Q1 2017 Earnings Call

Company Participants

- Kiyoshi Wada, Group Leader, Corporate Communications & Investor Relations Group
- Tsuyoshi Hattori, Senior Managing Executive Officer

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings' FY 2017 First Quarter Financial Results Conference Call. Please be advised that during the presentation, all the lines other than the speakers' lines are put on mute, and this conference call is being recorded.

Before we begin, let me remind you that the presentation may contain forward-looking statements based on the current projections, and they entail risks as well as uncertainties. Actual results may differ greatly from the current projections.

With that, let us the start conference call. Mr. Wada, please.

[01L8FQ-M Kiyoshi Wada] Relations Group

I am Wada from Corporate Communications and Investor Relations Group. I would like to give you overview of Tokio Marine Holdings financial results during the first quarter of FY 2017 that we announced today.

I would like to give you a presentation for the first 15 minutes or so based on the PowerPoint slides that are uploaded on our homepage under Topics. And after my presentation, we would like to entertain your questions.

Let me start with the overview of our consolidated results on page 2. Net premiums written were ¥919.3 billion, up by 2.8% or ¥24.9 billion year-on-year due to business expansion both home and abroad. Life insurance premiums increased by 1.9% or ¥3.9 billion from a year ago to ¥219 billion due to increase in in-force policies.

Meanwhile, consolidated ordinary profit became ¥123.6 billion, down by 3.4% and net income became ¥88.1 billion, down by 9.4% year-on-year due to a decrease in sales gains of business-related equities as well as a decrease in gains and losses on derivatives at TMNF.

We are working continuously to sell business-related equities for ¥100 billion or more per annum. And while in FY 2016, we sold ¥52 billion or more than half of a full year program during the first quarter, this year in FY 2017, we sold ¥42 billion in the first three months. As a result, after excluding the effect of provision for cat loss reserves and amortization of goodwill, our group-wide profit KPI-adjusted net income declined by 4.3% year-on-year to ¥119.6 billion.

In terms of progress against our full year production, we have already achieved 31% of a full year production, a similar rate of progress compared to a year ago.

Next, please go to page 3. In the domestic non-life business, ordinary profit of TMNF increased by ¥31.2 billion year-on-year due to a decrease in net losses incurred by natural catastrophes and an increase in dividend income from overseas subsidiaries, while provision for foreign currency-denominated outstanding claim reserves and net losses incurred by large losses increased respectively.

Profit of domestic life business declined due to a decrease in sales gains of securities and an increase in provision for contingency reserves.

Profit of international insurance business increased due to profit growth in North America amongst others.

As for consolidation adjustment, negative adjustment increased by ¥37.7 billion year-on-year due to an increased dividend income from overseas subsidiaries at TMNF.

Next, please. Go to page 4 to review adjusted net income. Adjusted net income is a group-wide KPI based on consolidated net income under JGAAP, but compensating for the impact of various reserves unique to insurance business and deducting sales gains and losses of fixed assets in order to indicate underlying profit and loss from our business operations. Adjusted net income became ¥119.6 billion, down ¥5.4 billion from a year ago. Major year-on-year changes in the reconciliation from net income under JGAAP to adjusted net income are as shown on the slide.

Next, I will discuss domestic non-life business on page 5. Net premiums written for private line of business increased by 2.8% or ¥12.8 billion year-on-year, mainly due to top line growth in auto, fire and other lines of business.

For more details by line of business, please refer to page 7.

Net losses incurred increased by ¥4.8 billion year-on-year due to the expansion of in-force policy book as well as increase in large- mid-sized accidents, despite a decrease in net incurred losses related to natural catastrophes.

Business expenses for private line of business increased by ¥3.1 billion year-on-year due to an increase in agency commissions associated with top line growth.

Provision for cat loss reserves went up by ¥0.5 billion year-on-year due to the increase in net premiums written. As a result, underwriting profit of the term under review became ¥34.5 billion, down by ¥1.8 billion year-on-year.

Next, net investment income and other. Details are described on page 8, but net investment income and other increased by ¥30.5 billion to ¥109.1 billion due to a growth of dividend income from subsidiaries despite decrease in gains and losses on derivatives, as well as sales gains and losses of securities. Please also note that dividends from subsidiaries do not affect consolidated numbers of our entire group as they are almost eliminated as part of the consolidation adjustment.

During the term under review, we sold business-related equities by approximately ¥42 billion and the sales gains were approximately ¥30 billion. All in all, net income became ¥120.1 billion, up by ¥28 billion year-on-year.

Next, let me discuss combined ratio on page 6. The loss ratio for private lines of business on an earned/incurred basis was up by 0.2 points, reaching 55.7%. Although net incurred losses relating to natural catastrophes decreased, there was an increase in provision for foreign currency-denominated outstanding claims reserves, as well as an increase in large and medium losses. The expense ratio improved by 0.2 points year-on-year, reaching 32%, mainly due to an increase in net premiums written. The private lines of business earned/incurred combined ratio as a result was flat year-on-year at 87.6%.

Next, I'd like to explain the results for Nisshin Fire. Please turn to page 9. Underwriting profit for Nisshin Fire was up by ¥300 million year-on-year at ¥2 billion due to an increase in net premiums written for fire and specialty insurance, and a decrease in net incurred losses relating to natural catastrophes. Net investment income and other increased by ¥300 million to ¥300 million year-on-year due to the reversal effect of foreign exchange losses in fiscal 2016 and a decrease in impairment losses on securities. Accordingly, net income increased by ¥200 million year-on-year, reaching ¥1.3 billion.

Next, I'd like to explain the results for TMNL. Please turn to page 10. New policies ANP decreased by 13.7% year-on-year due to sales suspension of long-term saving-type products and product revision in April associated with the lowering of standard interest rate, et cetera, despite continuous favorable sales of household income term insurance. In-force policy of ANP increased by 3.5% year-on-year due to an increase in new policies.

Looking at key figures in financial accounting, net income decreased by ¥3.7 billion year-on-year, reaching ¥2.5 billion. However, if the decrease in gains on sales of securities and the increase in provision for contingency reserves, et cetera, is taken out, core operating profit was about the same as last fiscal year at ¥7 billion.

Now, I'd like to talk about the international insurance business, which is on page 11. Net premiums written for the international insurance business increased by 2% year-on-year due to the progress of growth measures in each business segment. By region, in North America, the net premiums written increased by 4% overall due to the three companies' increasing rate in the renewal book and business expansion focusing on products such as specialty insurance.

Europe increased, too, due to business expansion at Tokio Marine Kiln, et cetera. South & Central America increased, mainly due to auto insurance sales growth in Brazil. And for Asia, net premiums written increased due to the progress of growth measures in each country, mainly in India.

Reinsurance decreased mainly due to a reversal effect of multiyear policies in fiscal year 2016. Life insurance increased mainly due to sales growth in Thailand, India and Indonesia.

Next, I'd like to explain business unit profit for the international insurance business. Please turn to page 12. Business unit profit increased by 4% year-on-year, which was up by ¥1.7 billion due to the progress of growth measures in each business segment.

On a regional basis, in North America, profit increased by ¥6.2 billion overall. Philadelphia's profit decreased, mainly due to large losses on one hand. But Delphi recorded an increase in profit due to the reversal effect of realized capital losses in fiscal 2016 and an increase in investment income.

As for Europe and reinsurance, profits decreased mainly due to factor such as the deterioration of foreign exchange gains and losses.

For Asia, profits increased mainly due to a reserve takedown and the reversal effect of large losses in fiscal 2016.

Please refer to page 13 for the breakdown for the three North American companies.

This concludes my remarks. With this, we'd like to take any questions that you may have. Thank you very much.

Q&A

Operator

Thank you very much, Mr. Wada. We would now like to go into the Q&A session. Thank you. The first question is from Mr. Muraki of Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. My first question is related to domestic auto business. On page 7, where you're showing the earned/incurred combined ratio by line of business – for the loss ratio by line of business, compared to a year ago, auto is 0.5 points and 2 compared to two years ago. Do you think 1.1 point worth of earned/incurred loss ratio has increased? You said that the claims related to the riders have actually increased, but what is the reason behind the increase of the loss ratio of the auto line of business this time around?

And secondly and generally next year, you're going to revise your pricing and how is it expected to affect the profitability of the auto business overall?

And my second question is related to large claims, both home and abroad. Compared to a normal year, how did they look? If you could give us some color on that. Probably in the first quarter last year, by year (16:07) and also in other lines of business, the claim environment was pretty benign. And looking at this fiscal year's first quarter, it seems that the claims increased according to your explanation both home and abroad. However, compared to your full year production, are you in line with the projection, or are you ahead of – or is the claims turning out bigger than you usually expected?

A - Operator

My name is Tanaka (16:43) from Personal Lines Underwriting Department of TMNF. Let me answer your first question on the automotive line of business. Now, first, with regards to loss ratio on earned/incurred basis, this fiscal year and the first quarter, loss ratio increased and that is because, as explained here, the rider claims increased. In particular, the legal cost coverage is the area where the claims increased and that is the major reason behind this increase to loss ratio.

And the other part of your question is related to the price revision in January 2018. There have been some newspaper articles saying that the price increase will be about by 3% or so. However, looking at the automotive business will grow (17:35), the price is actually going to be decreased by 2.4%.

And to perhaps give you the breakdown between non-fleet and fleet, for commercial line of business on average, the price will be reduced by 2.8%, while for a fleet contract, the pricing will be staying flat. And so, it was reported that the price will be revised by 3%. However, that is rather a article or coverage affirming the personal line of business non-fleet contract.

Q - Masao Muraki {BIO 3318668 <GO>}

Related to your first point, with regards to the profitability of the legal cost that you mentioned earlier, is the adoption rate increasing? Is that the reason behind the increase or is the claim performance been deteriorating?

A - Operator

With regards to legal cost-related dividers (18:30), the loss ratio tends to be mostly going up and therefore, as we revise pricing in January 2018, in order to address the increasing legal cost, we're planning to increase pricing to some extent. And also, I talked about 2.4% and over 2.8% decrease of the pricing and I mistakenly said price increase, but I meant to say price decrease. So sorry for the confusion. Thank you.

And to your second question, let me answer your question separately for domestic and international businesses separately. My name is Oda (19:26) from Accounting Department of TMNF. Let me talk about large losses recorded domestically in Japan. As you have correctly pointed out, in the last fiscal year domestically in Japan, we hardly had any large or claims. When we say large losses, we are talking about the losses of ¥3 billion or more per accident. However, we have not experienced such large losses this fiscal year.

And also, when it comes to losses exceeding ¥1 billion or more, we have also experienced some losses of that kind and other result. Overall, a negative impact to our business was ¥8 billion or so. And against the full year production, the company has just finished the first quarter. We believe continuously that we want to cautiously monitor how things will develop going forward. I hope that it answers your question.

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

My name is Hattori from International Business Development Department of Tokio Marine Holdings. Let me answer your question for the international part. As for large losses internationally, because of the different sizes of the businesses that we have outside Japan, it is difficult to define what really constitute large losses. However, after the ones that were recognized in Philadelphia and that certainly was a negative impact, and also the large-scale fire accidents in Europe was another negative factor. And again, we would like to continue to monitor how that could potentially affect the achievement of our full year production.

A - Operator

In your first question, you also asked us to the overall impact of the price revision in January 2018 to the profitability of the auto business, overall. So let us answer that as well. My name is Tanaka (21:23) from Personal Lines Underwriting Department of TMNF.

In January 2018, we're going to revise our pricing. And in terms of its impact for both top line and profit for FY 2017, we're expecting hardly any impact. For FY 2018, we believe that about half of the impact of the price revision is going to come through and additionally, 30% worth of impact should come through in FY 2019 with regards to (21:52) up to the amount in yen term. We will be taking some specific measures and we would like to see what specific measures could we take before we determine the specific size of the impact. Thank you.

The next question is from JPMorgan Securities, Ms. Tsujino. Over to you.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

With regards to revision effective January 2018, earlier you talked about riders that were going to be increased partially. The way you're trying to do this, for example, with regards to claims payments for the riders, are you going to look at the conditions in detail and make them stricter? So, overall, on the surface, the premiums that have been sold are going to look about the same as before. However, the loss ratio is going to come down. That's one possibility.

So when you're thinking about the impacts top line, should we simply think it's going to go down by 2.4%? Or because of these additional revisions, is the impact going to be smaller? So, can you tell me about the implications?

A - Operator

This is Tanaka (23:22) from the Personal Lines Underwriting Department. We talked about increasing the premium rates for some riders, and in the previous question that was asked that we talked about tightening the conditions for the riders as a way of improving profitability. Because riders are – thinking about the convenience of riders, we don't want to make the conditions of payment stricter. We're going to leave them as the same, but rather increase the premium rate for the riders in order to improve profitability.

With regards to reach and products and revisions going forward – or additional revision, we would like to continue to watch our profitability as well as the convenience of riders, and we would like to make a comprehensive decision and consider these matters accordingly.

With regards to the 2.4% cut and if it's going to have a direct impact on top line, with regards to the low-year rider (24:26), we are accounting for the premium rate increase and that ends up that 2.4% cut. And whether it's going to directly hit top line in its entirety or not, towards each policyholder, coverage expansion as well as higher adoption rates or other measures that we are considering at this time. So, with that, we would like to pursue further top line growth through our efforts.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

A follow-up question to that is, in Japan, the major lawsuits that you had, what kind of types of major accidents were included under specialty? And were they out of your control, or did you feel that you needed to increase the prices? So, can you give me more flavor on that in detail?

A - Operator

Hello. My name is Oda (25:36) from Corporate Accounting Department from TMNF. With regards to large losses, fires as well as specialty related where the areas where this happened, with regards to the details, because it happened on an individual basis, we are not able to go into detail, unfortunately. We refrain from disclosing it. However, these accidents were one-off. So, we would like to basically continue to monitor the situation based off those circumstances.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Similar priced products, do you think that they need to...

A - Operator

They are not liability types of insurance that may need to go through a price hike based on your response. That's how I felt. This is Oda (26:28) once again. At this point in time, increasing prices right away is something we're not considering. But, of course, we would like to continue to monitor the trends to see if we need to take any price increases in the future.

The next question is coming from Mr. Watanabe of Daiwa Securities.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Yes. I have two questions. My first question is related to page 8 with regards to derivatives. So, ¥1.2 billion decrease this time around. Now, FX derivatives once the Japanese yen becomes stronger, I thought this will rather become positive. However, this rather declined. So, what is the reason behind it? That is my first question.

And second question is related to the progress rate of the profit achievement in TMNL. Due to price increase, I believe now that your cost would actually come down for (27:30) new business and therefore, the profit was expected to go up, I believe. And what is the actual experience and what do you think are the potential reasons (27:38) you could be actually lagging behind?

A - Operator

My name is Nambu (27:43) from Financial Planning Department of Tokio Marine Holdings. Let me answer your first question.

As we have currently pointed out, for a foreign exchange hedge purpose, we are using derivatives. With regards to yen-to-dollar foreign exchange, in the first quarter last year, the Japanese yen appreciated by ¥10 to $1, while it stayed pretty much flat in FY 2017. And we also have the hedging program vis-à-vis euro and we saw ¥13 appreciation in the first quarter last year, however, ¥8 depreciation in the first quarter this year.

So, overall, in the first quarter of FY 2017, there was a negative number that we recorded. And because we were positive in the last fiscal year in terms of year-on-year change because of the absence of the positive benefits that we enjoyed last year, this became rather a negative factor for this fiscal year.

My name is Nihei (28:41) from Corporate Accounting and Financial Planning Department of TMNL. Let me answer your second question.

At TMNL, we originally posted ¥2.5 billion as a profit, however – and so, we have achieved 10% vis-à-vis the full year production of ¥23.9 billion. And the reason is that right before the standard rate revision in April, there was a last-minute demand. And also accordingly, as the top line increased in the first quarter of this fiscal year, we increased the policy reserve provisioning and this is, of course, a one-off factor, which is already factored into our full year production. And, therefore, we actually do not have any particular concern with regards to progress rate. Thank you.

Next is Mr. Majima from Tokai Tokyo Research Center.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you. I'd like to ask about the difference between plan and results. I have two questions in relationship to that. For example, first of all, for net premiums written for TMNF - page 7, I believe - it's supposed to be 2.8% up or 2.8% out of private lines of business basis.

Looking at after the first quarter, CALI is expected to go down, so you'll be impacted by that. While for fire, you were looking at it to go down. But now, you're looking at it to go up. And others are expected to go up by double-digit. And for some of the lines, it seems that you're doing stronger than expected, but in reality, this is in line or not? That's my question for the first Q1.

For the second question, for the international business, your plan was a decrease in top line as well as profit, but actually it's going up in reality for both top line and profit. Due to the softening of the market, you were saying that earnings are expected to come down, but what is happening? Are you going to receive impacts going forward, or was the softening of the market less than expect? And that's the results that you've seen in Q1.

A - Operator

My name is Oda (30:59) from the corporate accounting department of Tokio Marine & Nichido. Let me take your first question.

To your point, due to the revision of the CALI rates, we are going to be impacted by that and we have accounted for that in our projections. So, on top of that, for fire insurance, currently we are seeing higher top line impact for the full year. But due to the maturity of long-term policies, we have accounted for it partially. So, on year-on-year basis, we're expecting somewhat of a decline, and that is accounted for in the forecast as well.

On top of that, for other specialty insurance, a major policy was recorded in Q1. We had several of them. So, we are doing quite well for the first quarter, that is. For the full year, our projections are unchanged, which is accounting for what was likely to happen going forward. Of course, the trends will continue to be monitored and if necessary, we will update our forecast at the interim period.

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

Hi. I'm Hattori from the International Business Development Department from Tokio Marine Holdings. With regards to top line for the international business, we are impacted by the softening of the market. But at this point in time, whether it'd be Philly, Delphi or HCC, we are seeing steady increase in top line and it is in line with our expectations. That's how we accounted the situation.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Okay. Thank you very much.

Operator

Next question is from Mr. Otsuka of Nomura Securities

Q - Wataru Otsuka {BIO 16340098 <GO>}

Hello. With regards to overseas business, I have two questions. My first question is related to the first half or from January to June nat cat situation, if you could enlighten me on that. Looking at other global peers, of course, they have announced their first half results. And looking at their results, it seems that it has been a very benign year in terms of nat cat events.

As far as your companies are concerned, of course, there is a three-month long delay and therefore, January through March is being recorded as the first quarter. But is there anything that I should be mindful of with regards to nat cat overseas? That is my first question.

And secondly, if you could help me understand, as of the end of July or so, I believe that there was some coverages from mass media that your company and Prudential UK are selling stakes in Malaysia because of the capital regulation locally in Malaysia. I believe that there were some articles of potential sales of huge stakes that you have in Malaysia. If you could give us some comment on that, that will be also appreciated.

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

My name is Hattori from International Business Development Department of Tokio Marine Holdings. Let me answer your first question on overseas nat cat events.

As far as the first quarter results are concerned, we posted ¥5.7 billion as the claims were incurred by nat cat losses, which is within the expected or within our embedded (34:36) for natural cat events, and we are totaling the numbers for the second quarter. And so, we're yet to give you the details. However, we have not seen any major nat cat events that are expected to cause mature impact to our financial results.

And with regards to the stakes and of the capital in Malaysia, as far as our company is concerned, we are considering to take (35:02) in line with the regulations locally in Malaysia and there is no further details that we can give out to you at this point in time.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you. If I may perhaps ask you an additional question, domestically in Japan in July and also August, there have been some typhoons as well as heavy rains here in Japan. As far as you could tell us, anything that you can comment on with regards to size of losses been incurred by those nat cat events?

A - Operator

My name is Oda (35:30) from Corporate Planning Department – the Accounting Department of TMNF. As for nat cat events in and after July, for example, typhoon number 3 as well as heavy rains in northern part of Kyushu, I believe that the size of the losses as of the 31st of July is in amount to less than ¥1.2 billion (35:49). So, at this point in time, we are not in a condition where we need to change our nat cat budget for this fiscal year.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you. That was very clear.

Operator

The next question is Mr. Niwa from Citigroup.

Q - Koichi Niwa {BIO 5032649 <GO>}

With regards to international business as well as expense ratio for the domestic business is what my question. First on page 12, in Asia, with regards to business unit profits, for the full year protection on an interim basis, it seems that you're doing well. So, can you give me the reasons why? And with regards to the progress you're making for the full year, can you give me another reason why you're doing well?

I'm also looking at page 6. There's plenty of few details. With regards to the expense ratio, it seems that it's slightly down on a full year basis. It seems that your expectations are broadly the same. But as top line increases, why is the expense ratio coming down? Is there a long-term change that is taking route?

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

This is Hattori from Tokio Marine Holdings, International Business Development Department. First of all, let me talk about Asia and its progress. With regards to the business unit profits, for Q1 this year, we reviewed reserves and there was a reserve takedown, and that is why we were exceeding plan. At the end of last fiscal year, the release was we'll – it's going to have a positive impact on our bottom line and expected to exceed our expectations.

A - Operator

This is Oda (37:41) from Tokio Marine & Nichido Corporate Planning Department. With regards to the lower expense ratio, as you can see here, net premiums written went up and that is why the denominator expanded. The other one is corporate expenses. Excluding commissions, corporate expenses are increasing. However, they are broadly flat. It's basically making progress in line with our initial expectations. So, no major changes are anticipated for the full year. That's it for myself.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you. I understood your response very well.

Operator

Next question is from Mr. Sasaki of Merrill Lynch Japan.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

This is Sasaki from Merrill Lynch Japan. With regards to auto business, I have a question. Probably because of some technical reason, I wasn't able to hear your numbers. So, can you give us the numbers once again, the three numbers that you mentioned at the very beginning?

A - Operator

Yes. My name is Tanaka (38:50) from Personal Lines Underwriting Department of TMNF. In January 2018, we're going to revise our pricing and with regards to that, we shared with you the outlook going forward.

And in newspapers, it was reported that the price will be cut by 3% approximately. However, as far as our company's auto business is concerned overall, the price is going to be cut by 2.4%. To use a breakdown for non-fleet, 2.8% reduction; and for fleet contracts, the pricing will stay unchanged. And therefore, it was reported – the price cut was covered in mass media. However, it was specifically for non-fleet personal lines of business.

As for the outlook going forward, because the pricing will be revisited in January 2018, with regards to FY 2017 for both net premiums written and also profit level, the impact of the price revision is going to be minimal. However, in and after FY 2018 for first in FY 2018, half of the impact of the price revision is going to come through and additional 30% impact is going to come through in FY 2019.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you. I understood your point very well. And furthermore, if I may ask you additional question, for non-fleet contracts, do you think that you are pretty much down with the price revision this time around, or do you think that the price revision is going to continue into the future?

And for fleet contracts, on the other hand, you said the pricing will stay unchanged. For example, freight forwarders are now reducing their operating hours, for example. And I believe that the situations are rather for you that would allow you to revise the pricing as well. However, what is the rationale behind your decision both keeping the pricing for your fleet contracts flat?

A - Operator

Yes. Let me continue to answer your questions. With regards to price cut for non-fleet contracts, the question is whether it is going to continue or not. In January 2018, we're going to make a revision. However, in and after that, we have not made any further decision as to what to do with the pricing going forward.

We have looked at the recent actual performance, profitability performance as well as the future outlook in determining the price revision in January 2018. However, from a midterm perspective in October 2019, consumption tax is scheduled to be hiked and also law of obligation is expected to change. So we would like to cautiously monitor how those changes will actually affect our profitability in determining the future pricing of the order business.

With regards to fleet contracts, on the other hand, yes. We have decided to keep the pricing unchanged. In our company, we look at the actual profitability of the fleet contracts versus non-fleet contracts and then we decided to keep the pricing flat for the fleet contracts. And we would like to continue to monitor the profitability respectively to see how the pricing should be controlled going forward. Thank you.

Next question is from Ms. Tsujino from JPMorgan Securities.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

For TMNL, for new policies, ANP went down quite a lot on a year-on-year basis. I'm sure this is from a reversal of last-minute demand. But earlier, with regards to the policy reserve increase in accordance with the last-minute demand, it came all of a sudden is what you've explained. But it seems that numbers were – what were included in Q4. But for the ones that didn't make it, did you basically recognize that in the first quarter from April 1 with regards to the increase in policy reserve?

For my second question, for new policies ANP in Q1, the levels that you achieved. Looking at April, May and June with regards to the decline during this quarter, has it already normalized? That's my second question.

A - Operator

I am Nihei (43:31) from the Corporate Accounting and Finance Planning Department from TMNL. With regards to the last-minute demand, these were policies that were concluded within last fiscal year. So, with regards to operating results, they were recorded in last fiscal year.

With regards to your second question and the decline, (43:54) type products were suspended last fiscal year, so that hit us, and that is why year-on-year results were negative. That concludes my response.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So, you're basically saying that you're still below year-on-year results at this point in time as well.

A - Operator

Yes. That is correct.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I'm sorry, this is a follow-up for new policies EV, I'm sure you can't do that right now. But with regards to mix, you're seeing improvement and rates are coming up right now. So, hypothetically if you did have new policies EV compared to the fourth quarter, it should be better.

A - Operator

For EV as of Q1, we haven't really done our calculation. So, I would like to withhold my response. That's all.

There seems to be no questions waiting at this point in time. The next question is from Mr. Sato of Mizuho Securities.

Q - Koki Sato {BIO 19983862 <GO>}

Thank you. I just wanted to ask you just one simple question. So firstly, overseas subsidiary stakes, not in a specific country, but in overseas subsidiary, if you decide to sell your stake and you end up in generating gains, is that recorded as an extraordinary profit, as a one-off profit? And therefore, not included, is it going to be excluded from adjusted net income of your company?

A - Operator

My name is Wada (46:46) from Corporate Planning Department of Tokio Marine Holdings. Yes. You're understanding it correct.

Q - Koki Sato {BIO 19983862 <GO>}

Yes. Thank you.

Operator

There seems to be no questions. So, Mr. Wada, please.

A - Kiyoshi Wada {BIO 19963983 <GO>}

Once again, everyone, thank you very much for participating in Tokio Marine Holdings' conference call for our fiscal year 2017 first quarter results. For any further clarifications and also additional questions, please do not hesitate to contact us. Once again, thank you very much for your questions today.

Operator

Now, with this, we would now like to conclude Tokio Marine Holdings' fiscal year 2017 first quarter financial results conference call. We thank you once again for your kind participation, and this is the end of the conference call. Thank you.