations in International business, let me provide you with an answer. Earlier I talked about this, but the wildfires in California, first of all, is – with regards to this, the fires have not yet settled down. It has not been extinguished yet. Therefore, we are still researching into how much of an impact that this is going to have. With regards to damages, we would like to continue to have a close watch on it to see and scrutinize how much of an impact we will be incurred by.

Secondly, regarding Delphi and the risk business that has been seeing, first of all, for fiscal year 2017, meaning in the previous fiscal year, the impact on business profit due to the tax revisions which was on a one-off basis, this boosted our profits in fiscal 2017. This time around in fiscal year 2018, you were asking that probably the performance is good, especially in the area of asset management, which is one of the strengths that Delphi has. We continue to see good performance and that has led to – that is expected to support future growth. That concludes my remark.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

All right. How about on the last question, can you comment on that or no?

A - Operator

I am Nagata (18:39) from the corporate accounting department of Tokio – TMNF. With regards to reinsurance, we look at risk and cost and compare the balance. We look at capital efficiency stability, solvency margin ratio as well as the reinsurance market. We look at things in a comprehensive manner to make decisions.

For natural catastrophe risks, given if it happens once in thousand (19:08) years, we will look at the capital soundness and we will ensure that we keep the reinsurance cost within a certain level. With regards to our coverage per event as well as coverage for the full year and the schemes we employ, I would like to refrain from answering your question in detail. I apologize.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you very much.

A - Operator

Our next questions will be from Daiwa Securities, Mr. Watanabe. Please ask your question.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

My name is Watanabe. I have two questions. The first is about your capital policy, you are spending ¥100 billion additional yen of shareholder return, what is the justification or rationale? And also a one-off dividend and also share buyback, how did you decide on that switch? And I believe the details will come out next week in the IR meeting, but as much as you can speak today, I expect your answer.

And as for the forecast for the net incurred loss for the Domestic business, if I go to page 20 of the material, it talks about the net incurred loss and other than the above, you have changed the amount by ¥12.9 billion and you are expecting about ¥220 billion for Domestic natural catastrophes. What is the primary underwriting amount and also how much loss do you expect from your corporate accounts? Those are the two major questions I have for you.

A - Operator

My name is Gojo (20:59) from corporate planning of Tokio Marine Holdings. First, about the capital policy, on the first question why we have decided to return ¥100 billion or adjust the capital by ¥100 billion this time, why did we make that decision. So, as it was mentioned by Mr. Ishiguro, as for the adjustment of the capital level, we look at the market environment, business investment opportunities, and other factors comprehensively and we do the adjustment in a flexible manner and that is how we keep the discipline over capital management. And so that policy still remains unchanged.

As for this year, we have been quite proactive with the business investment. But as of September end 2018, the level of ESR prior to the adjustment, it was 201%. And so this is on the higher end within the target range.

And also as for this fiscal year, domestically, we have seen series of natural catastrophes and the impact is quite large and the net incurred loss is more so than what we had anticipated. However, we had less natural catastrophes in the overseas market, and therefore adjusted net income as for 2018 is still, I expect that to be ¥298 billion. And so we were confident in creating some level of profit for this year as well. And this is thanks to the global diversification that we had proceeded up until now.

As a result, the capital level as of today unless or even if there is a drastic change of the market, we still have adequate capital to tolerate such changes. And also as for the business investment opportunity, we have considered the possibility comprehensively and have decided to adjust the capital level by ¥100 billion. ESR is going to go down by 4% and it will become 197% as a result.

As for our capital management policy, we need to be raising ROE. That is our aim. And we want to also be proactive in business investment together with profit growth. And so that together with fulfillment of shareholder return and also keeping the capital management discipline are all important to us. Oh and one more point, the ¥100 billion that we have adjusted, ¥50 billion is for the one-off dividend for the adjustment of the capital purpose. And why did we decide on doing this? Up until now, in order to adjust the capital level, we have done that mainly by spending the money on share buybacks. And since last year, while we had the shareholder return policy and as needs of adjusting the capital, we had this one-time dividend in mind in pursuit of the means other than share buyback.

As a result, as we spoke with many investors on the topic of how we should be adjusting your capital level and through those discussions, some people preferred share buyback. But on the other hand, there were some investors who preferred dividend payment. And so, there were two comments. And as for dividend payment, adjusting the capital level through dividend payment is also a way to directly return capital to the shareholders who already own our shares.

And so, people could really feel that they were being remunerated with this capital that was to be returned to the shareholders. And so based on those comments and we just wanted to meet the request of as many investors as possible, so this time we have decided to spend a total amount of ¥100 billion and half of that we thought should be one-time dividends and the remainder should be share buyback, and so that the two means are well-balanced.

Going forward, in order to adjust the capital level, we will be doing that by keeping the capital management discipline and also looking at the market environment, business investment opportunities, and those multiple factors will be in consideration concurrently. And that remains unchanged. However, as for the means of shareholder return, we will continue to speak with shareholders, and we want to be flexible in order to meet the needs and requirements of the investors. So, that concludes my answer to you regarding the capital policy.

From the accounting department from TMNF, I'd like to answer your question. My name is Nagata (26:09). So, your questions was about the net incurred loss related to natural – other than natural catastrophes and FX, it was negative ¥12.9 billion. And its details are on the next page on page 21. So, mainly in fire insurance, there was increase in large losses. And so we made some upward revision of the large losses.

And your question pertaining to natural catastrophes, in the first half of the year, on primary underwriting basis, it was ¥299 billion and on net basis, it was ¥199.8 billion. And for the full-year forecast, we do not calculate the primary underwriting number. As you can see on the slide, it was ¥220 billion on net basis. And lastly, for the commercial underwriting business, we do not calculate that with the percentage ratio, but we look at the large losses for the commercial account, and we push that into this year's financial reporting.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you very much.

A - Operator

Let's move on to the next question. From Mizuho Securities, Mr. Sato, over to you.

Q - Koki Sato {BIO 19983862 <GO>}

Hello. This is Sato from Mizuho Securities. I have two questions. I'm sorry, but I have a question about nat cat as well. On page 4, you show your expectations for the fiscal year on a business profit basis by company. I think there are (28:07) of companies, so it's hard to see, but one of my question is with regards to – for other than earned, what is your buffer in your budget like the wildfire in California? When you look at the P&C business in Japan as well as abroad, apart from the – how much buffer do you still have in your budget is my question? That's my first question.

My second question overlaps with my previous question. This is with regards to one-off dividends. This time around, for base date where you're able to gain the rights, you're going to be offering additional dividends to ordinary dividends. So, I was wondering why you decided on this scheme. So, that concludes my presentation – that concludes my question.

A - Operator

This is Tao (29:14) from the corporate accounting department from Tokio Marine Holdings. Let me take your first question. With regards to expectations for nat cat, on page 4, we show our full-year projections and you basically want to know how much of a buffer we have for the first half. So, Tokio Marine & Nichido Fire ¥213 billion was the level we were able to achieve. And our expectation ¥237 billion, so the difference is what we're expecting for the second half. So, for overseas ¥38 billion, but the results are in the first half was ¥11.2 billion. So, the difference is what we are expecting for the second half. That concludes my remarks.

Q - Koki Sato {BIO 19983862 <GO>}

For the North American hurricanes, that is included for net incurred losses. So, can you also give me your estimate on that?

A - Operator

The hurricane in North America, we had Michael and Florence. I think that's what you're thinking about. We're still gathering information on it and we believe it's going to be several billions of yen each.

Q - Koki Sato {BIO 19983862 <GO>}

So, please take my second question then. Thank you very much.

A - Operator

From Holdings, I am Gojo (30:58) from the corporate planning department. With regards to adjusting capital level and one-off dividend and the base date for this was in September, when was the base date that determined whether you can receive the rights to our interim dividends.

With regards to our capital polity itself, this is a basic policy that we have and we put important sound (31:22) transparency as we roll out this policy. This was a one-off dividend in order to adjust our capital level and we decided to use dividend as a way to adjust the capital level. From before, we did share buybacks, but this time around we were pursuing alternate means in offering shareholder return.

And our understanding is that shareholders have been showing a fair level of understanding towards this and that is why we decided to go ahead with the ¥50 billion one-off dividend plan. And for the details, we are working off a base that our shareholders have given us a fair level of understanding and that is why we used the base date in September to offer the one-off dividends. That concludes my remark. Thank you.

Q - Koki Sato {BIO 19983862 <GO>}

Okay. Thank you very much.

A - Operator

Next question from JPMorgan, Mr. Otsuka (32:48). Please ask your question.

This is Otsuka (32:54) from JPMorgan. I have two questions and they both have to do with natural catastrophes. The first question is for this time especially for the domestic natural catastrophe, the large ones that have occurred in terms of the risk amount and also in terms of the net incurred loss that you'll be paying as claims, in terms of your enterprise risk management, was this within your expectation and if it was within your expectation from next year and after for the natural catastrophe risks?

For your underwriting, in other words, how much (33:34) would you arrange with reinsurance? How much catastrophic loss reserve provisioning will you do? If it was within your expectations, I would assume that they will not have much impact to your underwriting policy or is it not so simple? So, year by year you need to settle your account and in a flexible manner you will be reviewing how you'll need to provision for nat cat reserve, et cetera?

My second question has to do also with natural catastrophe, what would be the impact of natural catastrophes over the medium-term targets? For example, by 2020 you want to grow the adjusted net income by 3% to 7%, you want to achieve ROE of above 10%, et cetera. You have those medium-term targets. Can I assume that the natural catastrophes wouldn't impact those medium-term targets? And from the outside, with my view I felt that you didn't think those would impact your medium-term target, and therefore you are making additional remuneration to the shareholders, is that the right way to understand your actions at this time (34:43)?

From the accounting department, my name is Nagata (34:49). In the first half, we had the western Japan torrential rain, we had two major typhoons, 21 and 24. And the revisions that we have made to the forecast, we are expecting a natural catastrophe related loss by ¥220 billion for the full year.

However, looking at the loss payment in the past and also the risk model, the net incurred loss with the natural catastrophes this year is once in 30 years of an event. And it's not beyond our expectation. And so, this was within our expectation and including the natural catastrophe reserve, et cetera, we have provided measures against those natural catastrophes. And so, we have very little impact that this would bring to our financial soundness. And therefore, we have not made any changes to the targets we had prior to the occurrence of those events.

From risk management of Tokio Marine Holdings, my name is Matsuda (35:56). From the ERM point of view, I'd like to add some information. The natural catastrophes that we have seen this year, the specific numbers, I cannot disclose the numbers. But in terms of the domestic natural catastrophes, wind and fire, we have a risk amount that we can take in.

And out of the natural catastrophe result this year are still sitting within this risk developments we have for Japanese wind and fire - sorry, wind and flood.

My name is Gojo (36:28) from corporate planning. To your second question, how will these natural catastrophes impact our medium-term targets, as Nagata-san (36:43) had explained, the natural catastrophes have been some of the biggest so far in history. However, those are not impacting the medium-term targets; for example, the growth of the profit by 3% to 7% per year, et cetera.

And so, we are not pressed with the need to be changing our medium-term targets because of those natural catastrophes, because the earnings capability that we have gained still remains to be there and we are still confident about that. And so, it was that based on such confidence that we have decided to make additional remuneration to shareholders.

Thank you very much. I understood well.

Let's move on to the next question. From Tokai Tokyo Research Center, Mr. Majima, please.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Hello. This is Majima. I'm sorry, I have a similar question three questions ago. On a primary basis, nat cat losses were talked about on a primary basis as well as on a net basis, the difference I believe is the collection you've been making from reinsurance. So, for reinsurance gains, it seems that it's relatively lower than other companies. Your policy on reinsurance, is it because compared to other companies you are not spending that much cost? Is that the case? Is that your policy? That's my first question.

My second question is, changing the subject, I'm going to page 24 to your life insurance business, MCEV is shown here, and you were able to make a upward revision of ¥50 billion. At the beginning of the year, you were talking about IT systems and you were saying that your outlook was a downward-looking revision, but due to rate increases, is that the reason why you are revising up your expectations? Those are my two questions.

A - Operator

This is Nagata (39:07) from the corporate accounting department of TMNF. With regards to reinsurance policies of other companies, we're not in a position to talk on their behalf. However, generally speaking, for major catastrophes, we do pay reinsurance cost and sometimes we capture it internally with our cat loss reserve. And we believe that the balance between the two is important for our company because there are a lot of natural catastrophes. However, cat loss reserves are in the scale of ¥1 trillion. That is our expectation.

With regards to having good cover from a reinsurance basis, you are able to reduce net losses. However, that obviously requires more cost. So, with regards to our strategies around reinsurance, we need to look at how much cover we want, how much cost it's going to take and we need to also look at cat loss reserves, then we make a comprehensive decision. And we would like to continue to look at risk hedging as well as the cost that will entail and make decisions in a balanced manner. Whatever the case may be, stable profitability as well as financial soundness and risk control, we believe is being frequent (40:18) in a good way.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you very much. So, can you take my second question?

A - Operator

My name is Isono (40:29) from corporate accounting and financial planning department from TMNL. With regards to the ¥50 billion of business unit profit upward revision, the majority of that is due to the rate increase, as you rightly pointed out.

Q - Tatsuo Majima {BIO 15338044 <GO>}

So, in the beginning of the year, are you still going to make that IT spending that you were planning for?

A - Operator

Yes. The IT system investments that we're planning at the beginning of the year is still accounted for in our expectations.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you.

A - Operator

Next question, from Merrill Lynch from Mr. Sasaki. Please ask your question.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

This is Sasaki from Merrill Lynch. I have two simple questions. My first question is about the interim dividend and you will be adjusting your capital level, but why is the reference date the end of September? Why didn't you do it at the end of March? I couldn't really understand your previous answer to that, and so can you reiterate on this? And so, why did you set the reference date to be the end of September and not March end?

My second question is about the premium for the fire line of insurance. According to the model, you said that this was within your expectations. However, the profitability is not so good. It's loss-making for fire. And so per the risk, do you have a forecast in charging (42:05) with the premium so that you will cover the risk profile?

A - Operator

From Tokio Marine Holdings, from corporate planning, my name is Gojo (42:15). To answer your first question about the one-time dividend and the base date or the reference date, the date of right allotment being the end of September, as I have answered already, this time around we are doing this in a one-time manner in order to adjust the capital. I believe we had already gained the understanding by the market participants in not doing this.

And also maybe your question was that they shouldn't be the end of September, they should be the end of March. Your point is well taken, and we would like to consider that as we continue to discuss about our capital management policy.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

And so I thought the end of March would impact your share price more, but you didn't really think about that aspect when you made this decision or if you have the Tokio Marine shares, is it a message that something like this will continue to happen more in the future and is that the message that you're trying to get across, but is it not the case?

A - Operator

This is Gojo (43:35) again from corporate planning. Thank you for your comment. You said that our share price might go up more if the date is set at a future date, however as for the adjustment of capital, we didn't really have the means to rig up the share price, but we looked at the market environment, business investment possibility and we wanted to adjust the capital level in a way that we could and that was the purpose of doing this. And therefore, we have decided on the shareholder return method based on that purpose.

And if there is this kind of a dividend to be paid, then the shareholders might expect this to happen more and they might - more people might become shareholders. And if that is the case, that is welcoming to us and so that is also something that we expect to happen and if that happens, it's good for us.

My name is Nagata (44:37) from the corporate accounting of Tokio Marine & Nichido Fire. I'd like to answer your second question about the fire line of insurance. The natural catastrophe risk is - a large natural catastrophe risk is underwritten with fire line of insurance and when looked at through the risk (44:52), I believe the premium is such at a low level and therefore, we need to be responding with the setting the right premium rate. However, at the same time, we will be cutting cost to work in the business expenses and we would like to monitor the situation of the profitability and decide on setting the right premium rate for the fire line of insurance going forward.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I got it. Thank you very much.

A - Operator

Here's the next person from Citigroup, Mr. Niwa, please.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you for taking my question. I have two questions around investment. With regards to business-related equities, I'm looking at page 20 right now, for marketable securities and the P&L gains and losses has been revised downwards compared to the beginning of your expectations. And when you look at first half results, you're making good progress. And it seems after the second half it's going to be ¥13.6 billion. You could do the reverse calculation, it's pretty low. So, with regards to expectations around equities, for asset management you have been revising up your expectations. So, how should we do look at this balance?

For the second question, this is a general question, but for overseas credit investments in the market, there are some trends where people are becoming concerned about risk. When looking at this data, when you look at page 32, ABS is about ¥300 billion higher compared to end of March, but ratings are higher in content. And relative to that, the unrealized gains of equity seem to be coming down. So, my question is, with regards to international credit risk, are you in the direction of pursuing more? Or are you going to flexibly make decisions accordingly when looking at the asset management environment internationally? Those are my two questions.

A - Operator

I am Nambu (47:00) from the financial planning department of Holdings. For business equity gains, compared to last year you were saying that it appears to be low. With regards to the results – with regards to the sales that we've been making last year, although tax (47:18) were up, the gains have been less. And that is why it's less year-over-year.

And with regards to our full-year expectations, as a result, it's coming down. But for the sales itself, the value, we sold down ¥114.7 billion last year, but for this year the target is more than ¥100 billion. So, the minimum is ¥100 billion and that's what we are considering. So, as a result, compared to last year, we are seeing less of a sales gain.

Secondly, when you look at the current trends centered around the U.S., there is a concern around credit risk. For our asset management policy, as we raise on our mid-term plan, over the medium to long term when we consider our portfolio, we would like to take credit risk mainly through (48:14) investing into fixed income overseas. This policy is unchanged and we would like to continue to look at the environment to determine how much credit risk we should take. So, we'll look at the overall framework, whether it be from a ESR point of view. And within the framework, we are looking at these aspects in operating our program.

And in our mid-term plan, as mentioned earlier, for Delphi, the dollar-denominated assets were being converged at Delphi for the domestic companies even. So, that is one of our targets. So, for Delphi Group and its credit risk, this is an area where they have strength. Due to the changes in environment, we will continue to scrutinize each of the respective names they invest in.

And in Delphi, their expertise in investing into the U.S. market is great. They do have a network in place.

They have the ability to look at specific names before they make an investment. And they are also looking at ratings and we also do carve out ABS, but in the case of the U.S., for insurance companies in the U.S., there are investment ratings that are attached. So, it might be no ratings from external ratings, however, they are investing into names that are prime. And the investment style for the Delphi Group is not about short term, it's about holding until maturity. So, over the short term, there might be some ups and downs, however, they ensure that steady earnings are generated over the long term. That is their investment style.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you very much for your details. I understood your comment very well.

A - Operator

There seems to be no questions on the line right now. So, the operator is explaining how to ask a question to the Japanese audience. Please wait on the line until we come back. There seems to be no more questions, so I will get the microphone back to Mr. Ishiguro.

A - Taizou Ishiguro {BIO 20620398 <GO>}

Thank you very much for attending the telephone conference announcing the second quarter earnings of Tokio Marine Holdings. If you have any more questions or points that are unclear to you, do not hesitate to contact us. Thank you very much for your participation today.

Operator

That concludes the fiscal 2018 second quarter financial announcement telephone conference. Thank you everyone for your attendance. You can now hang up your phone. Thank you for your participation.