Q1 2016 Earnings Call

Company Participants

- Kiyoshi Wada

Other Participants

- Futoshi Sasaki
- Kazuki Watanabe
- Koichi Niwa
- Masao Muraki
- Natsumu Tsujino
- Taichi Noda
- Tatsuo Majima

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for your patience, and thank you very much for participating in Tokio Marine Holdings FY 2016 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 from the current projections.

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

Kiyoshi Wada {BIO 19963983 <GO>}

I am Kiyoshi Wada from Corporate Communications and Investor Relations Group. I would like to give you the overview of Tokio Marine Holdings' financial results during the first quarter of FY 2016, that we announced today.

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

Let me start with the overview of our consolidated results on page two. Net premiums written were ¥894.4 billion, up by 6.3% or ¥53.1 billion year-on-year, primarily due to the contribution of newly consolidated HCC despite the appreciation of Japanese yen. Insurance premium, Domestic and International Life Insurance business totaled ¥215 billion, up by ¥206.6 billion due to an increase in in-force policies and decrease in surrender of variable annuities. Consolidated ordinary profit went up by 1.6% or ¥2 billion year-on-year to ¥128 billion. Net income attributable to owners of the parent increased by 8.7% or ¥7.7 billion over the year to ¥97.2 billion.

I will amplify on the details about the consolidated ordinary profit later. After excluding the effects of provisions for cat loss reserves and amortization of goodwill associated with HCC consolidation, adjusted net income increased by ¥2.8 billion year-on-year to ¥125 billion.

Next, let us review how the consolidated ordinary profit changed from a year ago on page three. In the Domestic P&C business, ordinary profit of TMNF increased by ¥21.8 billion year-on-year due to increase in underwriting profit and net investment income and other. Underwriting profit increased mainly due to increase of earned premiums and decrease in provision for cat loss reserves, while the net losses incurred by nat cat increased.

As for net investment income and other, dividend from domestic subsidiaries and business-related equities decreased, but self-gains of securities increased.

Ordinary profit of Nisshin Fire dropped by ¥3 billion, mainly due to increase in provision for underwriting reserves. As a result, ordinary profit of Domestic Non-Life in total grew by ¥18.7 billion year-on-year. Profit of Domestic Life business increased by ¥4.4 billion year-on-year due to decrease in provision for underwriting reserves and improvement in gains and losses on sales of securities.

Ordinary profit of International Insurance business declined by ¥10.3 billion year-on-year. So, HCC was newly consolidated to contribute to our P&L, profit declined due to stronger Japanese yen as well as capital losses on bonds realized by Delphi. As for consolidation adjustments, negative adjustment increased by ¥10.5 billion year-on-year due to an increase in amortization of goodwill associated with HCC consolidation.

Next, please turn to page four to review adjusted net income. Adjusted net income is a group-wide KPI based on consolidated net income under J-GAAP, 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 the underlying profit and loss from our business operations.

Major changes over the year in the reconciliation from net income under J-GAAP to adjusted net income are shown on the slide. Adjusted net income increased by ¥2.8 billion year-on-year to ¥125 billion. Sales of business-related equities progressed ahead of the annual plan, and we have already achieved approximately 32% of the full-year adjusted net income, which is projected to be ¥388 billion for FY 2016.

Next, I will discuss Domestic Non-Life business on page five. This is the overview of the FY 2016 Q1 results of TMNF. We explained in more detail about underwriting profit first. Net premiums written for private lines of business increased by 0.6% or ¥2.9 billion in total. While premium for fire business decreased due to the shortening of the contract durations, the number of auto policies increased and effects of the historical product and rate provisions came through. For more details by line of business, please refer to page seven later.

Net losses incurred on the private lines of business increased by ¥11.4 billion year-on-year, despite the decrease in the provision for outstanding reserves for foreign currency-denominated claims, associated with the appreciation of Japanese yen. Main factors behind the increase in net incurred losses are described on the slide, but the biggest reason is the increase in nat cat losses in the commercial business due to Kumamoto earthquake.

Provision for cat loss reserves decreased by ¥14.3 billion year-on-year mainly due to the reduction of the provision rate in the auto business. As a result, underwriting profit of a term under review increased by ¥16.3 billion year-on-year to ¥36.4 billion. Excluding the impact of cat loss reserve, underwriting profit was ¥54.1 billion, up by ¥2 billion year-on-year.

Next. Net investment income and other. Details are described on page eight, but while dividend from domestic subsidiaries and business-related equities decreased, sales gains of securities increased. As a result, net investment income and other increased by ¥7.7 billion to ¥78.6 billion. I would also like to note that during the first quarter, we sold business-related equities by approximately ¥52 billion, and the sales gains were approximately ¥38 billion. Based from the procurement that I explained so far, as well as increase in sales gains for fixed assets, all in all, we recorded a net income of ¥92 billion, up by ¥23 billion year-on-year.

Next. Let me discuss combined ratio on page six. The private insurance, earned-incurred basis loss ratio increased by 0.9 points year-on-year to 55.4%, mainly due to an increase in net-incurred losses relating to natural catastrophe. The impact of natural catastrophes was 4.5 points per quarter compared to 1.5 points in Q1 last fiscal year. Hence, the loss ratio excluding the natural catastrophe impact was better year-on-year. The expense ratio improved by 0.4 points year-on-year to 32.2% mainly due to a decrease in personnel expenses. As a result, the combined ratio for private insurance on a earned-incurred basis increased 0.4 points year-on-year to 87.6%.

Next, I will go through the financial results for Nisshin Fire. Please turn to page nine. For Nisshin Fire, although net premiums written increase driven by fire and auto insurance due to an increase in net provision for underwriting reserves and an increase in net incurred losses including natural catastrophes, underwriting profit decreased by ¥2.4 billion year-on-year to ¥1.7 billion. Net investment income decreased by ¥0.4 billion year-on-year to below zero due to a decrease in interest and dividends income. As a result, net income decreased by ¥2 billion year-on-year to ¥1.1 billion.

Next, I will explain the results for TMNL, please turn to page 10. New policies ANP decreased by 15% year-on-year due to limiting the sales of long-term savings type products. However, excluding long-term saving type products, our core focus and the medium-term management plan, new policies ANP increased by 16.2% year-on-year due to favorable sales in third sector lines such as medical and cancer insurance. In-force policies ANP increased by 4.9% year-on-year due to an increase in new policies. Excluding the impact of variable annuities, in-force ANP increased by 11% year-on-year.

Regarding key figures in financial accounting, as you can see on the slide, net income increased by ¥3.1 billion year-on-year to ¥6.2 billion due to a decrease in net provision for underwriting reserve as well as an improvement in gains and losses on sales of securities. Core operating profit increased by ¥1 billion year-on-year to ¥7.2 billion.

Next, I'll talk about the international insurance business on page 11. Net premiums written for the international insurance business increased by 23% year-on-year to ¥429.5 billion due to contribution from HCC that has been newly consolidated from this fiscal year. By region, net premiums written decreased in some regions due to the appreciation of the yen. But on a local currency basis (13:33) recorded an uptick including Europe and Life.

In North America, net premiums written increased by 49% due to HCC (13:45) sales and Philadelphia and Delphi contributing rate increases in the renewal book and an increase in new business. In emerging countries such as Brazil, India and Thailand, auto insurance sales growth continued and reinsurance increased mainly in the non-catastrophe business.

Next, I'll talk about business unit profit for the International Insurance Business on page 12. Business unit profit increased by ¥2 billion year-on-year to (14:28) billion. Due to contributions from each business segment, progress made in Q1 compared to fiscal year projections came in line at 25%.

Next, I will give details by region. America profits by ¥1.4 billion. Delphi realized capital losses on bonds with the aim of risk reduction. However, HCC's earnings contribution, Philadelphia's business profit and Delphi increased in interest and dividend income contributed positively. South and Central America and Asia profits decreased respectively by 57% and 69% due to the impact of large losses and others. Profits for Europe and Reinsurance on the other hand increased due to foreign exchange gains.

Life increased mainly due to an increase of unrealized gains on bonds due to a decline in interest rates in Singapore and Thailand. Details for Philadelphia, Delphi and HCC are provided on page 13. This concludes my presentation.

We'd now like to take any questions that you may have. Thank you.

Q&A

Operator

Thank you very much, Mr. Wada. We would now like to open the floor for the Q&A session. The operator is now going to explain to the Japanese-speaking audience how to place questions. We thank you for your patience in advance.

Once again, the operator is explaining how to place questions for Japanese-speaking audience. Thank you very much for your patience. The first question is from Mr. Muraki of Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

Yes. Thank you very much for this opportunity. My first question is related to TMNF on slide seven. The loss ratio over (17:12) business increasing. Why is that? I believe that for historical losses, you reflected the increase in losses incurred or the outstanding claims reserve. The outstanding claim reserve itself did not increase significantly. However, what's the background behind it and what is your outlook going forward?

And my second question is pertaining to page 12 related to International Insurance Business. In your presentation, you mentioned earlier that you haven't really achieved 25% of projected profits for the year. And excluding the impact of nat cat losses, how much profit have actually achieved? I believe that you probably achieved only 22% or 23%. You're probably off to a slow start, if you will, for the year. So, it's my understanding (18:06) from this. And if it is correct, why is it the case? Why are you so? I believe the large losses have happened in Brazil and also in Asia. But excluding nat cat business, how is the profitability trending so far outside Japan?

A - Operator

Yes. My name is (18:35) from personal lines underwriting department of TMNF. Let me answer your first question. On year-on-year basis, the loss ratio for auto increased by 0.7%, up in the first half of the year 2015. We exclude the outstanding claims and therefore, on a year-on-year basis, on earned-incurred basis, the loss ratio increased.

And in terms of the actual trend of the loss, the claim cost is essentially trending flat for major lines of business. And thanks to the FX rate provisions that we have made so far, the actual profitability is slightly improving. And going forward, the claim cost is expected to be flat. And due to the factors that occurred in the fiscal year 2015, we think that the trend is going – the loss ratio is going to increase. And also, in the last fiscal year, in the first half, we made a full revision of the claims.

And therefore, on the year-on-year basis, you're expecting loss to rather decrease. And in the second half of last year (19:39) damage was low and therefore, rather this fiscal year, the loss ratio is expected to increase. And, therefore, all we know, we don't think the actual loss ratio is going to deviate too much from the initial expected level for the year.

My name is (19:52) from International Business Development Department. Let me answer your second question. Now, excluding nat cat losses that you have correctly pointed out, the actual progress rate is less than 25% so far. And the major reason behind this is that within Delphi Group, in order to proactively reduce risk, we have sold some bonds. As a result of that, we posted some capital losses realized. And at this point in time, we don't think that we need to revise our guidance as we are now seeing a major deviation from the initial expectation. However, the loss ratios are aggravating in emerging markets in particular and therefore, we will closely monitor the situation moving forward.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. If it is possible, I would like you to amplify on the second rate which is the increase of the sales of bonds by Delphi. How much increase have you seen?

A - Operator

During the term under review, on a post-tax basis, we sold approximately ¥9 million worth of bonds by Delphi.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

Operator

The next person is from Daiwa Securities. Mr. Watanabe, please.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Hello. This is Watanabe. I have two questions. First one is the (21:12) impact. With regards to Kumamoto earthquake, how much do you think the ultimate amount is going to be? This is related equity.

Related question is my second question. There was ¥52 billion in the first quarter. It seems that it's at a high level. And you were saying for the full year, it's more than ¥100 billion. So, if you - is there a possibility that you're going to exceed ¥100 billion for the full year? Those are my two questions.

A - Operator

It's Watanabe (21:41) from the Corporate Accounting Department. With regards to incurred losses really at the Kumamoto, excluding household earthquake, ultimately, we're expecting ¥14.1 billion.

I'm (22:02) from Financial Planning. Let me answer your second question with regards to business-related equity sales. Like we've been saying, we need to negotiate with the company which we own. So, depending on when we reach an agreement, that amount is going to be decided. So, because we're following that plan, for the full year, we're expecting to sell down ¥100 billion as we've initially planned. So, at this point in time, we have no plans to change our target.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Let me ask a follow-up question. So, you were initially expecting only ¥5 billion, but it's exceeded that amount. So, are you going to be able to offset that with the reversal of cat loss reserves?

A - Operator

This is Watanabe (22:56) from Corporate Accounting. At the beginning of the year, it was right after the Kumamoto earthquake. Therefore, information related to damages was limited. So, we're looking at past earthquakes and net incurred losses from the past as a reference point. But there aren't many reference points and because it has its uniqueness in nature and we saw deviations when we looked at the actual unit prices. For the full year, on an ordinary basis, we were announcing ¥45 billion. At this point in time, we have no plans to revise it. So, for reversal of cat loss reserves, we are not depending (23:37) on reversing it at this moment in time.

The next question is from Mr. Noda of Goldman Sachs.

Q - Taichi Noda {BIO 16478436 <GO>}

Yes. Thank you. I also have two questions. My first question is related to number of accidents reported. Earlier in January through March period, due to warm winter, you mentioned that it was a benign quarter. However, what is the situation since April this year? That is my first question.

And second, related to ESR, I would like to know the update. I do assume that you probably do not have accurate number. However, I would assume that ESR suddenly (24:22) is declining, but is my understanding correct?

A - Operator

My name is Miniyama (24:24) from Personal Line Underwriting Department of TMNF. Let me answer your first question on number of accidents reported in and after April. Because the number of policies in-force has been increasing, the number of accidents reported has been increasing. However, excluding the impact of top-line growth, essentially, the number of accidents reported has been staying flat year-on-year.

Q - Taichi Noda {BIO 16478436 <GO>}

Yes. Thank you.

A - Operator

With regards to ESR, as you have (24:59) due to interest rate movement as well as the stock price movement, ESR also moved. This time around, we have (25:08) calculation of ESR. So, while we are not able to comment as to where the ESR is currently trending, I hope that you understand our situation.

Q - Taichi Noda {BIO 16478436 <GO>}

But perhaps to clarify, are you - I believe that you are disclosing ESR every six months as your policy. But, as one of the KPIs, if, for example (25:36) getting ESR, updated ESR on the monthly basis perhaps (25:42) management decision.

A - Operator

Of course, internally, we are checking ESR. However, we are not disclosing those ESR except for end of the first half and end of the full year. I hope that you understand.

Q - Taichi Noda {BIO 16478436 <GO>}

Okay. So, with regards to the recent ESR, it is possible that you might decide to take certain actions based on a more updated or recent ESR before you announce the first half results in November, irrespective of the communication externally?

A - Operator

As I mentioned earlier, we also do assume that the ESR has been changing. However, at this point in time, we don't think that the ESR has moved to the extent that that affects negatively our company's financial soundness.

Q - Taichi Noda {BIO 16478436 <GO>}

I understand very well. Thank you.

Operator

The next question is from JPMorgan, Ms. Tsujino please.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Hello. For this result reporting, Kumamoto is higher than expected. International was - you had Delphi. Something that wasn't anticipated before. You realized sales losses. Originally for Japan ¥45 billion was what you were expecting for nat cat. And ¥5 billion was related to Kumamoto. So, if you have wind and flood events, there is a chance that you're going to exceed ¥45 billion. For the first quarter, you had ¥52 billion worth of gains related to sales of securities. But with regards to full year expectations. First, if you believe you're going short, you could sell securities. Last year, you ultimately reached ¥120 billion of sales of securities compared to your target of ¥100 billion. So, my point is, so that you could achieve a higher level of sales, are you negotiating more with companies that you hold your shares out? That's my first question.

With regard to Delphi, the amount you sold, how much was it? And with these sales, the exposure to energy or maybe - I'm not sure if the category is emerging category, but how less of an exposure do you have now? Were you able to cut it down by one-half? How much of bonds did you have to sell in order to achieve that level? If you can give me the details of that, I could get a better impression if your measures were drastic or not.

A - Operator

(29:03) from Financial Planning. With regards to the business-related equities, then the sales amounts for the full year. And if we're going to increase the target, like I mentioned earlier, we need to do these negotiations with the companies, so we don't have a short-term view, but a medium to long-term view. We're trying to enhance the understanding of that company before we make the sales. And based on that, we are proceeding with our plan with ¥100 billion per year target.

So, for the fiscal year, we're negotiating based on our target of ¥100 billion. So, just because we are expecting to undershoot with regards to full year expectations, it doesn't mean we're going to try to offset that by exceeding ¥100 billion. So, our target for this fiscal year remains to be ¥100 billion.

Let me answer your second question. This is Hattori (29:56) from International Business Development. For Delphi, for emerging country bonds and energy-related bonds, it was only 7% (30:06) percent. But with the sales, we were able to reduce exposure by one-half. Unfortunately, we are refraining from announcing the actual amounts that we sold.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

(30:23) entire portfolio, meaning the exposure is one-half?

A - Operator

Yes. Exactly.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you very much.

Operator

The next question is from Sasaki of Merrill Lynch Japan.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Yes. This is Sasaki from Merrill Lynch. I have two questions pertaining to International Insurance Business, first, risk reduction by Delphi. They reduced bonds. They sold bonds in and after March. I believe that energy and resource-related names are seeing more defaults in United States according to statistics. On a consolidated basis in the second quarter, are you expecting to see a similar either impairment or capital losses to be realized by Delphi? And also, looking at the current unrealized gains or losses of the portfolio, how large or small is it?

And secondly, in terms of FX, the Japanese yen is becoming quite stronger. The Japanese yen is currently trending at ¥110 or ¥100 to $1. So, given this rate exchange, I believe that it has probably become more challenging for you to achieve the target. So, how do you assess the current FX and the achievement of plan for International Insurance Business this year?

A - Operator

My name is (31:43) from International Business Development Department. With regards to your first question on capital losses realized, we're still tallying up the latest number. However, as far as this company is concerned, it seems that the capital losses are declining and are becoming smaller.

To your second question related to foreign exchange, with regards to net premiums written, in terms of sensitivity, ¥1 weakness to $1 has an impact of ¥10 billion; and to £1 ¥900 million. And also with a weaker Japanese yen by ¥1 to $1, there is an impact of ¥1.2 billion. And for UK pound, there is an impact by ¥60 million, and we would continue to closely monitor the foreign exchange going forward.

I think as of end of March, I think the rate was ¥112.6 and it's currently ¥100 to $1 or so. So, do you think that there could be a shortage by about ¥10 billion at the profit level? So, you're considering how to offset (33:09). Is that correct?

Yes. We would consider duly, including the impact of foreign exchange toward the end of the first half. Thank you.

Next person? From Tokai Tokyo (33:36) Research Center, Mr. Majima.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Hello. This is Majima. Earlier you've talked about the revision of the ultimate loss ratio for bodily injury insurance. Is this going to be a rebound year-on-year? And for the full year, it's going to come down. And for the interim period, is this going to be a positive or a negative on your profit? I just wanted to confirm that.

A - Operator

I'm (34:15) from Personal Lines Underwriting. For this full year profits, it's not going to be a fluctuating factor. I was just talking about trends compared to the previous fiscal year, so I'm sorry if I gave you the wrong impression.

Q - Tatsuo Majima {BIO 15338044 <GO>}

So, one more question regarding nat cat. So, we didn't have any typhoons at all, although the Kumamoto earthquake occurred. Last year we did, but we didn't have now, which means on a natural basis (34:48) period, you should probably exceed. On a full-year basis, there may be snow (34:54). So, that's your outlook. So if that's the case, last fiscal year you made a downward revision at the interim period and you reversed it up again for the full year. So if you have good numbers for the interim period, what are you going to do?

A - Operator

This is (35:13) from the Corporate Accounting Department. For nat cat from the interim period onwards, it's really hard to project what's going to happen. But at this moment, we have no plans to change the ¥45 billion. But depending on what happens going forward, we may consider. But at this point in time, we can't give you a quantitative assessment of where things are going towards.

Next question is from Mr. Niwa of SMBC Nikko Securities.

Q - Koichi Niwa {BIO 5032649 <GO>}

I have questions on Domestic Life business and also International business each. With regards to Domestic Life business, I believe you explained earlier that at TMNL in the first quarter vis-à-vis the full-year projection, you have achieved a very high progress rate. From the perspective of progress rate, how are you appreciating the actual performance to date of the Domestic Life business? That is my first question.

And second, with regards to nat cat of Japan, on the definitive basis that you have known so far, do you see a need to change the full-year guidance? I do have an impression that nat cat losses turned out to be bigger than initially perhaps expected. So, what is your current view?

A - Operator

My name is (36:37) from Corporate Accounting and Financial Planning of TMNL. With regards to your first question, at the moment we have just finished first quarter of the year. In terms of the expenses and others, on a full-year basis, the current situations may not necessarily continue as this. And therefore, I'd like to refrain from making additional comments with regards to achievement of the full year.

I'm from International Business Development Department. My name is (37:08). Before tax, we were expecting about ¥47 billion of nat cat losses outside Japan through the year. In the first quarter, we had ¥5.2 billion of cat (37:20) incurred by nat cat losses before tax. So we need to continue to monitor the situation. However, we don't see at this point in time, we have (37:31).

There are no questions at this point in time. There seems to be no additional questions. Back to you, Mr. Wada.

A - Kiyoshi Wada {BIO 19963983 <GO>}

Thank you for attending Q1 fiscal 2016 telephone conference for Tokio Marine Holdings. If you have any additional questions or feedback for us, please don't hesitate to contact us. Thank you very much once again.

Operator

This concludes Tokio Marine Holdings Q1 2016 results call. Thank you for your attendance. Now, you can hang up your phone. Thank you.