Y 2011 Earnings Call

Company Participants

- Corporate Participant
- Hiroshi Amemiya, Executive Vice President
- Hiroshi Endo, Senior Managing Executive Officer
- Shuzo Sumi, President
- Takaaki Tamai, Senior Managing Director

Other Participants

- Analyst
- Natsumu Tsujino
- Takanori Miyoshi
- Wataru Otsuka

Presentation

Shuzo Sumi {BIO 3861639 <GO>}

Hello ladies and gentlemen, I am Sumi from Tokio Marine Holdings. I would first of all like to thank you for participating in our IR Briefing today. Tokio Marine Holdings announced the financial results of the second quarter of -- to strike the right balance between net asset value and risk capital based on the internal risk capital model with AA calibration from the perspective of maintaining the financial soundness. At the same time, we intend to build well diversified business portfolio so that we can achieve stable profit and enhance return on risk capital.

We communicated to you before that we would utilize the capital buffer which is the gap between capital and risk from both the offensive perspective like making business investment and the defensive perspective to prepare for another financial crisis.

From the beginning of this fiscal year, our capital has been under stress being exposed to both under writing risks and investment risks due to the confusions in the financial market sparked by European sovereign crises and frequent occurrence of natural catastrophes both inside and outside of Japan as we covered earlier.

And yet, we believe that our capital buffer has been working effectively for defensive purpose and have successfully maintained our financial soundness. Due to the decline in stock market, both net asset value and risk capital became smaller. We estimate our current risk capital to be currently approximately ¥500 billion.

As for return to shareholders, we are planning to pay interim dividend of 25 yen per share as originally planned and to keep the full year dividend flat from a year ago at 50 yen per share. We do not make any announcement on our share repurchase fund today but as I explained at the beginning of this fiscal year, we would like to continue to implement the program in a flexible manner after examining comprehensively market environment, our capital condition and opportunities for a business investment.

Just to make it clear, I would like to stress that floods in Thailand have not affected our share repurchase policy at all. Lastly, please allow me to share with you the framework of our next midterm strategy. In the next midterm plan, we will continue to uphold the slogan of innovation and execution. We will like to advance our current initiatives further to increase earnings as a group overall and enhance capital efficiency.

The challenges that we have to overcome to achieve the goal are very clear. In our core domestic P&C business, we're achieving the best performance in the industry in terms of growth. We will strive hard toward a target of maintaining the combined ratio at 95% level stably. We are planning to announce numerical targets and more specifics on strategies in the next fiscal year, but we will like to establish a midterm plan which allows us to follow through our current initiatives and deliver results for sure.

Although it was in a rush, I would like to conclude my presentation here by asking for your continuous support to our company. Thank you.

Corporate Participant

Thank you, Mr. Sumi. We would now like to open the floor for the Q&A session for the remainder of the time. Since we would like to receive questions and comments from as many people as possible, I will like to ask you to limit the number of questions to two at a time. You do not have to state your name, if you do not wish to do so. We appreciate your cooperation in advance.

If you could raise your hand, Mr. Sumi will call on you and our staff members will bring you the microphone. Also, executives sitting along with Mr. Sumi might answer your questions by referring to materials at hand, in which case they may respond to you while being seated. We appreciate your understanding in advance.

With that, if you have any questions, please raise your hand.

Questions And Answers

A - Corporate Participant

Yes. The person over there please.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

Thank you. My name is Miyoshi from Goldman Sachs. I will like to once again ask for your clarifications on the capital management policy. You intend to adjust the level of capital at appropriate level by keeping flexibility in your share repurchase plan.

In the case of this fiscal year for instance, your capital strategy budget is ¥1.9 trillion yen, 7% of which is ¥130 billion to ¥140 billion and after deducting dividend, we have ¥90 billion to decide as to, how to use it. If and when it is not clear, whether there is an opportunity for new business investment or not, which will then conclude that you cannot use this capital or you would refrain from touching the capital. And, I believe this isn't specific to this fiscal year, next year and beyond, I am sure there will be different opportunities. And you'll always have to decide what to do about share buyback, what is your view on this?

A - Corporate Participant

We will make decisions on share repurchase by examining opportunities for business investment as you pointed out, as well as claim payment and other conditions comprehensively as we communicated before. Where we have a specific deal for new business investment at hand, we have to be mindful of timing of share repurchase due to regulations on insider trading.

But that is not the only factor behind our decision. When we feel comfortable about the situations of different issues, we would like to flexibly implement share repurchase. Question is, whether we should decide a budget annually every fiscal year? For many years traditionally, we have announced regularly the budget at the beginning of the year and at the end of the first half.

However, we don't think that approach fits the nature of share repurchase quite well. That's why we decided to take a more flexible approach and we would like to relax a bit more the framework of deciding repurchase budget annually every fiscal year.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

Thank you. I have another question, under the midterm plan, you have been diversifying your business portfolio globally to enhance your capital efficiency. I believe your rationale is that by increasing diversification effects, you can reduce your risks and release risk capital accordingly.

If this idea is implemented, say by selling strategically held stocks by ¥100 billion worth, then you can release for example ¥50 billion of risk capital. Not only that, you could utilize your capital more effectively by diversifying risks. In addition to the sale of strategically held stocks, how much do you intend to diversify your risks in terms of scale, how much capital would be released and over which timeframe should we expect to see the impact? I believe this is a mid to long-term question, but I would like to hear your views on these points.

A - Corporate Participant

As we develop our business globally, we are diversifying our portfolio geographically and across different lines of businesses to benefit from diversification effects. Well, I am aware that some companies are announcing their budget of, for instance ¥200 billion or ¥300 billion with a certain timeline, we do not have a schedule of that kind.

Rather we would first look at this ¥500 billion as the overall capital buffer and then consider how much of that should be used for diversification. Depending on the opportunities, debt financing could be an option or if it were a very large scale deal, then theoretically capital raising is also an option.

As we have been communicating, if there is a business that truly contributes to our growth, then we would like to invest in that opportunity regardless of the size. Selling strategically held stocks is not easy. But, we have successfully sold down such stocks at a rapid pace, ahead of peer groups and we will continue to do so.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

Currently your risk is about 90% Japanese. Do you have any idea as to how you will like to change the risk portfolio and over what period of time?

A - Corporate Participant

This is also what we've said before, but in terms of the risk volume, the biggest risk Tokio Marine Group has is equities that we have held strategically followed by risks of natural catastrophes; earthquakes and typhoons in Japan. Risk volume of international business is low, as we have diversified the business quite well.

So the question is, how can we average out these different risk volumes. Since each risk has different characteristics, it is difficult for me to say specifically by when we would reduce, for example Japanese natural catastrophe risks to how many percentage.

As long as we continue our business in Japan, we have to deal with natural catastrophes which are the biggest risks domestically and because of that, we believe we need to improve our policies on risk retention and reinsurance to even more sophisticated ones. Thank you.

Thank you. Any other question? Yes please, go ahead.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I am Tsujino from JP Morgan. My first question is about Thailand. I believe the actual loss turned out to be excessively big, given the premium income received and price level. I assume you were concerned about cumulative risk to some extent in the underwriting process. And yet, I also suspect that you perhaps made some compromise, because you were dealing with Japanese customers.

So my question is, how do you intent to review pricing for corporate customers going forward? This may not be limited to Thailand and I believe we would try to manage earnings by reviewing the risks of strategically held stocks as well, but I am interested to hear what kind of discussions you are currently having internally?

If I may also ask you another question on Thailand. The Thai government has been visiting -- in Japan, saying please continue to provide us with your insurance in the future or we will establish our own reinsurance scheme, so please help us at voids. But I believe private direct underwriters and we reinsurers have to be able to see a scheme first where a business makes sense from the perspective of economy. What kind of position are you planning to take on this? I believe Japan is quite influential on this matter. Do you think they will establish a decent system in their country? These are my questions related to Thailand.

The other question that I have is, related to risk volume which you covered earlier. I developed some models myself, and as I added up different risks, I figure that the share of your international businesses within your total risk volume is not big, due to high diversification effects.

But based on this experience in Thailand, I think you have to review risk models through flood and revisit risks in various other countries whose models are very difficult to be developed, even if you adjust those models and make them a bit more conservative, may I understand that the aggregated risk volume will still not be that significant.

A - Corporate Participant

Thank you for your questions. As you pointed out, losses in Thailand are expected to be very big. As I mentioned briefly, we were concerned about the cumulative risk of floods in Thailand. And we assume the risks by using models. But unfortunately, the flood risk models turned out to be not appropriate.

And to your point that we made compromise and discounted premiums because the customers were Japanese, I can assure you that, that is not what we did. When floods were starting to spread in Thailand, I was in Bangkok, water level was as high as it is typically the case. But, we were just discussing on our way back home, that the water level was a bit higher than normal.

And two days later, we heard that floods started to reach industrial parks. There are many things that we have to revisit, since this experience exceeded assumptions in models. And as you pointed out, this is not limited to Thailand. In addition to major risks and very scaled market, we also have to think about major risks within small insurance markets.

New Zealand could be one of the examples. New Zealand was hit by the earthquakes. The size of the market itself is small. In the small market, there were two quakes and one aftershock, so in total three quakes. How should we cope with the natural disaster risk as an insurance company and based on this Thai case, not only Tokio Marine but also other insurance and reinsurance across the world are once again faced with this question.

Under these circumstances, obviously premium rates will be increased where covers, which assume these risks will be limited. Water is yet to recede and since definitive amount of losses is not figured out, situations are dynamic at the moment. At least for the places which are currently in undated, global reinsurers have stuffed underwriting float risks, where they are assuming very limited amount of risks if any.

While taking similar measures, we are currently examining our responses going forward, particularly vis-à-vis Japanese clients. Many of our clients themselves are still debating whether they should continue to run their factories in the same industrial parks or not.

Just yesterday, we received delegation from Thai reconstruction committee as we mentioned. I myself attended the meeting for about an hour in which the Thai government requested us to proceed with claim payment in Japan thoroughly and they expressed their full support in this process.

In response to that, we communicated to them that, rate increase and limitation in covers are unavoidable and that we will like to pay claims first and foremost and ask for their cooperation in this regard. As Thai Deputy Prime Minister expressed, in order to maintain insurance system as a sustainable business, Thai government is either willing to assume reinsurance if needed. We explained our proving system for earthquake insurance in Japan and they said that, it will be a good reference for them. Going forward, possible collaboration with a country for flood insurance is going to be studied in the U.S. and in EU.

The other question was on risk volume. How big the international risk volume could adapt to going forward? When we make models more conservative, how much does it increase the risk volume? Mr. Tamai is going to give you the response.

A - Takaaki Tamai {BIO 15093748 <GO>}

I am Tamai. I believe you raised three questions. First point is; when we underwrite risks internationally, has it brought about the benefit of diversification effect at the hoardings level. Yes, we are enjoying the benefit.

The reason why, we have been expanding our portfolio internationally to begin with, is to diversify our portfolio further while capturing growth potential and high profitability of overseas markets. Risk analysis shows that, when we underwrite overseas risk by one, that does not increase our integrated risk volume by one. So, diversification is working effectively. This is the first point to make.

Your second question is, whether there are other countries where it is difficult to establish models? Your observation is correct. For these countries, elaborate quantitative analysis is not available, but risks are not that significant. When it comes to typhoons, earthquakes in Japan and Hurricanes in the U.S., sophisticated models are available.

With that said, please do note that, flood models are the most difficult one to be established in places like Thailand, where statistical data is not thoroughly organized, consultants from insurance brokers and we gathered all of our knowledge, worked very hard to do P&L analysis to manage portfolio, but this is the outcome that we had to face in reality.

Along the same line, Indonesia and coastal area of Mainland China for instance are also the places where we have relatively major exposure and yet sophisticated statistical models are not established. Based on this Thai experience, we are currently working to do more detailed and elaborate P&L analysis.

Your third question is, when we aggregate international risks, it is fair to assume that they do not adapt to one plus one? This is what I said already to the first question. But assuming that there is essentially no correlation between international and domestic risks.

Adding international risks does not translate into one plus one. Of course we will enjoy diversification effect in our portfolio overall. Thank you. Issues with models for natural catastrophes were raised. Of course these modeling started with financial model originally which then was transformed into models for natural catastrophe risks globally. Models for water related disaster risks including floods and also Tsunami are yet to be well established.

When we examine various risks, of course we use models, but we do not make decisions solely based on models. Together with models we are also doing the so called scenario-based risk management which is almost like a stress test to put it simply. We apply various scenarios and evaluate how much losses are likely to be incurred. This approach does not include sarcastic evaluation, so by also referring to P&L analysis for models, we make various judgement on risks.

In the case of Thailand, we examined float risk in scenario-based exercise as well, but I am afraid that we did not assume the floods to spread that extensively, in entire industrial complex to be inundated that alone that the complex could be submerged by more than two meters, reflecting upon this, we intend to carry out quite conservative scenario-based analysis down the road. Thank you.

Next question please?

Q - Wataru Otsuka {BIO 16340098 <GO>}

I am Otsuka from Nomura Securities. Thank you for your presentation. I have two questions. First on page 15, you mentioned that, you do not see signs of full-fledged hardening in the reinsurance market at the moment.

Given that, there have been so many natural catastrophes including floods in Thailand and disasters in New Zealand, I think rates including reinsurance rates should simply go up. But may I understand that is not happening yet at the moment or should I assume, that the rates are going to be raised going forward? This is my first question.

My second question is related to the new grade rating system, explained at the bottom of page eight. Of course this announcement was made just recently and I understand details are under study, but how much improvement are you expecting to see from this, if there is any indication that you could provide to us, I would appreciate it?

A - Corporate Participant

On your question about hardening of reinsurance market, I was earlier referring to the situation in reinsurance market overall. There have been so many natural catastrophes such as earthquakes in Japan, in New Zealand as well as floods in Thailand. So, if you single out the areas which were hit by natural disasters, rates are going up sharply. Rates for Japanese earthquake risks have been also going up significantly.

So rates in specific geographies are raised for sure. However, if you average out the entire market, rates are turning flat or started to go up slightly. Rates for natural disaster risks in the U.S. were also up by 10% or a little above 10% in June and July. But this is confined in natural disaster risks and the rates for other risks have not been raised. To your question on new grade rating system, I will invite Mr. Kunio, Managing Director to give you the response.

As you have correctly pointed out, the advisory rate under the new grade rating system was announced recently and we just passed JFSA's adequacy test in October. So specific study is yet to be made as Mr. Sumi mentioned. The current system was designed assuming the Japanese demographics will follow the pyramid shape.

So as the population nations with lower birth rate, many people are upgraded to higher grade year-after-year, which in turn raises a combined ratio by 1%, the systems keeps upgrading more policy holders towards grade 20 and few of them get downgraded causing a structural problem.

So we raised rate for auto insurance for past three years, but the combined ratio of auto business hasn't improved and still remains as a major issue. So although it is still under study, we believe the new system will rectify the structural issue and combined ratio shouldn't deteriorate by 1% by design.

What are we going to do on top of that, that is something we will examine in the future. We think the new structure will ensure fairness to customers in terms of pricing. Under a traditional system, policy holders without accident history were shortening burden to reduce premiums with people with accident history. In order to improve the situation, we would like to introduce the new grade rating system around fall next year. Thank you.

And we were just explained with everything being the same year-on-year, the current system pushes up the loss ratio by 1%. Seeing this situation corrected, will be very positive for us. Thank you. Next question, yes please.

Q - Analyst

I have two questions. First question is on the earnings of reinsurance business. First of all, reinsurance cost exceeds Japanese wind and flood damages and earthquake risks particularly those involving Japanese companies as well as risks in emerging countries like Thailand are increasing quite sharply.

On the other hand, you are also assuming risks through your reinsurance subsidiaries abroad. And if rates for property risks in North America for instance do now go up, do you think the earnings of reinsurance business could drop significantly next year or is it possible that you repay more risks as an unintended consequence?

My second question is concerning M&A outside Japan. You made an announcement about change in the status of your subsidiary in Hawaii to a wholly owned subsidiary, but it was a very small transaction in dollar term, since the onset of financial crisis, while your peer companies have done M&A transactions, none of them are large scaled.

I asked this question before, but in which market are you considering to do M&As at the moment? It has been reported that, more and more European insurance companies who are insurance operations under banks are now on sale. Do you think there are more attractive opportunities than in the past?

A - Corporate Participant

First, Mr. Nagano, Senior Managing Director is going to take your question on reinsurance. Let me respond to your question on reinsurance. Since I do not have specific numbers with me at the moment, if you need numbers in detail, I would like to follow-up on that later. But our engagement in reinsurance business is essentially linked to direct insurance business. As you all know, reinsurance business takes risks. So if you try to simply take more reinsurance business and grow the top-line, that can be done easily.

However as it has been discussed, one of the reasons why we are expanding our businesses outside Japan is to pursue diversification, geographically and also across different lines of businesses. In other words, we are trying to make diversification effects work between direct insurance and reinsurance business, between life and non-life business insurance or among different lines of business within P&C business. We are running re-insurance business under this group wide coherent policy. So even if there are opportunities, we wouldn't simply jump on them and grow top line.

Rather our approach is to discern prime risks quite carefully and gradually expand the reinsurance business ensuring that we take advantage of diversification effects. For instance, Tokio Millennium Re in Bermuda used to assume high excess risk for natural catastrophes.

However, as the business expands, it started to take some more measures and selectively under write casualty risks in the U.S. for instance for -- risks or in Europe, as capital regulations are tightened, there will be much more business opportunities for reinsurance business.

So, it will be selective and try to assume only good risks. I assume the reinsurance market will harden going forward. We will like to take advantage of the momentum and acquire only good businesses carefully. When the market is soft, we would never go after top-line growth. Under these policies, we have been expanding our reinsurance business. So, your concern is not relevant in our group's case.

In the P&C business, if you are a direct insurer, you have to go through various negotiations with our customers. But in the reinsurance business, the party on the other side of negotiation -- insurance companies, whether the market hardens or softens, the pricing trend does certainly impact our performance.

At the bottom of page 18, you see how the adjusted earnings of Tokio Millennium Re has trended over the past seven years. And certainly in some years, we recorded loss while in other years, we made positive earnings. But we intend to continue making positive earnings in as many years as possible. That is our focus in this business.

Earthquakes have been happening in many places around the world, so do wind and flood damages. I assume you are concerned that risk profiles are really changing on the entire earth. Even if we had catastrophes this year, we don't know if they would come back and happen again next year for sure and I certainly hope that is not going to be the case.

Back in 2004, 10 typhoons landed in Japan, and despite our grave concerns, in the following two years hardly any typhoons landed in Japan. Volatility in this business is very significant and how to manage this volatility is the part and parcel of P&C business and this is particularly important in reinsurance business. If fundamental of the entire globe is truly changing, then we'll have to change everything. So we are always monitoring the situations closely.

Your second question was, what kind of direction or size of M&A deals outside Japan do we have in our mind. Certainly due to the impact of solvency II, tighter regulation on mainly European insurers as well as Basel III, banks are releasing their non-life subsidiaries.

We have been closely monitoring the development. But it seems, there aren't that many opportunities available in actuality. You also asked me geographies that we are interested in. Certainly Japanese financial institutions whether it be banks, brokers or insurers are all paying much attention to Asia and expanding their businesses there.

We Tokio Marine also have very high expectations on potential of emerging market for the future. And indeed, we have established our presence in almost all the countries in the region through organic growth and M&As. But on the flip side, because the Japanese companies are so eager to go to Asia, prices for M&As there have soared in reality.

At any rate, management of Tokio Marine does not have the mindset of following everyone else and join the flock. As we communicated before, developed countries make up for 70% to 80% of the P&C market. And there are still many sound companies in these markets.

Asian market on the other hand is still small scaled and corporate structure and country systems are yet to be well established in many ways. So we would like to have a well balanced focus on both developed and emerging markets.

Q - Analyst

The way I ask the first question was may be not clear. When I look at your Group, you have two phases in your reinsurance business, you are underwriting reinsurance policies. Looking at the current trend, pricing for that business is not rising much.

On the other hand, Tokio Marine & Nichido or your local subsidiaries outside Japan are assuming earthquake or Japanese typhoon risks and hedge cost seem to be going up sharply. Looking at your entire Group, are you concerned that the earnings is going to deteriorate next year particularly because of the soaring -- cost. Certainly cost of -- risks due to reinsurers is rising gradually.

Every year, we try to balance the amount of risks that we retain and the amount of risk that we seed to reinsurers so as to avoid overall cost increase as much as possible. And there are many approaches that we can take. We can decide which specific risk to retain more or -- more.

We are using various approaches available in the reinsurance community to make the coordination. Having said all that, without a doubt, hedge cost is on the rise. So we may have to reduce amount of risks that we originally assume and then reduce the risk that we have to -- and reduce the cost. We have to consider various options in different combinations. Certainly we are under pressure. Thank you. Next question please.

Mr. Nagano earlier talked about how to take body risks going forward. Body risk is said to be most difficult to be measured and I suspect due to a series of natural catastrophes, assumptions for body risks are now changed quite significantly. As you upgrade your models going forward, if you assume bigger body risk to some extent then in the past, would that affect your underwriting policy within the group overall, not limited in reinsurance business? This is my first question.

My second question is also related to natural catastrophes. Through Tokio Marine & Nichido and reinsurance business or overseas subsidiaries, your Group experienced this much of major losses. And I would like to ask you about your capital allocation within the Group.

You earlier talked about M&A and capital management policy, but if you allocate more capital within the Group to extend underwriting capacity will then that lead to lowering M&A and capital management strategies in your priority and you'll not be hiding this initiative, are you concerned about that?

A - Corporate Participant

As you stated, it is very difficult to control body risks. To ensure that we do not get pre-occupied with controlling top risks, and end up in controlling body risks poorly within the ERM that we are promoting in addition to risk limit or controlling very obvious -- losses like hurricanes, we're also focusing on EAR or Earnings At Risk.

We might try to contain the level of underwriting. So that volatility of making profit or losses incurred once every 10 years can be recovered within a year, or in that example, maintain the recovery level at 200% or below. As Mr. Sumi pointed out on page 18, reinsurance business has recorded loss once every six or seven years.

So the question is, how to manage this, of course we are in a business whose volatility is very high and I don't think it is possible to completely avoid deficit. So within business plan of each operation, we are factoring in rates and underwriting conditions for direct underwriting business as well as risk control measures. While we supervise the funds overall, respected entity is now also putting EAR management in their plans. We need to advance the way we manage risks much more.

Of course traditionally, we had not simply looked at tail risks as peak risk. We have examined how much risk would slight higher occurrence frequency or how much medium size disaster risk should be retained under our risk retention policy?

This time in Thailand as we discussed earlier, losses exceeded our assumptions significantly. So we'll have to revisit these assumptions. You also asked us, whether there is any impact to underwriting process. We have been monitoring body risks and it is not a linear function where the recent situation will immediately translate into higher rates in that direct underwriting process.

We also have to look at demand, supply situation of reinsurance that we touched upon earlier. Typical example would be earthquake risks within Japan. Rates for these risks have soared in the reinsurance market. To respond to that, we as direct underwriter are now raising rates to our customer significantly. If they cannot agree to that raise, we ask them to reduce the cover.

All of these elements need to be factored in. Mr. Amemiya, our Executive Vice President will take your question on priority for capital allocation within the Group.

A - Hiroshi Amemiya {BIO 7352816 <GO>}

I am Amemiya. As you pointed out in your question, if we evaluate future natural catastrophe risks by applying stresses, which are in a way heavier than in the past, we need to allocate the amount of risk capitals which are required under the new assumptions of course.

So if we allocate more capital to the risks, I am sure a natural question will come up that is, what about the capital for new business development? We believe the answer to this question is consistent with what we have explained to you. On page 25, this picture shows the concept of our next three year long plan.

We decided to keep the name of the plan unchanged. As you could perhaps see from that as well, our intention is to thoroughly practice what we have in our mind. So to your question, will we advance the ways we access risks, we will probably cover these risks within our own risk capital.

Based on that thinking, we will develop our risk retention and reinsurance strategies. As a cycle in the picture indicates, we would like to diversify our business, both geographically and across different lines of businesses and further enhance diversification effects as well as efficiency so that, we can always secure capital to support new business which deserves our capital.

As we confirm the position of capital buffer, we would like to report that to you in due course. This wasn't part of your question but as Mr. Sumi mentioned, we are conscious of the fact that biggest amount of risk capital is allocated to strategically held stocks, which we think is an issue. So we will continue to sell down such stocks going forward. Thank you. Next question please.

Q - Analyst

I have two questions. First question is related to M&As in the overseas market which have been discussed a couple of times. On page 15, you mentioned that the situation around the commercial line of business in Europe and U.S. are difficult, but you also commented that you would consider strategic business investment.

Now in this discussion on reinsurance, it was mentioned that hard market is preferable to make an investment in terms of timing. So do you find this timing good for you to making investment in commercial line of business in Europe and the U.S. This is my first question.

Second question is about business expenses. According to page seven, agency commission ratio for private insurers is trending higher than original projection, while corporate expense ratio is reduced. Therefore, overall business expense ratio is coming down. Do you have further outlook as to how the business expense is going to trend, going forward? Thank you.

A - Corporate Participant

Your first question is; while the commercial market in Europe and U.S. are not hardening much, is it a good timing to do M&A within the commercial states for instance in the western markets? Level of premium rates affects earnings of course. But when we examine an M&A opportunity, we look at the growth potential of the target company.

As we have been saying all the time, our past investments were largely made in companies with very distinctive business models or companies with specialty lines of businesses whose growth potential is significant rather than general or department type insurers. Kiln and Philadelphia are good examples.

So, we think we cannot quite argue whether a company is good or not, just by looking at their overall market environment. Even when a market is softening in some specific segment, you could still find companies that are growing significantly, putting aside the issue of whether we can buy those companies or not, I believe we have to look at the market and companies separately. Mr. Tamai is going to answer your question on business expenses.

A - Takaaki Tamai {BIO 15093748 <GO>}

I am Tamai. Let me respond to the question. Please refer to page seven. If your question was, how the number would like at the end of this fiscal year, the numbers are as shown on page seven as you can see at the bottom of the page for all lines combined on the written page basis, expense ratio is projected to be 33%, it was 31.7% at the end of the first half. So the ratio is expected to increase slightly towards the end of this fiscal year, mainly due to non-personnel cost.

This fiscal year, we have much more IT services going live in the second half of the year, partly because of that, the expense is expected to increase slightly. But still comparing forecast for FY2011 to actual FY2010, we can see that our efforts to reduce business expenses have started to bear some fruits. If you are rather inquiring us about next midterm plan, on page 25 you will find the pillars of our plan.

Within the domestic non-life box, the third bullet point reads that while we achieved the number one performance in the industry in terms of growth, we will strive to maintain the combined ratio at 95% in a stable manner. This can be paraphrased that we will continue to reduce business expenses as we continue to reduce personnel and non-personnel cost, as well as agency commission, we will like to keep the combined ratio at 95% stably.

Thank you. While the business expenses have been declining in absolute yen term consistently, the ratio is not quite coming down. This is because, net premiums written on the denominator side has been weak. Once the NPW grows, then the ratio should show tangible improvement and we will like to achieve that. Thank you.

Since we have another five minutes or so left, we will like to entertain one more question. Anyone?Yeah please.

Q - Analyst

On page four, incurred losses on the side of Japan, Tokio Marine & Nichido are ¥50 billion, which I believe includes losses from factories, business interruption, transit and cargo insurances. Could you share with us the breakdown by line of business and where exactly the loss exceeded the assumption most? And going forward, I think you limit the underwriting there but as some people call them, Detroit in Asia.

Thailand is home to so many auto related companies. Considering your relationships with customers domestically in Japan from the sales point of view, I suspect you cannot restrict underwriting in Thailand that much freely. How do you intend to restrict underwriting? Are you planning to set conditions for payment like in the Japanese residential earthquake insurance or are you going to exclude some coverages?

A - Corporate Participant

Mr. Endo, Managing Director.

A - Hiroshi Endo {BIO 15065945 <GO>}

I am Endo. Your first question is the breakdown of the expected net loss incurred by the line of business. Most of the losses incurred were from fire insurance. You also inquired us, which specific line exceeded the assumption most.

According to the risk model calculations that we consigned to third parties, even if the frequency of occurrence is once every 500 years, the losses would have been approximately ¥50 billion according to the model. And actual losses are amounting to ¥200 billion.

So there isn't any specific line of business amongst others, where the actual was exceptionally higher. The actual losses are higher than assumptions across the board in the -- Another point was that, restricting underwriting must be difficult that's what we are exactly studying at the moment. And we will like to examine this issue by taking into account reinsurance arrangement and premium rates.

We are also considering, are there more deductibles or just underwriting within a certain limited range. I hope it answers your question. Thank you very much for your questions. Time has come, so we would now like to close, today's IR briefing. Once again, thank you very much for your participation today. Our executives on the stage will be there for a little while, if your time allows, we will be happy to have further communication with you. Thank you very much.