MS&AD Insurance Group Holdings Inc 2016 2nd Information Meeting

Company Participants

- Shiro Fujii, Director, EVPt & CFO
- Unidentified Speaker, Unknown
- Yasuyoshi Karasawa, President & CEO

Other Participants

- Futoshi Sasaki, Analyst
- Hideyasu Ban, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Tokyo Securities Co., Ltd.
- Wataru Otsuka, Analyst

Presentation

Yasuyoshi Karasawa {BIO 7391405 <GO>}

Hello, everyone. My name is Yasuyoshi Karasawa, President and CEO of MS&AD Insurance Group Holdings. Thank you for joining us at our information meeting today.

This year, we experienced a number of events that shook the world, starting with the Bank of Japan's announcement of its negative interest rate policy in late January. In particular, the results of the Brexit referendum in June. And the US presidential election in November, were contrary to general predictions and became sources of serious uncertainty for the future of the global economy.

The latest trend since November 8 has been a large shift towards a weaker yen and higher stock prices. However, this is increasing future uncertainty further. At this time, we believe that it becomes even more important to increase our management transparency and steadily progress towards the vision that we created.

Now please turn to page one of the handout. This page shows the main points of today's presentation. First, I'd like to update you on our progress towards the numerical management targets under Next Challenge 2017. Next, I will explain initiatives for promoting ERM-focused management and ICT strategy, which we focused on in stage 2 of Next Challenge 2017 as drivers for the achievement of our management vision. I will then explain the status of each business domain and, lastly, I would like to talk about shareholder returns.

Please turn to page two of the handout. I will explain our progress towards numerical management targets as of the interim period of FY16. Please look at the figures in the orange box in the table at the bottom. Regarding the increase in embedded value of MSI Aioi Life, which was affected by the BoJ's negative interest rate policy, unfortunately a decrease of JPY21.1 billion was reported. However, for every indicator besides this we made steady progress, largely exceeding the initial plan.

Next, I'll talk about Group core profit by business domain. In the domestic non-life insurance business, the combined ratio improved further from the previous fiscal year and Group core profit rose JPY42.3 billion year on year to JPY72.9 billion.

In the international business, Group core profit was only JPY21.3 billion as an increase of JPY4.9 billion year on year, mainly due to the occurrence of more natural catastrophes than last fiscal year and the effects of foreign exchange rates. However, the total Group core profit of each business amounted to JPY111.4 billion, which is progress of 57% towards the initial plan. Net income also increased JPY12.3 billion year on year to JPY98.4 billion.

The full-year forecast for Group ROE is 7.6%, while the full-year forecast for ROE on a financial accounting basis is 7.2%.

Next, I will talk about the promotion of ERM, which is one of the drivers of implementation of Next Challenge 2017. Please turn to page 29 of the handout. Our Group's policy is to promote ERM and pursue the optimal balance between financial soundness, capital efficiency and shareholder returns. To realize this, we established the investment planning section within the corporate planning division department of holding company in April of this year. And from May, under the Group CFO structure, we strengthened the structure for promoting Group financial strategies.

Last week, we announced the issuance of domestic subordinated bonds and it will be the first subordinated bonds issued by a holding company in the domestic insurance industry. We chose this course of action with a view to increasing profitability and capital efficiency while ensuring financial soundness, taking into consideration factors such as the recent interest rate environment, demand for subordinated bonds among investors. And the Group's low leverage ratio compared with its global competitors. At the same time, this is also part of moves to increase the range of Group's funding options.

From the viewpoint of enhancing capital efficiency of the entire Group, we replaced with capital increase the subordinated debt to be redeemed by MS Amlin the sub debt issued by the Company in the past. And from the viewpoint of enhancing financial soundness of each Group operating companies, we are now studying the capital increase of MSA Life and ADE. Of course, we'll continue to allocate resources strategically to growing areas.

Next, please turn to page 30 of the handout. At the previous information meeting, we identified a ROE at 10% level as one of the indicators of a world leading global insurance and financial services Group. To achieve this, we pushed ahead with various initiatives for further improvement in ROR. For example, on the underwriting side, we are focusing on evaluation of expected value-based profitability for commercial fire insurance. We will also tap into MS Amlin's high levels of expertise in this area as well. And strive for further sophistication.

Next, I will outline the status of our response to future environmental changes, ICT strategy, which is another driver of implementation. Please turn to page 33 of the handout. R&D and technological advances in a range of areas including IoT, AI. And ICT. And the field of regenerative medicine, such as (IPS) sales, will bring about major changes in the social structure and economic activity in the future.

The Group's business activities are also no exception. For the Group, whose business consists in providing risk solutions, social change is a huge opportunity for business expansion; however, if we get our response wrong, social change will turn into a great threat. The Group will not be bound by existing frameworks and will establish a structure for gathering and analyzing information. And the structure for cooperating with different industries globally. The holding company indentified threats and opportunities from a medium/long-term perspective. And examined the way business should be.

The operating companies, on the other hand, conducted concrete research and development, including the development of new products. And the utilization of the more advanced technologies in business processes.

Next, please turn to page 34 of the handouts. We established specialist departments, or project teams, centered on holding company; each Group company to exchange information with each other. And to conduct products and services development that utilizes the characteristics of each Group company.

As one of the achievements of these initiatives, I would like to take this opportunity to highlight the efforts of ITB, which is a member of the BIG Group. ITB's telematics device is not only useful for alerting the emergency services in the event of a serious accident. But is also effective in combating insurance fraud. And ITB won Combating Fraud Technology Initiative of the Year in the UK's prestigious Insurance Fraud Awards 2016.

The Group intends to continue rolling out groundbreaking products and services and businesses using cutting edge technologies such as these globally in the future.

Next, I will outline the status of each business, please turn to page seven of the handout. Let me first talk about the domestic non-life insurance business. The top line in the first half showed slight decline in reaction to the last minute purchase of fire insurance last fiscal year. However, the combined ratio on earned and incurred basis fell further, improving 4.4percentage point year on year to 88.4%. And underwriting profit increased. One of the reasons for this is that growth in the top line, through to the end of last fiscal year, resulted in an increase in earned premiums.

Another factor is that, despite the occurrence of natural catastrophes bringing extensive damages such as the Kumamoto earthquake and typhoons number 9, number 10 and number 16, the loss ratio continued to improve, especially for voluntary automobile insurance. As a result, the Group core profit of the domestic non-life insurance business was JPY72.9 billion, showing progress exceeding the plan.

Next, please turn to page eight of the handout. The most recent concern about Japan's non-life insurance industry harbored by investors is probably that premiums written for voluntary automobile insurance, which accounts for the majority of non-life insurance, will decrease due to the decline in the ownership of automobiles, as a result of the low birth rate and ageing population and decline in the number of accidents brought about by advances in driving assistance. And we also share the same recognition with respect of such trends.

I will now explain the Group's policy and initiatives in the light of this market environment. Japan is the world's third largest non-life insurance market in terms of premiums written. However, if you look at the insurance premiums as a % of GDP, the penetration rate is relatively low in comparison with advanced economies, such as the United States and Germany.

We believe that there is enormous scope to develop and cultivate insurance in the casualty area, including liability insurance, expenses insurance and specialty insurance, which are called miscellaneous class under the existing categories. For example, several years ago we began providing readymade products to SMEs, which has increasing need for liability insurance. And these products reported high revenue growth every year.

In this way, we are creating demand by designing products that are easy for customers to understand. And easy for agents to sell. And we recognize that there are still many areas where expansion in demand is possible, especially the SME market.

Leveraging its strength in the corporate market, MSI is also focusing on creating new markets by anticipating changes in the social environment. And technological advances. And keeping pace with its customers, developing new businesses as they branch out into new businesses. We have previously provided insurance for businesses that have sprung up to meet the needs of the times, such as regenerative medicine. And mega solar power projects. And we believe that such areas will expand steadily in the future.

Now that MS Amlin has also joined the Group, we will be able to draw on its expertise and provide types of insurance that were not generally available in Japan before.

Insurance in the casualty field is expected to continue growing substantially in the future, alongside changes in society and environment. And advances in technology. And we expect that it will become a pillar of earnings in the domestic non-life insurance business, moving forward.

I will now move on to the domestic life insurance business. Please turn to page 13 of the handout. Since last year, in light of the ultra-low interest rate environment, MSI Aioi Life has been implementing countermeasures both on the asset side and the liabilities side.

On the assets side, MSI Aioi Life sought to increase return through some degree of expansion in risk assets, such as global equity ETFs, on the premise of ALM. Meanwhile, on the liabilities side, it suspended the current sales of savings type products and sold mainly income guarantee products and medical reinsurance among others. Based on this policy, MSI Aioi Life focused on sales of the medical insurance, Ace Plus. And medical insurance posted increased revenue of 14% year on year.

Meanwhile, MSI Primary Life handles mostly foreign denominated products. And the impact of negative interest rates is insignificant. Also in August, MSI Primary Life launched (inaudible), a new type of product, to meet the needs for giving gift before one's death. The product is selling strongly. And creating a new market.

Please turn to page 18 of the handout. I will now talk about the international business. The total earnings of the international business fell short of the plan, mainly because MS Amlin's results was less than planned and, generally speaking, the yen grew stronger. However, excluding these two factors, the performance was largely satisfactory. We lowered our FY16 forecast by JPY4 billion, partly because we revised our foreign exchange rate assumptions to reflect a stronger yen.

Please turn to page 19 in the handout. I will talk about MS Amlin from here on, specifically. As mentioned earlier, MS Amlin's interim results fell short of the plan, mainly because asset management income was less than planned, due to deterioration in the asset management environment at the end of June. And also those large natural catastrophes such as forest fires in Canada, among others. Given the recent trend of improvement in the asset management environment, we believe that steady recovery in earnings towards the fiscal yearend can be expected.

Please turn to page 21 and page 22 of the handout. I would like to explain the outlook for synergy with MS Amlin. Synergy with MS Amlin is expected in three areas; cost synergy, growth synergy. And synergy in terms of the strengthening of our business base.

Looking first at cost synergy, we now expect to be able to demonstrate annual cost synergy or savings of around JPY4 billion, from FY17 as a result of integration of Lloyd's businesses and reinsurance business.

Turning to growth synergy, we are focusing on business that we can tap into immediately, as of the end of October. The conclusion of contracts worth around JPY3 billion was reported. We have also categorized other business into those we can tap into, from next fiscal year. And those we will focus on in the medium and long term. And we are steadily pushing ahead with initiatives. We plan to expand such business initiatives, globally, from next fiscal year.

Furthermore, we will continue to generate various synergies, in terms of collaboration in products and services, financial strategy, strengthening of ERM, the strengthening of business foundations, through personnel exchange, among others.

Lastly, I will talk about shareholder return. Please turn to page 36 of the handout. Our shareholder return policy of returning approximately 50% of Group core profit to shareholders, in the medium run, remains unchanged. The basic policy on dividend is to maintain stability while aiming at upward trend by increasing our earnings power.

We will repurchase our own shares flexibly and, as opportunities arise, with the consideration to market conditions and with the state of our capital. This fiscal year, ahead of this interim financial results announcement, we announced that we would buy back JPY30 billion worth of our own shares. But this was done flexibly, with due consideration to market conditions, in accordance with this policy.

We plan to pay an interim dividend of JPY50. And the annual dividend will be JPY100, which is an increase of JPY10 from the last fiscal year, in accordance with our initial dividend forecast.

In FY16, we welcomed MS Amlin into the MS&AD Insurance Group, giving a big boost to our efforts to create a world leading global insurance and financial services Group. MS&AD Insurance Group will keep a close eye on changes in social and economic environment. And build a business base that will enable us to continue achieving sustainable growth in the medium and long term. And we will steadily implement initiatives both in Japan and globally.

We ask for your ongoing support as we continue to make efforts to live up to the expectations of the investors and other stakeholders. Thank you for your attention.

Questions And Answers

Q - Masao Muraki {BIO 3318668 <GO>}

(Muraki, Deutsche Securities). I have two questions. The first question relates to automobile insurance. As appendix data on pages 49 and 50 shows, earned and incurred based loss ratio has come down to the lowest level in the industry; 57% at MSI and 55% at ATI. On the other hand, according to the bottom half of page 51, increases in the number of vehicles insured, especially in the non-fleet cases, are negative.

Amongst three insurance groups, your Group seems to be struggling in terms of the number of vehicles insured. It might be partly related to this aspect. It's been reported that you're going to lower premium rate next year. What, in your view, are the reasons for having difficulty to increase the number of vehicles insured? Could you also comment on the reason and goals of planned premium decrease next year?

My second question relates to the capital policy described on page 32, while the ESR has recovered from the level of the end of June. But not yet back to the end of March level. It's around 170%, as shown on the right-hand side. 200% used to be your target. I have an impression that you're thinking, more recently, is that it's not necessary to bring it back to exactly 200%. So long as it's within this range.

The information material six months ago had a phrase that said ESR would recover to the higher 190% range at the end of FY18. This time, return to a higher 190% isn't even mentioned. Has your thinking changed in this regard? So these are my two questions.

A - Unidentified Speaker

You asked two questions. The first one was on the number of vehicles insured by our voluntary automobile insurance. As we've reorganized our Group by functions, we've been simultaneously pursuing both top-line growth and higher efficiency. We couldn't devote all our efforts on top-line growth alone in the context of reorganization by functions. Now that we've completed stage 1, two operating companies want to become more aggressive to reverse the trend of the number of vehicles insured, starting in the second half of this fiscal year.

Furthermore, as for the reason for decrease, trying to improve profitability and conducting underwriting, we (didn't) emphasize an increase in number of insured vehicles alone. But profit improvement was a very important factor. That may have affected the number of units negatively.

In the second half, on the Group-wide basis, we see a favorable sign of increasing the number of vehicles insured, as witness a positive growth achieved by MS. On ESR, which stands at 169% as of now, in the second half, we expect ESR to recover by around 6percentage points by the fiscal yearend, through reducing equity risks and earnings retention. It reached 200% in FY15 already. But acquisition of Amlin shaved ESR by over 20percentage points. I believe we can bring it back to around 200% by the end of FY19, through continued accumulation of earnings and substantial reduction of equities. Did I answer your question?

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. On the first point, once again, I suppose the premium revision contemplated for next year would probably result in significant differentiation of rates by customers. To the extent allowable, could you comment on what you're going to focus on to increase the number of vehicles insured, to increase overall?

A - Unidentified Speaker

It's been reported by newspapers and others, companies resort to ingenuity to structure premium rates. In our case, we designed and developed automobile insurance products for younger segment called (inaudible). We've been cultivating that segment. But our premium rate may have been unfavorable compared with those of our competitors, which handicapped us. To address this aspect, we want to appeal to this segment by rate discount and lower premium.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Watanabe, Daiwa Securities. Allow me to ask two questions. The first question is on shareholder return. Starting from 50% of aggregate payout ratio and calculated backward. And after JPY30 billion share buyback announced in October, I estimate that less than JPY10 billion remains to be spent for buyback by the end of this fiscal year. Since aggregate payout of 50% is a medium-term benchmark or target, how flexible do you intend to be in this regard?

My second question relates to the definition of Group core profit; affected by the market conditions, investment, capital gains and losses of Amlin may have amplified the overall fluctuation. For domestic non-life business, I think you make adjustment by excluding capital gains and losses from Group core profit; are you thinking of possibly making adjustments to Amlin's investment gains and losses, going forwards? Could you share with us your thinking on that?

A - Unidentified Speaker

Regarding your first question on payout ratio, as you can see, by looking at the table on page 37, we've been quite flexible in that regard over the medium term. We are not necessarily fixated on 50%. Earlier, I said we'd like to keep dividend stable while aiming at upper trend; share repurchase, on the other hand, would be conducted flexibly, with due consideration to market conditions and our capital position. Your calculation is quite correct in arriving at the figure of JPY10 billion. But the profit may overshoot then our estimate, or we might conclude that our stock price and market conditions have presented an excellent opportunity to buy back more shares. We will fulfill our commitment to you by being flexible over medium term.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

So you could be hopeful. But actual repurchase might fall short of your expectations?

A - Unidentified Speaker

Probably not. But basically I want to live up to your expectations. On your second question, Amlin's investments are mark-to-market, based on UK's accounting standards; we don't do that in Japan. And you're saying that its capital gains and losses are not reflected, according to you, in the Group core profit. And you said that it's not reflected in the Group core profit. Amlin's investment gains and losses are included in Group core profit, although it's not an item for adjustment.

Whether or not to include capital gains or losses of equities to Group core profit in the future, as some non-life companies do, as of now, during the period covered by Next Challenge 2017, we don't intend to change the definition of our Group core profit. Keeping an eye on the ESR target, future international accounting standards, etc., if there is a criteria for core profit that's more effective or conducive for communicating with investors, we'd like to give it a thought in next management plan. I hope I answered your questions.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Tsujino, JPMorgan. The first question relates to strategic equity holdings; the sale has been accelerating, resulting in the amount of sales per year exceeding JPY100 billion. Other two companies are also selling about JPY100 billion; I don't mean always will if all the companies sell the same amount. Now, once the current medium-term planned target is achieved, what are you going to do with that?

Currently, the annual sales pace has accelerated somewhat. And when I ask you what you're going to do next -- I mean, other companies are selling around JPY100 billion. So are you going to decide on JPY100 billion, or do you have other ideas? Of course, other companies do have their own thinking in this regard. But do you intend to keep selling at a faster pace, as has been the case in the most recent period? This is matter of the future. But I would appreciate your response to this.

The second question relates to ESR. You are using 99.5% as a confidence interval; on that basis your ESR stands at 169% and your target range, benchmark range is between 135% and 200%. Other companies have begun to disclose a likely ESR if 99.5% were to be used as confidence level. Sompo Japan Holdings has a frequently high figure, whereas Tokyo Marine's ESR is lower than 169%. But it seems that capital confined in an operating company is hidden. So if that is subtracted then this gives an impression that by, apple-to-apple comparison, your ESR may be low after all.

And you've been using the same criteria over the years. But examining Solvency II figures, exchanging information with your peers, just, for instance, hypothetically, you may have noticed that you might have been to judicious in terms of correlation coefficient. Is there any characteristics that might stand out in terms of ESR calculated at 99.5% confidence interval? Is there any specific characteristics that you are trying to examine? Or conversely, you could say that is the case and this shows just the apple-to-apple comparison.

But more recently, you have told the media that you were interested in another sizeable acquisition; given your current portfolio, I somehow suspect that that might be the case. So if that is your thinking at this stage, right after the acquisition of Amlin, how large a deal can you think of? You might think that you can raise JPY200 billion, JPY300 billion by issuing subordinated debt or even JPY4 billion to JPY5 billion. Is that your thinking? Could you share with us some clues in that regard?

A - Unidentified Speaker

Your first question was on strategically held equities. In terms of the scale of reduction over the medium term, we'd first like to bring it down to 10% of the entire Group's total assets, or below that level. So that is one of the milestones to us. At present, equity accounts for around 12% of total assets. And at the similar speed as in the past, we need to reach that target level early by cutting another 2percentage point or so.

The size of reduction, whether or not JPY100 billion or more, one could say the more the better. We want to move to that level by increasing the speed. Comparing three groups, I suspect our Group may have the largest amount of equities weight and, therefore, we want to speed up the process, partly to catch up with the others. On the other hand, we've been already selling strategically held equities worth JPY1.5 billion since 2003. And even in the case of MSI that has the highest share of equities in total assets, its holding is now one-half of the peak in 2001.

In this manner, assuming that the sales of strategic equity holdings is a must in reducing risks, we have been honoring our commitment to the investors. And I hope you understand it as such. Did I answer your question; do I need to make even further commitment? I'd like to deliver on the planned sales of JPY500 billion by the end of the current plan. Of course, we have issuers to consider so we'd like to continue this process by gaining their consent. And under the next management plan, I'd like to make progress to bring equities weight down to around 10% of the total assets.

As for your second question, ESR, I will give you the overview to be supplemented by later on. We explained about the use of 99.5% in this for several times. This is a generally used level including Solvency II measurement with a confidence interval of once in 200-year basis is sufficient. We also run simulation at 99.95%; the resultant figure, however, is not suitable for publication and we'd like to use 99.5% for such calculation. And in terms of calculation with others, I'd like to ask Mr. Fujii, CFO, to supplement.

A - Shiro Fujii {BIO 16476704 <GO>}

I'm aware our peers also calculate ESR using their internal models whose specifics are not identical; probably risk coefficient used may be somewhat different. We make comparison using Solvency II standards and our internal model. And judging from the past experiences, assuming equity risks, which is a bit higher in our case, may have something to do with this.

But we've been doing this in coordination with the risk management division. It's not a matter of which approach is the right one; we use this approach because we think doing this way is necessary for risk management purpose. I suppose you wish to compare levels of different companies. But I hope you do understand that each company has chosen a criteria that fits its own purpose.

In addition, the previous question implied that not achieving 200% might be because we think it no longer needed to reach that level. Initially, we thought we can reach that level. But in reality, as interest rate continued to decline, reaching 200% could be one or two years later than we had thought initially, as Karasawa mentioned. Considering that, I appreciate it if you could understand it to be a realistic approach. To respond by saying there's little difference is not appropriate. Difference in risk factor used may be the biggest reason.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Now suppose you acquire a business once again for, say, JPY500 billion, you might wish to issue sub-debt of such and such amount or can acquire another company for, say, JPY600 billion or JPY700 billion. Is there any clue that you can share with us in this regard?

A - Unidentified Speaker

We don't start by earmarking such and such amount for investments; rather we'd like to use M&A, if it is conducive to our risk diversification or business synergy, or further development of our Group over medium term. In terms of a range, we have capital buffer totaling around a bit shy of JPY2 trillion at the moment. And from that amount, putting aside what we consider to be the minimum buffer needed, the remainder could indicate the potential range. Even if it might reduce ESR somewhat, if it can be restored, we'd like to go ahead with it, provided that the target is an excellent company.

And one other point, well, if you ask about it, we have some opportunity in sight. But instead of talking about a specific target, what I've been talking about was our overall policy orientation. That is, while we keep our emphasis on Asia, we'll operate in Europe and the Americas, not always on our own through M&A. But want to do it efficiently through alliance in areas such as Africa and Latin America as well.

We can't be number one in every geography; any company has some strengths. So in that sense our strength is in Asia and Lloyd's business. If good opportunity is found in United States, we would like to engage ourselves in the largest market of the world by looking at the level of capital buffer and available funds in our Company. And you have given us some very good advice in that regard. So including that, we have a scope that allows flexibility in considering such opportunity at this stage.

To avoid any misunderstanding of the previous comment, while I do admit that our risk management and accounting divisions tend to be conservative, it's not that ESR is kept intentionally low because we don't want to increase return to investors. Trying to build a financial foundation commensurate with the AA rating, that is 200% in ESR. And keep it stable over medium and long term, we might take a somewhat conservative view.

In comparison to others, meetings like this might bring to our attention that we're being too conservative in certain respects. Comparison of internal models with Amlin revealed us to be more conservative in certain areas and just the opposite in other parts. So through those adjustments, we'd like to keep evolving ourselves. And I'd like to benefit from your advice and criticism.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you very much.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Otsuka, Nomura Securities. I'm looking at page two and I have one major question. In this medium-term plan, as a medium-term target, you aspire to become a world leading insurance and financial services group. And I do fully understand that your financial results remain very good. But at the same time, now that nine months are finished, that is between January and September, globally operating insurance companies also achieved perfect growth as well.

So once again, what has happened in the distance between yourselves and your competitor, or insurance companies that you want to catch up with? You can answer that by referring to some qualitative presence. And this might be a bit premature. But what lies beyond 2017? Probably JPY200 billion, or maybe JPY220 billion, probably you need to further grow that from JPY220 billion; how do you intend to catch up with those forerunners in the future, or next plan?

A - Unidentified Speaker

I will be responding to your question in a single answer. In the context of Next Challenge 2017, we set core profit target at JPY220 billion and ROE 7.5%. ROE now is 7.6%. So you might say we are too conservative. But in that sense the ROE can be kept stably at 7.5%, we just keep it at 7.5% and JPY220 billion.

We have not yet decided how many years the next plan covers. But under the next plan if we envision ROE of 10% as a level we aim at over medium/long term, with the current level of capital we can calculate how much profit is needed. And going backwards this way organic growth alone may not bring us there. So in that sense, as Miss Tsujino asked in her question, M&A represents an extremely compelling option.

Becoming the global leading insurance and financial services group is not just about quantitative aspects for what we aspire to be. The balance between international and domestic businesses, that is ratio of domestic business below 50%. And international business exceeding 50%, represents one general benchmark. We hope to present the roadmap for realizing it in the next plan. I'd like you to understand that several strategic initiatives are already underway to that end.

Q - Wataru Otsuka {BIO 16340098 <GO>}

The medium-term plan has now reached the midpoint; do you think that the gap between yourself and the competitors has narrowed?

A - Unidentified Speaker

It's not that there is any specific company that we consider as our competitor. But in terms of ROE of 10%, or international business ratio, AXA, (Orient) and AIG have those indicators. And those companies themselves have either expanded their life insurance business. So successful businesses, or put their US business under review, or expanded their inroads into African markets.

In our case, we have been focused on Asia and Lloyd's business. And our overseas business. Both are moving forward and we have mutual influence on each other in the overall market trends. And I think we are making progress more or less equally.

Having said this, I believe non-life insurance industry faces some common challenges such as market saturation in, say, advanced countries, need to gain footfall in the emerging countries, or a challenge of new and emerging risks. So we, ourselves, must complete our tasks in Next Challenge 2017. And under the next management plan we must make ourselves on par with them in terms of ROE, international business ratio. And other metrics.

Q - Wataru Otsuka {BIO 16340098 <GO>}

At the current scale, do we rank eighth?

A - Unidentified Speaker

Among non-life insurance groups in Fortune ranking, we are among best 10 companies. As risks increase, with natural disasters and catastrophes getting bigger, with cyber and other new risks emerging, advantage of scale, as reflected by the ranking among best 10 companies including profit and top line, becomes important for us to address. To this end, I hope the three Japanese (main) insurance groups, while having different geographic focus, compete and inspire each other to join the global top group. So that these companies can pull the Japanese and global market forward.

Did I answer your question?

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you very much.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Sasaki, Merrill Lynch Securities. In slide 30, where it says expansion of risk taking overseas, especially on the Asian region, I have two questions on that. About your business in Australia, what is your thinking at the moment? Could you share with us your thinking? To be very frank, the large local bank has begun the process of selling wealth management business. And local newspapers mentioned your Company's name several times. Are you totally uninterested, or you cannot make comment? Or in whatever manner possible, could you also share with us your thinking about the organic Australian business, especially non-organic business? That's the first point.

And I would also like to hear your thinking of Indian business. The government made a major policy shift by converting rupee notes to flesh out the money kept underground, to reduce structural inflationary pressure in an effort to enhance India's growth potential over medium/long term. That threw the Indian economy into a confusion at the moment. But over long term I think this creates a very good investment opportunity, I personally think. And I think you're likely to become one of the major life insurance companies in India. So what is your stance in thinking about the making of additional investment in India? Could you share with us your management thinking on that?

A - Unidentified Speaker

First, about market in Australia and, in this part of the world, Australia and also for New Zealand, our overseas business in general is conducted through an alliance with QBE, the largest banking company in Australia. We sold our business in Papua New Guinea to QBE. And generally speaking, we are deploying our business in collaboration and alliance with

QBE. On the other hand, Aioi Nissay is conducting business relating to (Toyota's) retail market. So its two businesses are conducted using one facility.

What about possibility of acquisition? While Australian market has its own appeal, the market is quite oligopolistic, especially for non-life. It's not likely for us to gain market leadership, even with an acquisition. So basically, for our non-life business in Australia, we'll expand our facility through our partnership and alliance with QBE. As it relates to Toyota-related retail business, we'd like to enhance it in line with Toyota's efforts.

As for India, the ownership regulation in India was relaxed from 26% to 49%. And we are deploying non-life business with Murugappa Group, centering on Chennai. And for this business we raised our stake from 26% to 40%. And we also have increased our engagement in the management by having our own people sit on the Board.

I think the Company ranks around ninth in India. So the business is progressing quite steadily. And generating good profit. Our life insurance business is conducted out of New Delhi. And this Group is in the process of integration.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Was it called HDFC?

A - Unidentified Speaker

Since the approval has not been given. So we cannot disclose that officially yet. Our life company has ranked third or fourth among private sector life insurers. Once merged with HFDC (sic), the merged company will become the second largest life insurer. However, HDFC is a bit bigger than our Company. So our original 26% ownership ratio will become a little lower. As of now, the valuation has risen somewhat, or significantly. So we'd like to study what to do with our ownership ratio, once the integration is concluded; whether to increase our ownership after the merger or not.

But we don't intend to do life insurance business on our own. Our original stake of 26% will come down significantly. Whether or not to leave it as is, or have the Company increase capital and subscribe to that increment to raise our stake, is something we have to consider, going forward. But our businesses, both life and non-life, are doing quite well with reliable local partners. So we'd like to proceed as India develops further. So please understand that some of the progress is underway. Our life insurance is making profit smoothly and quite comfortably.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

As for Australia, am I right in understanding that you're not thinking of business other than non-life insurance, such as pension, annuity or wealth management?

A - Unidentified Speaker

That's right. At this stage, we are not considering other businesses than non-life.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you very much.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Majima, Research Center of Tokai-Tokyo. I'm on page 2; that shows the Group core profit target of FY17. And it says of the domestic non-life insurance business, JPY135 billion. On a previous occasion, you said that increase in consumption tax is a factor here. Now that consumption tax increase has been postponed and other companies has revised their medium-term plan figure, in light of a postponement. So is there any reason for not revising the plan, given this consumption tax increase postponement?

And the second one relates to page 61. And this, again, was explained previously. The rate of your US business has increased somewhat. But amongst your business, it has only the third largest rate, with reinsurance accounting for a large share; probably, you think that you would like to leverage these characteristics. In light of the deal which is in the acquisition process announced recently, wanting to strengthen primary insurance business in the United States seems to be other companies' intention.

To put it frankly, especially wanting to strengthen specialty line, because it's not affected by natural cat, or not increasing voluntary automobile insurance. And that has caused attention to shift to specialty. What is your Company's view on specialty business in United States? So these are my two questions.

A - Unidentified Speaker

About the first point, the impact of consumption tax, has a positive impact of a postponement of a consumption tax increase, is around JPY18 billion to JPY19 billion. Less than JPY20 billion in core profit. The overall business conditions have become unstable, including the introduction of negative interest rates. Therefore, first and foremost, when we want to achieve JPY220 billion in core profit, without fail, without revising that target, for consumption tax postponement. So that's why we didn't make any revision.

And the other point about the US specialty business, as I mentioned earlier, we have our strength in Asia and Lloyd's businesses. Even the Lloyd's business, Amlin has a large weight of business in the United States, almost one-half of overall business. And we constantly watch the largest insurance market, the US market, with great interest. If our strength can be utilized in specialty business. And if good deal is brought to our attention, we'd like to acquire such a business. I already said so in response to a question by mass media.

Well we're interested in it; to us, acquisition is not an end in itself. While preserving our strength in Asia and Lloyd's market. And if there is good target in the United States, we are interested in such opportunity. The term specialty may broaden the sphere of imagination. Amlin is already strong in specialty domain. And so to acquire some specialty company just to buy its knowhow is not in our thought, as of today, strategically speaking.

Of course, the protection area, the expertise in a variety of political risks, or knowhow in agricultural insurance, if in such fields, where we're still weak. And if there is a company with good risk management that can supplement our capabilities, anyone would want to acquire such a company. So it's hard to come across such a deal that match our requirement.

But as we aspire to be a world leading Group, unless we gain capability in this field, through good M&A, I believe it would be hard to reach a profit level that would be (exposed) in our next plan. So we will continue our search.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you.

Q - Hideyasu Ban {BIO 15250840 <GO>}

Ban, Morgan Stanley. I have one question. And this may be a rather long story and question. On page 8, you have shown the domestic non-life insurance business. And the message was the commercial business has enough room and scope to grow further. So domestic non-life business, medium and long term, can grow further. But in terms of technology or innovation, or modality of stake of risks, it might change. And the household sector might begin to contract or to be replaced by commercial business in some areas.

Three years or four years from now, looking out to that period, do you have any idea as to the potential change in the relative proportion of retail business, household insurance and commercial business? And in the light of that, as was mentioned in the earlier question, the combined ratio maybe around 92% for next fiscal year and core profit may exceed JPY150 billion. As the ratio of household retail business and commercial business change in the next three to four years, can the amount of absolute profit expand further, or is it likely to reach a peak some time? And would that be three years from now, or five years, or 10 years from now?

There are so many unknowns at this point. But if there is anything you can share with us in terms of the medium; and long-term outlook, I would like to be enlightened on that.

A - Unidentified Speaker

I'll give you the overview. And if need be, the secretariat will make additional supplementary comments. So in terms of a combined ratio, we have been referring to 95% as a target for medium and long term. During the first half of this fiscal year, our combined ratio fell below 90%. The combined ratio will end the fiscal year at around 93%, we expect. It seems that relationship between insurers and consumers becomes stable when insurance companies makes utmost effort to reduce expense ratio. So that, together with loss ratio, combined ratio settles below 95%.

The combined ratio overshot 100% for a few years running three years ago. So such a level of combined ratio weakens insurers financially and impedes the offering of coverage in Japan. I believe it also undermines the stable supply over medium and long term. So if it hovers around 95%, the profit of each domain would very well converge on the level indicated by a combined ratio of 95% result.

On market contraction or expansion. And in terms of a four; or five-year time horizon, the number of vehicles owned has not decreased this year. Although new car sales face difficulty but units owned has not decreased and such a trend is expected to stay. And as for residential sector, housing starts and other indicators do not imply a sudden decline. But 10 years or 20 years ahead, the impact of a lower birth rate, I believe will start manifesting itself. For the next four to five years, we should not give up on such business domains.

As for profit increase, while keeping combined ratio at or below 95% and as top line increases, we must figure out a way to enhance profit. From that perspective, international comparison of insurance premiums as a percentage of GDP suggest that adequate coverage has not been provided for risks in Japan, which is a problem on our side.

Policyholders, on the other hand, are not yet fully aware of a need for insurance or what coverage is available. And we are responsible for this as well. If people use insurance as a hedge to cover every aspect of life or corporate activities more widely, this field, especially casualty insurance rather than property insurance, will begin to (grow) further, I expect.

One other point relates to the essence of insurance business per se. Originally, insurance business began with a coverage for marine hull and cargo and then extended to fire; subsequently to automobile insurance, aviation and nuclear reactors further to liabilities. The fire insurance initially did not cover natural catastrophes. But today, the natural catastrophe has become a main part of fire insurance. As this evolution indicates, as risks change there is always a role for insurance to play.

Since we only use our current measure, we tend to believe that lower birth rate in Asia leads to market contraction. But as Nikkei reported, as Bitcoin and sorts emerge, we must offer a variety of our coverage to that. If cyber risks become much more serious, we have a duty to provide a bigger and stronger coverage. Lloyd's is conducting research on this already. So we, ourselves, must become a stable Company, capable of providing much bigger capacity. In this context, providing coverage to those risks is our raison d'etre. If there is no longer a role to play, then insurance business itself will change in its nature.

Q - Hideyasu Ban {BIO 15250840 <GO>}

Thank you very much.

A - Unidentified Speaker

If I may just refer to some technical aspects, you asked about the impact of a consumption tax postponement. If it is introduced in 2019, of course technically, it will start emerging. But if it is not reflected in premium that could start biting. So that could be a possible turning point, technically speaking.

Q - Koichi Niwa {BIO 5032649 <GO>}

Niwa, SMBC Nikko Securities. About the same page, also on page 8, it may be a question of a similar line. But why low insurance penetration in Japan continues and has stayed? In the next five years, will it increase to the level equal to that in Germany? Is that a realistic assumption?

And lastly, assuming the penetration rate improves, would the Japanese players benefit from that? Or would overseas players come into the Japanese market? Will that have to be considered?

A - Unidentified Speaker

Each country's national mentality plays an important part for GDP ratio and the timing of its change. We don't expect change in insurance penetration as a percentage of GDP to occur overnight. We, ourselves, must ensure that the scope of insurance coverage makes a difference, starting from the concept that such an incident can also be insured and structure each product that is useful to the people, to protect against the various accidents.

Take bicycle accident, for example, the damages caused; although individual liability insurance has been in the market but it has been very slow to become popular. And if such an insurance, the bicycle insurance, covers both the victims and offenders. And if that is added to a variety of policies as riders and they are actually offered. But we may not have publicized about such insurance adequately. With insurance, liability relation or various negative incidents in life are covered. We must be innovative to develop such products. And together with agents, we must do promotion more diligently and better. That sort of effort I think is called for.

In this regard, we showed such a comparison some 20 years ago and said we have not yet reached the level of other countries but the gap has not narrowed. Today, partly to encourage ourselves, we've shown this as an indicator of a potential we can tap. But we need to move closer to the situation of other advanced economies through our own efforts, step by step.

Another factor may be related to an increase in the amount of liability payment outside of Japan, or US-like situation may be behind the high ratio to GDP. It's also influenced by the legal system, approach to damage compensation, prices, etc. So including all that, we want to make efforts. The essence I'd like you to appreciate is that we have no pessimistic view of the domestic market.