SOMPO Holdings Inc Mid-term Management Plan Presentation

Company Participants

- Kengo Sakurada, Group CEO, President, Executive Officer & Representative Director
- Masahiro Hamada, Executive Officer & General Manager of Group CEO Office
- Unidentified Speaker, Analyst
- Yukinori Kuroda, IR

Other Participants

- Hideyasu Ban, MD, Research Division
- Katsunori Tanaka, MD & Head of Tokyo Financials Research
- Kazuki Watanabe, Research Analyst
- Koki Sato, Senior Analyst, Research Division
- Masao Muraki, Director & Senior Analyst, Research Division
- Natsumu Tsujino, Research Analyst
- Tatsuo Majima, Senior Analyst
- Unidentified Participant, Analyst
- Wataru Otsuka, Insurance Industry Analyst, Research Division

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

Hello. I am Kengo Sakurada. Thank you very much for coming today despite your busy schedules.

Mr. Kuroda said our performance is sunny right now. Well that's up to you to decide. That's not something that we should assert. But in any case, I hope you can listen to our presentation today and we're delighted to answer your questions as much as we can. And based off that, I hope you could see that our company is in a sunny position.

As fiscal year 2016 results and guidance for fiscal '17 were disclosed on May 19 last week already, today, I will explain the progress we are making against the midterm plan as we -- and our growth strategy going forward.

Let's go straight into the presentation. Please turn to Page 2. First, I will touch upon the achievements in fiscal year 2016, the first year of the midterm plan as well as the future direction.

Regarding achievements in fiscal 2016, as you may remember, we integrated into the Sompo brand globally with the company name change. Furthermore, as a platform for developed markets based off our thinking around M&A, there was a company we became interested in and we engaged in a deal acquiring Endurance and we entered into nursing care business in earnest. Of course, there's much to do going forward. But finally, the business has started.

Other than that, we worked on our capital policy. And also, between Silicon Valley and Tokyo HQ, we created a mirror organization. We set up SOMPO Digital Lab in Silicon Valley. And I will talk about this in detail later.

And another important area is our management structure in the area of governance. Last year, from April, we introduced a business owner system. And on top of that, starting from April this year, we introduced the CxO system, which is a CFO, CIO and CRO and CHRO. We basically have designated cross-functional business owners so that we can clarify respective division of responsibility.

And now we are moving towards the midpoint of the midterm management plan. Fiscal 2018 is set to be the midpoint of the midterm management plan and this midterm management plan is set from 2016 to 2020. However, with regards to target numbers, we have set some tangible target numbers for fiscal 2018, which is the midpoint. So fiscal 2017 will be a very important year leading up to fiscal 2018. Therefore, we will inject the soul into achievements thus far so as to ensure that we achieve profit and ROE growth by 2018.

Of course, it's not just about performance. My mission would be to ensure sustainable growth in the future. And in order to do that, we would like to engage in a transformation so that we could realize safety, security as well as health.

The highlights or the key points for today are noted on the next page. I will talk about them in detail in the following slides. So here, I will just make some brief comments.

I would first like to say that the group is making very good progress in the midterm management plan in short. Currently, there are no concerns and we believe the businesses are well-covered. And fortunately, we have been able to achieve record highs in our performance and especially for the nursing care business in particular. We are at an extent that we can are now able to expect the business to be profitable in fiscal 2017. We defaced challenges. But for this fiscal year, we expect the business to be profitable and we are able to turn around the business.

Our performance is shown at the slide. But in fiscal 2017, the consolidation of Endurance will begin. And in fiscal 2018, the midpoint of the midterm plan, we are starting to gain visibility that both profits and ROE will beat plan. So based off these targets, we would like to realize our vision to become one of the top 10 insurance group companies as soon as possible and realize our group vision.

Regarding Endurance, they are likely to become the biggest growth engine this fiscal year. But as you know, although legally the name Endurance is still in place, however, with regards to the market name, we changed their name to Sompo International. In the middle of March, regulators -- we gained their approval for the acquisition. And pretty much at the same timing, we changed the name of Endurance to Sompo International, respectively, in all of our regions. All the branches they have are now branded as Sompo International. So this is basically in order to establish a platform. And this is one of our measures that are easy to understand.

With regards to shareholder return, dividends per share are expected to increase for 4 consecutive years and we believe that we were able to respond to market expectations as well.

Please turn to the next page. Let me provide an update on current management indicators. Adjusted consolidated profit for fiscal year 2016 reached JPY 183.2 billion, JPY 20 billion higher than the initial plan of JPY 160 billion. In fiscal 2017, as you may know already, we are expecting an increase of more than JPY 20 billion, mainly due to the profit contribution from Sompo International as already announced. According to our simulations, we have also gained visibility that we will exceed target substantially in fiscal 2018.

Adjusted consolidated ROE in fiscal 2016 was 7.6% and we expect to achieve target earlier than plan, reaching 8.1% in fiscal 2017. There may be a possibility that we exceed 9% in fiscal 2018, the midpoint year, if adjusted consolidated profit exceeds target.

Please turn to the next page. Here is the state of the progress by business. For profits, although there are ups and downs when looking at fiscal 2016 results and 2017 guidance, each of the businesses are trending in line with the initial plan that was presented last year here. Each of the businesses has a number of KPIs through which we grasp signs of future trends and manage progress thoroughly in order to ensure that nothing is overlooked. The main KPIs are shown here and each of them is expected to improve.

For fiscal 2017 in particular, the difference between us and other companies are in 2 areas, which are against mega groups in Japan. So when we compare ourselves to the other mega companies, the differences are: Number one, higher earnings due to improvement in occupancy in the nursing care business. So business contribution from the nursing care business is likely to start and we are -- we believe that is a point of differentiation. And number 2, substantial profit expansion overseas due to the impacts from Sompo International.

So based off this, please turn to the next slide. We would basically like to further grow. And in order to realize this, the premise of this plan will be that each of our businesses, namely domestic P&C, life insurance, nursing care and overseas business, steadily grow organically. Of course, we will look for expanding size and profits through M&As. Our appetite is still there. And if there is an opportunity, whether it be in Japan or overseas, we would like to realize those opportunities.

I'm not -- I wouldn't want to preach to the choir. However, for M&As, the starting point starts after you acquire a company. And for Sompo International, we are already in the PMI stage, meaning we are in the organic growth stage. So we need to solidify this phase. If we were to continue to do M&As without focusing on the PMI, that will defeat the purpose. So we would like to focus on the PMI process.

So Endurance was an acquisition that was in the scale of JPY 700 billion. But the balance sheet continues to be strong. And we would like to use the strong balance sheet to ensure hybrid debt during normal times at low rates as well as continue to reduce strategic holding stocks with strong determination. And we are determined to continue this effort. And we have strengthened cat risk control. So we continue to have a strong balance sheet. And the goodwill was reasonable in acquiring Endurance, which is a big factor as well.

The capital buffer will be the source of realizing profits and capital efficiency that is comparable to global top 10 companies that we are aiming to become. And we will be able to put together a unique business model and, at the same time, we believe this will enable us to expand shareholder return.

So let me also touch upon Sompo International that I have been mentioning from earlier. We closed the deal on March 28 and it was less than JPY 700 billion. And to be exact, the scale was JPY 683.1 billion at that time.

Regarding adjusted profit, which is the source for shareholder return, we respect the feedback from the equity market and adopted operating income, which excludes one-off market factors. This year, we expect JPY 39.3 billion earnings contribution.

Another important matter, which is work related to the PMI process, will be led by our managing executive officer, Nigel Frudd, who is in charge of global M&A together with the global strategy office. The business owner, Mr. Ehara, as well as myself also personally talked with the CEO, John Charman, as well as executives on their side day in, day out and we are able to understand each other well. So as a result of these initiatives, we were able to change the name of the entity on day one, which is a result, I believe, that we should be proud of. The deal ended on March 28 and, in several days' time, we had a day one meeting at the beginning of April. I would call them the Samurai 7, headed by Mr. John Charman and 6 other executive officers, came to Japan and, over two days, we had a good discussion. And currently, the PMI project is running and we have -- we are close to finishing the governance structure.

Going forward, we will engage in integrating the global HR system and underwriting system as we refer to what they currently have. And good systems that they have, whether it be HR systems or others, we would like to integrate it and implement other systems where possible into other developed markets and based off this platform or on top of this platform or under this platform. We would like to engage in the primary underwriting reinsurance and the Lloyd's business. We plan to reorganize these businesses. John Charman, Nigel and Mr. Ehara will be in charge. A simple corporate governance structure is what we are aiming for.

The next highlight is on the next page, which is with respect to shareholder return. As we always have been communicating, DPS is going to be increased for the fourth consecutive year and share buyback of JPY 56.2 billion, the largest in our history, has been announced. Although we did a large M&A which was close to JPY 700 billion, we were able to keep goodwill under control reasonably to a certain extent and a total payout ratio of 50% was maintained. The management decided to do so in order to respond to market expectations as much as possible and, as a result, the total shareholder return yield was 5.7%.

In the past year, management did acknowledge that many people were saying that our dividend yield was relatively low. And as profits expanded, which is the base for dividends, we decided to raise DPS. Share prices are steadily on the rise. But we feel that our shares are still relatively undervalued. So we also believe that share buybacks will continue to be a valid option. We will continue to make decisions that are in line with our shareholder return policy so that we won't go against market expectations.

Please turn to Page 10. This is the third highlight, which is capital buffer and resource allocation towards growth. As you could see on the bar graph, in developed markets, in order to be comparable to other companies, we have set -- we have calculated the economic solvency ratio at 99.5% value at risk. This calculation is based off Solvency II. And as you could see on the right, the European global players and ourselves can be compared. And we are comparable. And you can see that we have been able to maintain our soundness.

Capital buffer is expected to be increased further going forward as we release capital in the future and retain earnings due to profit expansion by continuing to proceed with the sales of strategic holding stocks as we have mentioned repeatedly. According to our simulation, we expect ESR to increase by close to 10% every year.

From fiscal 2010, we sold down close to a total of JPY 850 billion worth of strategic stock and spent the proceeds on things such as the acquisition of Endurance, Canopius and the nursing care business. Going forward, capital buffer will be spent largely in areas such as overseas M&As, investing resources into growth areas and shareholder return. We will look at these areas concurrently as we strive to achieve double-digit ROE and, as group CEO, I will ensure that I will make proper judgments in making allocation decisions.

Please turn to the next page. Now I'd like to briefly add some information about our initiatives to support the objectives. The first one is digital strategy. Well in the area of (inaudible), the biggest differentiation consists of 2: One is human resources, another one is digitization.

As for human resources, in whichever environment, it's very important and we have different meanings of good human resources. It's not only capable human resources. We need creativity. It's not only for insurance human resources. So human resources are very important. It's a crucial key to our business.

And another thing, in the next 5 and 10 years, in a good sense and bad sense, digital strategy should be crucial. It's not only for insurance business. But nursing business, digital strategy should be solid. Otherwise, we should be kicked back to -- go back from the market.

So in the digital laboratory, we have researchers and outcomes toward innovation. We have established 2 organizations. One is digital Sompo and another one is digital venture. It's not only for the insurance businesses using digital business. We contribute to safety, security and health of our customers so these should be disruptors or disruptees. Well they are both sides of a coin so we'd like to make it our opportunity. When you consider digital, Sompo should be the one you have to consider.

In Silicon Valley, well, Silicon Valley attracts knowledge and information from all over the world. If you are in Japan and in Tokyo, you cannot really capture that. You have to go into the network in a cycle to really capture what's going on in digitization. And I have really felt that one by one. We have to, after 2017 and onwards, implement what we have observed.

And another one is governance. Whatever the contents are, you have to have solid governance and you have to have a robust governance structure. We have outside directors. They are actively involved in our management and they are actively involved in supervising our operation. And they have been to business operational sites, not only for PMC [ph]. But overseas branches as well. They have visited local offices to identify challenges, what are good points and what are bad points for our synergy effect and what kind of structures do we have to have and what kind of corporate culture do we have to have. They have been identifying all of them.

And also we have acquired the companies and also we have PMC and also we have CFO and CIO, CDO, CHRO and CRO. We have such CxO system for good crashes [ph]. That is our solid structure in reality. But I'm not going about -- to talk about individual cases. We have business owners and CxOs to exchange views, opinions. And there are a lot of good projects for good solutions.

And the biggest growth engine for us is the governance of Sompo International. As I have mentioned before, I'd like to make it as simple as possible. I do not want to have multiple layers and I'd like to hold this Sompo International as close to me as possible. So we have only 3 board members and they all are going to report to me.

And also, I'd like to talk about the asset management strategy. And there is no big change in the strategy. And also for reduction of strategic holding stocks, as in the corporate governance report, our firm intention is to reduce it continuously. And also we'd like to maintain the reduction of JPY 100 billion per year so that we can maintain the capital for growth. And also we'd like to invest into higher ROE projects and also we'd like to maintain good return to shareholders.

And please turn to Page 16, domestic P&C insurance business. Well I have already mentioned this before. In FY '16, because of the favorable market situation, the profit increased overall when you consider the progress is in line with the plan. Already we have generated more than JPY 100 billion level of profit stably and, more than anything, cash flow is really generated from the insurance business. And this is our mission of the holdings business.

Page 17, combined ratio. As you can see here, as for the adverse advisory rate, I think you are interested in this and the media is covering this area as well. But we do not have any concrete announcement and we will address that properly. But we don't think there is any measurable impact on our profit plan until the end of FY '18. And we put investment into IT systems replacement and we'd like to continue that.

The next one is about direct insurance business. There is no change in the trend by tying up with ALSOK where we used to be #3 in the market share of the new business premiums. But we have become #2 because of the tie-up -- tying up with ALSOK. And we'd like to continue the impetus and we'd like to aim to be in the black as planned in Japan for this business. It's not really explosively growing yet. But when you look at the Japanese market situation, instantaneously, it's possible for us to really increase our business. Digital native, they are not really our customers yet. So in the direct businesses and in digitization-related projects, we would like to be bullish.

And the next one is Himawari Life. We achieved higher profit than assumed. And for FY '18 and onwards, we would like to proactively invest into the business in Himawari Life, the existence of which in the group is very important. And this company, with its scale in the life insurance businesses, how we can enhance the presence is crucial.

And as in the next page, we have launched Linkx. This is a health service brand from an insurance company. And we are challenging to provide many products and services, especially Linkx coins, JPY 500 that targets only advanced medical insurance products. This is really epoch-making. I'd like to continue to offer such services and also products for the health of customers and also we'd like to challenge something new always. So we'd like to support the health of our customers and that should be the image of our brand.

Health care business, that's Page 22. Last year, we focused on quality. Quality was the most important thing. Including outside directors, we really focused on quality. Of course, this business is going to grow. The market is going to grow. So we have to establish good brand of our P&C business and the customers will catch up with us. And we do not have excessive targets for our profit. And we have strengthened the internal management in Sompo Care Message from the second half of the year. The environment allows us to make sales efforts. We have contacted market researchers and also occupants' opinions were captured and the families' opinions were captured and their opinions are that they would like us to continue this business. We really appreciated it.

And the midterm strategy, as in the next page. Well in the nursing care business, we still have some challenges. But midterm, we should have more favorable situations toward the future. This nursing care business in our group is going to be the gateway for the next customers. So we should make this nursing care business as a gateway to lead to different businesses in the group. And this is #2 in the market and, now, we are entering the phase of making profit. Midterm and long-term, Sompo is the brand that we would like to make it penetrated into the customers. And we have this comprehensive power of the group and we really would like to challenge to make a wonderful nursing care business addressing the elderly market. In that sense, this nursing care business really is the gateway. Anyway, well, in terms of quality and profitability, well, we have been solidifying this business.

The last one is the overseas insurance business. I'd like to talk about some numbers. As you can see, because of the contributions of Sompo International, we are expecting drastic increases in both top line and bottom line. And for the next fiscal year, we are going to exceed the plan that was presented in May last year, very close to JPY 700 billion, that's the top line. And JPY 700 billion and over for the next fiscal year, that's our plan. And in 2020, it's going to be much more. As for the bottom line, as you can see, FY '17, at JPY 60 billion and less and more than JPY 60 billion is for FY '18. And Endurance is going to be our platform toward the future. So overall, overseas business is going to be more than JPY 100 billion. And by doing so, we can have a very well-balanced business.

As in the next page, there are a lot of opinions about the overseas business. But you cannot really focus on Japan to see the real situation. According to the consensus currently, still, for 2025, for the next 10 years, right now, we have 7 -- the total market is JPY 430 trillion and, in 10 years, it's going to be JPY 700 trillion and over. So the growth and the value are very important in terms of growth. The emerging countries are very big, 2 digits growth, more than 10% for 10 years. But still, when you consider the market value, still, 70% is the emerging countries. So unless you go into the emerging market in terms of profitability and the revenue, the contribution should be minor.

So in that sense, we'd like to focus on North America. So going forward, the growth of North America market in the developed markets is going to be really significant. So Sompo International is going to be the platform and we would like to capture the opportunity. And as for emerging countries, bancassurance is going to be very strong. Last year, we have implemented the acquisition of Malaysia #2 company. And they have a big presence, CIMB, the #2 bank in Malaysia. And we have a bancassurance business that was acquired with the merger.

With this, I'd like to conclude my presentation. Thank you very much.

Questions And Answers

A - Yukinori Kuroda {BIO 19776286 <GO>}

From here on, we would like to take any questions that you may have. Like we always say, we will give you a microphone. So please let us know your affiliation and your name before you ask your question.

Now, who has a question? Please raise your hand.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

My name is Watanabe from Daiwa Securities. I have 2 questions. First of all is premium reduction opportunity for auto insurance. Looking at Page 17, the combined ratio is 92% to 94% right now. It seems that target -- that is your target. And going back to your presentation, advisory rates, for -- it's probably not going to hit fiscal '18 in a substantial way. In the press these days, they are talking about an 8% advisory rate cut. So does that mean that if you're going to implement it, it's going to be smaller than that level and it's not going to be fully accounted for? Or do you have any positive factors that may offset the premium cut, if it happens?

My second question is with regards the opportunity to raise dividends. Going to Page nine in your presentation, you talked about the balance of dividends and share buybacks and you will look at stock prices in deciding the balance between the 2. Compared to other companies, it seems that the proportion of dividend is small relatively speaking. So how would you like to catch up in that respect? Can you give me a time line with respect to what your plans are?

A - Kengo Sakurada {BIO 15149542 <GO>}

Let me take your first question with respect to auto insurance. With regards to advisory rates, I think it's being mentioned in many places. So we have no more extra information. As in the press, an 8% cut in advisory rates is being discussed and talked about and we are preparing for that. But it is for advisory rates. So the overall impact on premiums will be a 5% cut presumably. And also, corporate efforts will be made as well and that will ultimately determine the premium.

Currently, accidents are on the decline. So when accidents come down, we could give back to the customers by offering discounts and that is a matter of course. However, we also need to reduce our business expenses as well and we would like to focus on that. However, we are finally able to make steady profitability through auto insurance and we don't want to engage in excessive competition. And I think other companies feel the same in this industry. On the other hand, consumption tax increases are going to happen from fiscal 2019 and we also have the civil [ph] cold issues as well as repair costs are on the rise. However, we are not able to talk about details right now because the timing is becoming closer and closer.

Going back to Page 17, one thing I need to mention for this presentation is, on Page 17, on the left-hand side, we show the loss ratio. On the right-hand side, we show the combined ratio for fiscal '18. You could see the graph shows an improvement in fiscal '18. Our large way of thinking is that, for the loss ratio, the accident rate is flattening. But still on the decline and also the average payments are increasing. But our sense is that we're looking at that this will go sideways. And up until fiscal '16, we have some last-minute demand for fire insurance. And in fiscal '17 and fiscal '18, we are expecting to see an increase and then, on a written paid basis, the loss ratio will improve and that is why we're expecting the loss ratio to decline in 2017 and 2018. And for 2017, just to talk about some details -- or I'll just give you the overview. There has been large payment that is going to be accounted for in fiscal 2017 so that is why our current forecast is conservative. That is reflected on this graph.

With regards to revision of the advisory rates and if we're accounting for that in this graph, we have been accounting for it to a certain extent. But for the numbers for fiscal '18, we haven't been able to completely update recent trends and information. So we would like to set that forward accordingly going forward in upcoming meetings.

For dividends, let me give you an answer. And just in case, to confirm our policy, 50% of adjusted profit is the level that we would like to return back to shareholders. However, if we do a major M&A, we will look at our financials and we will be mindful of our ratings. And sometimes, it may go below 50%. That is our stance. And last year, in October, Endurance or Sompo International, the acquisition was decided. And when we had the investor relation meeting, I didn't say that we were going to give a shareholder return of 50%. But I said that we probably won't have to go substantially below 50%. I think that was my comment. But after we finished fiscal year 2016, we decided to have a total shareholder return ratio of 50%.

As for dividends and share buybacks and the balance between the 2, to the Board of Directors meeting, I make a proposal depending on our results as well as our result -- our financials after the results. I will make a proposition with regards to shareholder return.

And what I'm being mindful of when I make these propositions is our share price. Depending on our share price, the weight of buybacks should be higher in some cases because that is efficient. And our capital efficiency will improve as well. And currently 40% of our shareholders are non-Jap -- foreign. So we also engage in one-on-one meetings as well, not just group meetings. For investors in North America, they have a tendency to ask for share buybacks. So that is why we would like to offer return comprised of dividends and share buybacks. The price-to-book ratio is currently around 1x on a JGAAP basis. So we believe that there is still a positive impact through share buybacks. And on an internal management basis, on an adjusted basis that is, MCEV for the life insurance business, if we adjust for that, currently it is under 1x. So we still believe share buybacks is an effective measure. Just to give you one more point is that when I make a proposal of share buybacks to the BOD as a way of shareholder return, my way of thinking is that we are working off an assumption that dividends are going to increase. So for this fiscal year when I say we would like to engage in share buybacks this fiscal year to the Board of Directors meeting, it will be in one package together with an increase of dividends. That is what we've been doing in the past. As for dividend yields, we compare ourselves against other listed companies as well as our peers in the industry. And we are well aware of where we stand. So the feedback from investors and analysts are well-respected. And we would like to continue to strike a good balance between the 2. Thank you.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Mr. Tsujino, please?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I have 2 questions. For FY '18, the plan is that while the adjusted profit is JPY 220 billion to JPY 230 billion. And this year, JPY 500 billion. And you have adjusted this in -- for '18. Well I don't think it's going to be changed, that's a crucial timing. So what kind of improvement can we expect starting from FY '17? And another one is, well, going back a little, according to Bloomberg, John Charman was interviewed. Well there is an interview of Mr. Charman. And he was talking about JPY 400 billion to JPY 500 billion for the budget of M&A projects. And he was talking about a potential acquisitions. So for your future plans, I think it's possible. But Mr. Charman has been very successful and he has sold his shares already. And he's going to stay with you for five years. So such a man is going to select some M&A projects to invest into. But the control from your company side should be very important. So what kind of system do you have for this kind of M&A projects?

A - Unidentified Speaker

So your first question, I'd like to answer. So FY '16, '17 and '18, the adjusted profit trend in the midterm plan is FY '16, JPY 180 billion; and the next, '17, JPY 205 billion; and also '18, JPY 220 billion to JPY 230 billion. Sompo International, about JPY 40 billion contribution. That's the adjusted profit. So FY '17, it's only plus JPY 20 billion that's domestic P&C, about JPY 20 billion. That's a decline, where there are a lot of factors. But just simply speaking, FY '16 compared with the plan has exceeded. And so because of that, it doesn't look very good. But for example, the sale of the fund in FY '18, as Mr. Sakurada said, well, JPY 220 billion to JPY 230 billion, well, that should be the simulation. And we are implementing each business accordingly. So P&C business, of course, we are going to proactively invest into many projects. But compared to the other companies, the top line is really -- was not really growing. So that's why you have this concern. But the trend changed from November last year. We are really increasing the sales and market share is increasing. And at plus 3.9% in the end of April, the market share increased actually in every region. So we are on the upward trend. In life insurance business, the accumulation of profits is very solid. So we have to proactively invest into many projects and we have to reduce costs. Then, we can be in line with the plan. And the nursing care and health care, still the size of the business is very small. But it was very small in the past as well. So we can expect that to increase by billions. And also toward FY '18, our biggest expectation is overseas business, especially Sompo International. I was talking about JPY 40 billion. And I cannot really be specific today. But going forward, well, in the past as well, they had very good underwriters. They hired so many of them. And also, they had good profit in North America. And also, they had very disciplined business to grow. And the cat was lower. So they had this organic growth. Then, we have a synergy effect because of the integration. So from JPY 40 billion level, I believe it's going to increase. Thank you, never much.

The second question, I don't remember. Maybe it was Nikkei newspaper. Well it's not really wrong. Well it's about sort of wrong. They were talking about $400 [ph] and $500 billion. It was not John who said that. Nigel said that. He didn't really say that we are going to reach JPY 400 billion, JPY 500 billion. Well he just wanted to say we have this impetus to reach that level. He didn't really say that we are going to reach that level. Maybe that was why you were very surprised. But John, well according to his discretion, said Sompo International's Board of Directors, we have John Charman and Nigel Frudd and Ehara. We have 3 directors. And they can make decisions about 1/10 of the amount. So that's the discretion we have to give them. Otherwise, they cannot really reach speedy decision-making processes. So JPY 100 billion, JPY 200 billion, or JPY 400 billion, JPY 500 billion, well, that should be determined by holdings. And before that, I myself has to be involved. Can you trust Sakurada? Well that's a different story. But anyway, not only one person can determine JPY 400 billion, JPY 500 billion level. So well that's our appetite. And we do have the capital to reach JPY 400 billion, JPY 500 billion. That is the impetus we have. So please understand that. Do we have the pipeline? No. Well not right now. Thank you.

A - Yukinori Kuroda {BIO 19776286 <GO>}

The next person, please?

Q - Masao Muraki {BIO 3318668 <GO>}

I'm Muraki from Deutsche Securities. On Page eight is my first question with regards to the overseas business. Where are top line growth expectations? That is my question. For the new fiscal year, 15%, 1-5% is expected for SI or Endurance. For the past three years, due to the acquisition impact, the top line growth was about 15%. So for Mr. John Charman, since he increased the underwriters by 200 people, I believe, ever since he joined the company because he joined in 2013 as CEO. And I believe close to 200 underwriters were hired. Then, after -- is he still increasing the number of underwriters? And do you have any plans to increase them going forward? And is more than 10% top line growth possible going forward in line with the hiring? If that is the case, risk management will probably become a concern as well. But as the Sompo Group with regards to the risk management structure, have you made any changes since Endurance became a part of your company? So my second question is by plan, one of the drivers for increased profits next fiscal year is on Page 17, I believe, was just the expense ratio. For the 3-year period, it has been around 32%. But in fiscal '18, you're expecting it to go down to 30.9%. So major IT investments, I believe, are ongoing right now. So considering that progress and like you were initially anticipating in March 2019, meaning fiscal 2018, is the impact going to materialize coming from the reduction of expenses that you initially planned?

A - Kengo Sakurada {BIO 15149542 <GO>}

First of all with respect to Page eight related to Sompo International, first of all, with regards to increasing underwriters is that the assumption to increase top line. They are putting focus on primary underwriting. And they would like to increase assumed reinsurance as well. But the plan is conservative with regards to that part of the business. For this page, for fiscal '16, profits dipped and the combined ratio increased. This is due to the hurricane that happened in North America as well as significant cat losses that were generated. So there was not cat-loss-related risk. Currently is managing this kind of risk at Sompo International. So we would like to engage in the business with discipline. So for fiscal 2016, earnings went down. So since fiscal '17, the expectations are made in a conservative manner. So bottom line, it's not growing as much as top line growth, due to that reason. With respect to how many underwriters they are going to increase, I don't have an exact response for you right now. But they are increasing the number of underwriters. Going to Page 17 with respect to the expense ratio, the way we think about upfront investment is unchanged. For 2016, '17 and '18, approximately 10 billion will be made. And the impact is not going to come through. And for 2019, the systems will start to cut over. Then, costs will start to increase gradually. However, there will start to be positive impact coming from the investments into the IT system. I wish I could give you a great number. But we are currently in the middle of scrutinizing the numbers. So I'm not able to give you an exact amount. Therefore, in fiscal '18, the reason why the expense ratio is going to go down to 30.9% is not due to the upfront investment impact. It's more about the assumption that top line is going to grow in 2017 and 2018. So the denominator expanding is the reason why. But for fiscal '18, we need to update this number in more detail going forward.

A - Yukinori Kuroda {BIO 19776286 <GO>}

The next question please?

Q - Unidentified Participant

While you are talking about risk control, already, you have 3 board members, I understand...

A - Unidentified Speaker

But not 3 directors are in charge of everything. So we have the committee of our risk control. And that consists of some parts. And the major one is risk management and also HR management. And also, we have remuneration committee. And also, we have nomination committee. And they are from Sompo Japan. And for risk management committee, we have CROs for the committee. And they are members from Sompo. So for HR and the risk control and also reinsurance operations, well, both members are consolidated for every committee from Sompo Holdings. The majority of the members come from Sompo Holdings. And also, transparency is secured because of that. Of course, well, I can already say everything is perfect. But now we have disciplined approaches. So we understand your concern. But please don't worry about that. Thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Mr. Otsuka?

Q - Wataru Otsuka {BIO 16340098 <GO>}

My name is Otsuka from Nomura Securities. I have 2 questions. The first one, Page 2, well according to Mr. Sakurada for FY '17, while you said that you will inject your spirit, souls. Well your terms were very aggressive. So what did you mean by that? Up to FY '16, well, you were focusing on platform building. So now you have the platform. And you are going to maximize the profitability using the platform. Is that what you meant by injecting your soul? Well from your perspective, maybe there was a lack of something in terms of injecting souls. What did you mean by that? This is a tricky question. But that's my first one. The second question, Page five and 6. Page 5, you have the plan, 90% and over ROE. And when you recalculate, it's not JPY 230 billion, JPY 240 billion, JPY 250 billion. I think you are talking about the driver as Mr. Masaki said. Well you were talking about SI especially Mr. Hamada said. Well it's been a very short since the acquisition. SI at this timing is going to unexpectedly increase. What's the background of this? Well due diligence was conducted. And I believe you have calculated the synergy effect. And can I understand it's going to be more than you have expected?

A - Kengo Sakurada {BIO 15149542 <GO>}

Well I have to be responsible for what I said. Well the script said I have to inject my soul. Well that's a joke. But I'm the top management. Well I have to really solidify our system and institutionalization. For example, for nursing business, well when you go into this business, you have to acquire certain businesses. So we acquired. So it's not only the numbers we have to increase. But we are #2 in that sense. So do we have quality to be #2? Well we have the theme park business now with safety, security and health. Well we have this nursing business that should be really the focus point. But we do not have something solid for that. So we have to enhance quality. And we have to enhance our brand power. That means we need trust from customers. So that's how I inject my soul into this business. So I can't really say, "Please trust us. Please trust us." In order for people to trust us. What we have to do, for example, is to inject my soul into the nursing business. And likewise well, we have the business on our system for example, well, domestic P&C business. This is the major business, Sompo Japan Nipponkoa. And Saison. And Sonpo 24. Well we have 3 businesses all together included in the domestic P&C. The owner is Mr. Nishizawa. Mr. Nishizawa is supervising those 3 businesses to identify where we can create the biggest value by investing where else can we increase the top line and where can we increase the bottom line and where should we enhance the efficiency. So Mr. Nishizawa has injected his soul into planning. And overseas business, PMI is going to start. It's more simple. So as was raised by some questions, well in the initial plan, well we have to solidify the platform. So that's how we inject our soul. So every business is different. But overall, I said I should inject my soul. Please understand that. And the second question should be addressed by Hamada-san.

A - Masahiro Hamada {BIO 20083917 <GO>}

So there was a change. Well I cannot really be specific to go into details. But just roughly speaking, before the merger and before the acquisition, they established the midterm plan. And we negotiated for the price of acquisition. Just generally speaking, when you are acquired, well, you present a very bullish forecast. And we are very conservative to calculate. And that was included in the midterm plan. So now they are Sompo Group company. So based on their concrete plan, they have accumulation of the plan to generate more profit. And six months ago, we were very conservative. So now the numbers look better than that.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Next person?

Q - Katsunori Tanaka {BIO 4112898 <GO>}

I'm Tanaka, from Goldman Sachs. I have 2 questions. My first question, the risk diversification related to overseas acquisitions. And next is the investment into (inaudible). With the integration with Endurance, the risk amount is going to increase by JPY 200 billion overseas. But you were able to diversify and the impact is JPY 700 billion. You were doing it at 99.95 before. So we're not able to do an apple-to-apple comparison this time around. But by acquiring Endurance, diversification impact, how large has it become? And also, has it been finalized? Or are you going to see more going forward with the integration process? That's my first question. For (inaudible) and your investments into this entity, with regards to your way of thinking, are you investing off the assumption that they're going to enter Japan or for InsTech? Is Sompo Holdings going to continue to be aggressive in investing into InsTech? Or the InsTech fund. So to say? Those are my 2 questions.

A - Unidentified Speaker

Thank you for your question. With regards to the diversification impact, I will confirm the numbers.

A - Kengo Sakurada {BIO 15149542 <GO>}

So let me answer your second question first.

With regards to Tolop [ph], your point is correct. For InsTech or FinTech, I don't like to word. I don't believe in it. So it's basically insurance and technology or finance and technology. And something new is not going to be born even if you put the 2 words together. And it's digital disruption basically. But the existing insurer or the finance companies are trying to bring something over to do it on their own. And Twelve [ph], they're not an insurance company. They are SNS-centric and they are a digital start-up. So when you're facing problems, for example, your guitar or your bicycle or your PC, you could put on the risk to another person for a week. But if you go to a general insurance company, they'll make you -- show you the actual products. So instead of insuring that product, there's a need first. And basically, they're trying to do something peer to peer. And that is why Twelve was born. And they're using the smartphone as an intermediary to do the underwriting specifically. What is the advantage of a Morton Guitar and what is the value of it? If you go to eBay, you'll be able to figure out that information, or you could figure that information out on Amazon. Because in the digital technology market, appraisals for market price can be done accurately. And then the insurance premium can be decided with regards to the payment. You might not know if the physical product exists. But you can ask the customer to send over a picture. But what if the picture is falsified? That's the question. However, when they underwrite, they look at the evaluation of a user through SNS. So if there is this person who's gray and are trying to falsify a claim that they have JPY 1 million guitar, they'll be able to find that out, meaning this is being done by digital disruptors and the ideas were not born from the general insurance industry. They say Twelve is an InsTech company but they're basically a digital company. But they're a tech company that has attached insurance to it. So this investment, with regards to this company, is that digital disruption is occurring. And I think it's scary that insurance companies are going to become just a wallet or the balance sheet. We wanted to learn what the disruptors are thinking about in their minds. And we thought that we want to learn what they're trying to do so that we could also learn from what they're doing and do internal disruption if that is necessary. And that is why we made the investment. In Asia, as a first call insurance company, we believe that is our presence. But we are not deeply as involved with Twelve to that extent.

A - Unidentified Speaker

I was able to identify the numbers for your first question. At 99.5%, JPY 150 billion is the Sompo International risk for underwriting and asset management risk is about JPY 130 billion. And the diversification effect is about JPY 100 billion, minus JPY 100 billion from underwriting. So the total would be about JPY 170 billion to JPY 180 billion of risk.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Tokai Tokyo. My name is Majima. The growth driver for this term is Sompo International, I understand. Well according to Page 19 of the material part, well, there are dollar-based numbers. The growth -- the premium income is already growing. Gross premium income is growing. However, while there's a decline of earned premiums. And typically, the 30%, 40% increase was expected. But now you are coming to a turning point. And now, you are coming to a cruising speed. Well is that the plan? Is my understanding correct? And after the next fiscal year and over, what are the growth drivers in terms of your insurance products? You are saying that you are not qualified. You don't have any debt angle. Well I think there is a risk and I suppose you -- well, other than natural disasters, do you have any risks, maybe 3 risk factors, if you can identify, or you don't really have any risks?

A - Unidentified Speaker

Well to the first question, as I mentioned before for fiscal year '16, well, for natural disasters, well, there are some loss incurred in Endurance because of that especially for payment. Well for FY '17, we are very conservative. And that should be the impact.

A - Kengo Sakurada {BIO 15149542 <GO>}

Well in terms of risks, natural disasters, well, if they are in the hidden part. So everything should be hidden part. So how to control natural disasters is important as much as possible, we have to -- well, we are trying to control the situation. Well when you purchase too much reinsurance, the top line and bottom line might be impacted. So it's a matter of balance.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Well are you talking about emerging risks that are hidden, for example, North Korea launching missiles.

A - Unidentified Speaker

Well right now, in PCB world or how to recover operations, well, we haven't really covered that part but -- and as far as cyber attacks, well, we have coverage of large earthquakes. We are very strong against cyber attacks. I think it's the same for other companies as well. But for internal crimes, well, we have to be stronger. Comparatively, well, geopolitical situations and other than that, other than national security -- well, ForEx, a situation this year, is something we have to focus on, that's our concern. There are 2 meanings here. For example, our credit issue and also, debt issue, the left side of the balance sheet should be inducted by ForEx situation. And look, we are going to have more income from overseas businesses. So we don't really want too much yen appreciation. But if yen depreciates too much, the claim payment in the overseas markets is going to increase. So we have to hedge the situation. We have to stabilize our business. But Trump administration has certain phenomenon right now. And no one thought yen would start depreciating. Well in (inaudible), including with control and also asset management, we might have to consider unprecedented risks. Well we have to really reflect on ourselves if you think that we are not really thinking about any hidden risks. But as much as possible, we'd like to really manage our risk.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Well when yen appreciate or depreciate by JPY 1, do you know how much impact that would have on your profit?

A - Unidentified Speaker

Well fluctuation of the profit, are you are talking about? Well I'd like to answer. As for the insurance business, we have the asset and liability on the balance sheet. They are very close. So there should be no impact on the PL accordingly. And as for the overseas profit, we have to translate that into Japanese yen. There are some differences. But at this time, Endurance is included. And about JPY 50 billion plus level is going to be achieved. So 1% of difference would make about, well, JPY 1 billion or JPY 500 million. So Sato-san, please?

Q - Koki Sato {BIO 19983862 <GO>}

I'm Sato from Mizuho Securities. I have a question regarding the nursing care business. For this fiscal year, you now have expectations that the business is going to be profitable up until now because the culture was quite different that you acquired. And you were trying to apply your way of management style. And I'm sure that was tremendous challenge. However now, you are seeing some results come through and that's great. For other insurance companies, although they're interested in these areas, they are not able to enter this kind of segment in a big way. So I think that they are looking at your efforts and what you're doing in this area. And in the future, there may be a possibility that others will start to do acquisitions as well. On the other hand, for your company, you said that price-wise, you're #2 in the industry right now. But if you were to acquire more and expand more, you may be able to become #1. But do you have ambitions to do so? That's my first question. Of course, I'm sure you're focused on other measures right now. But after you gain more experience, do you feel that you could expand even more? So that's my first question. And also, for the nursing business, generally speaking, people talk about labor shortages and risks as such. And for your company, you've been acquiring companies that have a different corporate culture. But are there any particular risks that you see? From my point of view, it will be competent people leaving the company that has reduced the operational capability of a facility, for example. Can you also share with me some risks that you're seeing?

A - Kengo Sakurada {BIO 15149542 <GO>}

With regards to your first point, that is actually a struggle we had when we decided to enter the nursing care business but we already went across the rubicon. So we really need to work hard on this business. As an industry, this is an industry that is not going to disappear. Rather, it's going to grow by 7% to 8% and peak 2025. With regards to facilities, we are going to see a gradual decline of the elderly population because it's going to be peak of the baby boomer generation. So when you think about 20, 30, 40 years out, we need to ensure that home nursing care business becomes an established business for us. I wouldn't say low profit and sell a lot. But we would like to ensure that the citizens of Japan can universally benefit from this kind of service. So from facility-based nursing care, we need to transition over to whole nursing care going forward, which means that we need to create a de facto standard or industry standard, meaning Sompo needs to step forward quality standard in the industry. And that will require scale. So going back to your question about whether we are going to stay to be #2 in the industry, we don't think that is sufficient. It goes back to the Endurance acquisition. We need to ensure that we solidify our current business and not just pursue M&A deals. But we are -- we do have the appetite. Of course, it would be great if competition can also enter the segment. But I would like to tell them that it is a challenging business. So with regards to your next question, with regards to risk, yes, human resources is a great risk that we face because the labor environment is quite hard and challenging and this is something we need to improve. And we are incorporated and we are a listed company. So as an investor, you're looking at our business efficiency. So we need to obtain good people. We need to obtain profitability. And we need to obtain good quality. So we are going after 3 things. So we need to go after a scale merit and we also believe IT or digital will be key as well. And also, in the industry, I think we need to be assertive. And if we are able to attain a certain level of quality, we will be in a position to be able to speak with regulators as well as the government. And I think we could be persuasive in talking about our aspirations, which will be for the benefit of Japan. So people or personnel will be key. Another thing is I am serving for committees -- economic circles. But with regards to the social security system, we need to turn around the sense of populism. Young people not being able to aspire and dream. And they are worried and they're not spending. And I think that's because of their apprehension towards the social security system. So we really need to break through the sense of populism. As one private sector company, it's a matter of how can we contribute in this regard. And once again, I do believe size is important. And size is more important in this business compared to the insurance business. So we would like to continue to work hard on this front.

A - Yukinori Kuroda {BIO 19776286 <GO>}

We are running out of time. So if you have one last question, we would like to receive it.

Q - Hideyasu Ban {BIO 15250840 <GO>}

Morgan Stanley. My name is Ban. The first one is digital strategy. I have 2 questions through the media. We hear that you have a lot of proof of concept going on in FY '17 and '18 among those projects. Do you think some of the proof of concepts are going to be really realized that might impact on the expense ratio? Or you have mentioned that if you are going to do it yourselves or are you going to partner with some other companies, well, how much of the proof-of-concept projects are going to be really realized, if you can share with us? And another one is about the nursing care business. As you have mentioned going forward, well based on the existing business, your own capacity rate is going up. And the profit is going up. And that's the business model you have already established. So right now, like this term, 90%, 95%, the occupancy rate has increased. And when it becomes 100% and you can go into the next good stage. So you have this business model for the marginal profit level.

A - Kengo Sakurada {BIO 15149542 <GO>}

In terms of the digital projects, we have a lot. Well but I shouldn't disclose it. Well do we have something we can disclose? Well if we have any later, we can disclose it later. As for the nursing care business, as you mentioned, you are right, probably, 90%, 95%. Well I'm not really sure if that's the average percentage. But I think we can take that into consideration as a feasible level. Well I mentioned that many businesses to raise more profit. And we'd like to achieve rational level. And for that, we need to have a broad customer base. And if we aim at higher operating margin only, well, of course, you have to target affluent customer base. Of course, (inaudible) is employing that kind of strategy but our strategy is to target more volumes on so our business model is different. But we have to widen the scope of the customer base. And so occupancy rate is very important and the cost control is important. And we have to have higher operating occupancy rate. And for P&C business. And we are a Sompo company. And we have professional risk finance, people in Himawari life for healthy life. And also, we have the know-how of Sompo business. And also, we have the nursing business. And we have a risk finance type of services. Well different from traditional models, we can develop such kind of businesses. But for that, we cannot really identify risks. For example, incident rates and also the income data of the customers, we do not have all of them. Well so we do not have concrete pipeline. But we have ideas. (inaudible) University, Tsukuba University, Okayama University. With them, they have such knowledge. And we have a collaboration with such academia. So we should be able to come up with good ideas, interesting ideas. But so far, that's the only thing I can disclose.

A - Unidentified Speaker

Well it should be very difficult for us to disclose details. We have been enjoying this digital laboratory for a year or so. And we have had already 19 demonstrations and we have 14 plans, well, some detailed plans. And we have 8 for feasibility studies. And most of them are to enhance services and quality and productivity. And digital business, well, we have only one concrete project for the actual business. With digital -- well, strategy division with one CTO is already there. And it's only -- if you take only Sompo Japan Nipponkoa, we have the claim payment services. And what we can do using digitization and for call center using artificial intelligence, what we can do, well, we have so many aspects where we can utilize digitization. And how much expense ratio improvement we can expect, I'm sorry, I don't have the data. Well it's good to know while we wait for the next meeting, it should be convincing for me to come up with some concrete numbers to explain. Thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well thank you very much. We have received 16 questions totally. Thank you very much. With this, we'd like to close today's meeting. Thank you very much for coming.